

Repositioning Sri Lanka Globally

What Every Exporter Should Know

Arjunna Mahendran

Director General
Board of Investment of Sri Lanka

Re-positioning Sri Lanka globally is, more of a subject for discussion and debate, than a setting down of a particular point of view. My objective in opening this discussion is to hopefully challenge some of the standard nostrums that we take for granted in business academia and government, and to question whether a new approach is called for.

Over an year ago, certain points raised by me at the Annual Meeting of the Institute of Chartered Accountants, the revival of Sri Lanka's economy and the restoration of this country to its rightful place among leading Asian nations, a position that it held not so long ago need to be reiterated here.

Firstly, we needed to streamline governmental processes and make them more efficient. Secondly, we have to modernize our existing practices in the corporate sector, and utilize and embrace information and communication technology, and rapidly modernize our agricultural, industrial and services processes. Finally, I also mentioned that social harmony is the key to creating an environment in which business and the private sector could flourish.

The challenge, in a nut shell, as I see it, is to reposition Sri Lanka to the position it enjoyed in the early 1950s when the International Bank for Reconstruction & Development, the forebear of the World Bank, remarked that the 3 countries with the strongest prospects for development in Asia were Ceylon, Burma and the Philippines.

This, in essence, is the basic thrust of vision embodied in the 'Regaining Sri Lanka' initiative. Regaining Sri Lanka is just that, regaining our lost position among the front ranks of Asian nations.

To evaluate the challenges ahead it may be useful to look at the opportunities lost by Sri Lanka in the last 20 to 30 years. When we look back to the '60s and '70s, what stands out was the commencement of development of infrastructure to service the tourism sector. This was, by all accounts, an unqualified success and Sri Lanka stood tall in many forums where tourism was showcased in a global context.

However, the negative developments of the '60s and '70s was the imposition of government controls on two vital sectors which may have formed the basis for value addition in

Sri Lanka and the substantial accumulation of wealth. Firstly, the gem and jewellery sector, in my opinion, was virtually stillborn by attempts to regulate it, particularly, the production and mining of coloured gems stones which was heavily regulated by the State Gem Corporation. Not surprisingly then, the private sector devised ways and means of taking gem stones out of Sri Lanka to Thailand and Japan. Today the most successful firms in this sector are those which established networks overseas during that period, while the domestic industry floundered with virtually no direction. Our Gem and Jewellery Exchange is a shadow of the numerous exchanges that are still thriving in Thailand despite the ravages of the post 1997 financial crisis.

The other major sector which was stifled by over-regulation was the plantation sector. We all know how yields and profits in this sector virtually collapsed after nationalization in the early 70s. The commensurate benefits of Land Reforms articulated by Dudley Sears and legions of social minded economists, never materialised in Sri Lanka. The eyes of economists including prominent Nobel laureates like my former teacher Amartya Sen, were transfixed by Sri Lanka's high level of social indicators at the time. These achievements in the field of nutrition, literacy and health in Sri Lanka led to the mistaken notion, in my view, that large-scale government intervention in the economy was justified.

For those of you who are interested in the reasons for Sri Lanka's high level of social indicators such as literacy, health and nutrition, I would refer you to an interesting debate between two noted Indian economists - Amartya Sen and Surjit Bhalla. Sen contended that that strong State intervention in health and education and social welfare in the post-independence period, resulted in these high social indicators. On the other hand, Bhalla demolished this view, arguing that the latter contended that the high level of social indicators pre-dated independent Sri Lanka and the roots of Sri Lanka's commendable social welfare measures lay in the enlightened policies of the British colonial government which brought in progressive measures such as Universal Franchise and free education.

My contention therefore, is that the heavy hand of the State, which continues to linger today, cannot be held to be the main cause of Sri Lanka's high levels of social indicators. In this light, the misguided attempt at Land Reform nearly resulted in the destruction of values in the plantation sector, and virtual banishment of

multinational companies from Sri Lanka at a time when countries like Singapore and Malaysia were using multinational investment as an bridge to attract technology and new management practices into their economies.

Thus Sri Lanka entered the 1980s with a huge disadvantage in terms of the lack of a productive asset base in the private sector.

The nationalization of plantations had a further distortionary effect many decades later, in my view, when the management of plantation and ownership were transferred back to the private sector in the mid 1990s. Given the dearth of business opportunities and firm investment flowing into the country at that time, most of the large Sri Lankan conglomerates chose to invest large amounts of money in leasing out these plantation lands. They did this at a time when other Asian countries were heavily investing in higher value added industries ranging from high end Tourism all the way to Electronics. The net result is that a large number of Sri Lankan conglomerates have invested their meagre resources in low yielding plantation stocks, with the net result that the growth of these companies failed besides those of their counterparts in South East Asia.

Let us look at the numbers, The market capitalization of the Colombo stock exchange in 1992 was US\$ 1.4 billion, while the market capitalization in 2002 was US\$ 1.7 billion. On the other hand, the corresponding figures for the Malaysian Stock Exchange were US\$94 bn. in 1992 and US\$ 127 bn. in 2002, and those for India (the BSE) was US\$ 97 billion in 1992 and US\$ 131 billion in 2002. In the same period, Singapore's stock market capitalization had grown from USD 61 bn to USD 167 bn.

This in itself gives a measure of the lost opportunities for Sri Lanka, particularly for her listed companies, during the lost decade of the 1990s. Why is it that our listed companies did not grow in this period? A key factor is that our economy did not ride the technology boom of the 1990s. We neither developed the capacity to produce hardware, like Malaysia, nor software, like India, in this period. In other words, the management of these companies were unable to take the

risks and aggressively launched into new sectors.

Looking at it from a more macro economic perspective, let us look at export performance. Sri Lanka's total export in 1992 was US\$ 2.5 billion and in 2002 it was US\$ 4.7 billion. The corresponding figures for Malaysia were USD 40 bn. In 1992 which had grown to USD 93 bn. in 2002. For Thailand, exports grew from USD 32 bn to USD 67 bn. In 2002. Even in India, which traditionally has been an inward looking economy with a small export base, exports have literally exploded in the last 3 years.

Whereas India exported a measly USD 18 bn in 1992, this grew to USD 50 bn last year and that number excludes the exports of approximately USD 5 bn. of software that are not counted as exports of goods. As a consequence, India's foreign exchange reserves have boomed to the current level of USD 75 bn. and the Indian Rupee is currently appreciating along with other major currencies against the US Dollar.

The foregoing analysis indicate of the lost opportunities we have sustained in Sri Lanka, in what I call, "The lost decades of the 1980s and 1990s". This is the essence of the Government's efforts to regain Sri Lanka. We have to claw back the lost opportunities and re-orient ourselves to make Sri Lanka a competitive platform for value addition in the Asian region. Competitiveness, in my reckoning, has to start with skills development, For this purpose the government has now made the establishment of a Youth Corps its main priority. The accent is on human resource development. By pushing up our skills levels we can push up wages and push up productivity, and most importantly, create a feeling of entrepreneurship amongst the youth. We have to change the mindset of the youth in this country who typically aspire for state sector jobs at the end of their tertiary education. The key is to change their orientation into looking for business opportunities, either in agro industries, information and communication technology or the leisure industry. The only way to empower them to do this, is for all institutions involved in developing our human resources in this country, coming together and enhancing the value creating potential of Sri Lanka's workforce.

To evaluate the challenges ahead it may be useful to look at the opportunities lost by Sri Lanka in the last 20 to 30 years.

We at the BOI are attempting to rise

to this challenge by making the development of skills in our workforce a cardinal tenet of our strategic plan for the next 5 years. We have commenced active dialogue between universities and other tertiary education institutions and private businesses registered with the BOI. We think that this mechanism will form the basis of stronger interaction between business and the workforce for their mutual benefit.

I refer in particular to the splendid achievements of particular universities, especially to those that have an orientation towards technology and management. For instance, the Moratuwa university and the Sri Jayawardenapura Management Faculties have a splendid track record of inter-acting with business and finding ready employment for their graduates. The voucher system I have outlined will provide more resources to these demand driven universities, resulting in resources gravitating towards the successful generators or employable graduates.

It is therefore very clear that Sri Lanka has some very basic challenges to confront in terms of making itself a more competitive place in which to do business. I have consulted a recent survey done by the Japanese External Trade Organisation, which very systematically compares the cost of doing business across Asia. The numbers are very revealing. Sri Lanka's labour costs, rates of taxation and prices of utilities, perhaps with the exception of the price of electricity, are among the lowest in Asia. In other words, the cost of doing business in this country is not very high. Why then is it that we find it difficult to move away from excessive reliance on low wage industries such as garments, textiles and gems and jewellery, into higher value added forms of production where our workers and producers will be assured higher levels of income mindset. The long term objective is to see that profits and wages increase, enabling Sri Lanka to ascend the value chain, and reposition itself amongst the leading nations of Asia in the year 2002.

The question we have to ask ourselves is whether our entrepreneurs have changed their mindset to embrace the new opportunities in



Changes in processes transform the world of work. The creation and loss of jobs, the contented quality of work, the location of work... all are affected by the emerging era of digital globalization.

sectors other than the traditional sectors such as garments, plantations and low end tourist resorts. I think the answer is emerging in terms of a split between the older conglomerate and the thrusting young companies that have grown under the aegis of the Board of Investment in the last 15 to 20 years. The difference between these two mindsets is seen in the fact that most BOI companies tend to stay away from the traditional Chambers of Commerce in this country, which they find too stuffy and loaded with the older vested interests. There also an age differential. Most BOI companies have Chief Executives in their 30s and 40s and this is the new generation that is powering the change in mindset.

Nevertheless I do not mean to say that our traditional companies do not have a role to play. However, they will have to make a start by reorienting the work of the Chambers and the Employers' Federation from spending undue time on affairs connected to Plantations, Shipping and other less productive activities and focus instead on embracing technology.

The change in fact is being thrust upon us by changes in the market place. To give you an example of the cutthroat competition that is emerging from China that is resulting in the closure of industries all over the world. Take a relatively small BOI company manufacturing femiconductors in one of the BOI Zones. The Korean proprietor of this plant tells me that when he built it in 1994, the selling price of his chips was 12 US cents and its cost of production was 9 US cents. This year his prices have crashed and the selling price is 7 US cents, which means that he is making a loss. He tells me the Chinese manufacturers of these chips have a cost of production of 6.5 US cents. This is a microscopic example of a massive wave of competition that is threatening to engulf all manufacturing activity worldwide. It extends even to garments and other sectors.

The solution is for us to innovate. We are entering an era where innovation is the order of the day, and those who do not innovate are doomed to perish. Innovation, in a nutshell, is the ability to improve your product while reducing its cost of production. I recently met a Hongkong garment manufacturer who has three factories in Sri Lanka. His solution to the threat from China was to move away from mass scale garment manufacture and devise a proprietary software package that feeds individual body measurements into a computer. This package will then design different styles of garments for different body types as they vary between races and geographical locations around the world.

That is a typical example of the innovation that is coming through from the fitter and stronger companies, and calls for a significant change in mindset among Sri Lankan companies.

In this context, I would like to refer the most recent publication of the World Economic Forum Global Competitiveness Report, which is jointly published with Harvard University. The study is coordinated by Prof. Jeffrey Sachs of Harvard who is now an advisor to our Prime Minister. Professor Sachs is leading the way by showing us in Sri Lanka how we should aim to re-position ourselves in the global competitiveness index. In that ranking Sri Lanka comes in 59th out of 75 countries. This tells us one thing. Sri Lanka is starting out near the bottom of the heap.

We are surpassed by just about every conceivable developing country, and the notable countries that are ranked below Sri Lanka are Russia, Indonesia, Bangladesh, Nigeria and Zimbabwe.

The assessment of the underlying factors that go into this ranking are instructive. In technology Sri Lanka is ranked 69th out of 75 countries. This shows how backward our ICT sector is. Secondly our public institutions rank 58th out of 75, while our corruption sub index is low at 62 out of 75. Finally the macro-economic environment index ranks 60 out of 75.

Let us take each of these issues in turn. It is clear that Sri Lanka is technologically backward. We do not have a single multinational involved in information technology operating in this country. There are pious prognostications that Sri Lanka could develop its IT sector rapidly. I tend to be one of the pessimists. First of all, we do not have a critical mass of mathematics and engineering graduates in this country to adequately populate a sophisticated software development sector. Even in the relatively mundane area of developing telephone Call Centres, a British firm which recently set up office here, advertised for 500 call centre operators and received less than 50 applications. It appears that the number of young people who can speak fluent English has dwindled with time. Where then is the human resource potential for developing an IT sector in Sri Lanka?

I personally feel that if we are to fast track IT development in this country, a lot will hinge on how our educational institutions adapt to the challenge. There is a hunger among university students for the knowledge of English. Are our universities doing enough to cater to this demand? In my estimation, I think not. We have seen at the Board of Investment a rapid proliferation of institutions being set up

to teach students English and IT and management techniques in the last year. For instance many people are probably unaware that the Royal Institute, which is a BOI enterprise, produces a number of graduates from the London School of Economics each year through their external degrees. The head of this institution proudly informed me the other day, that 3 of his pupils had obtained First Class degrees from the LSE.

A start has been made by the government which has employed Tata Consultancy Services, one of India's and the world's largest software houses, to install a national monitoring room in the Ministry of Policy Planning. Tata Consultancy Services is today one of the largest and most successful software houses in India, and by attracting them to Sri Lanka, we are finally going to attract the big names in the business to our country. As some of you know, software has in the last five years been transformed into an ordinary commodity. Just like other goods, software prices are tumbling and only the largest software houses such as Tata, Infosys, Wipro and Satyam in India are able to withstand the onslaught of competition. The big multinational computer solution companies such as IBM, Oracle, SAP and even Computer Associates, which is run by the Sri Lankan Sanjay Kumar, is now moving aggressively into India, to build their own Indian software plants, which is giving the indigenous software providers a tremendous run for their money.

We have in our midst, in Sri Lanka, many fledgling private software firms such as John Keells, E-runway and Millenium Information Technology which have the potential to succeed but I feel that even these companies will have to piggyback on large partners to survive the current cut-throat competition in this sector. I know personally that these companies are bracing themselves for this challenge and I think we will see exciting developments in the IT sector in the coming months.

What is emerging therefore is a private sector impetus to fill the gaps in our knowledge base, and this I think is the most exciting development we have seen in the last year. But the space has to be created for this private sector initiative to grow. I read a few years ago in a World Bank Report that Sri Lanka had the highest proportion of educational institutes run by the government, as opposed to the private sector, in any developing country. The ratio was in the order of 95% run by the government and 5% run by the private sector. This imbalance has to be rectified immediately.

The government's initiative is to stop subsidizing educational institutions, as has been the practice in the last few decades, and start to subsidize the students themselves. Plans are

now under way to create a voucher based system whereby students will be given vouchers to fund their educational needs, and they will be free to use these vouchers at any government or private institution of their choice.

The reform of the public service and public institutions is the second major area identified by the Global Competitiveness Report, as being weak in Sri Lanka.

As all are aware the government institutions in this country have lost their way. The whole raison d'être of the BOI is to cut through bureaucratic delays and obfuscations which frustrates, impedes and disillusion investors in this country. I can give you many examples of how investors are frustrated in this country in attempting to clear their goods through the Customs department, which takes a sadistic pleasure in imposing large fines on businesses which have made a slip in dealing with cumbersome Customs procedures. Getting planning permission from the proliferation of local government institutions in this country for getting building permits, is a veritable nightmare. Hundreds of BOI hotel projects and other recreational projects are blocked because some local official decides that he has to assert his authority over the investor. While India has surged ahead in the field of highway development, we in Sri Lanka are struggling for years to commence the Southern Highway because of ineptitude and indifference among the people directly in charge of implementing this important project.

The net result is that governments start off their terms with inflated expectations of starting a major development thrust in the country, but eventually the projects they initiate only commence once they have been ousted from power. In other words, Sri Lanka is in the throes of a bureaucratic nightmare.

We in this country have the largest public sector in terms of public servants and the proportion of our population, anywhere in the world. This situation has to radically change if the country is to revitalize itself.

Finally, the macro-economic environment index rank is one area where Sri Lanka has made some progress. The last year, as you all know, has seen tremendous progress in terms of reform of inefficient sectors dominated by public sector monopolies. For instance, the telecommunication sector has finally been deregulated and multiple operators with international gateway have been licenced, bringing the cost of international calls tumbling down. The insurance sector has been opened up and so has the petroleum sector.

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These deregulation measures are creating a new wave of economic impetus that is already showing results. The largest investments that the BOI has received in the last six months have been from the deregulated sector. In the telecom sector, Malaysian Telecom has decided to invest US\$ 90 million to upgrade their facilities in Sri Lanka in the Dialog GWS network. This will eventually mean that Dialog will almost certainly overtake Sri Lanka Telecom in terms of the size of its subscriber base within the next year. In the petroleum sector, Indian Oil Corporation is investing US\$ 50 million in upgrading 100 gasoline stations in Colombo and the outstations, and incorporating Convenience Stores and other innovations that have been deprived from the Sri Lankan public ever since the petroleum sector was nationalized in the late 1950s.

Finally, we have seen a global financial services company ING coming in to manage the Sri Lanka Insurance Corporation.

These developments indicate the strength to which the energy and resources of foreign investment can come in and transform Sri Lanka. We have to rely on these forces if we are to make a difference in this country. Most importantly, they are a vital pointer to the way forward.

In conclusion, I think in Sri Lanka, the challenge of attracting vast amounts of foreign capital in the next five years along with the technology that comes with it, to transform our Private Sector into an innovative, creative and responsive organism that can react instantaneously to changing conditions in the global market place. Everybody has to play a part in this transformation. The government has to become more efficient. Both government and private sector have to rapidly assimilate technology. And finally we have to find a lasting solution to our domestic political and ethnic differences in a manner that will convince the world that we are serious about our future. If we can achieve these relatively simple tasks, I am convinced that our collective future is assured.