



DON'T MISS THE BUS THIS TIME!

By Dr. Sirimal Abeyratne,

Professor of Economics, University of Colombo

The economist, D.R. Snodgrass is well known to any Sri Lankan who studies and writes about post-independence economic development of Sri Lanka. He wrote the most comprehensive first development economics book about Sri Lanka, titled *Ceylon: An Export Economy in Transition*, as far back as 1966. More than Three decades later, he looked back at the Sri Lankan economy on which he wrote such a valuable book, and wrote another paper. This time it was titled '*The Economic Development of Sri Lanka: A Tale of Missed Opportunities*', and published in 1999 as a chapter of a book edited by R.I. Rotberg. Today, ten years after this publication, I begin to think whether Snodgrass would write an updated version of the Sri Lankan tale of "missed opportunities".

How to miss the bus?

Throughout the post-independence history, Sri Lanka continued to miss the development opportunities that it had sum of which were, unique opportunities that most of the other Asian countries did not have. Whatever the way we analyze to ascertain why Sri Lanka turned back when there were opportunities, they all could be melt down into two things – policies and politics! With all due respect and gratitude politicians and administrators to for ending the twenty five year long civil war, they should not forget the fact that now there is a luxury bus waiting for Sri Lankans to get in, which we should not miss.

The recent developments do not appear to be conducive to getting the economy on the right track. A glance at Sri Lanka's position in the world shows a gloomy picture as reported by many international data reports. At the same time, even today we are witnessing the improvements in many other countries in Asia which were far behind Sri Lanka. In fact, we witnessed the same scenario in the past too, and saw how Singapore, South Korea, Hong Kong, and Malaysia ahead went leaving Sri Lanka behind.

Where Sri Lanka is?

The World Bank's latest report on *Doing Business* ranks Sri Lanka on 102nd position out of 181 countries in the world in terms of ease of doing business. The composite index showing the ranking on 'ease of doing business' is estimated using criteria such as the number of procedures to be followed and documentation required, time delays and money costs associated with commencing and conducting business activities. We can cheat ourselves saying that, there are still 78 countries below the Sri Lankan position. Similarly, we claim that "we are the highest in South Asia". Without involving ourselves in such meaningless acts what we should now do is to compare our standards with best performing countries in the region, if we are to make proper

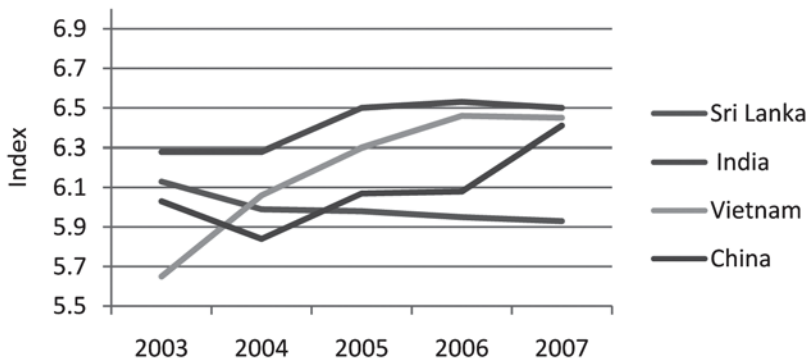


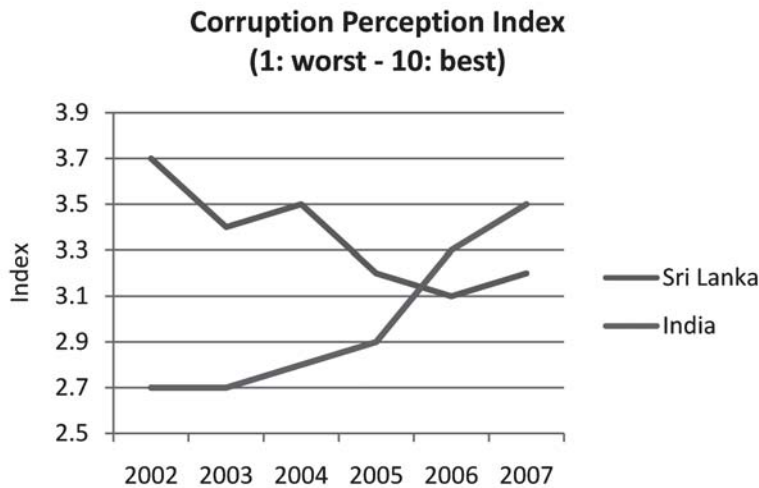
assessment of ourselves with a view to finding our way forward. Singapore is regarded as the best country in the world to do business. Compared to Singapore's ranking positions in many areas related to business, Sri Lanka still performs badly.

**Ease of Doing Business
(Ranking out of 181 countries)**

	Sri Lanka	Singapore
Starting business	29	10
Dealing with permits	161	2
Employing workers	110	1
Registering property	141	16
Getting credit	68	5
Protecting investors	70	2
Paying taxes	164	5
Trading across borders	66	1
Enforcing contracts	135	14
Closing business	43	2
Overall rank	102	1
Source: World Bank, <i>Doing Business Report 2009</i>		

**Economic Freedom Index
(1: worst - 10: best)**





The latest report on Economic Freedom in the World by Fraser Institute shows that Sri Lanka's position has deteriorated during the past 5 years (2003-2007). Strikingly, fast-growing countries like China, India and even Vietnam have improved economic freedom after 2004. It is important to note that, Sri Lanka's total accumulated foreign investment for the past 30 years amounts to USD 3.5 billion, whereas Vietnam annually received USD 3.5 billion in the past few years. Also it is important to note that Singapore and Hong Kong are always on the top of the world in terms of economic freedom.

Economic freedom is based on indicators representing the size of the government, legal structure and property rights, access to sound money, freedom for international trade, and regulatory mechanisms. Therefore, it is basically the government that restricts economic freedom in a country. The term 'economic freedom' is mostly misunderstood. It is also not regarded as equally important as political freedom. We often forget to note that someone's freedom cannot affect others' freedom. In a situation with the lack of the 'rule of law', people or institutes exercise their freedom beyond their limits, affecting others' freedom. We should remember that 'someone's freedom to move the fist is and cannot reach another's nose'.

South Asian countries were generally regarded as countries with high level of corruption. Few years ago, Bangladesh was reported as the most corrupt country in the world, but it improved remarkably during the subsequent period. India was another country with high level of corruption. During the past few years, India has made a remarkable improvement by reducing the level of corruption where as, Sri Lanka has moved in the reverse direction.

Another data source that can highlight Sri Lanka's position in the world is '*Global Competitiveness Report*'. The country competitiveness in economic performance is based on a series of indicators such as government efficiency, corruption, property rights, infrastructure, macroeconomic performance, education, health, market efficiency, technology and other etc. In



the latest report of 2009-2010, out of 133 countries Sri Lanka is ranked on the 79th position below that of India, China and Vietnam. Even in the case of competitiveness, Singapore and Hong Kong are on the top among Asian countries.

Sri Lanka as a Dynamic Global Hub

The presidential election manifesto (2010) presents an important conceptualization of a 'Dynamic Global Hub' with a view of transforming 'Sri Lanka into a strategically important economic centre of the world'. As anticipated, the country is expected to take a 'massive leap forward' on the basis of this global hub that would provide a key link between the East and West in terms of naval, aviation, commerce, energy and knowledge. A closer look at the post-independence development history of Sri Lanka and the contemporary developmental achievements in many other countries in Asia, provide valuable lessons in transforming this commendable concept into reality.

Strengthening Connectivity

A part of the conceptualization of a global hub is based on the strategic geographical location of the country which appears to be important in terms of naval, aviation and commercial activities. The comparative advantage of the strategic geographical location of the island was never been exploited in the post-independent history of the country, primarily for two reasons. First, the increased isolation of the country from the rest of the world through import substitution policies and the stringent government intervention during 1956-1977 did not permit the country to exploit its comparative advantage. During post-1977 period, the lopsided and inconsistent policy reform process as well as the post-1983 political conflict prevented the country exploiting its locational advantage. Among the best examples in the region, Singapore was able to develop rapidly as a naval, aviation and commercial hub in spite of being too small in size and poor in resource endowment.

A global hub status in terms of energy and knowledge appears to be a new concept at policy level, based more on expectations than on reality. Sri Lanka either did not have energy resources to cater to the fast-growing world demand for energy or did not explore the potential energy resources until the recent attempts on oil exploration. However, it is a fact that a country does not need to have its own energy resources to emerge as a global energy hub. Even without natural oil resources Singapore has emerged as a global centre of oil trade. Singapore, blessed by its strategic location by a major sea route for oil tankers at the entrance to the Strait of Malacca, is one of the major energy hubs in the world for oil refining and exporting. In addition to the Singapore Petroleum Company Limited, world's largest energy multinational companies such as ExxonMobil, Royal Dutch Shell, Chevron, BP, Total, Marubeni and, Mitsui have invested in Singapore's oil industry. Singapore produces 8,300,000 oil barrels a day, which is nearly a 10 per cent of world oil consumption, but 10 times Singapore's own consumption. (US Energy Information and Administration 2006). Therefore, with or without own energy resources Sri Lanka also has the potential to be a global energy hub.

Given the historical record of greater educational standards and the institutional setup supporting it, unlike in the case of energy Sri Lanka had the opportunity to become a global knowledge hub in producing and supplying knowledge and skills competitively at world standards. Perhaps, Sri Lanka is already too late to make this breakthrough, because its neighbouring countries such as Bangladesh, India, Nepal and, Pakistan have already moved in this direction during the past few years. Given the regulatory reform process, the university education has been liberalized in Bangladesh, Nepal and Pakistan where there are currently private universities and the campuses of prestigious foreign universities in operation. In India, although this move was prevented by the Article 25 of the Companies Registration Act of the country, the reform process had begun in mid 2008 (*Business Standard*, July 26, 2008) and, the Cabinet is due to approve the Foreign Educational Institution (Regulation of Entry and Operation) Bill, 2010. This bill is aimed at facilitating the establishment of the campuses of prestigious foreign universities in India (*The Times of India*, March 16, 2010).

The domestic policies of isolation adopted during the post-independent era have gradually led to a crisis in the field of education in many facets. First, the restrictive policies effectively closed the potential opportunities for outside world to acquire knowledge from Sri Lanka so that today rarely a foreign student admits to our education and training. At the same time, many countries in the world have converted their education and training to sustain foreign exchange earnings. Besides, in the name of 'free education' the country has effectively curtailed even the 'freedom of education' for the majority of Sri Lankans themselves. For this reason, particularly the higher education has become increasingly a foreign exchange draining sector.

Another important pre-requisite of making Sri Lanka a knowledge hub, is the importation of knowledge. Developed countries in Asia including Japan as well as fast growing countries have invested in educating their best people in top-ranked universities and other institutions mostly located in developed countries. Throughout the post-independent history of Sri Lanka, the government failed to take this initiative so that today there is a dearth of globally competitive knowledge within the Sri Lankan economy. As long as the Sri Lankan education system continues to expand in an isolated local environment, even with a massive increase in government expenditure in local education, it will not be globally competitive. As a result, Sri Lanka continued to suffer up to date the fundamental problems of producing, exporting, importing and even retaining globally competitive knowledge.

Achieving a global hub status is based on promoting international connectivity and competitiveness, contributing to national wealth creation. This essentially requires a market-oriented policy reform process that had come to an end in 2004. The past few years with re-directed development strategies and re-defined role of the government witnessed a movement of the economy in reverse direction. The mission outlined in the presidential election manifesto is no exception. It actually shows an expansion and intensification of the same development strategy and policy environment directed at achieving a self-reliant economy by getting isolated from the rest of the world. Given this contradiction between the economic vision and the ideology, it is difficult to understand a global hub status sans connectivity.



Getting the Economy on Track

How do we put the economy on fast growing track in establishing conditions for sustaining 8-10 percent rate of economic growth for the next 25 years? There are few things to do.

- First, it is necessary to provide a competitive investment-friendly economic policy environment so that investors feel comfortable in investing in Sri Lanka than in another country.
- Secondly, it is necessary to get the macroeconomic fundamentals in order by establishing conditions for sound fiscal management and strong balance of payments position. This will improve the investor confidence for long-term investments, weaken the speculative attacks emerging through short-term investments, and lessen the government's fear for budgetary outcomes.
- Thirdly, it is necessary to make public sector more efficient and effective in order to minimize bureaucratic and regulatory hassles affecting economic activity. In fact, unless the public sector reforms continue, it works as a serious bottleneck to rapid economic growth.
- Fourthly, rule of law needs to be established not only by imposing laws, but also by enforcing laws in order to maintain law and order.

In order to establish conditions as above, we need to do two things. First is to identify our own weaknesses and correcting them. Second is to look at Sri Lanka's position in the world and take measures to improve them. The indicators provided by the international reports as to the country rankings in the world, can be used for setting benchmarks for Sri Lanka to improve the conditions conducive to rapid economic growth. Given the strong political stability of the country at this current juncture, it is the right time to make bold reforms in order not to miss the great opportunity that Sri Lanka is having this time.