

SEVEN PILLARS OF EXPORT LED INDUSTRIAL DEVELOPMENT

IN SRI LANKA

by A. S. Jayawardena

A comprehensive strategy to promote industrialisation in the coming decade has been drawn up. Dr. A. S. Jayawardena, Secretary Ministry of Industries explains the component elements of this strategy. Dr. Jayawardena has served as Director Economic Research Central Bank and Chairman Bank of Ceylon.

The Minister of Industries, Ranil Wickremasinghe, announced a new strategy for industrialisation in Sri Lanka on December 15, which was accepted by the Government on December 27 1990. This strategy document is not only a radical departure from previous government policy statements on industry, but is probably the first government policy statement proposed by the private sector of Sri Lanka.

As soon as he assumed office, the Minister invited a large number of private sector entrepreneurs to prepare a comprehensive set of policy guidelines to foster rapid export led industrial development in the country, taking the cue from the Government's policy statement that Sri Lanka must "begin in earnest the process of reaching the status of a "Newly Industrialised Country (NIC) during the next 6 years."

The invitees, who represented a cross-section of Sri Lanka industrial enterprise, formed themselves into several committees and produced their recommendation in record time. This was followed by a consultative process with all concerned authorities, such as other ministries, departments and leading industrialists. What finally emerged as "A strategy for Industrialisation in Sri Lanka" was the best feasible consensus of many divergent viewpoints. Where a clear consensus was not feasible or where further introspection was considered desirable, the issues were highlighted as deserving further development by the proposed

"Industrialisation Commission", which will coordinate activity and advice the Government.

The strategy is based on seven important pillars or premises, and it is important to understand their significance. They are:—

- i Adoption of prudent economic policies in general
- ii Emphasis on private sector development
- iii encouragement of foreign investment
- iv Export-oriented development
- v Grant of special incentives for short-term
- vi Infrastructure and human resource development
- vii Establishing inter-industry linkages

Strategy

First of all, the entire development strategy is based on the expectation that the Government will persevere with the adoption of prudent economic policies. That would mean that the government will endeavour to reduce the fiscal deficits, thereby releasing more

resources for the private sector; that it will make every effort to contain inflation, which raises interest rates and discourages investment; that it will adopt a flexible exchange rate policy, which will encourage exports and production.

Secondly, the Government expects the new drive for industrialisation to come essentially from the private sector. Public industries which have either yielded an inadequate return or have been subsidised at tax-payer's expense will be phased out and transferred to the private sector.

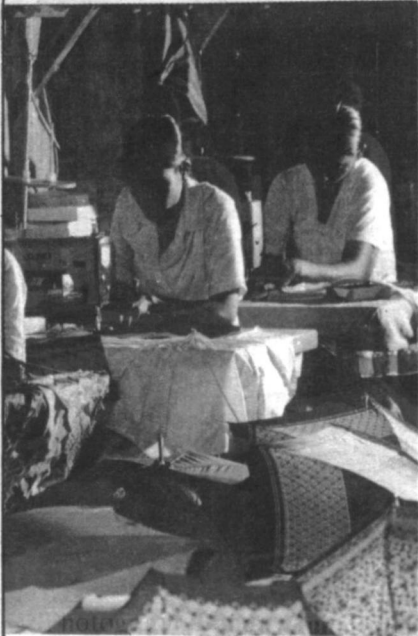
The economy will be made fully competitive, so that market incentives will guide the development of industry. Industries will be made to compete not only in the domestic market, but in international markets as well. To achieve this, bureaucratic controls, price regulations and other inhibiting factors will be phased out.

Thirdly, foreign investment will be actively encouraged, primarily for acquisition of capital for investment, technology and markets. Sri Lanka's savings of around 15% of GDP is hardly adequate for the scale of investment needed. Further, joining with active foreign firms will help acquire technology and markets. Foreign investment will naturally come to make profits for themselves, but as many other countries have done Sri Lanka too could benefit in the process.

Fourthly, the entire industrialisation strategy is oriented to exports. Sri Lanka is a small

Continued on page 33

Continued from page 5



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dary and their dilution as vocationally oriented programmes will affect the intellectual and creative climate in the country. In a country in which unpredictable economic conditions have made labour force projections futile, short employment-oriented courses after graduation and tertiary level courses in provincial or district institutions should ensure greater flexibility and relevance for purposes of employment and production.

It appears, therefore, that the need in Sri Lanka is not for grandiose schemes but for specific plans of action to meet the needs and constraints that have been identified in studies and reports and at innumerable seminars and workshops held in the eighties. Such programmes need to be conceived within the framework of 'redistribution and growth' and national harmony if they are to contribute towards the resolution of current problems.

country with a small market. There are very few industries that can achieve economies of scale and remain competitive in such a market, unless heavily protected. Hence, Sri Lanka will have to think of the whole world as its market, and go for export-led industrialisation. To achieve this, excessive protection of a handful of import substitution industries must be scaled down. That will expose them to international competition, compel them to improve quality and reduce costs, and make them internationally competitive. This will enable Sri Lanka to specialise according to her comparative advantage.

Additional Incentives

Fifthly, there is a need to provide further incentives for an initial, short period. Generally, a flexible exchange rate, elimination of bureaucratic obstacles, good infrastructure etc. should be adequate encouragement for export growth. But, in view of recent domestic uncertainties and growing protectionism in world markets, it was felt that some additional incentives, in the form of tax concessions and concessionary long-term finance would be necessary for the industrialisation effort to get going. In the long-term, such incentives may not be necessary.

Sixthly, the Government should foster the development of infrastructure, human resources and the working environment. This would mean provision of adequate communication and energy facilities, training of manpower to meet industry requirements, and creating an incentive based climate for labour.