

DISCUSSING SRI LANKA'S ECONOMY

A case for an open economy and need for right policies

There was no alternative, but to choose an open economy if Sri Lanka were to achieve a rapid economic and employment growth, was the conclusion of Dr. A. S. Jayawardena in an address at the 1989 Annual Sessions of the Organisation of Professional Associations held in September.

The OPA devoted an entire session to Sri Lanka's economy, where the two main speakers were Dr. A. S. Jayawardena, Deputy Governor of the Central Bank and Chairman, Bank of Ceylon; and former Governor of the Central Bank, Mr. N. U. Jayawardena.

Mr. N. U. Jayawardena's subject was restoring confidence through sound economic management where he emphasised that such a strategy would require a conjunction of several policies with supporting infrastructure. He summed up these policies as right development policy; right expenditure policy; right fiscal policy; right monetary policy; and last but not least, right resource management policy, involving above all management of the most important resource of humans.

Dr. A. S. Jayawardena focussed on what he thought was the most appropriate economic strategy for Sri Lanka at this juncture. He surveyed the vast changes that had taken place in Sri Lanka's economy since independence under different economic regimes. During the first 30 years, he said, a welfare oriented and an inward looking economic policy was pursued. Although there was some progress during this period, Sri Lanka fell behind most other countries of Asia in terms of economic growth and living stan-

dards. The next 12 years saw a change in policies towards an open economy. There was an acceleration in economic growth and diversification, but with inadequate attention paid to welfare considerations. Divisive tendencies in the socio-political sphere have been aggravated and this has created instability and uncertainty. He emphasised that widespread consensus on the appropriate economic strategy for Sri Lanka appears to be lacking.

In his view the current economic perspectives in Sri Lanka could be categorised into three groups;

- (a) Persevering with open economic policies, with adequate concern for welfare and employment.
- (b) Reversion to a controlled economy, with strong emphasis on welfare and employment.
- (c) Large scale socialisation of the economy, on the lines of the now abandoned Soviet and Chinese models.

Sri Lanka is a small island economy with a narrow domestic market. Adoption of inward-looking policies in such a context will inevitably result in low growth, low incomes and high unemployment. On the other hand, the experience of the Soviet and Chinese economies has demonstrated severe limitations of the traditional socialist strategies. Therefore, he concluded, that if Sri Lanka wished to achieve a rapid economic and employment growth with diversification, it had no option but to choose an open economy.

He maintained that an open economy would mean integration with world markets, not isolating oneself from them. It would necessitate the adoption of a highly flexible exchange rate policy, the exchange rate being the price at which we trade with the rest of the world. It would also be necessary to create internationally competitive domestic economic activities, by a progressive reduction of over-protection of domestic economic activities. We will have to remove ultra-national "blinkers" on the question of foreign investment. The objectives of income distribution could be best achieved by the government's tax - expenditure process.

Adoption of any other strategy will have disastrous consequences. In the ultimate analysis, he said, problems of economic management are the same, whether we choose a market-oriented or a command type economic strategy. Experience the world over shows that these problems are more easily solved under a strategy which leaves the economic decisions to an open competitive market.

Industrial Development

Another connected issue was the subject of industrial development which was analysed and discussed by Industries Ministry Secretary, Mr. Vincent Panditha. Looking at the current scenario he argued that after forty years of independence and various plans for industrialisation, Sri Lanka was still a predominantly agricultural country with a very small industrial base. Industry contributed only 15 percent to the GNP as against an Asian average of 32 percent. Another significant factor was, that at the time of independence, Sri Lanka ranked second in living standards in South and East Asia, only next to Japan. Today our average income was estimated at \$375 and was surpassed by Pakistan \$400, Indonesia \$520,

Thailand \$995, Malaysia \$1920, South Korea \$3910, Taiwan \$6053, Singapore \$9455, Hong Kong \$9605 and even Maldives \$470:

An analysis of the structure of private and public sector industry showed that over the last 12 years, the production of the public sector which was 66 percent, and the private sector 34 percent had changed to the public sector 34 percent and the private sector 66 percent. A large part of existing industry is dependent on imported intermediates. Also the industrial sector (with one or two sub sector exceptions) has continued to display a weak export performance and make a relatively low contribution to GNP when compared with many of the Asian countries that have developed more rapidly. Among the constraints to further development, he listed cost of funds and problems of credit; and also a lack of dispersal of industries and consequential problems. His view was that the primary objective for economic development has to be the achievement of economic growth, the raising of living standards of the people and generating of employment opportunities as quickly as possible. An analysis of the unemployment situation has shown that as a percentage of the labour force the unemployment level among GCE (A/L) qualified was as high as 34.8% and among GCE (O/L) qualified it was 28.5% in 1986/87. Unemployment of under-graduates was 61.7%. While there is still some potential for agricultural growth, import substitution of food grains, milk, fish and other food crops, substantial economic growth has to come from a dynamic industrial sector. Furthermore, due to the limited absorptive capacity of the domestic market, production has to be export oriented, which means that industries have to be competitive. The possibilities of linking industrial development with expansion of agriculture has also to be explored,

particularly if 60 percent of family budgets went on food.

The policies and strategies required in the immediate future should be directed, he said, to providing greater employment and income opportunities for the growing population; towards strengthening Sri Lanka's Balance of Payments; towards transforming the primary domestic market oriented industry to an export oriented one; and to ensuring a more equitable distribution of income and wealth, and thereby improving the quality of life of the people. To achieve these objectives, he advocated specific policy instruments among which were:

- (i) Complete neutrality between public and private sectors and ownership.
- (ii) Complete neutrality between import substitution and export orientation among industries.
- (iii) The active promotion of linkages between big investors and small producers.
- (iv) Adoption of prudent macro-economic policies in order to stabilise the economy, contain inflation and promote productive economic activity.
- (v) Removal of administrative barriers.

The short term strategies required, he concluded were: an Exchange Rate policy which is realistic and flexible, since it was the exchange rate that fixed the prices at which we dealt with the outside world; a tariff Policy which would not over protect and would help existing industries to become internationally competitive; a Fiscal Policy which would not contribute to inflation; a wage Policy which relates wages to productivity; an Industrial Policy that would facilitate development rather than regulate or control it; and finally peace and security which would bring about social cohesion and a stability required for development.