

# Sri Lanka Has Done Well



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Dr P B Jayasundera, the all powerful Secretary to the Treasury, Secretary, Ministry of Finance and Planning and Secretary, Ministry of Economic Development, continues to stress the positive progress made by Sri Lanka despite challenges that arose due to climate change and the global economic downturn. He details how the economic indicators of the country have improved compared to the time of the war. Many do not realise that Sri Lanka is a new economy, which is only four years old and that the progress the country has made is commendable when compared to other post-conflict nations. When Dr Jayasundera speaks, people listen. His positive outlook of the country is refreshing and encouraging. It is time for the country to pay heed.

By Udeshi Amarasinghe | Photography Menaka Aravinda and Indika De Silva

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**It has been three years since the development policy framework of the government - Sri Lanka the Emerging Wonder of Asia was formulated. We are almost at the mid point of the five year framework. Can you elaborate**

## **on the progress in development in terms of the areas identified in this framework?**

By taking a mid-term review of the 2010-2015 second five year term strategy outlined in the government's policy framework, Sri Lanka can be very proud of its economic record.

Sri Lanka is a post-conflict and middle-income nation, maintaining a decent stable growth. The average growth since 2010 has been over seven percent. During the first two years there has been a growth of eight percent. In 2012, the economy had a 6.4 percent growth in spite of a severe drought, the Eurozone crisis, and the country having gone through a rapid adjustment of exchange rate depreciation, an intensified tight monetary policy stance, fiscal compressions, price adjustments in electricity, fuel, transportation and water. The country has maintained a strong resilience with a 6.4 percent growth. This growth is a reflection of the resilience in the economy even under such unfavourable conditions, the economic diversity and its strong capacity to maintain a high growth. If one assumes for analytical purposes that none of these challenges were there, then the country could have maintained more than eight percent growth even in 2012. The economy will undoubtedly bounce back beyond eight percent as a response to the corrections introduced and stability maintained.

By Taking A Mid Term Review Of The 2010-2015 Second Five Year Term Strategy Outlined In The Government's Policy Framework, Sri Lanka Can Be Very Proud Of Its Economic Record.

On the other hand the country is speaking of a much wider infrastructure base. Capacity has been created to generate growth for the next 20-30 years. Any policy regime will require massive capacity in ports and airports, highway networks and expressways. Then, irrigation systems, water supply and drainage schemes, good education and health systems, and also strong livelihood opportunities in the country. This is an achievement we can be proud of in the mid-term of a second five year term.

The country can proudly speak of food security. All post-independent governments were talking about self-sufficiency in food but that is not the topic today. The world is speaking about food security, as self-sufficiency for purely domestic consumption requirements would serve little interest. Food security means that a country is able to meet its domestic consumption needs plus stocks for several months and capacity to export. Then only will these commodities

ensure meaningful economic outcomes. We are no longer speaking of self-sufficiency in rice production, we are speaking about self-sufficiency in grain. The country is quite strong in the production of maize, soya, green gram, black gram and other grain varieties and as such does not import such grain anymore. There is also a revival in food agriculture, such as onions, potatoes and chillies. This has been achieved not under controlled regimes like pre-1977. During the pre-1977 period Sri Lanka had an economic policy relying on domestic agriculture, everyone believed that we could become self-sufficient because of the protection policies in place. Today, all commodities are permitted to be imported so the economy is facing international competition.

Our farmers have shown that they are globally competitive. The government is only providing safeguards during harvests, because we still have not developed all other facilities required to function under a competitive environment. The country has begun a major drive reaching a fair balance in dairy production and imports. People are investing heavily on such activities. Everyone can be proud of Ambewela, CIC and other private sector dairy projects including the SMEs in Sri Lanka. Large investments have taken place in many sectors in Sri Lanka. The country has shifted very much in relation to basic industries. Cement and steel productions are growing. These investments are largely from reputed international companies.

Then when you look at the macro picture, this country was basically living with a double digit inflation with hardships on the people. The entire post-1977 era was a time of a double digit inflation, double digit budget deficit, high trade deficit, high current account deficit, very volatile exchange rates, rapid depreciations, high interest rates and high unemployment and poverty. When the new government was formed in 2005, poverty was at 15 percent. That means even after 35 years of economic liberalisation the country had not achieved a meaningful reduction in poverty. That is the background in which the present government came into power. In 2013, when we are reviewing the first three years of the second term, all indicators have turned to be better.

The Central Bank Governor is able to announce from the Central Bank's point of view that they target a mid single digit inflation. This is a clear signal that inflation is manageable. Price stability has been maintained, the country's workforce is living in a fairly comfortable working environment, worker disputes are less since the cost of living has been stabilised though erratic supply

conditions continue to create disturbances in price behaviour. The government is in a constant dialogue with trade unions and relations are strong.

As a result of maintaining mid single digit inflation of around five percent, Sri Lanka can bring in exchange rate stability. We are more or less managing monetary policy in line with countries with comparable inflation. Exchange rate flexibility with a relatively low inflation will therefore guarantee a stable movement of the exchange rate rather than unpredictable and volatile situations. As a result the foreign exchange regime has become predictable.

For three consecutive years, one area that the government could take full credit for, is that the second five year term starting from 2010 saw a systematic reduction in the fiscal deficit. This year the government has targeted a 5.8 percent fiscal deficit, which is a result of solid, steady and continuous reforms for a fourth consecutive year. If we look at any post 1977 period there has not been a consistent reduction in the fiscal deficit for a period of five years.

If We Look At Sri Lanka As A Whole, All The Negative Indicators That We Do Not Want To See In A Developed Society Are Below Five Percent. We Should Be Very Proud Of That Achievement Because It Is Not Easy To Accomplish Such A Feat In The Current Environment

Debt has been brought down, though debt is still high. In my view, the country cannot and should not maintain a debt to GDP ratio over 65 percent. We need to balance our domestic and foreign debt. However, figures are improving. Unemployment is below five percent, on a similar note, poverty is reducing to around six percent. We can comfortably say that the percentage of households without electricity is below five percent. If we look at Sri Lanka as a whole, all the negative indicators that we do not want to see in a developed society are below five percent. We should be very proud of that achievement because it is not easy to accomplish such a feat in the current environment. The European economies are going through a very painful period of adjustments after the crisis, the US economy is bouncing back but with a very slow recovery, the Indian economy is slowing down and going through very tough times. The exchange rate stability is a matter of concern for India, since their exports and FDIs have dropped. Hence there is a serious concern as to whether they can stop foreign exchange outflows. Many countries that were buoyant have slowed down. The US economic crisis, which then travelled to Europe and the Middle East, is now near our doorstep. Those concerns remain.

The Japanese economy has been put on a new policy regime. For the first time the government of Japan is promoting inflation and depreciation in order to revive its economy. In such an environment, Sri Lanka has done satisfactorily and I am quite happy that every word I mentioned in my previous interview with you soon after the policy statement, has been realised and the expected outcomes have been delivered.

If we look at investment in Sri Lanka, there was a concern as to whether the government would be able to mobilise private investments as it depends on how both the foreign and domestic private sectors are able to grab the opportunities created after the end of the conflict, especially with the development of a massive infrastructure network.

Personally, I am happy, because when you conducted the interview at that time, there was only Shangri-La, but today we can speak of about seven international brand names entering into our tourism and leisure industry. There can be opposing views, but the fact of the matter is that although Sri Lanka has top class local blue chip companies, none of them are internationally networked companies. The country having engaged in a globalisation process should not only focus on imports and exports of commodities, but should also mobilise international trade names. We are very proud of our apparel industry because they are no longer relying on individual global markets, but global brands are sourced from Sri Lanka. We are happy that the hotel and leisure industry too have been able to mobilise international network operators into the country.

We Have Secured The First Single Largest Foreign Direct Investment Of USD 500 Million To Develop And Operate The Terminal In The New South Port Of Colombo.

We are very happy that an FDI has come into the port sector. For Sri Lanka to become a hub, we need the expertise of those who have the capacity as well as networking in global trade, to operate global shipping from here. Sri Lanka can build ports but operation is an entirely different matter. We have secured the first single largest foreign direct investment of USD 500 million to develop and operate the terminal in the new South Port of Colombo. This success is enormous because it did not cost us.

And, Colombo is on the global map as a result. Similarly, the government has built expressways, and the Southern expressway is a government investment. With the

success of the Southern Expressway and with the opening of the Katunayake Expressway – which is nearing completion – people will see a dramatic landscape transformation. The government is in a position to make expressways attractive to private investment and as a result the country is at the final stages of negotiation for an FDI for the Northern Expressway with an investment of USD 1,500 million. The people of this country should realise that FDIs are not easy to secure for a country like ours in comparison to India, China or other large countries where they have openings for airports, ports, expressways and many other business activities. In Sri Lanka we do not have many airports for FDIs. We have only two international airports. Therefore, attracting investors need to be very selective. It cannot be at the cost of the local economy. In that sense the government has been very successful in securing investment for urban property development and infrastructure development.

My response to your question in a few words is that the country has done well.

**This year too the growth rate is estimated to be around 6.3 percent. The public is feeling the slow down in the economy. What are your thoughts on this?**

This year growth will be higher than last year. Even outside agencies such as ADB and several other research organisations have predicted 6.5 – 6.8 percent growth. The first half of the year itself recorded 6.5 percent growth and hopefully the second half too could be at the same rate. The second half could be much better than the first half as recovery process is expected to be stronger. However let me explain further on the recent trends.

This country was growing around six percent until 2009, when the global economy was in a crisis and oil prices were on the rise. Then too we had to make similar adjustments and we received the first IMF standby arrangement in 2008-9. As a result we built our reserves. Then in mid 2009 the conflict ended. People felt relieved because a major burden that all individual citizens themselves were carrying – that is the risk of life, property and engaging in business – was lifted. The corporate sector too, was suffering from severe risks of doing business as there were security barriers everywhere during the conflict. That was the environment, which was not very long ago.

The entire North and East even after the conclusion of the war had to be cleared of land mines. Then, there was the management of IDP camps, ensuring the

health and welfare so that there were no health epidemics and other such issues. Then, Sri Lanka's journey began in a new conflict free environment. No one speaks about this, but the entire Northern province is free of mines now. That task was not easy, it was a costly investment of which the value is not counted. But, this is a public investment. Nearly 300,000 households have been fully resettled. That does not mean all have newly built housing but all have received private housing. We need to develop from this building block.

Today, all districts in the Northern Province are connected to electricity and accessibility. There are good roads and railway lines being connected, water supply schemes, feeder roads, schools and hospitals have all been developed. The economy bounced back and we had eight percent growth during two successive years of 2010 and 2011.

In 2012, the economy was severely affected by dramatic climate change. We had severe floods during the early part of 2012 and extreme drought in the latter part of that year. From flood protection we went into irrigation system improvements, which was very costly. Then, livelihoods opportunities were lost in many districts due to severe weather conditions. The hydro capacity was exhausted by the drought. The country had to rely on expensive thermal power generation.

At one point the President had a meeting with us to see whether we needed desalinated water to feed the Colombo District. This was due to the rapid decrease in the water levels of the Kelani river. That was the background in 2012.

The global situation was another aspect , everyone was wondering what the outcome of the Eurozone crisis would be. GSP+ was no longer a consideration for Sri Lanka, In such an adjustment environment with a very volatile foreign exchange situation, the country had to make decisions on whether to make certain corrections for long term development, growth and stability in line with changing circumstances. I am very proud that the President had the courage and vision to take those decisions at the right time. The President introduced reform initiatives in foreign exchange, monetary policy, public expenditure, public enterprises such as Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC) at a tremendous political cost. It is naive for anyone to assume that the people did not suffer when there were adjustments such as the price of diesel being increased by 40 rupees per litre; the kerosene subsidy was reduced because of international price movements; electricity tariffs revised; transport

rates increased; interest rates and the exchange rates were increased. All these were actions to put the supporting macro economic environment in place.

In The Rural Economy, Many Subsidiary Food Production Facilities Have Gained Momentum. Sri Lanka Is Not Importing Rice, Maize, Green Gram Or Soya Beans Any More.

There is an element of burden that individually people had to go through. However, for everyone to benefit from economic development, such corrections are necessary. And, the government did it while maintaining political stability as well. In my view, despite much criticism in the media, the government managed to get the message across to the people. That is why the reforms worked. That is the reason why the World Bank, IMF, ADB, international rating agencies, private banks and the investor community are looking at Sri Lanka positively.

The business community is looking at the country positively. Although they are still not articulating the message collectively, they are individually making profits and operating in a low tax regime and most stable terms in our recent history. I am not saying that it is only the corporate world that is making money, government businesses are also improving. Many state business enterprises have performed well. In the rural economy, many subsidiary food production facilities have gained momentum. Sri Lanka is not importing rice, maize, green gram or soya beans any more. Sri Lanka has enhanced dairy production, onions and potatoes are being cultivated. This means that foreign exchange is being circulated within the country among local farmers.

In that context Sri Lanka not only maintained stability in growth but was also able to ensure widespread benefits among its people. The economy is in a position to easily bounce back and that is what we should focus on. Although people still have certain difficulties, they should also not forget that their salaries and nominal income have increased, which in turn has provided more comforts. Their expenditure pattern have shifted, there is 95 percent penetration in electricity, which means nearly 50 percent more than those in 2005 are paying electricity bills. People consume better quality products. Households that used to have kerosene lamps now have electricity, access to water is almost 80 percent. All these are indicators of the changing pattern of consumer spending and the quality of life.

The country has a better transportation system. We witness few accidents, which



need to be avoided by improving road discipline, the traffic system and law enforcement. The key underlying reason is the massive volume of vehicles which move on our roads daily. Further, improvements of roads have created a new economy and more people including tourists are travelling around the country.

During the first half of this year, Sri Lanka was enjoying 500,000 tourist arrivals. If you look at historical statistics until 2010, the average annual tourist arrivals never exceeded 400,000. We have half million tourist arrivals in the first half alone. As such the tourism industry is having a large turnover, which the industry cannot deny. Their daily earnings have increased considerably during the last two to three years. Their cash flows and business turnover have improved, their rooms are fully occupied and other than few hotels that have newly come into the system, everyone else is still operating from their old infrastructure. The capital expenditure on these assets were incurred several years ago, and many have enjoyed concessions. They have been given tax concessions throughout and now they pay only a 12 percent income tax. The export and construction industries, education, IT, SMEs and agriculture are all paying only 12 percent.

Almost all international airlines are flying into Sri Lanka. The Middle Eastern airlines are flying in thrice a day and they are not flying empty. They have a load factor of 80 percent with both the economy and business classes being full. Korean Airlines and British Airways are back in Sri Lanka. Turkish Airline is currently looking at the possibility of flying into Sri Lanka. This means that Sri Lanka is connected from several popular global destinations and the country is profitable for them. Singapore Airlines and its connectivity network are strong in the country. Despite SriLankan Airlines making losses, it brings in 60 percent of tourist traffic into the country. SriLankan Catering is also doing well.

While many sectors are doing extremely well, new sectors are emerging. There are traditional sectors such as plantations, which are not doing well because they are seeking solutions using traditional methods. The message is that traditional solutions will not work, and we need to look at new solutions. Plantation companies must look at their business models separately since there are some who are doing well. Dilmah is a role model that is competing internationally. How come Dilmah is able to do plantation well and not few others. Plantations by companies such as Hayleys and Aitken Spence, are also doing well. Those plantations that are going through a good value chain towards exports are doing well. Mlesna caters to a very niche and high-end market. We need exporters at

the level of Stassens and Akbar Brothers. There is no reason why Sri Lankan tea should be sold below USD 15 a kilo, in my view.

Our Exporters Have Shown The Capacity To Enter Any Competitive Market And Compete With Any International Brand Name. Why Not Experiment These Success Stories And Support Them Whole Heartedly.

Similarly, Munchee, Maliban, Maxies, Uga Resorts, Tea Trails, Nipuna, Raigam are few examples of emerging product developments for exports. There are many others like them.

To achieve this they have to be innovative and business oriented. They have to market and promote tea. The budget has given all the incentives including those to promote growers and exporters, hence the relevant institutions - the Tea Board, Board of Investment and Export Development Board - should fall in line. They cannot go in a different direction and do old fashion export promotion. Our exporters have shown the capacity to enter into any competitive market and compete with any international brand name. Why not experiment these success stories and support them whole heartedly.

Sri Lankans Need To Realise That We Cannot Market The Country On Cheap Labour Any Longer. Our Labour Is Not Cheap, It Is Quality And It Is International. We are interested in emerging sectors. The beauty care industry has expanded to rural areas and is no longer Colombo centric. We are proud of our beauty care industry entrepreneurs who are operating in India, and the Middle East. Industries such as Nature's Secret, are expanding globally. Even in the construction industry, Sri Lanka used to rely on Korean, Indian, Chinese and Japanese construction companies. But today the top 17 local construction companies are leading in the highway sector, private building construction, housing, urban property development, irrigation and water supply schemes.

These emerging sectors are in the international market as well. We feel that these sectors have done a commendable job. The banking sector is strong, and the country is poised for a much stronger growth with much higher investments, which has reached above 30 percent of GDP. I am quite optimistic that investments will move up with more efficiency. Sri Lankans need to realise that we cannot market the country on cheap labour any longer. Our labour is not cheap, it is quality and it is international. Even a household worker looks at his local market options with international comparisons. If the local market does not

offer them their expected salary, they look at Korea, Singapore and the Middle East. Many booming neighbouring countries such as Singapore and Qatar, are looking for Sri Lankans.

Our workers are no longer in the housemaid market, they are serving with much higher skills. The Foreign Employment Ministry has changed the focus towards skilled employment and higher salaries. Sri Lankan entrepreneurs need to realise that they have to remunerate skills well, to sustain their businesses. In fact at a recent meeting with the private sector some industrialists asked us to stop people going for overseas jobs. How can the government do this? Unless the private sector pays them well, the public have a choice to decide where they want to work in the global economy.

The Country Has Made A Remarkable Change In The Tax System That Everyone Should Fall In Line With. The Private Sector Can No Longer Ask For Concessions. All Sectors Have Very Meaningful Tax Regimes, Businesses, Professionals And The Self Employed Must Pay Tax, And Make Sure That The Government Has Revenue To Expand Their Services.

It is an individual decision as to where one sends his money, where he works and where he wants to live; those are the benefits of a global economy. Entrepreneurs need to realise that they have to improve their productivity, which cannot be achieved through policies alone. There should be productivity at farm level, cost must be minimised, efficiency must be maximised, there should be good supervision. Labour and human resource management must be strong. In that context, Sri Lanka is in a transition and I am quite optimistic, considering the remarkable achievements we have made in the areas of skills development, productivity improvements and the fiscal side. Deficits are the worst enemy for growth, while inflation is the worst enemy of the poor and the working class. There have been achievements, but we need to recognise that we need to improve further in the forthcoming years.

There are considerable areas where further progress is required. The country has made a remarkable change in the tax system that everyone should fall in line with. The private sector can no longer ask for concessions. All sectors have very meaningful tax regimes. Businesses, professionals and the self-employed must pay tax, and make sure that the government has revenue to expand their services. Our education and health services need to be improved so that skilled employment is created and the country can prosper.

The transformation in the CEB and CPC, is encouraging. If these two corporations, among the 52 state enterprises in this country, can be turned around by 100 billion rupees, it is roughly about 1.5 percent of GDP. 100 billion rupee improvement in these two corporations is a reflection of a 200 billion rupee improvement in the Balance Sheet of the Bank of Ceylon and the People's Bank. 200 billion rupees is three percent of GDP. If this improvement can be realised, then bank interest rates should come down. The Governor's commitment to conduct monetary policy towards a mid single digit inflation can be achieved easily and more money will be available in banks for people to borrow at low cost.

The construction industry, agriculture sector, transportation and bus operators need more money, to replace their buses at a cheaper cost, the self employed are looking for money, and the service sector is looking for new technology - everyone needs money and that should come from the banks and largely from the state banks that forms almost 45 percent of banking and over 60 percent of rural banking and SMEs.

That is why we are constantly pursuing the changes in the CEB and CPC. From the figures received as of end July 2013, CEB and CPC are making a turnaround. We do not want that turnaround to be reversed. That is the achievement the country is making and when that happens, we will see benefits soon.

People are still debating on whether Sri Lanka requires power plants in Norochcholai, Sampur, Upper Kotmale and other locations. By the end of the year the country will have a lesser cost power generation strategy - as opposed to strategies that were in place several years ago. The country can at least guarantee no power cuts, which is important because investors, and households need to plan their work. Even if the electricity tariff is high, certain guarantees are given where uninterrupted quality and risk free power is supplied so that at the end of the day work flow could progress smoothly.

Regarding your question on this year's growth outlook, I predict it will be around seven percent if not slightly more, as the country has a good agriculture harvest, good supply of hydro power, recovery of exports and sustainable investments.

**There are mainly four public institutions/enterprises that are continuing to make heavy losses, why is there a reluctance to restructure loss making public institutions?**

People talk about restructuring in a very generic term. One major debate is whether public enterprises should be state owned or privatised. President Mahinda Rajapaksa has taken a position in his policy strategy and our document is very clear in terms of his policy strategy, that no public enterprise will be privatised. Therefore it is a given. I as a technocrat then accept the policy regime as a given.

The private sector too must think this is the policy environment in which they have to do business as the government and the President will not privatise state enterprises, but allow private sector to compete with them. Those enterprises include ports, airports, state banks, CEB, CPC and several other business enterprises which are of a strategic nature. As such it is not a worthwhile debate. Today no one is saying to privatise either. What is apparent is that no one wants to take ownership of privatisation and no one wants to publicly seek to move towards privatisation either. That means the country has also by and large recognised that state enterprises should be there. There may be limitations in regulations but regulatory supervision is not difficult. There may be fears that privatisation might create monopolies. What ever the reasons may be, no one is saying to privatise. In fact almost everyone is against it, which means that there is a consensus in terms of President Rajapaksa's policy.

Then the next question is what is the restructuring we have to do? Are we talking about excess labour in these enterprises? I can categorically say that excess labour is not the issue, because these enterprises have expanded their capacity massively during the last seven years. Take CEB for example, it is providing electricity to the entire country, they have many power plants, a large network of transmission lines and a five million - strong customer base. The entire country forms their clientele. CEB's employment is not the issue. But, they have a management issue, even COPE has highlighted that the CEB needs a professional team to manage the company. Board of Directors must be proactive and take responsibility. You cannot rely on traditional management models for corporations like CEB.

The Government Has Proved That If The Right Persons Are Put Into The Right Places, These Enterprises Can Be Made Profitable. CPC And CEB Can Make Profit.

Having recognised this issue in corporations, we have appointed a CEO to the CPC because there must be a competent person who is responsible. We have also

appointed a professional team to Sri Lanka Insurance Corporation, and People's Bank. We took over Shell Gas, and Litro the government owned company was created, which is doing better. The credit must go to respective officers who are in charge. They are paid well and given the full freedom to manage these enterprises as business entities and they are very competitive in the market. I am proud of their success. They are young, ready to take challenges and they must be protected. Sadly they are being insulted and humiliated by some.

By and large the government has proved that if the right persons are put into the right places, these enterprises can be made profitable. CPC and CEB can make profit. There is no reason why they shouldn't because these are profitable business activities. It is not easy to find suitable and qualified persons to head these organisations. The good thing is that the management has begun the journey. It will take time and we also need to consult trade unions and mobilise their support as well.

However the fundamental problem affecting public enterprises such as CPC, CEB and water, is pricing. We have to accept the fact that subsidised prices, unless targeted for the truly needy people, are not viable. Electricity makes everyone equal in terms of access to electricity, that is democracy. As such people need to share this cost as well.

If the CPC and CEB could be made to operate to break even, let alone profit, then they do not need to borrow from Bank of Ceylon and People's Bank. In turn these banks can utilise their deposits to lend to other sectors. I do not see any reason why CPC and CEB cannot break even, they should make money so that they can invest further. If they do make profits - CEB and CPC - then they can invest in their businesses further. We are asking CEB and CPC to start generating profits and share their debt to strengthen their Balance Sheets.

The Central Bank Cannot Maintain Reserves Unless Non Foreign Exchange Earning Consumers Create The Enabling Environment For Foreign Exchange Earners To Earn More.

The government must give some freedom in terms of pricing to these two enterprises. They do not directly earn foreign exchange. But they are direct uses of foreign exchange. The Central Bank cannot maintain reserves unless non foreign exchange earning consumers create the enabling environment for foreign exchange earners to earn more. CPC and CEB are like motor vehicle importers.

You import using the country's foreign exchange and give rupees. Which country can have this kind of model? We need to ensure that the work of these two enterprises will be beneficial to generate foreign exchange earnings from the rest of the economy like tourism, service provisions and exports. They must reduce their reliance on borrowings, to enable the real economy to use bank credit. Hence, pricing is fundamental. The President and the government have recognised that this culture has to be reformed. Of course you cannot do these things overnight because the country has been conditioned for 60 years.

The Opposition too makes political capital by blaming the losses on corruption and inefficiency. There are institutions responsible for anticorruption, such as the Bribery and Corruption Commission who should investigate into such allegations. Inefficiencies have arisen because these enterprises lack capital and correct pricing policies. Shareholders' responsibilities are not only to receive dividends. At the end of the day if there is no capital to run the business in a sustainable manner then shareholders should make capital contributions.

The government is the main shareholder of many of these enterprises. No one has contributed capital to SriLankan Airlines. We have to contribute capital to have a strong airline. The government in each budget gives them capital. We have introduced a restructuring model where in fact the President was very clear in the 2012 and 2013 budgets that we will capitalise these enterprises systematically. There is a commitment to provide USD 500 million capital infusion to SriLankan Airlines to manage their new business model. Water Board has started restructuring by mobilising a USD 200 million loan from the ADB to reduce non revenue water to around 20 percent by 2016.

The Water Board is now burdened with 50 percent non revenue water in the Colombo Metropolitan areas. We spend money on electricity and the work force to purify and distribute tap water, and the water just flows without generating any revenue. Therefore, an investment is crucial if we need to make profits from this important enterprise.

We are planning to restructure some of the balance sheets of these enterprises by converting debt into equity, by announcing in the forthcoming budget. The government has given loans to the Ports Authority and the CEB. We will convert them into equity and restructure the balance sheet so that there will be better financial performance. This government believes in state ownership and bringing

in capital in as and when it permits, and also to bringing in the right pricing policy and the right managerial improvements.

We can understand that low income households need subsidies, because the country needs to look after the low income segment of the population. Many countries are struggling over this issue. The US is struggling with having to look after the unemployed people; on how they are going to provide the dole, student benefits and medicare. In Sri Lanka too, we are faced with similar issues. Our country has a historical track record of being sensitive to the poor and the low income households and we provide for them. But it does not mean that everyone needs it, hence those who can afford and are consuming these products need to pay. Through this, the entire country can shift to a better quality life pattern by having electricity, water, sewerage, transportation, with greater benefits to the future generations.

Capital Infusion, Pricing, Managerial Changes, Procurement Reforms, And Project Management Capacity Improvements Are Part Of Reforms And The Reforms Are Generating Results.

The Ministry of Finance has also recognised that these organisations need good procurement systems. The current system is inefficient, partly due to procedures of funding agencies, like ADB and JICA. The procedures are overly time consuming. As a result some of the projects get delayed. One classic example is the water supply to Jaffna. The President wanted the Jaffna and Kilinochchi water supply scheme second only to Colombo water supply. The President wanted the Ministry of Finance to negotiate with the Asian Development Bank to start the project soon after the war ended. We were given specific instructions to have these projects on stand by, because President did not want to waste time when rebuilding those areas. Many other post conflict countries are struggling in their 10th year or 15th year to revive, but in Sri Lanka we have had our projects on standby. Sri Lanka is still in its fourth year after the war. This is why in certain cases tapping funding from China, India, Middle East and European countries, through export credit agencies have helped better in public investments, than relying on traditional lenders. We are happy that the World Bank and ADB have responded positively to overcome this problem.

Capital infusion, pricing, managerial changes, procurement reforms, and project management capacity improvements are part of reforms and the reforms are generating results.



**There is much talk about how exports have gone down but imports still remain high, there is a high committed recurrent expenditure as well as a massive impetus to invest in large infrastructure projects while necessary, may need rethinking so that the country can endure the strain, what are your thoughts on this?**

This is another chicken and egg situation; flexibility in the exchange rate regime, liberal foreign exchange transaction facilities, tax fare treatment for exports and imports for exports, bonding and duty related facilities, higher capital allowances for machinery and equipment and a 12 percent income tax on profits are major incentives that the government has offered to create export business in development. Commitments to maintain a mid single digit inflation has helped the much needed stability to exporters. Reliance on concessions such as GSP+ are being replaced by pursuing foreign governments to give greater market access to Sri Lankan exports. This is why GSP+ is not being pursued, since exporters should not be vulnerable to non business considerations.

The country had a export GDP ratio at a higher level in the 1970s, 1980s and the 1990s. Sri Lanka had a very high export ratio in the 1970s and 1980s when the country was a closed economy, where plantation commodity exports were given prominence and the economy was small. That is not a strategy that will work today. Brazil is still depending commodity exports and their economy remains vulnerable. Commodity exports are not going to alter the structure. In the post 1977 era, the government began a new journey by liberalising and created new manufacturing activities like the apparel industry. In 2005 when President Rajapaksa took office there was only one industry generating over USD one billion, that is apparel. Even tea was less than a billion dollar export. When I meet exporters I always tell them it is not worth for the Ministry of Finance to meet the private sector business leaders belonging to sectors which do not generate at least a billion dollars.

Sri Lanka Is Only Four Years After Ending The Conflict As A New Economy. We Have To Look At The Four Year Story And The Government Has Done Much During Those Years To Create An Export Economy.

We entered the first FTA with India, in 1999 and then with Pakistan later. At that time people thought these would bring export promotion. Sri Lanka had a liberal exchange regime at that time. We adopted a flexible exchange rate, widened the bands and created free convertibility of the Sri Lankan rupee in 1993. In 2000, we

went for a free float, and maintained the flexibility. If you look closely, the exchange rate depreciated but did it increase exports? No. Have exports increased to India? No. Indian free trade does not allow Sri Lanka's major exports to enter that country. The maximum number of apparels we can export to India is a million pieces. Even if you sell one piece at ten dollars a piece, the maximum you can get is USD 70 million. We are importing USD 700 million worth of cars, from India. India is running a trade surplus against Sri Lanka. China and Japan too have running trade surpluses with Sri Lanka, whereas Sri Lanka is neither exporting to Japan nor China. Sri Lanka is not exporting to India. In fact Sri Lanka is one major export market for those three countries. We are exporting garments to Europe and the US and of course important markets. Then why didn't exports increase? Firstly, the conflict prevented any competitive boom in Sri Lanka. We have to accept that. I see interpretations being given by experts as if Sri Lanka did not have a conflict.

Sri Lanka is only four years after ending the conflict as a new economy. We have to look at the four year story and the government has done much during those years to create an export economy. We must first in addition to consolidating markets in the US and Europe in terms of apparel, value added rubber and several other items, also look at exports in emerging markets such as China, Japan, Korea and India. We need to increase our exports to these countries. That is why President Rajapaksa said before talking about CEPA and other arrangements, to look at the possibilities of equal trade between these countries under FTAs. We have registered our request with India during our discussions with Secretary of Commerce of India to move faster on the FTA and open access to tea, garments, rubber products and gem and jewellery so that we can increase our exports to the Indian market.

During President Rajapaksa's meeting with the President of China, he explained that even in 1952 the two countries had equal trade though it was according to the barter system where Sri Lanka exported rubber and China exported rice. However, today Sri Lanka has a three billion dollar trade deficit with China. The President assured that Sri Lanka will compete and for them to open their country for Sri Lankan apparels. That is the challenge the President took for the country. We keep talking to Japan also to expand our production to resolve the existing trade gap. Our products are of good quality, and our exporters can compete in Japan, China and India, if allowed to do so. That is how new markets are created.

In addition, can export GDP ratio alone solve all these problems? We may also move with the export of services. Government has introduced a new legislation and declared free ports. Not only do we have two international ports but the government has declared those ports as free ports where activities similar to Hong Kong and Singapore will be generated and this too will support exports.

We need investment in export activities. And it is for this reason that the government has invited investments in exportable products. One good example is the Japanese investment in solar panels. Sri Lanka is exporting solar panels to Japan. These are new products. High quality fruits, vegetables and foliage are too exported. Sri Lanka can become a major exporter of rice but there are some who still think that Sri Lankan rice is not of the required quality to export, which is not true.

Going beyond self-sufficiency means having to produce quality products, CIC, Hayleys and several rice exporting local companies should not target only local high spending consumers but should aim at exporting high quality rice. Sell rice at USD 800 a metric ton or 800 rupees a kilo instead of having to sell at 200 rupees a kilo. An export economy can thereby be created, which will involve goods as well as services.

Ship building and ship breaking are also activities that we are working on. There are companies in the private sector who are willing to develop and export their products. Several constraints for exports have also been identified. One such is that we do not have international quality assurance agencies in Sri Lanka.

Our agencies are being prepared to ensure that exports will be backed by quality assurance. The ratio of exports is also falling for technical reasons; GDP is rising faster from non export activities because the North and East have come into the production process. The construction industry is expanding at a rapid rate, as such this phase is statistically distorted. But one must not forget the fact that the country exports to the tune of ten billion dollars. Today our exports include, in addition to apparel (four billion dollars), rubber, tea (1.5 billion dollars), IT software industry activities and gem and jewellery, which are nearing the one billion benchmark. In fact our target in apparels is to go beyond five billion dollars, for tea to go beyond 2.5 billion dollars, rubber to reach two billion dollars and gem and jewellery to cross a billion dollars. I was encouraged when the gem and jewellery sector was asking whether China can remove their duties so that

they can export to China. IT software, logistics, boat building and ship building and automobile spare parts are the type of activities that will transform our export sector and are an integral part of our export strategy.

If we look at import/GDP ratio, it is somewhat alarming but we need to remember that we import five billion dollars worth of oil. That is the quantum consumed by this country right now. The power generation strategy of the past is not viable as it is based on oil. The government has looked at alternatives and shifted to coal. By December 2013, Sri Lanka will have nearly one billion megawatts of coal power which is one third of power generated using fuel. That will help to improve cost efficiency in power generation.

The country has tapped maximum hydro power. But hydro power is risky. We use water for irrigation, electricity generation and consumption. Drinking water needs to be carefully managed. Therefore the government strategy to shift the direction to create coal power, is a sensible decision.

Sampur must be constructed as fast as we can. We need to phase out oil based power. The government has begun negotiating for IPPs with all thermal power plant operators. That is to reduce the reliance on oil. In the meantime, incentives for renewable energy have been increased in order to reduce the costs of oil significantly. Hopefully oil exploration will also determine our export-import structure by 2018, depending on the type of petroleum available from the current investments. Public investments in Hambantota port and airport, the expressway network, convention centres, stadiums and IT zones as well as irrigation systems of Moragahakanda and Uma Oya by diverting water to the North and South, are being undertaken to promote a longer term export oriented growth strategy.

The country undoubtedly needs more exports. The need to reduce the gap between imports and exports will be a priority during the next three years. The President set the ambitious target of 2.5 million tourists by 2016, which at that time the industry thought was unrealistic. He advised them that not only do we need 2.5 million tourists arrivals but that we also need five billion dollar tourist earnings because tourists must come and spend well for products that are on offer. It has become a reality because this year hopefully we will have 1.5 million tourists and we need to attract another one million more for the next two years. With Sri Lanka being promoted in China, India, Russia and the Middle East at the scale that we are now promoting, this is bound to be a reality.

Targeting China, India, Japan, Russia and the Middle East is the right thing because our exports must be global. Not only to the US and Europe, because for a long time we exported to Europe and US and our products have established international quality, as well as international benchmarks. That is why everyone is proud of Sri Lanka's apparel industry. Sri Lanka's apparel industry is not a cheap labour industry, it is associated with high quality, environmental friendly, energy efficient, and best managed factories, where employees are treated well.

### **The fiscal deficit is higher than budgeted.**

What The Country Should Remember Is That The Budget Deficit Has Been Reduced, While Maintaining Public Investment At Six Percent Of GDP And Carrying Out Tax Reforms.

I do not take a two decimal deviation as a serious deviation from the budgeted value. Our target was 6.2 percent fiscal deficit for 2012. The fiscal deficit ended at 6.4 percent. It is lower than the previous year's (2011) seven percent. The direction is very clear and the government made a further commitment to reduce it to 5.8 percent in 2013. I am assuring through your very eminent magazine that we will deliver the 5.8 fiscal deficit target, though it is very hard. We are quite confident that the President has the courage to steer towards an even much lower deficit in 2014, despite all pressures.

What the country should remember is that the budget deficit has been reduced, while maintaining public investment at six percent of GDP and carrying out tax reforms. We expected revenue neutrality through tax reforms but unfortunately revenue neutrality could not be maintained because imports decreased with reduced motor vehicle imports, which was the major revenue source. Excise revenues from liquor and cigarettes were also not rising. Illicit liquor is still threatening the revenue base, and we have taken action to curtail this. By and large, those traditional revenue sources are fast eroding.

We need to consolidate the government revenue through VAT and income tax. We are not taxing like in the past. We have a simple tax structure, which we will further improve.

But before we introduce next generation reforms in taxation, everyone must accept that they need to comply with the current tax system. We are not giving generous tax concessions anymore through the BOI. The BOI also needs to

understand this well. The BOI must promote Sri Lanka's strengths and not tax concessions.

Sri Lanka has good quality labour, a strategic geographical location and the country commands South Asia's best infrastructure. Sri Lanka has been identified as the world's best tourist destination. These are the investments for which investors have to pay a premium. They are not asking for tax concessions, most countries from which investment are made, have double tax agreements with Sri Lanka anyway. Another aspect is that until a business makes profit they do not have to pay tax anyway. Other than large investments such as ports, expressways or such other mega investments, further incentives are not required to be given in the context of the current low tax regime. Tax concessions were necessary when tax rates were around 60-70 percent.

Many Successful Countries Have Managed This Issue Of Tax Evasion By Simplifying The Tax System. First Is Self Compliance...

Our domestic economy too has low taxes. PAYE tax has reduced to 24 percent, earlier it was 37 percent. Average tax on personal income tax on wage income is 17 percent. Interest income is only ten percent. One need not file a tax return if he has only interest income or is subject to PAYE tax, as they are collected at the source.

People must now fall in line. I am sure, many people earn well over 50,000 rupees per month in this country. But many are not paying tax. My humble request is that, if you wish to be self reliant, there is a self compliant tax system - please comply. Our engineers, lawyers, doctors, teachers, public servants, customs officers, income tax officers, private sector and public sector employees and all traders who are earning 50,000 rupees, you only pay a four percent tax for the first 50,000. For the next 50,000 rupees, it is only another four percent. That means you are paying less than ten percent over and above your first 50,000 rupees. This is not a large tax and everyone must understand that the government provides free education, health, transport facilities, access to water for the lower income segment of the population and above all good security. Asia's best security is provided free of charge, and the country is secured.

The country spends a fair sum on production subsidies in agriculture. That is not only for small farmers but plantation companies also receive the fertiliser subsidy from the government. The entire agriculture sector is subsidised regardless of

whether the farmer is rich or poor. We believe that agriculture needs a major push. And that push must come from seed, fertilizer, water use and harvesting. We are trying our best. I agree that all elements are not efficient but it takes time. We are maintaining a 6.4 percent fiscal deficit as against 6.2 percent, and even with the 0.2 percent deviation it was lower than 2011 at seven percent and 2010 at eight percent, a continuous reduction is being maintained.

### **What is being done about tax evasion?**

This is a very challenging problem. Many successful countries have managed this issue of tax evasion by simplifying the tax system. First is self compliance, because you cannot police tax evasion as it will lead to corruption, irregularities and cumbersome administration processes. Therefore, as we heard from the former Minister of Finance of Georgia on their experience, 'you simplify it. Reduce many nuisance taxes and make tax rates attractive to the tax payer because they must ultimately pay it'. Politically high tax rates are good but people must be comfortable with paying a sum of their hard earned money to the government. It is a very difficult choice. What is the right rate? If not for the compulsion by law, we would not even pay tax. The law requires that each and every citizen who is earning beyond a certain point or if consuming beyond a certain threshold, pay for government services.

We are also trying to narrow down the exemption list. We have issued a moratorium on BOI tax holidays because granting tax holidays, erode the base. We are also cleaning up the system as there are many loopholes, which people are using to evade tax. We are improving clarity and also cleaning the administrative irregularities and corruption. The Bribery and Corruption Commission has done a good job as they managed to detect a deputy commissioner who took a bribe at the Anuradhapura Inland Revenue Office. Even at Sri Lanka Customs, they have detected certain individuals. Such deterrent actions are also being taken. We are strengthening our own supervision in the Inland Revenue, Customs and Excise Departments. We are trying to coordinate the three departments to collect the duty administered. There should be sharing of information between these departments. I must say, that the Commissioner General of Inland Revenue is doing a good job by educating the public through the dissemination of information by talking to the public. The collection of domestic based taxes both income taxes and VAT, are rising and signs are encouraging.

In the meantime, tax administrators need to be honest, both at Custom and Inland

Revenue in particular. Those who are in tax consultation services, must respect ethics, they should provide advice not to evade but to pay, and to represent their clients to secure easy terms or payment arrangements. There are tax consultants who are doing a good job but there are others who are coaching people to evade tax. It is not evasion due to ignorance, what we see is more of a professional evasion. Many tax consultants are retired officials from the Income Tax Department itself, who are advising people to evade tax. Many public servants who have retired, where are they? They are in various chambers or engaged in private consultancy work. Good public servants when they retire should for a reasonable period of time, refrain from engaging in services that involve a conflict of interest. Our bankers retire from People's Bank and Bank of Ceylon and get employment in private banks in the following days. Is it ethical? Our tax officers retire from tax department and run tax consultancies. Is it ethical?

Tax evasions happen in many ways and we need to deal with them. Hopefully we have made it simple for the tax payers. If you only have income from interest, banks will deduct it. Simplicity should encourage you to declare everything that you have, which the bank will declare on your behalf. For example, opening several accounts to evade tax must stop. We do not tax beyond ten percent. Similarly PAYE tax, is a one off tax, which does not require us to open a tax file or submit a return, under the new tax regime. Many employees including government agencies either do not deduct the tax or they deduct and refrain from sending the contribution. We must get used to complying. Having a good tax culture is healthy for a country, because if the budget improves, believe me, with a lower budget deficit, many problems in a country can be made to disappear.

I Hope That The President Will Take This Nation To A Lowest Budget Deficit In Post Independence Sri Lanka, When He Goes Into The Next Election In 2016.

Even rich countries cannot afford a budget deficit. America is struggling, they call it the fiscal cliff. They do not know what to do. Politics has compelled them not to do anything. The solution has been to postpone, but for how long can you go on? The world's richest country is struggling. Even in Europe, it is beyond affordability. These are not poor countries, their per capita income is way ahead of ours. Even those countries are struggling. Japan too is struggling. Debt has a limit. China is rich enough and they have saved. But for how long can China maintain this? China also requires money.

People believe in economics and in a debt equity balance. The government budget



and debt financing, must partly be compensated by revenue financing. Therefore the deficit must come down. I hope that the President will take this nation to a lowest budget deficit in post independence Sri Lanka, when he goes into the next election in 2016. A deficit below four percent of GDP, will make his legacy.

When we come to that level of deficit, lets say four percent, the governor of the Central Bank should be speaking of a lower single digit inflation. That is why countries are talking about two percent to three percent inflation, and not 15 -20 percent. Culturally our mindset needs to change. Look at interest rates, can anybody do business at 20 percent interest. Wherever I go, people are asking for loans at four percent interest, but no one is depositing at four percent interest in reality. This can be done only if inflation is around one percent, and deposit rate is at around 1.5 percent. Then you can lend at four percent otherwise, it is not viable.

### **Public debt is about 80 percent of GDP, is it not too high?**

Public debt of 80 percent is high. Public debt was alarming when it was 105 percent in 2002. The government has consciously reduced, the public debt level, now it is about 78 percent and the government is conscious of the fact that debt of this level should be further reduced. The fiscal policy, statement made by the Ministry of Finance and Planning to the Parliament under the Fiscal Management (Responsibility) Act has explained that this will be further reduced. Therefore when the deficit is reduced each year, the amount of debt added on to public debt will be less and therefore the debt to GDP ratio will come down. The government is adopting a three pronged strategy to bring the debt to GDP ratio down. One is to reduce the budget deficit and the other is to maintain stable exchange rates and interest rates through lower inflation and the third is to maintain a high economic growth. The three together will keep the debt to GDP ratio down. We are optimistic that the President will come not only with a four percent fiscal deficit in 2015 but he may also come with a below 75 percent debt to GDP ratio, by the time he addresses the nation for the next election on the 2005-2015 - the legacy of Mahinda Chintana - Vision for the Future.

### **What can you tell us about the private sector, they should be taking the top gear as the engine of growth?**

The private sector must be more active and they must be united and stand for the country. The private sector should not be about individual interests. Today Sri Lanka is a more private sector dominant economy. Agriculture, tourism,

construction and exports are entirely private. Almost 50 percent of the banks are in the private sector and transportation has a public private ratio of about 30:70. I basically advice the private sector to model after the apparel industry. They have one association, one team and one target. That is our USD five billion exports. When they meet us they put all their shopping lists together, so it is easy for the government to respond. The government needs to know the sectoral interests and not individual interests. The government cannot work on patronage, everyone is talking about corruption, but who is on the other side - the private sector.

If you need good governance and best practices, the private sector too must be organised. The chambers must represent professional interests of the private sector, they should not get guided by NGOs with vested interests and undermine the national interest and the national economy. The private sector must directly come and stand for the nation. My view is that if our private sector can follow the apparel industry model as a benchmark, and secure business, the government can create the enabling environment to prosper. Creating a conducive environment for business is the government's responsibility but doing business is the private sector's responsibility. The private sector must get in line with this agenda.

Looking at each sector, the apparel industry is organised but that is not so in the case of tea, they are divided. Some of them are thinking of importing tea to process tea for export. Sri Lanka exports 95 percent of its tea. Why can't they develop a Sri Lankan brand? I can understand Dubai, Doha, Russia or any other similar non tea growing country importing bulk tea and then rebranding and exporting, but not Sri Lanka. It is the same with Sri Lankan cinnamon. Tea and cinnamon grown on our soil have a unique taste and identity, which needs to be branded and should be put through a value chain starting from cultivation. The Tea Board and the tea industry need to understand this.

This ideological debate is only a waste of time in my view. The tea industry must get together and talk. Tea export should not be permitted to be dominated by tea traders, it should be tea growers, because that is where the value chain begins. Tea growers must lead the industry in this country. Sri Lanka rubber too is being used to manufacture world class products such as surgical gloves, health products, tyres and other items. Loadstar, Hayleys and a few others are global manufacturers. We need a more organised and united export industry.

The Chambers Of The Various Sectors Should Announce... That None Of Their

Members Evade Tax. If They Are Found To Have Evaded, They Should Be Disqualified Of Their Membership.

The tourism industry too has to stop relying on concessions. They have to be innovative. Arrange festivals and seasons to attract tourists. The industry needs to get organised and I hope it will happen soon. The country needs a solid private sector, we need them to be a partner in the national economy. The private sector needs to have a national strategy and they should think in the long term. Short term - you can't make money in the private sector. Short term speculators can basically contribute to instability in the market and instability in the global economy. That is why money laundering laws, various restrictions and regulators are keeping an eye on speculators. Best practices should be adopted by the private sector. The Chambers of the various sectors should announce - and not individual companies - that none of their members evade tax. If they are found to have evaded, they should be disqualified of their membership. Imagine the impact if the Ceylon Chamber of Commerce does that. Further if the GMOA, SLIA, BASL, the Exporters Association of Sri Lanka and NCASL do that, what standards could be maintained.

If the private sector stops giving bribes and lobbying customs and tax officers, that will make our task easier because at times we do not know who is breaking the law. Sadly only the public servants are being blamed and humiliated. This is why I believe that the private sector has a bigger role to play. Ask every private sector employer to ensure that they pay EPF, because it is a worker's right. Sri Lanka's private sector should be a model to the world - environmental friendly, with good ethics, without bribery and corruption and with no tax evasion. Then the country will be in good shape.

If The Private Sector Stops Giving Bribes And Lobbying Customs And Tax Officers, That Will Make Our Task Easier Because At Times We Do Not Know Who Is Breaking The Law.

**The government actually introduced tourism zones. But we don't see any of the big local companies getting involved?**

Passekudah is still full of local hotels. Then, Negombo and Hikkaduwa too have many hotels. Sri Lanka's tourism industry started in 1968 or so. The industry aged with the conflict because there was no excitement and they could not position the country as a tourist destination because nobody wishes to visit a troubled country. In the meantime, several new destinations emerged such as

Seychelles and Maldives. It is only during the last four years that Sri Lanka got its chance. During the war, due to the instability high spending tourists could not be attracted to the country especially from countries such as Japan. Still tourists are not aware that Sri Lanka is a safe place. The Europeans know but their economy is in trouble. Tourists from the Middle East are slowly picking up. Many new hotels have come up but these are more in the boutique hotel segment where the scale is different – 10-30 room capacity, which are in the very high end. A lot of such new facilities are available in many locations such as Passekudah, Kuchchaveli, Yala, Kalpitiya, Dambulla and Kandy. Now hoteliers do not build large room capacity hotels except in cities. The structure has changed. In the meantime traditional, conventional hotels are shifting their quality, because they have not refurbished in years. Galle Face Hotel has begun a massive refurbishment initiative after long years of running the old hotel as it is. Then Hilton, that has been involved in litigation for around 20 years, is picking up after the government took over and put its balance sheet right, Hilton is also being refurbished. Another factor is that managers of the hotels are not aggressive enough.

Hotels Are Being Rebranded And Refurbished... By 2015 We Will See A New Wave Of Hotels With Shangri-La, ICT Hotels, Sheraton And Hyatt Regency.

Only Cinnamon Grand and Cinnamon Lakeside are of the required standard. Everyone is, lagging behind in terms of their refurbishment. Recently Kingsbury too came up with a new brand. The country must take a long term view, though we do not see new hotels we see new products. Hotels are being rebranded and refurbished and that is a phase that we are going through. By 2015 we will see a new wave of hotels, with Shangri-La, ICT Hotels, Sheraton and Hyatt Regency. Probably after the Commonwealth Heads of Government meeting, with Hilton's refurbishment by Hilton International and with the new integrated hotel facility of Crowns, we will see Sri Lankan tourism graduating to the next level.

In the meantime Minister Basil Rajapaksa's vision is home-stay tourism, wildlife, adventure, nature and whale watching tourism. All bio diversity should be maximised in Sri Lanka. We are also looking at health tourism because the service sector must grow. At least now Sri Lanka's medical sector is popular amongst Maldivians. We can also target the European market with health tourism. We are asking our medical practitioners to position themselves and create benchmark hospitals. In fact our private hospitals such as Durdans, Hemas and Nawaloka are

of good standards. We have 1,300 world class specialists today. These specialists can be a solid investment for tourism because their knowledge is reasonably priced here but would cost millions, overseas.

In addition we are also looking at developing sports tourism. Sri Lanka is a sports economy, the only positive area we saw during the conflict was cricket. But that is not the only sport in Sri Lanka. During the budget discussions held, we have targeted a USD 500 million foreign exchange turnover for the Sports Ministry. Sports should be a USD 500 million business for Sri Lanka. Then entertainment through international events in sports, music, art, dance - all must happen. Nelum Pokuna must be marketed as a centre for international performing arts. Then only will the money come to Sri Lanka.

In Singapore there is something happening everyday such as international events and sports events. They have created an economy so that no one can avoid going to Singapore. Our Academy of Financial Studies, Miloda, was established as a state of the art training school, since we do not have training schools of high standards in Sri Lanka. At the same time, we cannot afford to send all our people for training abroad either - since it is costly. But we do not want training to be available to a privileged class either. Hence, our Minister's vision is to tap international development partners to select Sri Lanka as a training venue, with Miloda as a suitable training academy. We have already spoken to IMF, World Bank, Japan and ADB. I am also speaking to the private sector to mobilise international experts to hold their corporate sector programmes at Miloda. We want professional business conferences to be held in Sri Lanka, where eminent speakers will be featured.

### **Finally we are just a few months away from the 2014 budget. What can Sri Lanka expect?**

Sri Lanka can expect progress, stability and security in the economy. We have passed many challenging milestones. My experience is that Sri Lanka has managed each challenge very well. President started his term immediately with the Tsunami challenge, this was successfully managed. We then entered failed peace talks and ended up with humanitarian operations, which was three-year time bound. Defence Secretary's vision was zero causality operations. That concept was the central theme of the operations. They made it. Many people thought that Sri Lanka will be saddled with post conflict challenges such as massive numbers of IDPs, and prolonged de-mining operations but the country

has managed de-mining within two years. The land has been made completely mine free and the IDPs have been resettled.

Not only local government elections were held but provincial council elections are also to be held. Conflict affected areas are democratised. The entire country is democratised. Though this is not loudly spoken elsewhere, this is the message. See Iraq, Libya and Afghanistan, They still do not have peace, stability and prosperity. We have completely turned around Sri Lanka and the economy.

We felt a severe impact due to climate change; floods and droughts. Not a single reservoir was allowed to collapse. Damages were contained and minimised. Lives were normalised in next to no time, well the credit should go to our irrigation staff and district secretaries. We went through two global crises, 2008-09 was the most severe. Oil prices were high, there was a hemorrhage on foreign exchange and the reserves fell. Within a matter of a short time the economy was stabilised and the first ever IMF standby arrangement in Sri Lanka was successfully concluded. In the past, every such programme had been broken. But not this time, credibility was restored.

Similarly in 2012 again we faced a global crisis, particularly the Euro Zone and the US slow down affected us severely as they are our major export markets. We have managed these challenges as well. The first three to four months of 2013 the same impact continued. From the available indicators there will be a u- curve type change during the second half. Imports have picked up, revenue has increased, GDP has picked up, prices have stabilised, poverty has declined further and in that background, 2014 is round the corner. We have completed three years in the strategy to become the Emerging Wonder of Asia. In the second five year plan of President Rajapaksa's ten year strategy, three years have gone and in the next three years, I am sure the President will be able to navigate the nation as a country with the lowest fiscal deficit. Not just during his term of office, but the lowest fiscal deficit of the entire post-independence Sri Lanka. When the Budget period is over, there will be the lowest inflation, lowest unemployment and the lowest level of poverty. His declaration to emerge as a poverty free middle income country, is a very novel concept. But a poverty free middle income country can reconcile income growth with equity, while ensuring the well being of its people. I am sure the budget will pave the way to meet these challenges.

Many More Challenges Are There... We Need To Instill Competent Individuals To

Manage Various Offices, Especially Government Enterprises.

**Concluding thoughts.**

Sri Lanka is a promising destination. The government despite many challenges, has managed the economy well. Many more challenges are there and many unknown events are bound to occur. With those risks over there, we need to instill competent individuals to manage various offices, especially government enterprises. Sri Lankan people have proved their loyalty to the country and to the government. Public servants have enormous talents, but they must be given the freedom and dignity to work. They are not working for a salary or to protect personal interests. They are a set of people who have public interest in their mind and that is why they believe in President Rajapaksa because he believes in the public sector. Public Servants believe in him and that mutual respect must be translated into action.









