

**“REPOSITIONING SRI LANKA IN THE NEW WORLD ECONOMIC ORDER –
THE ROLE OF THE PRIVATE SECTOR”**

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I must begin with a word of sincere thanks to the Sri Lanka Chartered Institute of Marketing for their kind invitation to me to speak under their aegis. Trained and experienced members of your important profession of marketing, both before and after your establishment as a Chartered Institute in 1995, have contributed to the vibrancy of our private sector throughout the terrible years of our conflict-ridden political history. Marketing professionals have helped our economy grow in spite of the damage caused by our politicians. Let me confess at the outset – as befitting my customary policy of full disclosure – that I have no professional expertise in marketing. Indeed it could be argued that had I some knowledge of marketing I might have done a better job of marketing myself in last year’s election to the post of Secretary-General of the United Nations!

I have, consequently, chosen a subject on which I can draw on my international experience as a Sri Lankan diplomat and an international civil servant. Before entering the Sri Lanka Foreign Service – through a competitive examination and not through the political back door – I worked in the private sector for over three years. I am aware therefore that the private business sector in Sri Lanka, more than any other sector, understands the value of interaction with the international community. And so while some political parties and sections of the public go around ranting and raving about foreign conspiracies threatening our sovereignty, wrapping themselves up in obscurantist jingoism, you remain steadfastly realistic knowing that our economic survival depends on foreign markets for our goods and services and our ability to have domestic markets for foreign products and services vital to our economic life. You provide the antennae picking up the trends signaling a downturn in tourist arrivals as a reaction to turbulent events here; you see the threat to our exports when our prices prove to be uncompetitive either because of our costs of production or the ‘dumping’ or subsidies of our competitors; and you read the warning signs of foreign currency fluctuations and the continuous depreciation of the Sri Lankan Rupee increasing our cost of living and our foreign debt. All of this in an increasingly globalised world where inter-dependence is more relevant for a country such as our Island which has long been on traditional trade routes depending on imports and exports.

I. The Emergence of Southern Engines of Growth

As a newly independent developing country, Sri Lanka reacted favourably to the thesis of the Argentinian economist Raul Prebisch who said that as a result of unequal terms of trade primary commodities produced by developing countries in the periphery of the global system received lower prices in global markets while manufactured goods produced by the developed countries at the centre secured higher prices. Thus, he argued,

the rich were becoming richer while the poor were becoming poorer. The Group of 77 developing countries in the United Nations was able to establish the UN Conference for Trade and Development (UNCTAD) in 1964 with Prebisch as its first Secretary-General aiming at a New International Economic Order (NIEO) where we would have equitable terms of trade and the capital needed for development. Trade not Aid was the slogan as a permanent escape from the poverty trap and the dependency syndrome. Our own Dr. Gamani Corea, as Secretary-General of UNCTAD, was able to negotiate a number of Commodity Agreements with a view to securing better prices for primary commodities. More than four decades later we have not achieved the level playing field of equitable terms of trade despite several useful rounds of negotiation by the General Agreement for Trade and Tariffs (GATT) and its successor organization, the World Trade Organization (WTO). While the latest Doha Round remains incomplete, unconscionable agricultural subsidies maintained in the West are such that a cow in the European Union (EU) countries receives a subsidy of \$ 2 a day while one billion human beings – men, women and children – languish in the extreme poverty of living under \$ 1 per day. Agricultural and other subsidies remain in force in the EU and the USA together with other protectionist measures distorting free trade while the IMF and the World Bank advocate unilateral policies of dismantling such self-protective policies in developing countries as conditionalities for loans and other forms of fiscal support.

While the developing world of the South may not have achieved the NIEO, there has been an actual emergence of a new world economic order with countries hitherto in the periphery achieving remarkable growth through their own efforts. The dynamic growth of the Chinese and Indian economies as well as several other developing countries like Brazil and South Africa, the ASEAN countries and the Republic of Korea and of course oil-rich countries in the Gulf has reduced poverty dramatically and has helped the world economy to grow while the US economy went into deficit and the Japanese and German economies stagnated. Historically this can be attributed to the emergence of OPEC as a cartel controlled by developing countries demanding and obtaining higher prices for oil from 1973 - although this has had its own adverse impact on oil-importing developing countries like Sri Lanka. A more widespread cause was the adoption of market-friendly economic policies replacing state-centric policies by developing countries based on economic nationalism and/or various forms of socialist policies. The end of the Cold War, which dominated the post World War II global scene for over four decades, and the Information and Communications Revolution (ICT) were certainly contributory factors. The era of privatization and globalization provided incentives unleashing latent productive forces in many developing countries and changing the global economy. The danger of the East -West conflict during the Cold War being replaced by a North- South conflict has been averted largely because of globalization. Some argue that China and India are in fact resuming their rightful place as global economic power-houses having been among the richest economies in the 16th and 17th centuries just before the impact of Western colonialism and imperialism.

The contrast with the era of post Industrial Revolution growth in the West is clear. The resources, both material and human, from the South contributed undoubtedly to the development of the West. But a reverse flow of development was confined to trade in a

limited range of goods. This was in an era of laissez-faire capitalism and in a less integrated and less globalized world when beggar-thy-neighbour policies prevailed unlike in today's WTO regulated free trade. Decolonization followed by globalization has led today to inter-dependence among equal partners in a rule-based multilateral system with the UN at the apex. Global norms, voluntarily accepted by nation states in human rights, trade, health, labour, migration, intellectual property rights, the environment and other relevant areas have since shaped development economics and the models that are being pursued today. Limited resources especially in energy are also a constraint while huge leaps in technology have become a shared asset. This has benefited entire populations in countries of the developing South leading to a dramatic reduction in extreme poverty and empowering vulnerable groups such as women. It has also introduced UN-driven concepts of sustainable development, transparency, accountability, corporate social responsibility and other benchmarks against which development models from the South and state behaviour are being rigorously monitored and evaluated by the international community and civil society within countries of the South themselves.

A fortnight ago I participated in a conference on "Southern Engines of Growth" organized by the World Institute of Development Economic Research (WIDER) in Helsinki where the late Dr.Lal Jayawardena of Sri Lanka was the founder Director. It examined the impact of developments in the Chinese, Indian, Brazilian and South African economies on the global economy. This would have been unthinkable twenty years ago. The combined external reserves of these four countries alone is over \$ 3000 billion and if all of them pulled the plug the US economy would be in dire straits. They have reduced poverty and empowered their people to be a huge market for the world while exporting goods and services aggressively. As importantly, while receiving unprecedentedly large volumes of foreign direct investment, they themselves have generated foreign direct investment to other countries including developing countries ensuring an inclusive tide that lifts all boats. We in Sri Lanka, especially our private sector, should be actively wooing this capital.

II. Opportunities for Sri Lanka

The challenge before growing economies of the South, therefore, is to use this unique opportunity to craft a modern vision of security and development for themselves while integrating their economies more closely in a globalized world through mutually beneficial multilateral and co-operative models. This has also to be achieved within the framework of the United Nations Millennium Development Goals (MDGs) to which world leaders committed themselves in 2000 at the Millennium Summit in the United Nations. And all this is being enacted in a compressed time frame of a few decades in contrast to the two centuries or so that it took for Western economic development to reach its present stage. That the economic development of the Southern engines of growth has been so impressive in this changed historical context while being called upon to meet the highest criteria set by the world community, by competitive markets and by the people themselves, is a tribute to their industrious and innovative human resources.

Now how do we in Sri Lanka set about benefiting from this new order? Some changes have already taken place in response to the new challenges. But obviously more needs to be done to change our domestic economy structurally and to adapt our foreign economic relations to the new trends. Our patterns of trade, investment and aid have evolved in the decades after Independence. At first it was the former colonial ruler, the UK, that dominated our trade and other economic interchanges. Then came trade with Japan and, later, the burgeoning export market in made up garments in the USA. Today while we continue to import substantially from Japan and India our largest aid donor – bilaterally and multilaterally - is Japan. Our largest investor is Malaysia. Foreign remittances from our expatriate workers, especially in the Gulf region, are estimated at \$ 2.7 billion per year or 8.6% of our GDP forming the backbone of our foreign exchange earnings. In the new global economic situation what comparative advantages do we have which we can exploit? We are already a Middle Income Country maintaining a Human Development Ranking of 93 with an excellent geo-strategic location on the sea routes and air routes connecting different regions of the world. The two economic giants that have emerged are from our own continent of Asia and we are fortunate that with both of them – China and India - we have traditionally friendly relations that go back to ancient history. With India we already have a Free Trade Agreement (FTA) -which may not be working at optimum levels- but which provides the framework for us to benefit from developments in the Indian economy. There are negotiations going on for a Comprehensive Economic Partnership Agreement (CEPA). With China the fact that we were, in January 1950, among the first countries to recognize the People’s Republic of China and to conclude the Rubber-Rice Trade Agreement in 1952 defying the Hickenlooper Amendment of the US Battle Act has given us a historical advantage. But with generational changes in leadership and the highly competitive global market we cannot assume that sentiment will guide the economic policies of India and China. And yet with the historical foundations we have with both China and India, it should be possible to open up investment possibilities as part of the production chain of enterprises in these countries producing components for their products either with raw materials we produce - such as rubber - or by converting ourselves into a service sector for those countries. Value addition should be our strength. Our advantages should be an educated and skilled labour force, less bureaucracy and efficient ports. Already our Services Sector is 56.2% of our economy and is diversified with Financial Services recording the fastest growth at 13.1% in 2006. A proactive private sector can create demand for our products in niche markets through marketing.

(a) Tourism - I noticed that while the conflict went on in the Eastern Province and abductions and killings were taking place throughout the country there were travel advisories in Western countries but not in countries like India and China. Our tourist industry had intelligently targeted the Indian and Middle East markets with many Indian and Arab tourists occupying otherwise empty hotels. The deregulation of domestic aviation in India had already helped us overcome the limitations in our own airlines to bring large numbers of Indian tourists. The fact that English is a shared language between us, together with a common cultural tradition, should facilitate the conduct of a sustained marketing strategy. We need, similarly, to mount a major marketing campaign in China and Hongkong where an economically empowered middle class has emerged. I am told

that to do that we must first create a group of Mandarin and Cantonese speaking tour guides – a step we should have taken ten years ago but it is never too late. Tours to places of Buddhist worship and other places of historical interest could be among the tourist promotion packages sold to Chinese tourists. Likewise tourism from ASEAN countries, the Republic of Korea, Arab countries in the Gulf and outside and South Africa must be encouraged.

(b) Investment -But tourism is only one aspect of economic and cultural exchanges that can take place between Sri Lanka and the new epicenters of economic growth in the world. There is no alternative to a durable political solution to our longstanding conflict. While we wait for our fractious politicians to reach a consensus in the national interest abandoning political expediency and partisan polemics, we are more likely to find investors from the “Southern engines of growth” than from the traditional OECD exporters of capital. For these countries have been through the upheavals of nation building not so long ago and many of them have experienced the post-colonial legacy of aggravated ethnic and religious cleavages caused by Western colonial intervention in our histories. They will see some of the incidents of violence outside the conflict zones not as a general breakdown of law and order but rather as isolated terrorist acts such as those which occur in London, Madrid and other Western cities – assuming of course that the Government remains credibly committed to democracy, the rule of law, human rights and to an inclusive political solution.

This political advantage must however be justified by the conditions we provide the foreign investor. Looking at the 2007 World Development Indicators published by the World Bank, I see that in surveying the different investment climates in various countries Policy uncertainty as a major constraint is rated as 34% for Sri Lanka. Corruption is rated as 16.9%: the lack of confidence that our Courts will uphold property rights is 31.2% and crime as 14%. Other factors as major constraints are tax rates at 19.1%; electricity 41.3% (surely a key disincentive); Finance 28% and Labour skills 21.3%. What is relatively good is the fact that time dealing with officials as a percentage of management time is 3.5% and the average time to clear customs is estimated at 3.1 days. Now obviously some of these statistics cannot be improved by you in the private sector without Government action. You can, through your Chambers of Commerce and other avenues of collective and individual dialogue with the Government, lobby for better investment conditions. But there are areas in which the private sector can play a role. Corruption can never be accepted as a permanent or inevitable feature. China is fighting this canker within the Communist Party itself with extreme measures such as capital punishment. The private sector is as guilty for giving the bribe as the politician or official is in demanding it and accepting it. We have laws against corruption and a machinery to enforce them. As conscientious citizens the private sector must co-operate to work towards good governance by refusing to give bribes and to report instances of corruption. Chambers of Commerce could have their own watchdogs to monitor corruption and engage in a “name and shame” exercise from time to time if no action is taken according to our laws.

(c) Skills Development -Then there is the matter of labour skills where the private sector can initiate vocational skill programmes or enter into arrangements with technical training institutes to recruit those who qualify from these courses. Our Information Technology (IT) skills are still not at the level they should be at if we are going to attract companies to relocate or outsource here. The IT sector in India is estimated to have its exports grow to \$ 50 billion by the year 2007/8. That did not happen overnight. The National Association of Software and Service Companies emerged in India as the premier chamber of commerce of the software services industry in India advising the government on policy. Sri Lanka needs to create pools of skilled labour and upgrade existing skills. The private sector cannot wait for the state sector to take the initiative in this and must begin training programmes. Already linkages have been established with foreign computer colleges but many of those who qualify leave for jobs abroad.

(d) Research and Development -Another area is research and development where the private sector has too often depended on the state sector. We already have the Tea Research Institute, the Rubber Research Institute and the Coconut Research Institute to service the needs of our traditional exports. The CISIR has, despite financial constraints, done what it could for the industrial sector. But more enterprise must be shown by the private sector in mapping the future for their products and their markets. Already some enterprises in the sale of ornamental plants, tropical fish and vegetables have established their own laboratories and research institutes that are of direct benefit to the local suppliers. China has recognized the importance of creating and retaining a critical mass of high quality scholars and research institutions. An estimated 4800 companies are directly linked to academic institutions as academy-run enterprises (AREs). A survey at the end of last year showed that China had six universities among the top 200 in the world in comparison to Japan with 11, Australia with 13, UK with 30 and USA with 55. Both China and India have excellent programmes to attract expatriates back to the country. Recently our Minister of Science and Technology announced ambitious plans for nanotechnology to be launched with the help of our own scientists who have worked abroad. Increasingly we are becoming a knowledge economy and a knowledge society. For this higher education centres of excellence and constant innovation is vital. Patent applications are commonly regarded as a benchmark of innovation and the Republic of Korea and Taiwan are way ahead of China and India in this respect. In general, while we must certainly ensure equality of opportunity in accessing higher education and technology we cannot allow a dilution of standards in comparison with the rest of the world with whom we have to interact.

(e) Energy - is another key resource and the competition for this is intense especially with China and India. Non-renewable energy like fossil fuels are limited and their carbon emissions are a proven cause of climate change. You have only to read the reports of the Inter-governmental Panel on Climate Change (IPCC) or see Al Gore's Oscar winning documentary "An Inconvenient Truth" to realize the seriousness of the threat which we can no longer dismiss as a problem for the developed countries alone. We must therefore move to other sources of energy. Our hydro-electricity will not be sufficient. Co-operation with Brazil in the production of bio-fuel is a goal that could be actively pursued. The search for oil and gas off shore has only just begun and we have made a

wise choice in giving China and India plots for exploration in production sharing agreements. We have also got China involved in the Norocholai project and India investing in a coal power plant in Trincomalee. The private sector must set examples in the conservation of energy and the use of renewable sources of energy.

(f) Corporate Social Responsibility - is today widely practised by the private sector in all countries as a result of the UN initiated Global Compact. We in the South, have a special responsibility to avoid the malpractices of the “robber barons” of the industrialized countries and the private sector in our own countries when we were colonies. The Sri Lanka private sector has long engaged in the work of community service organizations like Rotary, the Lions and other movements and has sponsored many community activities. While this is praiseworthy we must focus attention on the global agenda especially the attainment of the Millenium Development Goals. The elimination of extreme poverty especially is vital. So is the better distribution of income. This can begin within the private sector to ensure that the gap between CEO salaries and the average wage of the worker is not too wide. Conspicuous consumption by top executives cannot be accepted as corporate socially responsible behaviour. A recent ADB study has found that income inequalities are growing across Asia and that economic growth is not reaching the poor. Sri Lanka’s economic performance in the past was distinguished by the combination of equity with growth. It would be unfortunate, and indeed dangerous in its political consequences, if we now abandon the admirable distribution of income we had in the past where our lower income deciles grew at a rate commensurate with the higher income groups.

(g) Environment - China has emerged as the second highest polluter in the world after the USA. We cannot follow that example. Good environmental practices must be encouraged in Sri Lanka. Reduction of carbon emissions, economic uses of fossil fuels and transition to renewable sources of energy must be encouraged. Some companies are already pursuing ‘green’ policies. I was especially struck by the use in some of our super-markets of ‘green’ shopping bags made of biodegradable material to replace plastic bags. Urbanization will be a growing phenomenon in the world and the emerging Southern engines of growth are already showing signs of this. Location of workplaces and factories by our private sector outside urban areas can also help to create employment in new areas, reduce urban congestion and ease the pressure on urban transport. It remains a scandal that so many resources are concentrated in the Western Province. The Central Bank of Sri Lanka’s statistics of GDP in 2005 show that the Western Province accounted for 51%; the conflict affected Northern and Eastern Provinces were at 3% and 5% and the rest of the Provinces accounted for 41% collectively. This is inherently unfair, politically unwise and economically inefficient. The “Neganahira Navodya” programme of intensive economic development in the East is an opportunity for the private sector to consolidate the gains achieved by the elimination of LTTE terrorism in that region. It is only economic development and the provision of employment opportunities for the people of the area that can result in a durable peace. If the private sector shied away from investing in the East because of lack of political stability now is the opportunity to accept the challenge to help create that very stability which the long suffering people of the area richly deserve.

(h) Foreign Policy -All this must have an impact on our foreign policy and our external relations which reveal disturbing signs of confusion and mismanagement. Clearly the International Monetary Fund (IMF) has declined in its influence on global monetary policy and Sri Lanka has begun to rely less and less on the IMF. The World Bank continues to be useful in terms of project assistance and the Aid Consortium. But our interaction with the South through our membership of the G 15, our regional groupings in SAARC, BIMSTEC and IORC plus our strong bilateral relations with India, China and ASEAN countries will finally help to service and develop the economic ties we have with the new centres of economic growth. UNCTAD studies show that in the past twenty years intra-regional trade has grown faster than extra-regional trade especially in Asia. Skilful marketing of a composite Sri Lanka brand abroad is an area in which the private sector can give the state sector some valuable assistance. The way the Joint Apparel Association Forum worked with our missions abroad to safeguard and advance our interests in the garment sector is an example of what can be done. We also need to identify with the South in the international organizations where collective bargaining is clearly to our advantage.

With an estimated 2.1 billion airline passengers per annum globally the danger of pandemics like SARS and AIDS is ever present and Sri Lanka, like other countries, must ensure a strong public health system to safeguard our people. At the same time our vulnerability to natural disasters, especially in the context of climate change, must require us to enter into closer co-operation with other countries to ensure early warning systems, better disaster management and mutual assistance.

All this means staffing the diplomatic missions in those countries with competent and trained professionals and not using those posts for political patronage. For example, it is a shame that the head of our diplomatic mission in Malaysia, our biggest foreign investor, remains vacant for almost a year. We would have rushed to fill any vacancy in a Western country but our colonized mindsets and our corrupt system of political patronage either results in political appointees going to Kuala Lumpur or keeping the post vacant. There is now a likelihood not just of the majority of heads of mission posts going to cronies but also of several deputy positions also going to political appointees. A simple comparison with how China, India, Brazil, South Africa and other emerging economies in the South organize their diplomatic services will reveal how hopelessly unprofessional we are in the management of our foreign relations.

III. CONCLUSION

Business leaders have a special responsibility and indeed a right to articulate an apolitical perspective on **governance issues**. The occasion to do so in Sri Lanka is unique as it represents a challenge and an opportunity for you to positively influence government policy making and implementation in this regard. It is unique because we suffer from conflict and our democracy and economy suffer from adversarial politics. Governance suffers from all these making Sri Lanka less and less attractive to investors, traders and tourists. No amount of parochial polemics bordering on xenophobia would insulate our

small and vulnerable economy from the stark reality of interdependence. If politicians are unable or unwilling to grasp this, you the business leaders must tell them the truth. When the law and order regime of a democracy is brought under strain, whether by the underworld, terrorists, money launderers or by mis-behaving politicians, the ultimate toll will be on people and on business. The moment a country is seen as a place where the force of rule is giving way to the rule of force, the foreign businessmen - except for conflict entrepreneurs or predators like arms merchants - will think twice before arriving there. So every uninvestigated crime, every goon (or son of a goon) who goes unpunished, every politician and his brat-pack not held to account, represents a clear and present economic danger. Repercussions can range from foreign business by passing us to denial of market access that is based on Human Rights and or labour standards. So discussions about national and international norms and our treaty commitments on accountability, transparency, human rights and the rule of law have direct economic meaning and business implications. Business leaders therefore have a self interest and duty to talk to the politicians of all sides to promote consensual approaches to these questions. You have the right to do this and you have the economic clout to make your approaches effective.

It is time I concluded. My task has been to try to focus on the tectonic changes taking place in the international economic scene. Sri Lanka cannot remain isolated from these changes and the sooner we adapt to them the better for us. There need be no trade-off between our sovereignty, our unique cultural traditions and our independence and this policy of an intelligent adaptation of our economic planning to exploit our comparative advantages at this moment. They will need an abandonment of medieval mindsets and a readiness to be open to the external global environment subjecting ourselves to international norms in the political, economic and social fields if we hope to give our people the peace and prosperity that is their right. A recent ADB study of Sri Lanka's economy shows that while the Government owns institutions that manage about 60% of all financial assets as well as all public utilities and some smaller enterprises it is you in the private sector that produces over 85% of GDP. And so while the Government, as is legitimate in a democratic country like ours, is elected to be in the driving seat of our economy you, as the engine of growth, must send the right signals to the Government on the direction in which we should go so that our people will enjoy a more prosperous standard of living that they now have

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