

Assembling Sri Lanka Inc. - Pragmatism over Ideology

Abstract

This paper focuses on the current debate that has engulfed many of us in Sri Lanka, how should Sri Lanka Inc. be constituted in its path towards rapid industrialisation and economic prosperity? Many economists, financial market practitioners and theorists have shared their observations in this 'selection process', based on either their personal overseas exposure and experience in other economies, its ideological propositions or on conjunctive thoughts of both exposure and ideology. It is the intention of the author to argue in favour of a country specific 'value creation model' based on the existing ground realities. Doing so requires a sensitive ear and a sensible balance in implementing pragmatic set of policies. I will argue that assembling many economies into one model can be destabilising. Therefore, if we are to usher in a rapid development path, then we need to be pragmatic as opposed to be ideological.

1. Introduction

Adam Smith spoke of division of labour in a pin factory, in his thought-provoking idea that took the form of a book, titled "Wealth of Nations" in 1776. The fundamental premise of his book was division of labour, Smith argued that, by dividing tasks into small parts, it would enable greater dexterity of labour and make the sum of the parts more efficient. Back in 1908-1915, Henry Ford pioneered his low-cost Model-T by the novelty of the 'auto assembly line philosophy'. His inspiration

had been based on Smith's premise of division of labour in the manufacturing process, which, Ford inherited from studying the meat packaging industry of Chicago in 1867¹.

The idea was a simple but a revolutionary one, intended to speed up the production process and increase labour productivity, in an era of rapid industrialisation and social upheaval and economic transformation of the West. However, none of us would have thought that an assembly line-based concept for an economic model would be part of a country's economic fabric that would be woven into an economic model in the 21st century. The answer is not straightforward or as visible as the Ford model-T manufacturing process, nevertheless it seems an ironical, yes! How so?

The rapid development through industrialisation and integration of economies viz.-a-viz. globalisation, has meant that as we have been locked into a mindset of "West is Best". Whether we like it or not, globalisation of mindset has encroached and encapsulated all countries. There is no escaping the glaring reality! It has also made living without connectivity technically impossible! Access to information has created a borderless society and literally each of us has access to what Thomas Friedman, in his acclaimed book titled "The World is Flat" (2006), alludes to "world at our fingertips"; by many ways, we have access to high technological

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apparatus and software, such as, i-pads, satellite phones, skype, face book, tweeter, google chat via wireless mobile web.

Whichever way we consider time and distance between places, cultures, economies or economic policy framework, we find that we are brought together in an instance by a single key stroke, to the reality of 'global inter-facing'. Therefore, globalisation has not only made the world seem flat, it has also been able to shrink its borders down in size to a single economic manufacturing plant, where many processes² are seemingly interlinked.

It is in this context that we find our mindsets aptly conditioned toward adopting our lifestyles and economic behaviour similar to those of other economies. Many of us want our country's—Sri Lanka Inc.'s, new economy model to be based on, and, developed on the principles akin to a multi-model 'assembly line'. Assembling economic parts based on our first hand views, experience, exposures and ideological beliefs of democracy and governance of the US, lifestyles and economic policies of European nations, cost of living of Singapore, economic growth rates of China, per capita income of Hong Kong, and topped with low inflation of New Zealand. This is clearly an 'Alice in Wonderland' adventure.

Empirical experience of many other countries who have moved from 'third world to first world' status

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have done so by adopting country-specific development models with a culmination of sound and pragmatic policy framework (Zilwa, 2010). The assembling line of the Ford model-T, is a case in point, as it would suggest that what Henry Ford assembled was 'one single car' with many inter-company contributory skills working in tandem to make Ford-T road worthy. Clearly, it would have not worked if the Ford-T was put together with other companies manufactured car parts. As such, a development model too cannot be based on, another countries-adopted economic policies, thoughts, aspiration, values, or impositions; the basis for a 'multi-nation model' cannot be adopted nor can it co-exist with its national industries and ground conditions. As the adding of many parts of various economic ideological parameters, and the assimilation of other countries policies in our path toward industrialisation, could lead to weak joints and eventual destruction of the vehicle (country) itself.

In order to set out ground conditions in answering this debate, it is important that the focus the central debate that has formed a centrifugal force,

(a) Who controls the World economy and what were their adopted policies?

(b) The paper will also briefly, deal with globalisation, in the context of development

(c) Finally it will argue that 'agriculture is the prerequisite for industrialisation'. By the end of this journey, it is highlighted and argued that "Assembling Sri Lanka Inc." is neither a desirable outcome nor should it be remotely considered. But what is needed for Sri Lanka Inc. is to keep its ear to the ground and "adopt a pragmatic approach to development over ideology".

2. Who Controls the World Economy

2.1 Control over Institutional Power

Since the industrial revolution, much of the world economic activity

has been controlled by the western rich countries. Today, they account for more than 80% of world output, conducting 70% of international trade, while channelling nearly 70%-90% of Foreign Direct Investment (Chang, *Bad Samaritans-The guilty secrets of rich nations & the threat to global prosperity*, 2007). In doing so, the western developed countries have super imposed their economic policies of neo-liberalism, cultural well-being and fastidious lifestyles on less developed countries. One may argue vociferously with this statement, but empirical literature and anecdotal facts speak for itself, authors, such as, Ha-Joon Chang (2007), Joseph Stiglitz (2002), Joseph Stiglitz (2010), Howard Nicholas (2004), Lakshman (1985), and Lakshman (1987), have all highlighted the obvious and shed light on the deep-seated methodology used to break down barriers of developing countries, viz-a-viz 'Institutional Power'.

The institutional powers - International Monetary Fund (IMF), World Bank and World Trade Organisation (WTO) too played their unholy part in the Latin American, South Asia and the East-Asian crises under the pretext of helping out struggling developing countries to come out of macro imbalances (Rodrik, 2002). Many of these policies dished out to developing countries did not find consensus nor did they agree with domestic needs. Nonetheless, they were promoted on the grounds of unconditional global integration (Stiglitz, 2002). This club of 'Institutional Power' seemed to be further strengthened by aligning regional multilateral financial institutions, such as, the ADB (Asian Development Bank), IDB (Inter-American Development Bank) into their fold.

Mooting such skewed development policies through various straightjackets, one size fits all policies ensured domestic economies, and their livelihoods were gradually dismantled in order to promote their own "Free Market is Good" mantra (Stiglitz, 2010).

Multilateral institutes also added insult to injury by ensuring that through their financial aid packages guised in the form of Structural Adjustment Programs [SAP], they could wield wider power over regulating government budgets, industrial policy regulation, agricultural pricing, labour markets, and eventually privatisation of domestic assets (Chang, *Bad Samaritans-The guilty secrets of rich nations and the threat to global prosperity*, 2007). Stiglitz, in his hard-hitting book titled "Globalization and its Discontents" refers to these policies as 'beggarthy-neighbour policies'. Financial aid as a tool also proved extremely useful as it could influence governance, best practices, and democracy in favour of the financiers who made rules to benefit them (Chang, *Bad Samaritans-The guilty secrets of rich nations and the threat to global prosperity*, 2007).

It is in this context that we find Sri Lanka has been grappling with Structural Adjustment Program, Poverty Reduction and Growth Fund since 1977, 1989 through to 1993, mainly due to the above-mentioned skewed policies³. Dependency on aid for economic growth and financial stability had meant that Sri Lanka could not focus on its ambitious industrialisation plans in 1995. Neither could she find a voice to articulate her own destiny in terms of broader value addition propositions, or in terms of investing in its people or natural resources given the restrictive international trade practices and policies (Lakshman, 1994). The imposition of rules and regulations or covenants to financial transactions can be viewed as a 'necessary evil' to some. However, when a country is subtly forced into accepting retarding credit terms, it does not bring about desirable outcomes, as we have seen and it only serves the ambitions of the lending agency (Chang, 2007). Today China and India form an "Avatar Asian World". The rapidly changing tide in global power and the rise of China and India together with the re-balancing of strategic investment into Asia,

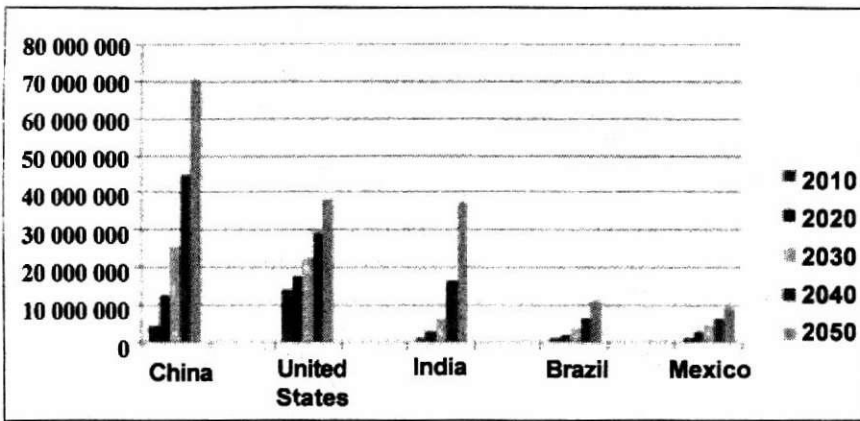


Figure 1: Five Largest Economies in the World by 2050, Measured by Nominal GDP (millions of USD)

Source: Goldman Sachs

dawns a new era in economic development for Sri Lanka Inc.. Figure-1 depicts the shift of economic power, in terms of nominal gross domestic product (GDP) from western countries to Asia. The current nominal GDP of China is USD 4.9 trillion, and is predicted to reach USD 70.6 trillion by 2050 surpassing that of the US, thereby reaching number one economic status. On the other hand, India's current nominal GDP is USD 1.2 trillion, which will become USD 37 trillion by that time and would be behind China'. This tectonic shift of 'economic power' and 'institutional power' will also open up brighter alternatives apart from the western frontiers. The perceived growth prospects within the Asian region together with an ever increasing middle class, places Sri Lanka Inc. in an unique position, for it has now an opportunity to reclaim its destiny with the gradual demise and wider acceptance of 'free market is not so good' ideology.

2.2 Interventionist and protectionist policies

What many of us are blinded or fail to realise is that economic history has pointed out that Western developed countries had adopted a variety of strategic interventions policies and also adopted protectionist policies, tariffs in order to give infant industrialist a chance to compete in mature markets. (Chang, Ha Joon, Ilene J. Grabel, 2004, & Chang, 2007). The US, UK,

EU, and Japan themselves resorted to selective forms of undemocratic, protectionist, interventionist policies until their own entrepreneurs, farmers and industrialist were strong enough to compete with foreign companies (Stiglitz, 2002). A case in point is the former British Colony - the US. During the period of British rule, Britain banned US-manufacturing companies from using trade tariff to protect its domestic industries, and thus preventing any form of manufacturing or high-technology industries taking root in the US. The British Empire considered US as a mere supplier of raw materials to its thriving Empire and its path toward industrialisation. William Pitt, the UK's Prime Minister, captured this thought process in a statement in 1770 where he was quoted saying, "British Colonies should not be permitted to manufacture so much as a horseshoe nail" (Chang, 2007). The Japanese Government too literally kicked out US-based General Motors and Ford in 1939 and used its funds to bail out Toyota who was venturing into motor cars. Japanese cars, such as, Toyota, Honda, Nissan are today competing thanks to such interventionist and protective measures.

It also a commonly known and documented fact that many European countries, Germany, France, Sweden, Austria, and Finland banned capital flows, which was deemed to create extreme volatility in financial markets until

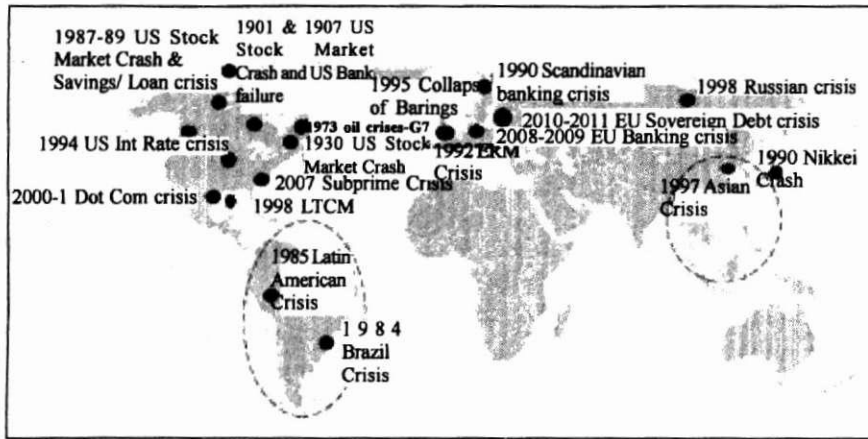
the 1970 (Chang, 2003). Europe was in fear of hot volatile money-creating havoc and wreaking its currencies and fragile economies in their initial stage of industrial development (Stiglitz, 2002). In 1994, the US aluminium industry accused Russia of dumping. In fact, the fall in prices had nothing to do with Russia, nor did they ever engage in dumping. The aluminium cartel created a platform for the US government department of Commerce to impose a special duty keeping out foreign competition (Stiglitz, 2002). In 2005, the US government intervened in a commercial transaction, in what was called 'selling of strategic interest', despite it being deemed as a legitimate financial transaction that involved the changing hands of USD 18.0 billion between the US energy-based company Unocal Corp and Chinese National Offshore Oil Company, thus halting the takeover.

It should be evident that the western developed countries continue to hide behind interventionists and use protective barriers arbitrarily, thus following a "Do as I Wish Policy" to international trade, finance and corporate governance.

Therefore, we need to ask the question, why is that Sri Lanka Inc. is frowned upon for adopting a similar set of selective measure of strategic interventionism and protectionism to help its industrialists and local entrepreneurs launch themselves by setting up of value-added sectors. "Sri Lanka, the emerging wonder of Asia" policy document, which set out ambitious targets and outcome matrix, is step in the right direction.

2.3 Banking and Financial Markets

Banks and financial markets have been pivotal in promoting trade and investments, and bringing about innovation. It has also been instrumental in channelling and



Map 1: Global banking and financial market crises of the 20th & 21st century

Source: Citi Global Markets & Authors

assessing credit risk across the world. The Glass-Steagall Act, Basle-2, International Accounting standards, have all been put in place by the western developed countries to ensure that financial system functions in an acceptable manner.

Apart from this noble action, western banks have been seemingly instrumental in sharing best practices, encouraging financial transparency and promoting good governance across the globe and more so in developing countries. A set of key terms that is popular among many Sri Lankan foreign bankers, neo-liberal advocates and theorists.

As depicted in Map 1, during the 20th century, we have witnessed 17 financial crises, of which 15 (88% of the time) were associated with western financial markets or so acclaimed developed economies, while, the two 21st century crises have also been associated with the western financial markets⁵. In fact, the recent US, UK and EU banking crisis should have also flagged our minds, to this duplicity in the rhetoric for financial transparency and good governance structures. The repealing of the Glass-Steagall Act is a case in point, as it gave way to a mindset of 'too big to fail', thereby, creating a situation whereby investment banks would rely on government/tax payer support. Excessive risk taking and synthetic products, which paid

hefty fees, were also the order of the day for big banks (Stiglitz, 2010).

Many of the so-called 'safety nets' and 'accounting standards' were also discontinued or frozen, London Inter Bank Offer Rate-LIBOR, used for pricing of global loans/deposits was manipulated⁶, while international rating agencies, Bank of International Settlements and British Bankers' Association which are supposedly financial market watchdogs, played a passive role in highlighting such risky activity, fraud and irregularities. The IMF and World Bank too preferred to watch than comment, as they were indoctrinated and made to believe that free markets were supposed to solve all of humankind's problems (Stiglitz, 2010). Many foreign banks, which are synonymous for professing good governance, best practice, and financial accountability mantra, fell like dominos.

Today US, UK and EU governments have been literally pushed to use taxpayers funds to stabilise the volatile financial markets and reassure the public in a bid to shore up global and domestic confidence⁷. Notwithstanding, banks and clients themselves are embroiled in legal action for excessive risk taking, lack of transparency in financial dealings, partaking in pyramid/ponzi scandals and other such financial irregularities. The list of offences range from mis-selling of

government bonds, non-transparent structuring of Mortgage-Backed Securities (MBS), slicing and dicing of Collateralised Debt Obligations (CDOs), front running of Credit Default Swaps (CDS), etc. (Stiglitz, 2010).

Therefore, we see that Sri Lanka Inc. has monumental task in reshaping its 'west is best' ideological predispositions, be it, cultural values, banking, financial markets and trading systems that have deep externalised roots, which over the years have been firmly planted in our domestic markets. It is in this backdrop that we need to reflect and ask ourselves if we need to follow the western industrialised methods of 'greed is good' banking or should we adopt a 'home-grown conservative' solutions to our domestic problems, be it banking, financial markets or trading habits? The answer needs to lay with pragmatism over ideology, thus listening to industrialist and entrepreneurial needs in developing a policy framework in the form of a policy document titled "Sri Lanka, Emerging wonder of Asia" is a starting point. Why should Sri Lanka Inc. not select a development model that would suit its own ground conditions, values, cultural attributes and financial system based on local needs? Clearly, there are merits in this methodology.

3. Dealing with Globalisation

Globalisation is a process where cultures, societies and economies become closely integrated. The conduit for integration is by way of trade, communication and transportation. The first wave of globalisation was recorded in 325 BC, however, the term globalisation found its vogue and deeper meaning in the world of industrial capitalism between 1750 and 1950⁸. Many argue that globalisation is an inevitable process, but why has it taken so long to reach many of us? What is the force that distributes globalisation? If technology

determines globalisation, then it would be difficult to explain why the world was less inter-connected since the 1960 and 1970s than today. The only explosion that has happened during this 50 years period is the internet revolution. Therefore, we can argue that it does not matter what shape or form technologies begets, what makes its wider distribution across continents possible is clearly within the realm of national policies and international agreements drawn out between global players.

The spirit of globalisation, was further epitomised by US President, Ronald Regan and UK Prime Minister Margret Thatcher, in the late 1980s, who were strong promoters of "what's not good for us is good for them" and pushed down the ideological sweetener of 'free markets are good', and called its dominance "There Is No Alternative" [TINA]⁹. It is with this push that IMF and World Bank found its new missionary purpose in a formalised process toward imperialistic bartering of financial aid for increased market share and profit in developing countries, sighting the inevitable globalisation doctrine.

Today no country wants to be isolated from the juggernaut of globalisation; which parent wants to see their children suffer from any illness or disease when advancements in science and medicines are available and can help his child in a globalised world. Similarly, all of us want something from this global integration process, be it, to be surrounded by information of sports results, fashion, music, entertainment, international cuisine, weather, financial markets, and political developments etc.; we all want a piece of the action and to be part of this global community. Such want cannot be at whatever cost, as there must be some degree of subordination. Ironically, all such demands have been engulfing and have eventually developed into broader forum and permeates' into 'what is best me is best for our country'.

However, such a predisposition is clearly flawed, as history has shown us a selective approach to globalisation is not a new phenomenon (Chang, 2003). It also highlights the apprehension by which countries embraced globalisation- for the lack of alternative. Britain, in 1932, abandoned free trade due to the decline of its supreme statutes and re-introduced tariffs, when it had no choice given that other countries too turned inward, protecting their industries and preventing cheap imports into their countries (Chang, 2007). Post-second world war was considered a period of incomplete globalisation, as trade between rich western countries and United States thrived, due to lowering of trade barriers¹⁰, however most developing countries did not embrace globalisation until the late 1980s -until the invention of Thatcherism. Historian of globalisation describe the post-war period as a period of economic disaster (Chang, Ha Joon, Ilene J. Gabel, 2004)

Therefore, the logical conclusion to globalisation argument is not say no to it or to kick it away, but to embrace it to an extent that would not compromise the overall policies and visionary framework that is being developed in order to the carve out a path toward industrialisation. For it is in our interest to enhance technological aspects of value creation and value addition, viz-a-viz trade, modern communications and efficient transportation. In doing so, Sri Lanka Inc. has a responsibility to strike the right balance between the vast majority of local farmers, industrialists and traders who seek state protection and timely interventionist policies, and its current domestic consumers whose changing life styles also needs consideration. Therefore, what is the balance?

The answer to this profane balance is not easy, nevertheless as a starting point, it can be found by looking at what resources (hard and soft) are needed to get from point A to B within the shortest period of 6

years-2016. This has been articulated by the Vision for Sri Lanka titled "Sri Lanka, the emerging wonder of Asia"¹¹. Where it sets out policies and targets for:

- (a) agriculture-feeding the nation,
- (b) strengthening enterprises,
- (c) networking and transportation
- (d) knowledge in a modern e-society,
- (e) satisfying lifestyles while also focusing on shared values.

Apart from adopting domesticated policies that are pragmatic to that of ideological in nature, adopting the right mindset to getting the 'job done' too can serve Sri Lanka well in this critical phase-1.

Many invaluable ideas of blending globalisation can be obtained by listening to local industrialist and to entrepreneurial needs. Thus developing a domesticated policy framework, whereby incorporating filtered thoughts into our economic model, is the preferred path. If I use this analogy, it is akin to Fords model-T assembly line of making one-brand-one-car. Therefore, why should Sri Lanka Inc. not select a development model that would suit its own ground conditions, values, cultural attributes and financial system? Clearly, there are merits in this methodology.

4. Agriculture is a Prerequisite for Industrialisation

Modern free trade doctrine is primarily based on Eli Heckscher and Bertil Ohlin, together with Paul Samuelson which was derived from David Ricardo. Its fundamental premise is that each country has a comparative advantage in producing some products or another by efficiently using its factor endowments. As the principle of the comparative advantage thesis revolved around the concept of products and not countries per se. Therefore, it was argued that developed countries, such as, UK, should engage in high tech capital

intensive products while developing countries, such as, Sri Lanka, make do with its labour surpluses by engaging in low-value agrarian products. In this context, the notion of free trade also suggests that factors of production can move freely without any incremental cost and adjust to changing consumer patterns. However, in reality, for any manufacturer or agricultural crop producer, this should intuitively come across as, not possible.

Needless to say that the western developed countries today continue to promote free trade ideology as the path toward greater economic integration, however, this is far from the truth (Myrdal, 1957). What is also striking about the rhetoric is that they continue to protect subsidies and pay close attention to agricultural production in their post-industrialisation phase. Why is this? The agricultural revolution which started in Great Britain during the early 1700-1800s was responsible for spurring the industrial revolution¹², it reached North America by the mid-1800's, and to this day, continues to be the backbone of economic growth. 200 years have lapsed since the agriculture and industrial revolution, today market based doctrine has taken centre stage in a globalised world, and yet, the US, UK and EU taxpayers continue to violate its principles, forking out funds to support and subsidise agriculture. Why is this so?

Clearly the extensive fiscal support extended to farmers and agricultural industries is needed in order strike a balance between food security and food sustainability in developed countries. Therefore, governments across the world have understood this reality. According to Canada's trade consultant, Peter Clark, "the U.S. continues to provide massive - sometimes unreported to the World Trade Organisation - support at the federal, State and local government level to U.S. agriculture". He further states that US taxpayers spend annually USD 28.70 billion in total subsidies to its framers¹³ despite agriculture only accounting for 1.2% of total US

labour force (1.8 million of people live on the farms) while accounting for only 0.7 percent of US GDP¹⁴. As at 2010, UK agriculture sector accounted for 0.90% of GDP, while it employed 1.4% of UK total work force or 440,000 people, yet, UK fiscal spend on agriculture accounts for USD 76.0 billion or about 32% of total budgetary expenditure¹⁵. Over the past 50 years, the EU too has continued to support and subsidise the agriculture industry, despite the fact that only 5% of EU's population work on farms, while the farming sector is responsible for 1.6% of the GDP¹⁶. In fact, EU budgetary allocations toward agriculture in 2010 amounted to approximately 50% of the total EU budget - EUR 45-53 billion a year¹⁷. Why is this? Clearly, the thinking is to keep basic food supplies adequate and ensuring people have access to low-cost food (i.e., a basic need that needs to be satisfied first in each of our hierarchy of needs). This has been the paramount focus of policymakers in their path toward industrialisation. Analysis of economic history would also suggest that agriculture and industrial development go hand in hand. Therefore, it is argued that agricultural buoyancy has been the backbone of industrialisation since the early 19th century.

Sri Lanka Inc. is caught up today in a similar debate of service and manufacturing sectors subsidising the agricultural sector. Most argue that exchange of consumer goods should be based on free trade principles. Proponents of free the trade camp suggest that Sri Lanka Inc. import all, if not most, of its basic food requirements and trade apparels, primary commodities in a fair exchange of comparative advantage and based on the economies of scale ideology. This oblivion mindset clearly is destined to be doomed and so is the country. Why so? Agriculture sector was instrumental for development of industrial sector in developed countries and accounts for industrial development in most of the Asian countries. It is no doubt that agriculture is an engine of growth and has to form the backbone in the countries like Sri Lanka as well. Sri Lanka Inc. is an agrarian-based country endowed

with fertile soil and favourable climatic conditions. At present, agriculture comprises of crop, fisheries and livestock, which contributes about 13% to the country's GDP. Agriculture also accounts for the livelihood of 65% of the population. It also employs 33% of its workforce or 2.7 million people, more importantly our food balance sheet also contains a significant content of consumer imports -from vegetables, sugar, wheat flour, lentils, dry fish, eggs, rice, fruits, canned fish, milk powder and products, confectionaries, chicken, garlic etc, exposing us to rapid changes in external price behaviour¹⁸.

By analysing Sri Lanka Inc.'s 20-year annual average of total imports in two stages, namely, 1990 to 1999 and 2000 to 2008/09, we find that, during the 10 year period from 1990 to 1999, consumer food imports accounted for 23% of total imports. In the preceding nine years from 2000 to 2008, consumer food imports alone had reached a staggering 20% or USD 1.3 billion over the same period. In 2009, however, this figure eclipsed the historical average and stood at 25% of total imports, reaching USD 1.97 billion out of a total import bill of USD 10.2 billion¹⁹. Notwithstanding, trade figures, we also find that there is strong correlation between inflation and imported prices of consumer goods (Zilwa, 2009; Nicholas, 2004; Nicholas, 1990).

Therefore, it is about time we took our food balance sheet seriously! Ironically, in this instance, the "West is Best" has been overlooked by some neo-liberal theorists and free trade propagators, who have failed to realise or refuse to consider that as with western industrialisation, our path toward rapid industrialisation is dependent on a sound, and thriving, value added, superior agricultural base.

Thus, this strategy focused on agriculture not only ensuring domestic consumers with a steady supply of calories needed for industrialisation, but also catering to price stability and external macroeconomic soundness.

Therefore, why should Sri Lanka Inc. not select a development model that would suit its own ground conditions, values, cultural attributes? Clearly, there are merits in this methodology.

5. Summary and Conclusion

The paper focused on an attitudinal adjustment of why assembling Sri Lanka Inc. is not a viable solution. The main ideological predisposition that have formed the core of the arguments put forward by the liberals/free thinkers have been addressed and found to be wanting and at more times, hypocritical. Arguments been, west dominate world economy thus Sri Lanka Inc should not alienate ourselves from the west, Globalisation, and the need for importing of basic foods/consumer imports; based on free trade and comparative advantage. In this paper, it has been firmly argued, substantiated with empirical examples and evidence of some of the duplicities and inconsistencies that exists in 'West is best' approach. In fact, today the 'Rise of Asia' is inevitable and Sri Lanka Inc. has a unique opportunity given the proximity to two of the world largest markets and economies, in China and India. Therefore, the dominance of the West since the mid 1960 is gradually, if not steadily, declining, this also paves the way for a better balance in global power and re-shaping of institutional powers, while been Asia oriented. The paper also focuses on the topic of globalisation. Stiglitz (2006) has openly made his thoughts felt and voiced his unhappiness with this misconception in his revelation of book titled 'Globalization and its Discontents'.

Nevertheless, this paper argues that while globalisation is deemed today as a 'necessary evil' for the country, it is important that we extract some value for our economic development and prosperity while not being overreaching. Notwithstanding, our current polices articulated in the road map document "Sri Lanka, The Emerging Wonder of Asia" seems to be aligned and is based on what is

best for Sri Lanka Inc.'s majority. Finally, the thought of Agriculture being a negative factor or a drag on the economy, supporting this argument has been importing food is better than saving a few unproductive farmers. Clearly, this is thought process is dumb founding and is wrapped with irrationality, over facts and sound understanding of development history. Empirical example sighted in this paper together with recent data supports and de-bunks this argument, as many western countries continue to support and subsidising farmers/ agriculture, despite being in the post-industrialisation phase.

Therefore in conclusion, the West is best policy attitude has shown us that "Assembling Sri Lanka Inc." is neither suitable nor desirable. Assembling an economic model on another country's or countries individual tastes, values, beliefs, expectations, and cultural exposure cannot bring a desirable outcome. We have seen positive results when a domesticated model, based on local industrial needs, culture, aspirations, knowledge, and values have been incorporated, as in the case of the mightily successful East-Asian Tiger economies to Western countries. Therefore, an economic product or model based on another country's economic model, values, financial market behaviour, predisposition, and attitudes could be dangerous and, in fact, be eventually destabilising. What Sri Lanka Inc. needs is a game changing set of pragmatic solutions over ideological misconceptions. Sri Lanka Inc. is not up for assembling its domestic oriented development model!

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Footnotes:

¹ http://en.wikipedia.org/wiki/Assembly_line

² Both in terms of physical and psychological, given national borders have been breakdown. Therefore we are more inter-dependent than independent today than ever before.

³ Excerpts of the by Gunnar Myrdal in his lecture to the memory of Alfred Nobel, March 17, 1975-" In the United States, where aid to underdeveloped countries has been continuously argued as being in "our country's best interest", with these interests more

and more specified as located in the military sphere, foreign aid has increasingly lost its popular appeal. The fact that the foreign policies supposedly served by this direction of aid has met defeat in Southeast Asia and also been less than successful in Latin America and other parts of the world, can only have made people in America ever more skeptical and adverse to foreign aid supposed to serve these purposes.⁷

⁴ Date accessed-20th Dec 2010-<http://en.wikipedia.org/wiki/BRIC>

⁵ Date accessed 20th Dec 2010-http://en.wikipedia.org/wiki/Financial_crisis

⁶ Data accessed on 20th Dec 2010 <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aZHPJf06Z5t8&refer=uk>

⁷ Cost to countries taxpayers due to excessive risk taking by banks- US- \$2.5 trillion, UK- \$ 1.2 trillion, EU-\$ 962 billion Source- USA- <http://www.independent.co.uk/news/world/americas/wall-street-rescue-23-trillion-the-cost-of-us-bank-bailout-1606328.html>; UK- <http://www.independent.co.uk/news/uk/politics/163850bn-official-cost-of-the-bank-bailout-1833830.html>; EU- <http://moneymorning.com/2010/05/10/eurozone-bailout/>

⁸ Date accessed-20th Dec,2010- <http://www.sas.upenn.edu/~dludden/global1.htm>

⁹ Ha-Joon Chang-2007, *Bad Samaritans*, pg 38

¹⁰ However most developed countries used other mean of adjusting for lower trade tariffs, countries continued to subsidies R&D and also provided financial support.

¹¹ Ministry of Finance and Planning (2010)

¹² http://en.wikipedia.org/wiki/British_Agricultural_Revolution

¹³ Date accessed, 20th Dec 2010- <http://www.theglobeandmail.com/report-on-business/economy/economy-lab/daily-mix/for-us-farmers-subsidies-the-best-cash-crop/article1813425/>

¹⁴ CIA World Factbook

¹⁵ CIA World Factbook & http://www.ukpublicspending.co.uk/budget_ukgs.php (date accessed 20th Dec 2010)

¹⁶ Euro Stat pocket book 2007- http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-ED-07-001/EN/KS-ED-07-001-EN.PDF

¹⁷ Date accessed 20th Dec 2010-<http://news.bbc.co.uk/2/hi/8036096.stm#start>

¹⁸ Date accessed 20th Dec-<http://www.statistics.gov.lk/agriculture/FoodBalanceSheet/SumOfFBS.html>

¹⁹ Central Bank of Sri Lanka, Annual Data tables 2.3.2

Contd. from page 20

assessment of turnover tax. Adequate staff is not available in many provinces for introducing functional specialisation in tax administration. Hence, provinces do not practice the in-depth assessment of selected high-risk taxpayers than a casual assessment of all taxpayers. The practice does not serve to enhance the credibility of the provincial tax department.

iii. Poor information base and absence of sharing information between the province and the centre. Inadequate adoption of information technology prevents provinces from establishing proper information bases. Further, there is no mechanism for sharing of information between central government tax agencies and provincial tax departments.

Issues of Capacity

Lack of adequate capacity at the provincial level: There is no proper system of improving technical skills for developing tax systems and enforcement strategies at the provincial level. There is no proper arrangement for training of provincial tax officials.

Assessing the Provincial and Local Tax Systems

The assessment of the performance of the provincial and local tax systems should be made in the

context of the performance of fiscal decentralisation. Fiscal devolution has not brought about a meaningful allocation of resources to provincial and local levels. It has created a mis-match between public functions assigned to provincial/local bodies and fiscal capacity required by them for those functions. Though the fiscal devolution is precisely to enhance potential to better address the varying needs of different regions and therefore of communities, significant fiscal imbalances in provincial finance has imposed limitations on its capacity to provide services.

Thus, the fundamental issue of fiscal devolution in Sri Lanka is as to how provinces could be established in fact as efficient and accountable providers of public services instead of being merely enjoying constitutional status. An appropriate design by itself is not sufficient to ensure the success of fiscal devolution, a commitment to devolution is necessary to bring about the potential welfare gains of fiscal devolution. The operational experience of fiscal devolution in Sri Lanka raises fundamental questions about the ability of the system of intergovernmental transfers to lead to efficiency enhancing equalisation of fiscal capacity of the Provinces.

Conclusion

The foregoing analysis of the revenue assignment shows that the

revenue raised from the sources assigned to provincial councils and local government authorities are not large enough to create significant fiscal autonomy and flexibility in service provision. The aggregate revenue raised by the provinces from own sources financed only a negligible proportion of their total revenues. There is no provision for equalisation of fiscal capacities to enable all provincial and local councils to provide services at a minimum level and standard. There is a need for a fundamental reform of the decentralised tax systems to enable the decentralisation to meaningfully perform service provision roles and responsibilities.

Footnotes:

¹ Referred to as the "principle of subsidiarity", it argues for a bottom-up arrangement in the location of responsibility for the provision of public services in terms of the relative efficiency of the different levels in their performance.

² The benefit rationale for local taxation argues that each (local) jurisdiction pay for its own benefits. For example public services enhance the value of local properties and therefore the owners of properties must pay for those benefits.

³ BTT has been taken over by the Central government under the Budget Proposals for 2011.

⁴ Making Decentralization Work for the Benefit of the People of Sri Lanka, NIPFP, Delhi, 2007.