

## "COMPETITIVENESS: SOUTH ASIA AND THE GLOBAL CHALLENGES"

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**T**he world faces the challenges posed by the process of globalization while simultaneously exploiting to the fullest extent the opportunities presented by this phenomenon. Most of the economies have embarked with varying degrees of success upon programmes to raise their economies from low cost, low value agriculture and industry to modern ones.

The popular prescription of the IMF and World Bank for the economic ills of developing countries is sound macro economic policies, economic liberalization and political stability. This macro economic prescription is necessary but that alone is not sufficient. Most of the developing countries in Asia, Africa and Latin America have been following these policies with limited success. What is needed is radical change at the micro economic level itself. If company managers and government bureaucrats remain imprisoned by old-fashioned thinking - such as over reliance on cheap labour and abundant natural resources and ignore the demands of a sophisticated world market place, firms cannot escape from being suppliers of inexpensive commodities. Countries will remain poor. This pattern has repeated in many countries around the world, because firms compete on price instead of quality and innovation. When you pay your labour low wages, living standards too will remain low. We in South Asia must ask ourselves how we have been able to keep ourselves poor, despite our abundant natural resources, cheap labour and fertile

soil. Though we have offered an attractive package of incentives to attract foreign investors and our sound management of macro economic policies has been recognised we have not been able to achieve the desired goals. These advantages, such as cheap labour, natural resources and incentives for investors which can be imitated anywhere in the world, have not supplied sufficient fuel to the engine of growth. We must, therefore, try to ascertain what it takes to create and sustain wealth for our nations.

Michael Porter, Professor of Business Administration, Harvard Business School in his book "The Comparative Advantage of Nations" (1990) focused on the importance of micro economic foundations of development, rooted in the nature of firm strategies and in the institutions, resources and policies that constitute the environment in which



firms operate are equally important if not more than the macro-economic side of development.

Mr Michael Faribanks and Mr Stace Lindsay, based on their experience and results achieved by working in many projects in developing countries, in their book "Plowing the Sea" have provided us with a new approach to the development strategies of developing countries. They have urged governments and business leaders to adopt a new economic paradigm, in which wealth creation and distribution no longer depends on existing comparative advantages, but on innovative thinking and competitiveness advantages. Failure to understand the distinction between comparative advantage and competitive advantage is one of the root causes of the problem of economic development. Firms must understand their own strengths and weaknesses and those of their own firms and competitors; study the needs of the market place; then contemplate how to provide extra value and earn a return on it. We have to start thinking afresh on these issues.

It requires firms that know how to capture greater value in the market place not only by being more efficient in what they do and improving quality but also by choosing where to compete as well as by adding service dimensions and innovating new product characteristics. In this regard, micro economic competitiveness is equally important or perhaps is of greater significance than appropriate macro economic variables. It is accepted fundamental that the appropriate macro economic variables such as budget deficit, foreign exchange policy, general conducive environment and fundamental for the private sector business and industry to operate competitively in the global market place. However, empirical evidence suggests that macro economic policy alone is not sufficient. For instance, macro policies encouraging high rates of capital, investment will not translate into rising productivity

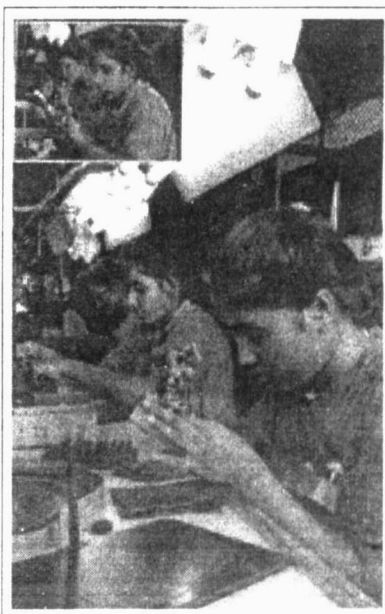
unless the forms of investment are appropriate, the skills and supporting industries are present to make the investments efficient and strong competitive pressures and corporate governance provide adequate market discipline.

High rates of public investment in human capital will not pay off unless a nation's micro economic circumstances create the demand for skills in companies. Removing distortions in exchange rates and other fundamentals must be in place if productivity is to increase. Competitiveness can be defined as sustained growth in productivity resulting in rapid growth in income and purchasing power for the average citizen. Low cost, low labour expenditure industries will not enhance the general income level of a country. The business leaders and captains of industry should look forward to the future with high value product and services to be marketed in the highly competitive market at high prices. That is the competitiveness. Competitiveness is best understood at the firm and industry level.

A recent study on competitiveness of the Sri Lankan economy has defined competitiveness not as abundant natural resources, cheap labour or better incentives but rather as sustainable growth in productivity and has commended the government of Sri Lanka for stressing this aspect in recent years. The report further states that competitiveness is not merely greater efficiency based on working harder or even working smarter. It is not merely doing things better but doing better things. It requires firms to acquire know how to capture greater value in the marketplace not just by being more efficient at what they do and improving quality but by choosing where to compete, and by adding service dimensions and innovating with new product characteristics.

In the highly competitive market place, if companies are to compete and survive, it is imperative they

should not only be aware of the challenges that they have to face but also use modern management techniques to improve competitiveness. In the years to come, tactical style managers will become a rare breed as increasing automation, the use of purchasing cards and system contact endanger their traditional job requirements. Increasing number of tactical activities such as processing orders follow up and quality checks may even be assigned to third parties. The professional manager who will really survive and have his role enhanced will be the one who is the 'whole' manager capable of taking a holistic view of his company's needs. He will have to be a global thinker, excellent planner and a zero defects ex-



ecutor. It is high time that leaders in both the public and private sectors in developing countries begin to work together to tackle the shared micro economic agenda.

I now wish to address a topic, which cannot be glossed over any longer when we talk about economic development strategies. We must accept that globalization of the world economy is inevitable and is here to stay. We in South Asia should look at it as an opportunity rather than a threat, a boom and not a bane. Recent economic crises in some of the East Asian economies were attributed to globalization and some critics suggest that globalization is bad.

These economies flung into crises not because globalization is bad but because they were not ready for globalization. If we understand the concept of competitiveness and all key players from government to firm's level work together to be innovative and stay competitive, we will be able to exploit the opportunities. Otherwise we will be exploited by those who do so.

There are many reasons why the process of globalization has gone so far and is likely to accelerate. The major driving force behind the globalization process is the new information technology revolution and reduction in transport and communication costs. The communication and information technology revolution works in many ways. Information is an essential input in economic activities. Firms using it are at an advantage over their competitors. The globalization process will accelerate as the information revolution accelerates. Private sector companies that make use of this revolution will find newer gains and economies from integration.

Today, we are living in a networking world. Ever since the digital big bang - the creation of the World Wide Web (WWW) - the cyber universe has been expanding at an explosive rate. The Internet has changed the way we think, live and work. It has become a tremendous success over the last few years and has started to play a major role in each and every aspect of human life including commerce. Internet has made inroads into commerce and has redefined traditional trade. E-commerce is the vehicle for growth in the next millennium. The Internet by nature is borderless and therefore E-commerce too cuts across borders. A networked world will offer tremendous possibilities for doing business more efficiently and profitably. When you do business on the Internet you are accessible 24 hours a day. After the British Empire Internet remains the only place where sun never sets. E-business has created the richest and the most diverse

marketplace the world has ever seen. Are we ready to take advantage of this cyber revolution?

The collapse of the world communist system gave way to market economies. Right now capitalism is giving way to knowledge economies, says management guru Peter Drukker. Today knowledge is replacing capital as the basic resource of economies. As a result, future international players must transfer capital into knowledge and the management of knowledge would be the central institution of society and there would be a few differences between managing business, politics, trade unions, religion, charity and government agencies. The professional manager would be a figure in the management of "knowledge economies". And he would replace the "publicity bent" "common touch" politico because business and politics would combine to achieve economic goals and objectives, establishing measurements, performances and educating and developing people.

Knowledge would be the basic raw material of tomorrow's economies. It is to the emerging high technology nations what roads and ports were to the emerging industrial nations. But nations as such are becoming less important. Powerful transnational businesses are creating information networks that 'bypass the nation-state framework', in the words of Riccardo Pertrella, EC Director of Science and Technology.

We in Sri Lanka have already done the groundwork to reap maximum benefits from these developments. As a major stakeholder in this process, our government has assumed responsibility to provide a conducive macro and micro economic environment. The private sector has been given all encouragement to pilot the economic drive. Production is now mostly in the hands of the private sector. The government will progressively privatize the few institutions that remain in the public sector. The government will become a facilitator instead of

being a provider. Sri Lanka maintains the most liberal investment regime in South Asia. Almost all the sectors except a few are open for foreign investment, The entire Island has been declared as a Free Trade Area. Some of the impediments to growth and development such as high dependency on government subsidies and incentives have been virtually abolished. The industrial and agricultural sectors are now geared to increase productivity as a sheer necessity for their survival. Inflation rate has been curbed. Public debt and budget deficit have been reduced.

Globalization is also a result of de-regulation and introduction of pro-market policies all over the world. We were in the forefront of this de-regulation process in South Asia. We also have developed the necessary infrastructure to benefit from changes in technology in the areas of transport and communications. We have taken necessary initial steps to prepare ourselves for an E-commerce led business culture.

Sri Lanka has become the pioneer nation in South Asia establishing cyber trader facilities for conduct of Internet trade transaction. The "Trade Net SL" now in operation at the Export Development Board (EDB) is providing the 'web servers' world over to explore business opportunities in our country



via Internet. Very comprehensive production profiles on exportable items and company profiles are now in Internet. Our experience at the Expo exhibitions in providing services to the international businessmen had been encouraging. With that success story, we now want to establish a permanent Cyber Café at the EDB for E-Commerce.

I would like to repeat here that competition is the name of the game. Quality, speed of delivery and presentation are its main ingredients in the knowledge-based economy.

In Sri Lanka, the continued commitments of successive governments of the past two decades towards the creation of a market economy have enabled the country to take necessary measures to integrate Sri Lanka into the global economy. In this regard we have taken steps to ensure the conformity of our domestic legislation and regulations to the requirements of the WTO legal instruments. The Department of Commerce, which is the national focal point in Sri Lanka for WTO affairs is considered 'a knowledge cell' of Ministry of Internal and International Trade, has been strengthened and upgraded in order to cope with the work relating to the implementation of the external trade policies of the Government of Sri Lanka, at bilateral, regional and multilateral levels. In the area of Intellectual Property, due to the pressing need of the liberalized policies of our country, the present Code of Intellectual Property Act No. 52 was enacted as far back as 1979. This Code, prepared with the technical support of WIPO (World Intellectual Property Organisation) has incorporated internationally recognised principles and concepts in tune with local obligations so far as Intellectual Property is concerned. The existing law governing trade marks, industrial designs and enforcement of the intellectual property rights in Sri Lanka is to a great extent in harmony with the provisions of the TRIPS Agreement. Thus we have created a conducive legal framework necessary for firms to operate and to maximise their competitiveness.

*(Adopted from the presentation made at the Commonwealth International Forum on "Competitiveness" at Hotel Galadari on 18th November 1999 as the Minister of Internal & External Trade.)*