BUSINESS FOR DEVELOPMENT:
IMPLICATIONS FOR EXPORT STRATEGY-MAKERS

SRI LANKA

THE REGAINING SRI LANKA INITIATIVE - IMPLICATIONS FOR EXPORT STRATEGY MAKERS

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1. **INTRODUCTION**

Sri Lanka began to liberalize her economy in 1977. Since then, the country has made considerable progress. However, in recent years the progress has slowed, if not come to a virtual halt, compared to many other countries. This has mainly been due to the unstable political as well as economic environment that has prevailed since 1983 arising out of the ethnic violence. Meanwhile, many of the competitor countries of Sri Lanka have rapidly and successfully moved on with the process of economic reform and integration.

With the strong prospect of peace returning to the country **"The Future - Regaining Sri Lanka Initiative"** present the Government's strategy to meet the economic challenges facing the country and to put the economy on a path, where the people of Sri Lanka could reap the benefits of a vibrant economy, by unleashing its potential.

2. **The Regaining Sri Lanka Initiative - The four main challenges**

The Regaining Sri Lanka Initiative has identified four main challenges that face the country, all of which must be addressed to accelerate economic growth and increase prosperity.

2.1 Increasing Income Levels - Higher productivity and increased investments

The main goal of the initiative is to increase peoples' incomes. However, it recognizes the fact that incomes only grow in line with increased productivity.

Raising productivity is also the key that will allow businesses and farmers to compete more effectively at home and in overseas markets. Increased investments and higher economic growth will be achieved only if the country can produce and sell more, and do so with lower cost. This will require all sectors of the economy including the public sector to work more productively.

2.2 Increasing Employment - Creating two million new jobs

A good job with an adequate income is the desire of all Sri Lankans. However, this has unfortunately been beyond the reach of too many for too long. Productive employment that is available to all is also critical to the success of the Governments' economic policy. While official statistics suggest that there has been progress in increasing the number of jobs in recent years, a careful review of the situation has made it clear that the challenge of providing sufficient productive and desirable employment opportunities is greater than expected. This is because a substantial number of those who are deemed to be employed at present are either under employed or employed in non-productive jobs.

The Regaining Sri Lanka initiative therefore targets creation of a minimum of two million jobs during the next few years if the economic challenges that face the country are to be fully met. This would entail providing productive jobs for those currently unemployed and the new entrants to the work force. It would also mean the offer of improved alternative employment opportunities for those who are now under employed or employed in less productive jobs.

2.3 Overcoming the public debt crisis

Government debt has expanded dramatically in recent years to the point where today the size of the public debt is larger than the GDP of the country. As a result the revenues required to service this debt each year exceed the total revenue of the Government.

Meeting the challenges of bringing the public debt under control entails decisive actions in two areas under the Regaining Sri Lanka Initiative. The first objective is to create an environment where national income grows faster than the public debt permitting the country to " outgrow the debt burden".

The second objective is to reduce the budget deficit, to outgrow and eventually reverse the increase in public debt.

2.4 Resources for Reconstruction

Here the challenge is to bring to an end to the conflict in the North and East of the country and establish a lasting peace. This would mean reduced military expenditure and a focusing of resources for economic development activities for the entire country.

However, it also raises new challenges. These challenges are to rehabilitate and reconstruct badly neglected infrastructure and institutions mainly in the conflict areas and also other parts of the country. For this purpose, it will be necessary to invest in major reconstruction efforts to lay the foundation for substantially higher rates of economic growth.

This paper focuses only on the first two challenges, because of their relevance to national export strategy makers.

Meeting the challenges of overcoming the burden of public debt, creating two million new jobs, and generating sufficient resources for reconstruction will all depend upon the extent to which wide spread productively improvements and increased investments can be realized.

Therefore, improvements in productivity lies at the heart of all programmes under the Regaining Sri Lanka Initiative and will be the yardstick by which all actions will be measured.

3. Desired growth rate of the economy under the Regaining Sri Lanka Initiative and Implications for export strategy makers

In order to meet the four challenges facing the country outlined in the previous section, the goal under the Regaining Sri Lanka Initiative is to achieve a sustainable 10% annual growth rate. It has been determined that a sustainable growth rate of 8% - 10% over a number of years will free the economy from the tentacles of accumulated debt.

In order to gain an insight as to what would be required strategy makers have considered how other countries have achieved and sustained high rates of economic growth and what that experience suggests to Sri Lanka. The Table below presents average growth rates from the World Banks, World Development Indicators for 2001.

Average GDP Growth Rates

	1985-1997	**1970-99**
China	10.09	8.46
Thailand	8.76	6.68
Korea, Rep	8.41	7.63
Singapore	7.85	8.16
Chile	7.66	4.43
Malaysia	7.57	6.94
Botswana	7.20	10.34
Indonesia	7.18	6.33
Vietnam	6.52	6.46
Mauritius	6.20	5.56
Belize	6.09	5.50
India	5.83	4.77
Luxembourg	5.47	4.11
Lesotho	5.46	5.48
Malta	5.40	6.81
Pakistan	5.39	5.24
Israel	5.25	4.91
Papua New Guinea	5.16	3.23
Ireland	4.83	4.90
Ghana	4.60	2.57
Syrian Arab Rep.	4.53	5.93
Sri Lanka	4.42	4.54
Bangladesh	4.26	3.78

A few points worth noting from these figures are

- Only China, with its major market oriented economic transformations and low initial income and Botswana, with its diamonds and corruption-free good governance maintained growth rates of 10 percent or more for extended periods.

- ASEAN countries Thailand, Singapore, Malaysia, Indonesia and Vietnam are all high on this list. They were especially successful in developing trade and as a destination for foreign investment aimed at production for international markets. (The Philippines, a notable exception, had average growth in the 2 to 3 percent range.)
- Korea, Chile, Mauritius and Belize, all very export oriented countries and important locations for FDI are high on this list.

- And most of the countries high on the list have been implementing major economic reforms, including most of the African countries listed here, and have been on average relatively open to international trade.

It is also important to note that for the most part this list does not include the "developed" countries such as the US and EU countries (other than Ireland). This is a reflection of a fundamental point underlying the economics of growth - when countries have essentially reached maximum efficiency and all resources are fully employed, it is technological change that determines the rate of economic growth. And for much of the post-World War II period, that has been no more than about 3 to 4 percent per year.

Strategy makers have realized that reaching an economic growth rate of 10 percent will depend critically on increasing exports and expanding access to overseas markets. Accordingly export strategy makers have determined that the export sector will need to achieve an annual growth rate of at least 13 percent in US Dollar terms.

In this context, the Government of Sri Lanka is committed -

- To actively pursuing greater access to global markets through the ongoing WTO multilateral process. At the same time, it is realized that the pace of that process is likely to be slow and that improving Sri Lanka's economic performance cannot wait. It is therefore essential that a trade policy that greatly supports an expansion of trade in all sectors needs to be implemented, because no country has maintained higher rates of economic growth without building substantially on the opportunities provided through international trade.

- To develop new markets through new bilateral and regional trading agreements with any part of the world. In this context, within the Asian region the Indo-Lanka Free Trade Agreement is being further broadened to greatly enhance market access to the Indian market. Further negotiations to establish a Free Trade Agreement with Pakistan is also nearing completion. While the above facilities will offer great opportunities for exporters, they are by themselves insufficient. Discussions are therefore currently underway with the US for a trading facility. Possible trade agreements are also being considered with a number of other countries.

  The challenge for export strategy makers is therefore to pursue all opportunities with any country to access new and expand access to existing markets, for Sri Lankan goods and services.

  In order to achieve the economic targets under the Regaining Sri Lanka Initiative and specially the targets related to the export sector, it is necessary to aggressively seek investment and trade opportunities around the world for the goods and services that could be offered by Sri Lanka, because for too long significant parts of the economy of the country have remained inefficient and uncompetitive. As a result the burden has always fallen on few productive sectors. In this context, it is realized that there is a little hope for the country if it continues to produce costly goods and services deploying resources inefficiently.

4. <u>The salient features of the overall Regain Sri Lanka Initiative for increased economic growth which has implications for export strategy makers</u>

Improving productivity is considered as the key to accelerate economic growth and growth of exports. It is recognized that productivity is the end result of decisions taken by people responsible for producing goods and services. For the most past these are business people, manufacturers, farmers, merchants, hoteliers, service providers etc. Anything that interferes with or distorts their decisions to produce goods and services at competitive prices will reduce productivity and economic growth. In this context, formulation of strategies for, and implementation of the following key components related to the overall initiative is a challenge for export strategy makers.

- A comprehensive and sustained attack aimed at the barriers that reduce productivity and as a result limit investment and economic growth. In this context an environment needs to be created to give greater freedom for farmers, manufacturers, tourism businesses and other businesses, including service providers such as Bankers to make the necessary decisions to ensure economic efficiency. This also means a change in the relationship between public sector institutions and the private sector.

- An assessment of all regulations that affect business and removing those that are not strictly necessary. Where regulations remain they need to be reformed where necessary to ensure that they impose the least possible burdens on economic performance.

- Removal of regulations restricting the diversification of crops, limitations on land ownership and the length of land leases and constraints on foreign participation that have all tended to reduce productivity in the plantation sector specifically and more generally the agricultural sector. Such restrictions have impeded investments in more productive technologies such as drip irrigation methods and improved seed varieties, and has hindered the emergence of a competitive commercial agricultural sector.

- Removal of trade policies, tax policies and regulatory policies that have reduced investment levels and led to distortions in investment patterns and reduced economic growth. In this context, a specific challenge for export strategy makers is to modernize, simplify and streamline customs procedures, as well as procedures at airports and seaports.

- Creation of a substantial amount of employment opportunities through self-employment and small businesses. This will also mean creating the environment and a greater ability for Small & Medium Enterprises (SMEs) to enter business.

- To develop the information and communications technology (ICT) sector including the strengthening of its regulatory framework, as a vital supportive framework for exports.

- Greatly strengthen the supportive mechanisms for commercial activities related to agriculture and better development of markets for inputs and outputs.

- In regard to the plantation sector particularly tea, to put operations on a stronger commercial footing through the grant of longer leases of land as well as the removal of restrictions on alternative activities. In this context, it is necessary to restructure the basis on which plantation companies operate to encourage more efficient use of the resources under their control.

- Strengthen the branding of 'Ceylon Tea' and explore similar opportunities for identified industrial and agricultural products for which Sri Lanka could develop a competitive advantage.

- Strengthen the private sector at the industry or cluster level.

- Developing and implementing the range of different initiatives required to assist the private sector in accessing technical and commercial support required to compete more effectively in export markets.

5. <u>An outline of the key elements of some of the strategic initiatives already undertaken by Export Strategy Makers</u>

5.1 Mobilisation of rural raw material resources and skills, to add value and exploit export market opportunities. This strategic initiative is implemented through the Export Production Village (EPV)/ Export Processing Company (EPC) programme and other similar sub contracting programmes. The EPV:EPC programme is analysed in greater detail in the paper on EPVs : EPCs. The main objectives of the programme are to (a) increase export earnings (b) Increase rural incomes and living standards by adding value to rural agricultural and industrial products and (c) create employment opportunities to rural unemployed and underemployed youth.

5.2 Improving productivity of tree crop plantations by transforming them into engines for regional development and poverty eradication. There are approximately 6000 hectares of productive but neglected spice lands available in both public and private sector plantations, while there is a limitation on expansion of spice cultivation in other areas. In view of the fact that a wide range of high quality spices demanded in international markets are produced in Sri Lanka, Regional Plantation Companies (RPCs) are incentivised to diversifying production from the main tree crops, Tea, Rubber and Coconut. RPCs are also encouraged to shift reliance from cyclical commodity businesses to agribusiness such as high value fruits, vegetables, flowers and herbs.

5.3 A comprehensive and integrated development programme for the apparel sector in view of its strategic importance.. It is the major export earner at present (52 percent of total export earnings) and employs directly over 400,000 people. The sector faces fresh challenges in the post MFA era after 2004. Key elements of the development programmes undertaken are (a) Increase the productivity of a minimum of 50 percent of the apparel industry by approximately 30 percent by 2007 and reduce the cost of manufacture to be more competitive, (a) aggressive marketing in existing markets and explore market access in new markets, (c) Investment in advanced technology (d) Design and product development, (e) Backward integration of production activities (f) Reduce lead times of manufacture (g) Promote the image of the industry (h) provide a supportive framework to small and medium industrialists who are unable to compete in the post MFA era, to make a smooth transition to alternative business or aid early exit from the apparel industry. The leather products and footwear industry has been identified as an alternative as it requires similar skills (i) infrastructure developments to support efficient external and internal logistics.

5.4 Programmes for value addition to strategic industrial and agricultural products through 'Branding' where Sri Lanka could develop a competitive advantage in international markets. The obvious first choice in this regard is the well-known ' Ceylon Tea '. The other initiative being undertaken at present is the branding of the 'Ceylon Sapphire'. This strategy has been more comprehensively analysed in a separate paper. Concurrently the promotion of a protocol to identify and warrant domestic gem stones and the development of facilities for internationally accredited testing and assaying of gems and jewellery products are also undertaken, in view of the substantial potential for the development of this sector.

5.5 Development of the 'Business & Professional Services Sector for export', the potential of which has not been exploited as yet. In this regard the sub sectors on which attention is focussed on a priority basis are : (a) export of computer software and related services (b) Financial services (c) Medical Services, particularly oriental medical services (d) Educational services (e) Printing and Publishing Services, (f) Legal services, (g) Agricultural and construction related services and (h) Tourism, cultural and entertainment related services.

5.6 Exploration of opportunities under bilateral and regional Free Trade Agreements (FTAs). In this regard facilities under the Indo Lanka FTA is being expanded. A notable achievement is the establishment of the Sri Lanka Trade Centre in 'Chennai' shortly. The Centre will afford private sector companies, an opportunity to exploit the potential in the large Indian market for products and services from Sri Lanka, which have a competitive advantage.

5.7 Improve infrastructure facilities that are essential to expand trade in the modern trading environment. For example, Information and Communication Technology (ICT) facilities, especially e-commerce facilities are being expanded into the Provinces through the establishment of several regional e-Commerce Centres. These are linked to a Central ' Cyber

Trader ' facility in the national TPO, to enable regional enterprises especially SMEs to access all ICT services. An 'On Line Trading Platform' enabling export transactions to be carried out electronically, will also come on stream shortly.

EDI facilities are being developed linking Customs with Airport and Port facilities, to enable smoother and streamlined export transactions.

5.8 Strengthen the private sector at the Industry or 'Cluster' level. Programmes are being implemented under the competitiveness initiative of USAID and also under programmes of JICA. These programmes offer scope to build linkages among farmers and also along the 'Value Chain' with potential suppliers.

5.9 Repositioning of selected export products, in strategic international markets in order to develop competitive advantages. A notable example is the programmes being undertaken successfully to reposition 'Sri Lankan Crepe Rubber' to establish its unique qualities, by linking with end consumers in the US market. A similar exercise is planned in EU countries.

5.10 Establishment of public private sector partnerships to implement strategic initiatives, where the private sector plays the lead role. This approach is already showing encouraging results. Notable examples are the partnership of the national TPO with the private sector in the EPV:EPC programme, the Ceylon Sapphire Brand Development Programme and the relocation of the Leather Industry to one location with all infrastructure facilities and also facilities for the disposal of environmentally harmful effluents, after suitable treatment.

Conclusion

The success of the efforts of export strategy makers, in implementing strategic programmes related to the Regain Sri Lanka Initiative, will depend to a great extent, on the ability of all public sector and private sector institutions and stakeholders to network and co-ordinate effectively, to achieve common goals. In this context the national TPO, namely the Sri Lanka Export Development Board has a vital role to play as the navigator of the export strategy making process and the coordinator of its implementation.