SRI LANKA STATE OF THE ECONOMY 2014

Rising Asia:
Opportunities and
Challenges for Sri Lanka

INSTITUTE OF POLICY STUDIES OF SRI LANKA

SRI LANKA
STATE OF THE
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Acronyms

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Agreement
APTA	Asia-Pacific Trade Agreement
ASEAN	Association of South East Asian Nations
AWPR	Average Weighted Prime Lending Rate
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BMI	Body Mass Index
BOI	Board of Investment
BOP	Balance of Payments
BOT	Build Own Transfer
BRICS	Brazil-Russia-India-China-South Africa
CBSL	Central Bank of Sri Lanka
CEA	Central Environment Authority
CEB	Ceylon Electricity Board
CEPEA	Comprehensive Economic Partnership in East Asia
CEPA	Comprehensive Economic Partnership Agreement
CMR	Colombo Metropolitan Region
CPC	Ceylon Petroleum Corporation
CPT	Cleaner Production Technologies
CSE	Colombo Stock Exchange
CVD	Cardiovascular Disease
DAC	Development Assistance Committee
DCS	Department of Census and Statistics
DHS	Demographic Health Survey
EAFTA	East Asia Free Trade Agreement
EAS	East Asia Summit
ECB	European Central Bank
EIA	Economic Impact Assessment
EME	Emerging Market Economy
EPF	Employees' Provident Fund
EPZ	Export Processing Zone
EQI	Education Quality Input
ES	Ecosystem Services
ETF	Employees' Trust Fund
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FLFP	Female Labour Force Participation
FUTA	Federation of University Teachers' Associations
GDP	Gross Domestic Product
GHG	Green House Gas
HDI	Human Development Index
HPAE	High Performing Asian Economies

HIES	Household Income and Expenditure Survey
ICT	Information Communication Technology
IHD	Ischaemic Heart Disease
ILO	International Labour Organization
IMF	International Monetary Fund
INGO	International Non-Government Organization
IPO	Initial Public Offering
ISFTA	India Sri Lanka Free Trade Agreement
KOICA	Korea International Cooperation Agency
LCB	Licensed Commercial Bank
LDC	Less Developed Country
LFC	Licensed Finance Company
MDG	Millennium Development Goals
MITI	Ministry of International Trade and Industry
MNC	Multi-National Corporation
MUR	Mega Urban Region
NAFTA	North American Free Trade Agreement
NARA	National Aquatic Resources Agency
NASA	National Aeronautics and Space Administration
NBFI	Non-Bank Financial Institution
NBRO	National Building Research Organization
NCD	Non-Communicable Disease
NEC	National Education Commission
NGO	Non-Government Organization
NHDA	National Housing Development Authority
NIC	Newly Industrialized Country
NIE	Newly Industrialized Economy
NPL	Non-Performing Loan
NSB	National Savings Bank
NTB	Non-Tariff Barrier
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PAMA	Public Assistance Monthly Allowance
PAYG	Pay-As-You-Go
PISA	Programme for International Student Assessment
PPP	Public Private Partnership
PPP	Purchasing Power Parity
PSPS	Public Servants' Pension Scheme
RCEP	Regional Comprehensive Economic Partnership
R&D	Research and Development
REER	Real Effective Exchange Rate
RDA	Road Development Authority
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement

SAPTA	South Asian Preferential Trade Agreement
SATIS	SAARC Agreement on Trade in Services
SBA	Stand-By Arrangement
SDS	School Development Society
SEA	Strategic Environment Assessment
SFF	School Facility Fee
SLAR	Statutory Liquid Assets Ratio
SLC	Specialized Leasing Company
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
SRR	Statutory Reserve Requirement
TEU	Twenty-Foot Equivalent Unit
TFP	Total Factor Productivity
TFR	Total Fertility Rate
TPP	Trans-Pacific Partnership
UDA	Urban Development Authority
UNCTAD	United Nations Commission on Trade and Development
US	United States
WEF	World Economic Forum
WHO	World Health Organization
W&OP	Widows, Widowers and Orphans Pension Scheme
WTO	World Trade Organization

TOWARDS GROWTH AND STABILITY

1. Policy Perspectives

Over five years since the end of the armed conflict in May 2009, the Sri Lankan economy is now firmly on a path of economic transformation. In the post-war period, the country exited from a precarious external payments position, to successfully conclude a Stand-by Agreement (SBA) with the International Monetary Fund (IMF) in 2012. GDP growth has picked up from an average of 5.5 per cent during 2000-2009 to 7.5 per cent in the post-war period, and is estimated to exceed 7 per cent in 2014 as well. February 2014 marked five consecutive years of single-digit inflation, and the country is now able to borrow in international capital markets at rates that would be the envy of many crisis-ridden European countries. An impressive and far-ranging public infrastructure drive continues apace, and is strengthening the country's prospects for attracting a new wave of foreign investment and for becoming a strong regional economic hub. Yet, there is a growing sense of frustration that the economy has not fully harnessed its post-war dividend and is performing less than what it is capable of.

One of the most noticeable symptoms of this is the uninspiring private investment performance, characterized by the slow growth in foreign direct investment (FDI) and domestic private investment, reflected in remarkably low levels of credit uptake by the private sector over the last 18 months. Since the signalling of monetary policy easing in December 2012, low interest rates that prevailed throughout much of 2013 and into 2014 has been slow to translate into higher private sector lending. Credit growth in 2013 was a sluggish 7.5 per cent, and by June 2014 had decelerated further to just 2 per cent on a year-on-year basis.

GDP growth in 2013 was estimated at 7.3 per cent. But questions are emerging as to whether macroeconomic indicators are fully capturing the dynamics of an evolving Sri Lankan economy. For instance, although the construction sector grew by 14.4 per cent in 2013, cement sales grew by only 2.9 per cent; by contrast, when the construction sector grew by 21.6 per cent in 2012, cement sales grew by 28.7 per cent.[1]

The changing structure of the post-war Sri Lankan economy could hold the explanation in part. Sources of growth in recent years have been largely dominated by the domestic non-tradable sector Non-tradable services like wholesale and retail trade, and non-tradable industry activities like construction and utilities, have been at the heart of this. These are also the sectors in which the government has a significant share of activity in. It is not unusual, then, that private sector credit demand has been so sluggish - the sectors that are booming are the sectors in which opportunities for private investment is relatively limited.

Over five years since the end of the armed conflict in May 2009, the Sri Lankan economy is now firmly on a path of economic transformation.

[1] Central Bank of Sri Lanka, "Selected Economic Indicators", various issues.

Some part of the mismatch of the numbers could also be because the nature of economic activities under way now, is not being fully captured in existing techniques of national accounting. To rectify this, the government's statistics office has embarked on a timely effort of revising how the country's national accounts are compiled, and updating what is included in it. 'Rebasing' the compilation of national accounts - i.e., taking a snapshot of the economy in a more recent year in order to see the size and composition of different sectors in the economy - will no doubt strengthen confidence in ongoing efforts to improve data collection and analysis.

In the second half of 2014, it is expected that the sustained low interest rates (nearing almost one year) would finally trigger an increase in private sector borrowing. There are already some indications that private firms are responding to the very low borrowing costs to expand investments. However, with rates likely to remain low for the rest of 2014, the authorities would need to be cautious about asset price bubbles, and igniting inflationary pressure from the loose monetary policy stance if rates remain too low for too long.

What must be avoided is a consumption driven credit boom as was the case in 2010/11 in the previous round of aggressive monetary policy easing. It coincided with a 'pawning boom' that came unstuck as international gold prices plummeted. Several measures were adopted in 2012 to avert a looming balance of payments (BOP) crisis - re-adjustment to import duties, a change in exchange rate management, imposition of credit ceiling on banks, etc. This time around, early and prudent policy responses to any emerging signs of macroeconomic instability will provide an environment of policy consistency, and encourage the private sector to undertake investments.

It is likely that towards the latter part of 2014, interest rates could edge up, as credit demand picks up once again. For the government, it is a delicate trade-off. Sri Lanka is increasingly dependent on foreign investor demand for its Treasury bills and bonds to finance its fiscal deficit. If interest rates reduce further, and consequently the yields on Treasury bonds, it would make these bonds less attractive to foreign investors. If it falls to a level where the spread between the return on Treasury bonds and the return on Sri Lanka's Sovereign bonds is quite slim, foreign investors would consider the elevated currency risk and sell off their investments, or at the least, avoid future investments in rupee denominated Treasury bills and bonds. This could adversely impact the government's ongoing and much needed capital raising efforts.

Sources of growth in recent years have been largely dominated by the domestic non-tradable sector.

Another factor which may influence an edging up of interest rates would be the drawing down of the extraordinary monetary measures in the US ('tapering' of quantitative easing by the US Federal Reserve). This, coupled with a sustained recovery in output in the US economy, could push up global interest rates and consequently raise the international borrowing costs for Sri Lanka as well.

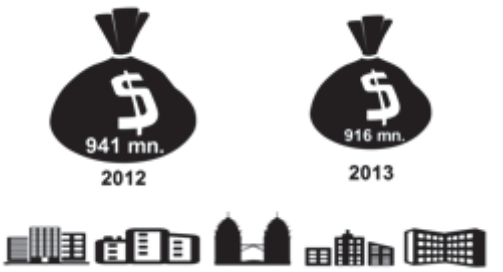
For now, the rupee remains stable, with no major pressures emanating from the external current account. Slow growth in import expenditure coupled with a recovery in export earnings, a steady growth in remittances (albeit lower than in previous years), and a steady rise in tourism earnings are all helping to bring down the deficit on the current account. It fell from 6.6 per cent of GDP in 2012 to 3.9 per cent of GDP in 2013, and looks set to decline further in

2014. The signs are hopeful; by the first half of 2014, export earnings had picked up substantially (growing by 16.8 per cent against the same period in 2013), and across all categories - indicative also of a gradually recovering external environment.

The recovery in export performance is good news for Sri Lanka. The country's economy is most vulnerable on the currency front. Despite reporting healthy official reserves of over US$ 9 billion, almost all of it is from accumulated borrowings. With a growing dependence on external sources of savings to meet the country's development financing needs, stability on the external sector is needed to retain foreign investor confidence on the medium to long-term outlook for the economy. This is all the more important in view of Sri Lanka's rising exposure to external sector developments on multiple fronts, as direct government foreign borrowing is increasingly accompanied by indirect government foreign borrowing and private sector borrowing.

It is to be hoped that the turnaround in export performance may also herald a change of fortunes in terms of FDI. Five years on from the end of the war, FDI has been a most conspicuous under-performer in an otherwise bullish economy. Net inflows of FDI in the immediate post-war period have not been materially higher than before, recording US$ 916 million in 2013 compared to US$ 941 million in 2012. Much of the recent FDI has been not in manufacturing export sectors, but in prominent mixed property development projects - the 'Altair Tower' set to be Sri Lanka's tallest building, a US$ 600+ million mixed-used development by the country's leading conglomerate, a 5-star Shangri-La Hotel and ITC Hotel, etc. While these will boost growth in the short-term through construction and allied sector growth, and in the medium term through allied services and employment creation, they have little impact on technology transfer that boosts longer term growth through positive spillovers on labour force skills and productivity of domestic firms.

Net inflows of FDI in the post-war period



Attracting more and better FDI becomes especially important for a country like Sri Lanka with a low level of domestic savings and weak public finances. Tax collection in Sri Lanka continues to be substantially low, with 2013 seeing the lowest tax-to-GDP ratio in recent years of just 11.6 per cent. The norm is for this rate to be around 18 per cent for lower middle-income countries and nearly 25 per cent for upper middle-income countries.

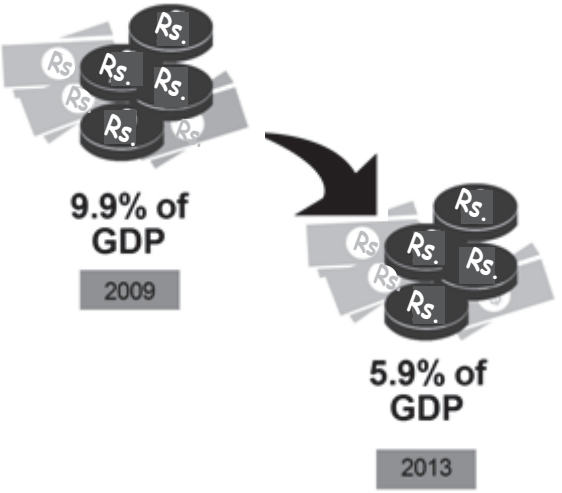
Problems with revenue also seem to have translated into reported delays in payments to government suppliers (for instance, fertilizer importers and construction contractors). This strategy of pushing large settlements from one year to the next, serve the purpose of meeting one year's budget deficit target, but cause much cash flow distress to the firms involved, and in turn places severe pressure on the banks from which the firms have taken advances. This undesirable cycle can only be curbed with strengthening of government finances by the dual approach of curbing wasteful public spending - including reining in loss making state-owned enterprises (SOEs) - and raising more government revenue. Of course, a pick-up in overall economic activity, as well as higher imports, would see a recovery in revenues, given that much of Sri Lanka's revenue comes from taxes on consumption. But for a more sustainable increase in tax revenues, more fundamental reforms to tax policy and tax administration would be required.

Attracting more and better FDI becomes especially important for a country like Sri Lanka with a low level of domestic savings and weak public finances.

In the five years since the end of the war, the fiscal deficit has been slashed from 9.9 per cent of GDP in 2009 to 5.9 per cent in 2013. A positive feature has been a continued commitment towards capital expenditure. For a country requiring continuing investments in critical modern infrastructure - whether it is connective infrastructure, technology infrastructure or social infrastructure (schools, universities, etc.), Sri Lanka cannot afford to compromise on public investments in items that lay the foundations for competitiveness and sustained, inclusive growth.

The downside has been that the infrastructure development has been financed primarily through foreign loans or projects implemented by foreign state-backed firms (notably, Chinese). Many of the mega infrastructure projects have received strong sovereign guarantees, for instance to the Road Development Authority (RDA) and other non-revenue generating state entities, leading to an increase in the government's contingent liabilities as well. More worryingly, and as previously mentioned, reliance on external borrowing has made Sri Lanka not only more vulnerable to external shocks but also weakened its ability to ride them out.

The fiscal deficit since the end of the war



In this context, the improvements in the global economic environment - reflected in a better export performance for Sri Lanka - is heartening. In Europe, the unprecedented confidence-building measures of the European Central Bank (ECB) during 2012-13 stabilized distressed financial markets in the region. With investors once again buying into European sovereign bonds, consumer confidence gradually recovering, and cautious expansions by firms, Europe appears to be finally exiting a recession, and joining the US in making an escape from the prolonged slowdown. Yet, policy makers appear nervous about the recovery not being robust enough.

Unemployment rates remain stubbornly high in Europe, especially among younger workers. The average youth unemployment rate is around 23.5 per cent, much higher than pre-crisis (2008) levels of 14.5 per cent. This average masks worse situations in specific countries. In Greece, Spain, Portugal and Italy, the rates are as high as 56 per cent, 53 per cent, 40 per cent and 33 per cent, respectively. Meanwhile, political shifts in the region are also adding to the concerns. Anxiety over Russia's annexation of Crimea and its ripple effects on Europe, as well as the dimming hopes of tighter political cooperation and fiscal coordination in the

European Union (EU) to complement monetary integration, mean that the recovery remains fragile.

In the US, meanwhile, the economy appears to be making a decided escape from the slowdown, and has been posting steady growth and reductions in unemployment. However, as the extraordinary monetary policy measures draw down in the US, it remains to be seen how the global economy adjusts. In the latter part of 2013, the beginning of the Fed taper sent markets into a tail-spin, with emerging market economies (EMEs) hit particularly hard as capital flight occurred and their currencies depreciated sharply. In 2014, though, the taper effects would have been priced-in by global investors, and many appear sanguine about the remainder of the process. Yet, concerns stem from questions around the timing and speed of the Fed's actions. If the ongoing recovery of the US economy speeds up, and the Fed feels that it would lead to upward inflationary pressure, the taper may be quickened. If this happens too fast, it may reverse the gains from the expansion in the first place. If it happens too slowly, the prolonged period of easy money may create unstable asset-price bubbles (similar to what happened in EMEs during the height of the US quantitative easing).

As tighter monetary conditions take root in the US and Europe, global investors appear to have become more risk-averse. A first sign of this has been the sharp year-on-year decline of 9.6 per cent in net capital inflows to EMEs in 2013.[2] This scenario is a marked difference to what was seen in the immediate aftermath of the global financial crisis, where capital flows to EMEs soared, with global investors looking for alternative destinations to park their capital. On first glance, it may seem that this reversal in 2013, then, is mainly due to a changing global climate and the drawdown of US quantitative easing. This certainly is a key part of the story. But it is also explained by other factors. Several of the emerging economies that received large 'hot money' flows in the post-crisis, liquidity-flushed era, depended too much on global capital flows to finance their domestic demand. Their currencies appreciated, eroding export competitiveness, and eventually resulted in untenable current account deficits.

Much like how the Asian financial crisis unravelled inherent weaknesses in macro management and financial markets in Asian economies, the aftermath of the global crisis together with the effects of the Fed taper have shone the spotlight on the underlying risks and performance of a new cohort of current EMEs. Although it was the EMEs that demonstrated resilience in the aftermath of the global downturn and helped buoy global growth (despite the impact on them from contracted export demand), questions are now emerging on the issues in these economies, as investors take a 'look under the covers'. Several factors are influencing this concern, particularly in five of the EMEs: India, Indonesia, Turkey, Brazil, and South Africa - where economic growth has reached a low plateau, fiscal and current account deficits are rising, and minimal attempts at structural reforms are under way.

Nevertheless, it is without doubt that the entire global economy is in transition, with a shift in economic vitality from the established industrialized economies of Europe and North America, to emerging economies in Latin America, Africa, and most prominently, Asia.

Investor appetite for emerging markets in these regions may have seen peaks and troughs, but has remained alive. Nearly 15 years since the first acronym for emerging markets was coined - BRICs (Brazil, Russia, India, China), there has been a proliferation of acronyms and groupings - mostly

[2] Tyson, L. (2014), "Sense and Sensibility in Emerging Markets", available at http://www.project-syndicate.org/ commentary/laura-tyson-says-that-differentiation-of-country-and-sector-risk-will-determine-future-investment-flows [accessed on 9th May 2014].

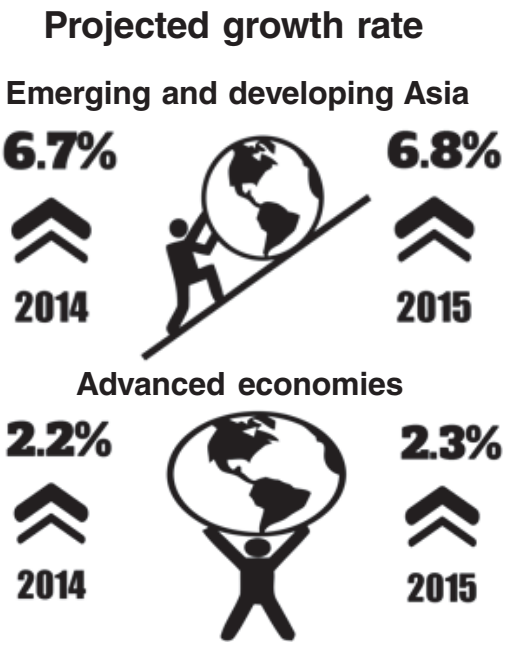
If there is one overarching feature of the shifts in economics, geopolitics and society in the 21st Century, it is the rise of Asia.

by portfolio investors and fund managers looking to come up with a new investment basket on EMEs.[3] While many agree that strictly going by these for investment decisions is not a prudent strategy, it does have the ability of highlighting to a wide audience the profound shifts taking place in the global economy. More importantly, what is most conspicuous is how much Asia, as a region, features prominently in this 'alphabet soup' of emerging markets groupings.

If there is one overarching feature of the shifts in economics, geopolitics and society in the 21st Century, it is the rise of Asia. Asian economies - particularly those in East and Southeast Asia as well as India - are at the heart of the tectonic shifts that are under way.

Asia is now home to about 60 per cent of the world's people, generates around one-fourth of global output (set to rise to half by 2050), and produces 47 per cent of the world's manufacturing. With this has come a rise in prosperity, with around one-third of global middle-class spending accounted for by Asians. The spectre of the Asian financial crisis that badly hit some key economies has faded into distant memory. In the six or so years following the onset of the global recession, projected and actual growth rates in emerging and developing Asia were often as much as 6 percentage points higher on average than that of advanced economies. In 2014 and 2015, while advanced economies are set to grow at 2.2 and 2.3 per cent, emerging and developing Asia is set to grow at 6.7 and 6.8 per cent, respectively. This is higher also than the 4.9 per cent and 5.3 per cent forecast for the wider group of emerging market and developing economies.

China, one of two regional anchors along with India, has long surpassed Germany as the world's leading exporter. Asian firms (Japanese automobiles, South Korean electronics, Chinese e-commerce sites, etc.) are among the world's most valuable brands. Japanese and South Korean cars are ubiquitous on European roads, American technology giants like Apple source billions of dollars worth of advanced components from South Korean and Taiwanese suppliers, and Chinese firms are buying into German, British and American companies across a slew of sectors. Western multinationals and consumer brands have flocked to Asian cities to gain



[3] The first to include Sri Lanka is the PPICS (Peru, the Philippines, Indonesia, Colombia, Sri Lanka).

a foothold in the growing market, as Asians aspire to a Western standard of living, and increasingly, can well afford it. Industry estimates suggest that Asian consumers account for a half of the US$ 80 billion global luxury goods market.[4] Technology diffusion is not only enabling Asian firms to compete better on a global scale but also giving rise to disruptions in consumption patterns through e-commerce. China's Alibaba online marketplace, for instance, now boasts 180 million users, handled around US$ 250 billion worth of transactions in 2013 (more than eBay and Amazon combined), and has filed for what is arguably the world's largest technology Initial Public Offering (IPO) valued at close to US$ 20 billion (higher than that of Facebook's). Meanwhile, intra-Asian trade is proving to be a most vital element of Asia's economic vibrancy, post-crisis. Exports to China by the top-10 exporting countries of the Association of South East Asian Nations (ASEAN) now exceed their exports to either the North American Free Trade Agreement (NAFTA) region or the EU.

Newer emerging Asian economies are also showing promise. Indonesia, home to about 40 per cent of ASEANs citizens (around 240 million people), generates just under 40 per cent of its GDP. It has risen to become the world's 15th largest economy, surpassing the symbolic trillion dollar GDP mark in 2012. The Philippines is making great strides in recovering from being 'the sick man of Asia', following sweeping reforms. GDP grew by 7.2 per cent in 2013, the fastest in ASEAN, and this too despite the devastation wreaked by Typhoon Haiyan. The Philippines sovereign debt was upgraded to investment grade by ratings agencies like Fitch, Standard & Poor's and Moody's, and the country rose up 26 places in the Global Competitiveness Index (since 2010) and 30 places in the Doing Business Index.

But the rise of Asia is by no means a foregone conclusion; many factors will influence the future trajectory of this rise.

But the rise of Asia is by no means a foregone conclusion; many factors will influence the future trajectory of this rise. Aside from numerous country-specific challenges, some wider challenges merit discussion, particularly in understanding the Asian context in which Sri Lanka operates as well as in drawing lessons for Sri Lanka's own growth efforts.

The nature of governance and the role of the state has been a standout feature of the economic growth trajectory of Asian countries. The strategic government involvement in economic development - across an array of activities - was conspicuous for both its reach and efficacy. That the state should have a role in deciding resource allocation and economic production would have been a heretical notion about a generation ago, as failed experiments in strict central planning amply demonstrated. But more recently, largely because of the narrative built around the success of Asian economies, the idea that the state does have a role has much wider currency. Even developed countries that would have earlier shunned such policies, have been some of the strongest advocates of state involvement, especially after the crisis - whether it is the decision to bail out their banks (including taking equity stakes in some of them), the decision to provide government assistance to specific sectors (for instance, the US automobile industry when it

[4] Chadha, R. and P. Husband (2006), *The Cult of the Luxury Brand: Inside Asia's Love Affair With Luxury*, Nocholas Brealy International, London.

was in trouble, or now the renewable energy industry), or the decision to provide overall fiscal stimulus and allow extraordinary monetary expansions to spur growth.

The rise in wealth and affluence in Asia is startling, but not surprising given the rapid growth seen there. Industry estimates suggest that Chinese consumers lap up 10 per cent of worldwide luxury sales,[5] Southeast Asian shoppers account for between one-fourth and half of all purchases at designer outlets in Europe,[6] and despite mediocre economic growth, Indian sales of high-end cars in 2013 rose by between 15 to 30 per cent.[7]

Just 60 years ago, the picture in Asia was very different. It was the world's poorest region. Strong growth has lifted millions out of poverty. But much remains to be done. The ADB estimates that around 1.7 billion people in Asia live on less than US$ 2 a day, and roughly 800 million on less than US$ 1 a day.[8] Disparities exist among sub-regions of Asia as well - poverty remains highest in South Asia and is lowest in East Asia (driven mainly by China's slashing of poverty from 85 per cent in 1990 to 30 per cent by 2008).

In addition to poverty, income inequality continues to be a challenge for the region. According to further ADB estimates, in the 12 countries that account for more than four-fifths of Asia's population, income disparities worsened over the last two decades. During this period, the Gini-coefficient (measuring inequality) in Asia has deteriorated sharply from 38 to 47.[9] While the glitzy Chinese city of Shanghai has achieved living standards similar to Portugal, the number of poor in just eight Indian states is more



than in 26 of the poorest African countries combined.

China is one of the first countries to see a push back from people on this rising inequality, particularly those rural workers who work in low-paid jobs in the coastal industrial cities. Following severe labour unrest in 2010, China was forced to let wages rise by as much as 30 per cent. This trend is only going to continue, in line with the new effort at pivoting towards domestic consumption. In fact, China's current five-year plan mandates that the average official minimum wage across the country must rise by at least 13 per cent every year. Pay differentials between China's industrial regions and the US cities, where the parent companies reside, have narrowed. Chinese workers in American-owned factories are reported to be now getting 25 per cent of the US pay rates, compared to just 5 per cent in 2000.

Another characteristic of the rise of Asia is the seismic shift taking place in its demographic structure. Asia is ageing at an unprecedented pace. Emerging evidence suggests that this increase in the 'ageing population' will occur more rapidly than in the West, giving rise to numerous public policy

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5 Mckkinsey and Company (2011), "Understanding China's Growing Love for Luxury", McKinsey Consumer and Shopper Insights, March 2011.

6 Bain and Company (various years), "Luxury Goods Worldwide Market Study".

7 "India's Luxury Car Sales Accelerating", *South China Morning Post*, 10 February 2014, http://www.scmp.com/business/companies /article/1424901/indias-luxury-car-sales-accelerating [accessed on 20 May 2014].

8 Global Development Network (2013), "Q&A with Takehiko Nakao, President, Asian Development Bank", available at http://www.gdn.int/html/feature_archive_detail.php?id=54#sthash.rRklMpjm.dpuf [accessed on 27 April 2014].

9 Zhuang, J., *et al*., (2014), "Rising Inequality in Asia and Policy Implications", ADBI Working Paper 463, Asian Development Bank Institute, Tokyo.

challenges including financing of health care and social welfare (pensions, etc.). Some countries like Japan and South Korea will experience this more rapidly than others like India and Indonesia. China will be particularly challenged, as its one-child policy will cause a sharp rise in old-age dependency. Slowly, the demographic dividend - where the working age population is higher than the population of dependents - which helped many of these Asian countries to attain rapid growth will wane.

Another prominent feature of the Asian industrialization-led growth story has been the rapid urbanization of Asian cities, characterized by extensive rural-urban migration, heightened pressure on urban infrastructure like transport, water, housing and sanitation, and the concomitant rise in pollution. While the more newly industrialized countries in Asia such as China and India still do not have a majority urban population, the number of urban inhabitants is growing fast. It is estimated that by 2025, over half of the population in Asia will be urban.

Urbanization is but one aspect of the growing concerns on the environmental outcomes of rapid growth. Asia's emergence as a significant player in the global economy takes place at a time when global ecosystems and the environment are undergoing vast transitions. It is now widely accepted that Asia cannot grow under the same 'pollute now clean later' pattern as the West. The realities of climate change do not allow environmental underpinnings of growth to be ignored. In fact, certain parts of Asia, especially countries located in the tropical region and in islands, are among the most vulnerable to impacts of global climate change. Asia is facing serious environmental degradation issues linked to poor land use management, unsustainable energy consumption, and over-use of natural resources. The industrialization process in many Asian countries have been at the heart of environmental degradation, as Western manufacturers found lax environmental laws an attractive feature of locating in many of these countries, while their own countries began to impose stringent standards.

China and India's appetite for coal and petroleum to meet the growing energy demand has placed further stress on greenhouse gas (GHG) emissions. The intensity of the 'capture fisheries' and aquaculture industry (where nearly 70-90 per cent of production is in Asia) are putting immense pressure on the natural fishery resource base. Rising consumption and increased modernization has heightened this pressure. Meanwhile, a city scape of an Asian mega-city is almost incomplete without the looming smog or haze. Such concentrations of smog and brown clouds over Asian cities create many costs including rising health costs. All of these appear to be influencing changing weather patterns, including freak events. The frequency and the intensity of natural disasters in Asia are showing an increasing trend. During the period 1980 to 2009, over 38 per cent of global economic losses due to natural disasters were reported from Asia.[10]

These are just some aspects of the overwhelming evidence that suggests that Asia's impressive economic growth has come at a significant cost to local, national and global ecosystems. While economic growth has brought some affluence in terms of physical wealth, associated damages to ecosystems and a decline of ecosystem services has created conditions that diminish the opportunity for converting this wealth into true human welfare.

Pan-regional cooperation will be required if Asia is to make any meaningful headway in tackling these challenges - many of which have cross-border implications. But such cooperation may not be easy to foster.

[10] ADB (2012), *ADB's Response to Natural Disasters and Disaster Risks*, Asian Development Bank, Manila.

Global economic losses due to natural disasters reported from Asia, 1980 to 2009



Across Asia, the geopolitical landscape is littered with hostilities. Some of the most critical ones are the maritime tussles in the South and East China Seas, particularly between Japan and China; demarcations of the Exclusive Economic Zone in the sea between China and the Philippines; and disputes linked to the Spratly Islands among China, Vietnam, Brunei and Malaysia. Meanwhile, South and North Korea continue to be at loggerheads, oscillating between good relations to dangerous escalations. Farther West in Asia, the hostilities are dominated by India and China as well as India and Pakistan. In the former case, the two countries have long-standing tensions around the control of South Tibet. In the latter case, the conflict around Jammu and Kashmir has been the overwhelming narrative shaping the two countries' relations, and by extension, the region's. This is further complicated by the spillover of terrorist groups across borders, proving to be a major destabilizing force.

While India continues to be an influential anchor in South Asia, China is strengthening its influence more broadly across the Asian region through strategic investments and assistance. Some argue that China's rising pre-eminence in Asia could be countered by a growing US engagement in the region - rekindled by its 'pivot to Asia' strategy. The Trans-Pacific Partnership (TPP) appears to be the key tool in this. It is not a typical trade deal; it straddles trade, investment, and strategic economic cooperation. Asian countries that are wary of the security implications of China's rise may warmly welcome a heightened US presence in the region. The TPP could prove to be a key factor in the US-China rivalry over economic leverage in the region, and a tool for Asia's other economies to hedge against the rise of China.

All of these developments reveal how far Asia has to go in terms of a common vision around its ascendance. The closest effort towards bridging this is of course, the moves by ASEAN to establish a fully fledged 'diplomatic and economic community' by 2015. But one cannot forget that this is limited to just a sub-set of Asian nations. Asia would need an ambitious regional effort of the type seen in Europe. But this too is easier said than done.

The European integration project was a far-reaching exercise that required courage and vision on the part of the region's political leaders, despite centuries of bitter rivalries. Such progress seems much farther away in Asia. Apart from ASEAN and a few other regional and bilateral initiatives, Asia is yet to see any far-reaching pan-Asian regional integration efforts. Too many territorial conflicts are continuing for too long without decisive resolution. Unlike the 'European project', few political leaders have emerged, willing to stake their careers to further an 'Asian project'. Groups of countries swing between fear/suspicion of, and mutual gain from, the two regional giants - China and India. Little regional cooperation on security and military affairs prevail. And possibly most crucially, there is a notable absence of pan-Asian institutional arrangements and agreements (similar to the European Commission) to further all these agendas in a manner that is strong, consistent, and widely accepted. While this does not for a moment suggest that the rise of Asia will be less peaceful or benign, it does throw up questions on the ability of the region to rise as a whole.

European integration was also made relatively easy by their shared history, culture, languages, and (for the most part) political systems. In Asia, on the other hand, the region is so vast geographically and so diverse culturally and politically that it is hard to proclaim that similar integration is possible. While some countries in East Asia are globalizing rapidly and boosting prosperity, parts of Central Asia and South Asia are mired in poverty and backwardness. While some countries operate thriving, and at times cacophonous, democracies where the voices of the many are heard over the tyranny of a few, other countries are conspicuously and unashamedly undemocratic or authoritarian at best, and despotic at worst. Economic systems, too, do not cohere to a common model. The state-capitalism practised in China is vastly different to the liberal capitalism seen in Japan or Thailand. Meanwhile, countries like Vietnam, Singapore, Myanmar, and indeed Sri Lanka, contain features of both.

Sri Lanka must accept that strict replication of industrial policies of the type used in East Asia economies would be problematic today.

For Sri Lanka, the lessons from Asia's ascendancy are many, as are the opportunities and pitfalls. Sri Lanka's own economic policy orientation post-2005 reflects many of the East and Southeast Asian characteristics, with a strong state-led approach to development. State participation in public infrastructure projects, putting a freeze on privatization of SOEs, selective support to certain domestic industries, etc., have been key features of this stance. As seen in much of East Asia, this approach is not unprecedented. Many East Asian governments went beyond the standard neo-classical interpretation of 'getting the fundamentals right'. They proactively pursued industrial policy in bringing about structural adjustment and upgrading their respective economies. They cleverly prioritized infrastructure projects and ensured they were cost-effective and in line with industrial policy. They geared education and skill development policies to complement targeted future growth sectors. Thus, the overwhelming lesson from the experiences of East Asia was that the role of the state needs to be strategic and coherent, across industrial policy, infrastructure development, and education.

Yet, Sri Lanka must accept that strict replication of industrial policies of the type used in East Asia economies would be problematic today. For one, global trade rules have changed, making it almost impossible to adopt the kind of conspicuous protectionism employed by these economies. Secondly, most countries do not have the same political systems, which enable a heavy-handed approach to public policy making. Thus, for instance, the South Korean model of fostering large conglomerates - the chaebols - with very close linkages to elected officials, would not be easy today. Thirdly, many countries aiming to provide state support to spur growth may not have the fiscal space required to do so. South Korea, for instance, was able to use vast amounts of concessionary aid as well as war reparation fees paid by the US to invest in its heavy and chemical industry drive. Countries may also not necessarily have the technocratic capabilities to cleverly and effectively identify which industries are to be supported and promoted. Unlike Latin America's tryst with industrial policies, which handed out government support to strong and weak performers alike, in Asia, firms with perceived high potential were ex-ante identified and only those received help and many of these firms went on to be best-in-class performers. Yet, a misstep in devising this could mean a severe misallocation of resources, leading to rent-seeking and crony capitalism at best, and gross inefficiencies at worst.

As in many Asian countries, Sri Lanka is set to join the ranks where an ageing population is on the rise. In less than 20 years from now, the elderly population of Sri Lanka is expected to reach over 20 per cent of the total population and subsequent to that, one in every four people will be a pensioner. This places a massive economic burden both in terms of the costs of welfare financing as well as the costs of potentially slower growth due to the fewer numbers of working-age people. As can be seen in countries like Japan where this shift is well under way, the biggest risk lies in welfare financing. Age-related social security spending has soared over the last 20 years. Sri Lanka needs to invest in robust social security programmes now to ensure that welfare financing is sustainable and not a drag on the economy. The current social protection programmes are either under-financed, or lack the coverage and coherence, to be able to effectively cater to the looming demographic shift.

The health sector too will need to evolve to cope with the growing health care needs of an ageing population. The present public health care system has not kept pace with these changes, and if this is not addressed, the ageing population could be left with a large private health expenditure burden. While catering to these social welfare needs of an ageing population, Sri Lanka would need to keep growing in order to finance them. This becomes problematic with a shrinking working-age population. So, encouraging more women to join the workforce, revisiting restrictive labour laws that discourage hiring, providing opportunities for retirees to engage in productive activities, and making the existing working population more productive to counteract the rising dependency ratio, are critical areas for policy makers to focus on.

On the latter-most aspect of boosting the productivity and skills of the population, too, Sri Lanka has much to learn from the experience of Asian economies. The success of Asian education systems has its roots in a well-thought-out and constantly-improving strategy. Some of the critical success factors emerging from the comparative analysis are the strategies employed to improve



teacher quality and attract the best talent into the teaching profession; improvements made to school systems, curriculum and teaching methods; and enhancements to budgetary allocations to education (schools in particular) while ensuring accountability and performance in line with the finances spent by the state. Sri Lanka lags well behind on all of these aspects, stemming particularly from weak management and allocation of resources - be it teachers or finances - and the lack of accountability and weak governance at different levels of education delivery.

Meanwhile, in Sri Lanka too, a faster rate of urbanization will bring its own challenges, although with an urbanization level of just 18 per cent, the country is much less urbanized than its counterparts in Asia. A history of spatially spread investments in social infrastructure coupled with successive initiatives to take industrial activities outside of the Western Province has meant that Sri Lanka did not see intensive urban centres emerge, except for a few districts. A large influx of rural migrants was also not seen on the scale of that in other Asian countries. The reason could be twofold. On one hand, rural poverty in Sri Lanka has not been as acute as in many of these Asian countries, and welfare services like health are well located across the country. On the other hand, it may also be because, while the Western Province cities did grow commercially, the growth, and resultant incomes, was not outstanding enough to attract migrants in any significant way. In contrast, the population in China's southern coastal cities grew very rapidly due to the thousands of export-oriented production facilities being located there, which proved to be a strong attraction for rural migrants seeking better incomes than in their villages.

However, as post-war growth and the middle-income transition bring with it changes in incomes, living patterns, and aspirations, issues of urbanization is becoming a policy concern. The experiences of Asian countries have much to offer Sri Lanka in understanding how best to manage these changes. The experience of Japan shows the importance of investing early in urban public transport that facilitates urbanization by connecting peripheral workers to productive jobs in cities. Already Sri Lanka appears to be late on this, evidenced by the crippling traffic jams faced by urban commuters daily in Colombo and major suburbs. As evidence from many Asian cities shows, urbanization does have strong agglomeration effects. Industries clustering closer together can spur productivity and innovation, while raising worker incomes. Like in Malaysia, Sri Lanka needs to identify key urban areas into which industries and FDI can be channelled, and build the energy, housing, and environmental management infrastructure around it. As Sri Lanka is relatively new to this, the country is at an advantage in being able to better plan and foster inclusive and sustainable urbanization.

Sri Lanka needs to identify key urban areas into which industries and FDI can be channelled, and build the energy, housing, and environmental management infrastructure around it.

While a rapid urban regeneration programme has already begun in many parts of the metro Colombo region, due considerations must also be given to the welfare of populations being resettled in unfamiliar locations, the societal upheaval due to severing of existing community ties, and the

implication of relocation on livelihoods of workers (especially informal workers). While the ongoing urban regeneration efforts appear to be very much centrally-planned and implemented, which makes sense given the finances required for it, it is also important to consider the governance implications of this strategy. Not all urban regeneration across the country would, or ought to, be tackled centrally, and local authorities like Municipal Councils outside the metro-Colombo area need to be empowered to deliver better urban facilities to their constituents.

To avoid facing the same pitfalls of environment pollution across many Asian countries, Sri Lanka needs to tighten its policies and institutional frameworks that govern environmental protection and prevent ecosystem degradation. Re-arming ineffectual laws, implementing comprehensive plans that have already been drawn up, better coordination between responsible agencies to ensure maximum impact, and finding new ways to minimize the environmental impact of industrial activities, are crucial strategies.

With the end of the post-crisis era of easy credit and the slowing down of funds to emerging market economies like those in Asia, countries are going to have to focus more closely on growth-boosting structural reforms to attract finance and investment to spur the next wave of development. For Sri Lanka, too, the challenge is similar. With the post-war growth bump decisively over and a costly but essential infrastructure drive financed with borrowed funds under way, undertaking the critical reforms to ensure a sustained growth trajectory cannot be ignored. If Asia's experiences have taught any lessons, it is that fundamentally strong economies with the right policies in place and having done reforms when needed, have been able to successfully navigate multiple global storms and remain on a path of economic ascendance. Of course, there were inherent advantages that did help; for instance, a favourable demographic structure, developmental state models of governance, and the willingness to disregard environmental consequences in favour of rapid industrialization, etc. Sri Lanka's conditions are different, and following the Asian trajectory identically may not be feasible or desirable. Yet, there are salutary lessons to draw from Asia's rise, both for Sri Lanka's own development journey but also in understanding how best to latch on to it.

Sri Lanka cannot forget that it lies in an enviable geographical location that connects this rising Asia with the rest of the world.

There may be debates on its style and scale, its nature and intent, but the fact remains that Asia's rise is here, and will be a defining feature of the next few decades. Sri Lanka needs to better understand how it fits in. Amidst this, Sri Lanka cannot forget that it lies in an enviable geographical location that connects this rising Asia with the rest of the world. While looking at latching on to rising Asia, Sri Lanka cannot ignore countries to its West - whether it is in Africa, the Middle East, or traditional partners in the industrialized West. Although many are quick to assume it, the countries in Europe and North America are not in systemic decline. They will continue to be poles of innovation, creativity, consumption, and global leadership, and failing to recognize that and navigate accordingly, will only be to Sri Lanka's peril.

1. ප්‍රතිපත්ති පර්යාලෝකය

2009 මැයි මාසයේ අවි ගැටුම් අවසන්වීමෙන් වසර පහක් ගතවන විට ශ්‍රී ලංකාවේ ආර්ථිකය ස්ථාවර ආර්ථික පරිණාමීය මාවතකට යොමුව පවතී. පශ්චාත් යුද සමයේ ශ්‍රී ලංකාව අවදානම් සහගත විදේශීය ගෙවුම් තත්වයක සිට 2012 දී ජාත්‍යන්තර මූල්‍ය අරමුදල සමග සහාය ලබා ගැනීමේ පොරොත්තු ගිවිසුමක් සාර්ථක (Stand-by Agreement) ලෙස ඇති කර ගැනීමට සමත් විය. 2000 - 2009 කාල පරිච්ඡේදයේදී සියයට 5.5 වූ ද.දේ. නිෂ්පාදිතය පශ්චාත් යුද සමයේදී 7.5 ක් වූ අතර 2014 දී එය සියයට 7 ද ඉක්මවනු ඇතැයි ගණනය කර ඇත. උද්ධමන අනුපාතය දහයකට වඩා අඩු මට්ටමක වසර පහක් තිස්සේ පවත්වා ගැනීම 2014 පෙබරවාරි මාසයේදී සනිටුහන් විය. දැන් මෙම රටට අර්බුදවලින් පිරි යුරෝපීය රටවලට ලබා ගත නොහැකි තරම් අඩු අනුපාතයකට ජාත්‍යන්තර ප්‍රාග්ධන වෙළඳ පොළෙන් ණය ලබා ගැනීමේ හැකියාවක් පවතී. කැපී පෙනෙන පුළුල් ප්‍රසිද්ධ යටිතල පහසුකම් ඉදිකිරීම වේගයෙන් සිදු වන අතර රට විදේශීය ආයෝජන ආකර්ෂණය කර ගැනීමේ නව රැල්ලක සහ කලාපයේ ප්‍රබල ආර්ථික කේන්ද්‍රයක් බවට පත්වීමට ආසන්නයේ සිටී. එහෙත් ආර්ථිකය පශ්චාත් යුද සමයේ පවතින වාසි සහගත තත්වය සම්පූර්ණයෙන්ම අත්කර ගැනීමට අපොහොසත්වීමේ සහ එහි හැකියාවන්ට වඩා අඩු මට්ටමක ක්‍රියාත්මක වන්නේයැයි කලකිරීමක්ද පවතී.

මේ පිළිබඳව කැපී පෙනෙන සලකුණක් වන්නේ සෘජු විදෙස් ආයෝජනවල අඩු වර්ධනයෙන් දැක්වෙන පෞද්ගලික ආයෝජනවල පවතින මන්දගාමී වර්ධනයයි. මෙය පසුගිය මාස දහ අට තිස්සේ දේශීය පෞද්ගලික ආයෝජනය හා පෞද්ගලික අංශයේ ණය ලබා ගැනීම ඉතා අඩු මට්ටමක පැවතීමෙන් පිළිබිඹු දැක්වේ. 2012 දෙසැම්බර් මාසයේ දී මූල්‍ය ප්‍රතිපත්තියේ ලිහිල් කිරීම සනිටුහන් කරමින් 2013 වසර පුරාම පාහේත් 2014 දක්වාත් පැවති අඩු පොලී අනුපාතය පෞද්ගලික අංශයට වැඩියෙන් ණය දීමක් බවට පරිවර්තනය වූයේ නැත. 2013 දී ණය වර්ධනය සියයට 7.5 ක අලසව පැවති අතර 2014 අප්‍රේල් වන විට එය සියයට 3.3 දක්වා තවත් පහත වැටිණ.

2013 ද.දේ. නිෂ්පාදිතය සියයට 7.3 ක් වනු ඇතැයි ගණනය කරයි. එහෙත් සාර්ව ආර්ථික දර්ශක ශ්‍රී ලංකා ආර්ථිකයේ වෙනස් වෙමින් පවතින ගතිකයන් සම්පූර්ණයෙන්ම ග්‍රහණය කර ගැනීමට සමත්ව ඇත්ද යන ප්‍රශ්න මතුවෙමින් පවතී. නිදසුනක් වශයෙන් ඉදිකිරීමේ අංශය 2013 දී සියයට 14.4 කින් වර්ධනය වුවද සිමෙන්ති අලෙවිය වර්ධනය වී ඇත්තේ සියයට 2.9 කිනි. ඉදිකිරීම් අංශය 2012 දී සියයට 21.6 කින් වර්ධනය වූ විට සිමෙන්ති අලෙවිය සියයට 28.7 ක් විය.[1]

පශ්චාත් යුද සමයේ ශ්‍රී ලංකා ආර්ථිකයේ වෙනස් වෙමින් පවතින ව්‍යුහය මීට අඩ වශයෙන් හේතු විය හැකිය. පසුගිය වසරවල වර්ධනයේ වැඩි වශයෙන්ම කැපී පෙනෙන මූලාශ්‍ර වූයේ දේශීය වෙළඳ නොවන අංශයෙනි. මෙහි ප්‍රධාන වූයේ තොග හා සිල්ලර වෙළඳාම, ඉදිකිරීම් සහ උපයෝගිතා වැනි වෙළඳාම් නොවන කාර්මික ක්‍රියාකාරකම්ය. රජයේ ක්‍රියාකාරිත්වය සැලකිය යුතු මට්ටමක පවතින අංශ ද පවතී. එවිට පෞද්ගලික අංශයේ ණය සඳහා ඇති ඉල්ලුම අලසවීම අසාමාන්‍ය දෙයක් ද නොවේ. විශාල පිබිදීමක් ඇති අංශවල පෞද්ගලික ආයෝජනය සඳහා ඇති අවස්ථා සාපේක්ෂ වශයෙන් සීමිතය.

සංඛ්‍යා අතර පවතින නොගැලපීමට තවත් හේතුවක් විය හැක්කේ සිදුවෙමින් පවතින ආර්ථික ක්‍රියාකාරකම්වල ස්වභාවය පවතින ජාතික ගිණුම් ක්‍රම වේදයට සම්පූර්ණයෙන්ම හසු නොවීමයි. මෙය නිවැරදි කිරීම සඳහා රජයේ සංඛ්‍යා ලේඛන කාර්යාලය ජාතික ගිණුම් සැකසීම සංශෝධනය කළ යුත්තේ කෙසේද සහ පවතින ක්‍රමවේද යාවත්කාලීන කිරීමේ වැදගත් ප්‍රයත්නයට පිවිසෙමින් සිටී. ජාතික ගිණුම් සැකසීම 'නැවත පදනම් කිරීම' එනම් ආර්ථිකයේ විවිධ අංශවල සංයුතිය හා ප්‍රමාණය දැක්වීම සඳහා වඩාත් මෑත වසරක ආර්ථික තත්වය ගැන දැක්මක් ලබා ගැනීම, දත්ත රැස්කිරීම සහ විග්‍රහය වැඩි දියුණු කිරීමේ ප්‍රයත්නය කෙරේ ඇති විශ්වාසය ශක්තිමත් කිරීමට නිසැකයෙන්ම හේතු වනු ඇත.

2014 දෙවන අර්ධයේ දී වසරකට ආසන්න කාලයක් පොලී අනුපාතය අඩු මට්ටමක පැවතීම නිසා

පෞද්ගලික අංශයේ ණය ඉහළ යනු ඇතැයි අපේක්ෂා කෙරේ. පෞද්ගලික සමාගම් ආයෝජන පුළුල් කිරීම සඳහා ඉතා අඩු මට්ටමක පවතින ණය ලබා ගැනීමේ පිරිවැයට ප්‍රතිචාර දක්වන බවට සලකුණු දැනටමත් විද්‍යමාන වේ. කෙසේ වුවත් 2014 වසරේ ඉතිරි කොටසේද පොලී අනුපාතය පහළ මට්ටම පැවතිය හැකි නිසා වත්කම් මිල ඉහළයෑම ගැන සහ පොලී අනුපාත දිගු කලක් අඩු මට්ටමේ පවතින්නේ නම් ලිහිල් මූල්‍ය ප්‍රතිපත්තියකින් උද්ධමන පීඩනයක් ඇති කිරීමේ අවදානම ගැනද බලධාරීන් සැලකිල්ල යොමු කළ යුතුය.

මග හැරිය යුතු වන්නේ මූල්‍ය ප්‍රතිපත්තිය පුළුල් ලෙස ලිහිල් කිරීමේ පළමු වටයේ දී 2010/11 කාලයේ දී මෙන් පරිභෝජනය සඳහා වූ ණය ඉල්ලුමේ වැඩිවීමක් නැවත ඇතිවීමය. එය ජාත්‍යන්තර රන් මිල පහත වැටීමත් සමග නතර වූ 'උකස් කිරීමේ පිබිදීම' හා බැඳිණ. ආසන්න වූ ගෙවුම් ශේෂ අර්බූදය මගහැරීම සඳහා 2012 දී පියවර කීපයක් ගන්නා ලදී. එනම් ආනයන තීරු බදු නැවත ගැලපීම, විනිමය අනුපාතය කළමනාකරණයේ වෙනසක්, බැංකු මත ණය දීමේ උපරිම සීමාවක් පැනවීම වැනි දේය. මේ අවස්ථාවේ දී ද සාර්ව ආර්ථික අස්ථායී භාවය පිළිබඳව සලකුණු මතුවන විට කල්තියාම බුද්ධිමත් ප්‍රතිපත්ති ප්‍රතිචාර දක්වන්නේ නම් ප්‍රතිපත්ති පරිසරයේ නොවෙනස් බවක් ඇති කරන අතර පෞද්ගලික අංශයට ආයෝජනය කිරීමට දිරිමත් කිරීමක් ද වනු ඇත.

2014 අවසාන භාගයේ දී ණය සඳහා ඇති ඉල්ලුම නැවත වරක් වැඩිවීමත් සමග පොලී අනුපාතයේ ඉහළ යෑමක් සිදුවිය හැකිය. මෙය සියුම් ලෙස සම තුලනය කළ යුතුය. ශ්‍රී ලංකාව තම බදු මුදල් හිඟය මූල්‍යණය කිරීම සඳහා භාණ්ඩාගාර බිල්පත් සහ බැඳුම්කර අලෙවි කිරීමට වැඩි වැඩියෙන් විදේශීය ආයෝජන මත රැඳී සිටියි. පොලී අනුපාත තවදුරටත් පහත වැටෙන්නේ නම් භාණ්ඩාගාර බැඳුම්කර පොලී ආදායම් විදේශීය ආයෝජකයන්ට එතරම් ආකර්ෂණීය වන්නේ නැත. භාණ්ඩාගාර බැඳුම්කර ප්‍රතිලාභ සහ රාජ්‍ය බැඳුම්කර ප්‍රතිලාභ අතර ඇති පැතිරුම ඉතා සුළු මට්ටමකට පැමිණිය හොත් මුදල් ඒකකයේ අවදානම් තත්වය ඉහළ ගොස් ඇතැයි සිතන විදේශ අයෝජකයන් තම ආයෝජන විකිණීමට පියවර ගනු ඇත. නැතිනම් අවම වශයෙන් රුපියල් භාණ්ඩාගාර බිල් පත් සහ බැඳුම්කරවල අනාගතයේ ආයෝජනය කිරීමෙන් වළකිනු ඇත. මෙය දැනට සිදුවෙමින් පවතින එමෙන්ම රජයට අත්‍යවශ්‍ය වන ප්‍රාග්ධන රැස් කිරීමට අහිතකර සේ බලපායි.

පොලී අනුපාත ඉහළ යෑමට තුඩු දෙන තවත් සාධකයක් වන්නේ එක්සත් ජනපදයේ සුවිශේෂී මූල්‍ය පියවර (එක්සත් ජනපද ෆෙඩරල් සංචිතය ප්‍රමාණාත්මක පහසුකිරීම) ඉවත් කර ගැනීමයි. එක්සත් ජනපද ආර්ථික නිෂ්පාදිතය නොකඩවා ඉහළයෑමත් ප්‍රමාණාත්මක පහසුකිරීමත් නිසා ගෝලීය පොලී අනුපාත ඉහළට යෑමේ ප්‍රවනතාවයක් ඇති විය හැකි අතර ඒ නිසා ශ්‍රී ලංකාවේද අන්තර් ජාතික ණය ගැනීමේ පිරිවැය ඉහළ යනු ඇත.

බාහිර ජංගම ගිණුමෙන් මතුවන මහා පීඩනයක් නැති නිසා දැනට රුපියලේ අගය ස්ථාවරව පවතී. ආනයන වියදමේ මඳ වැඩිවීම හා බැඳුණ අපනයන ආදායම් යථා තත්වයට පත්වීම, සම්ප්‍රේෂණ ආදායම් ප්‍රබල ලෙස වැඩිවීම (කලින් වසරවලට වඩා අඩු වුවද) සංචාරක ආදායම් ප්‍රබල ලෙස වර්ධනයවීම යන සියල්ල ජංගම ගිණුමේ හිඟය පහත දැමීමට ඉවහල් වේ. 2012 දී ද. දේ. නිෂ්පාදිතයෙන් සියයට 6.6 ක්වූ එය 2013 දී සියයට 3.9 දක්වා පහත වැටුණ අතර 2014 දී තවත් පහත වැටීමට ඉඩ ඇත. 2014 මුල් කාර්තුවෙන් ලැබෙන සංඥා අපේක්ෂාසහගතය. 2014 මුල් කාර්තුවේදී අපනයන ආදායම් සැලකිය යුතු ප්‍රමාණයකින් (2013 වසරේ එම කාර්තුව හා සැසැඳීමේ දී සියයට 16.8 කින්) ඉහළ යෑම සියලු කාණ්ඩවලින් දක්නට ලැබීම බාහිර පරිසරය යළි නැගිටීමේ දර්ශකයකි.

අපනයන ක්‍රියාකාරිත්වය ශ්‍රී ලංකාවට යහපත් ආරංචියකි. රටේ ආර්ථිකය වඩාත් අවදානම් සහගත වන්නේ මුදල් අංශයේය. රජයේ සංචිත ප්‍රමාණය ඩොලර් බිලියන 9 කට අධික වුවද ඒ සියල්ල සමන්විත වන්නේ ඒකරාශී වූ ණයවලිනි. රටේ සංවර්ධන මූල්‍ය අවශ්‍යතා සඳහා බාහිර ඉතිරුම් මූලාශ්‍ර කෙරේ වැඩි වැඩියෙන් රඳා සිටීම සමග ආර්ථිකයේ මධ්‍ය කාලීන සහ දිගු කාලීන විදේශීය ආයෝජක විශ්වාසය පවත්වා ගැනීම සඳහා බාහිර අංශයේ ස්ථාවරත්වය පවත්වා ගැනීම අවශ්‍යය. මෙය වඩාත් වැදගත් වන්නේ රාජ්‍ය සෘජු විදේශ ණය ගැනීම් වැඩි වැඩියෙන් රාජ්‍ය වක්‍ර ණය ගැනීම් හා පෞද්ගලික අංශයේ ණය ගැනීම් හා බැඳී පැවතීමෙන් බාහිර අංශයේ විවිධ පෙරමුණු වල වර්ධනයන්ට ශ්‍රී ලංකාව වැඩි වැඩියෙන් නිරාවරණයවීම නිසාය.

අපනයන ක්‍රියාකාරිත්වය ඉහළ යෑම විදේශීය සෘජු ආයෝජන සම්බන්ධයෙන් ද යහපත් තත්වයක් ඇති කරන්නේයැයි අපේක්ෂා කෙරේ. යුද්ධය අවසන්ව වසර පහක් ගත වුවද වෙනත් අංශවල මහත් ගතිකත්වයක් පෙන්නුම් කරන ආර්ථිකයක සෘජු විදේශීය ආයෝජන කැපී පෙනෙන්නේ එහි මන්දගාමී වර්ධනයෙනි. යුද්ධය අවසන්ව ගතවූ වසර පහ තුළ රටට ගලා ආ ශුද්ධ සෘජු විදේශීය ආයෝජන ප්‍රමාණය ඊට පෙර පැවති තත්වයට වඩා වෙනස් වන්නේ නැත. 2013 දී සෘජු විදේශීය

ආයෝජන ඩොලර් දශ ලක්ෂ 916 ක් වූ අතර 2012 දී විදේශීය ආයෝජනය වූයේ ඩොලර් දශ ලක්ෂ 941 කි. මෙම සෘජු විදේශීය ආයෝජන වැඩි වශයෙන්ම යොමු වූයේ අපනයන නිෂ්පාදන අංශයට නොව, ඇමරිකන් ඩොලර් දශ ලක්ෂ 600 කට වැඩි ආයෝජනයක් වන ශ්‍රී ලංකාවේ උසම ගොඩනැගිල්ල විය හැකි 'ඇල්ටෙයාර් ටවර්' බහු කාර්ය සංවර්ධන ව්‍යාපෘතිය, තරු පහේ හෝටල් වන ෂන්ග්‍රිලා සහ අයිටීසී හෝටල් වැනි ඉදිකිරීම් සඳහාය. මෙවැනි ව්‍යාපාතීන්ගෙන් කෙටි කාලීනව ඉදිකිරීම් සහ ඊට සම්බන්ධිත අංශවලත්, මධ්‍ය කාලීනව සම්බන්ධිත සේවා සහ රැකියා උත්පාදනයෙන් වර්ධනය ඉහළ නංවන නමුත් තාක්ෂණ පැවරීමක් නොවන නිසා ශ්‍රම බලකායේ කුසලතා, සහ දේශීය සමාගම්වල ඵලදායිතාවයේ සාධනීය වර්ධනයකින් දීර්ඝකාලීන බලපෑමක් වන්නේ නැත.

වඩාත් හොඳ සෘජු විදේශීය ආයෝජන ආකර්ෂණය කර ගැනීම දේශීය ඉතිරුම් පහළ මට්ටමක පවතින, දුර්වල රාජ්‍ය මූල්‍ය තත්වයක් පවතින ශ්‍රී ලංකාව වැනි රටවලට විශේෂයෙන් වැදගත්ය. බදු රැස් කිරීම ශ්‍රී ලංකාවේ පහත් මට්ටමක පවතී. එය 2013 දී ද.දේ. නිෂ්පාදිතයට අනුපාතයක් වශයෙන් සියයට 11.6 ක් වීමෙන් මෑත වසරවල පැවති අඩුම අනුපාතය වාර්තාවිය. පහළ මධ්‍යම ආදායම් ලබන රටවල් සඳහා බදු රැස්කිරීමේ අනුපාතයේ සාමාන්‍ය නියමය සියයට 18 ක් පමණ වන අතර ඉහළ මධ්‍යම ආදායම් ලබන රටවල් සඳහා එය සියයට 25 ක් ලෙස සැලකේ.

ආදායම් ලැබීම පිළිබඳව ඇති ගැටලු රජයේ සැපයුම්කරුවන්ට (නිදසුන් වශයෙන් පොහොර ආනයනකරුවන්ට සහ ඉදිකිරීම් කොන්ත්‍රාත්කරුවන්ට) ගෙවීම් ප්‍රමාදවීම්වලට හේතු වන බව වාර්තා වේ. විශාල ගෙවීම් වසරකින් තවත් වසරකට ගෙන යෑම වසරේ අයවැය හිඟය ඉලක්ක කර ගත් මට්ටමේ පවත්වා ගැනීමේ උපාය මාර්ගයට ගැලපෙන නමුත් එය අදාල සමාගම්වල මුදල් සංචරණය කෙරේ විශාල බලපෑම් ඇති කරන අතර එම සමාගම්වලට අත්තිකාරම් ලබා දුන් බැංකුවලටද බරපතළ තත්වයකි. මෙම අයහපත් චක්‍රය සීමා කළ හැකි වන්නේ පාඩු ලබන රාජ්‍ය ව්‍යවසාය කෙරේ සීමා පැනවීම ඇතුළුව රජයේ අනවශ්‍ය වියදම් පාලනය කිරීමේ සහ රාජ්‍ය ආදායම් වඩාත් ඉහළ නැංවීමේ ද්විත්ව ප්‍රතිපත්තියකිනි. එහෙත් ශ්‍රී ලංකාවේ රාජ්‍ය ආදායමෙන් වැඩිම ප්‍රමාණයක් පරිභෝජනය පිළිබඳ බදුවලින් ලැබෙන නිසා සමස්ත ආර්ථික කටයුතු ඉහළ යෑමෙන් සහ ආනයන වැඩිවීමෙන් ආදායම් තත්වය යළි ඉහළ යා හැකිය. එහෙත් බදු ආදයමේ පවත්වා ගත හැකි වර්ධනයක් සඳහා බදු ප්‍රතිපත්තියේ සහ බදු පරිපාලනයේ මූලික ප්‍රතිශෝධන වඩාත් අවශ්‍ය වනු ඇත. 2009 දී ද. දේ. නිෂ්පාදිතයේ අනුපාතයක් වශයෙන් සියයට 9.9 ක් වූ බදු ආදායම් හිඟය (Fiscal Deficit) යුද්ධය අවසන්වී වසර පහක් ගත වන විට 2-013 දී සියයට 5.9 දක්වා අඩුවී ඇත. ශ්‍රී ලංකාව වැනි රටකට අවශ්‍යවන්නේ තීරණාත්මක නවීන යටිතල පහසුකම් වන එකිනෙකට යා කෙරෙන යටිතල පහසුකම් හෝ තාක්ෂණ යටිතල පහසුකම් හෝ (පාසල්, විශ්ව විද්‍යාල වැනි) සමාජ යටිතල පහසුකම්වල නොකඩවා ආයෝජනය කිරීමය. තරගකාරිත්වයේ සහ සියලු දෙනා ඇතුළත් කර ගන්නා සංවර්ධනයේ පදනම් ශක්තිමත් කිරීමේ දී ශ්‍රී ලංකාවට සම්මුතීන් ඇති කර ගත නොහැකිය.

අවාසිදායක තත්වය වන්නේ යටිතල පහසුකම් සංවර්ධනය මූලික වශයෙන්ම විදෙස් ණයවලින් හෝ විදෙස් රාජ්‍ය අනුග්‍රහය ලබන සමාගම්වලින් (විශේෂයෙන්ම චීන) ක්‍රියාත්මක කරන ව්‍යාපෘතීන් වීමය. දැවැන්ත යටිතල පහසුකම් ව්‍යාපෘතීන් බොහොමයකට ප්‍රබල රාජ්‍ය සහතිකයක් හිමි වේ. නිදසුනක් වශයෙන් මාර්ග සංවර්ධන අධිකාරිය සහ ආදායම් ජනනය නොකරන වෙනත් රාජ්‍ය ආයතන සඳහා ලබා දී ඇති සහතිකවලින් රජයේ ආපතික වගකීම් ඉහළ යෑමට තුඩු දේ. කනසල්ලට වඩාත් හේතු වන්නේ කලින් සඳහන් කළ ආකාරයට පිටතින් ණය ගැනීම කෙරේ විශ්වාසය රැඳවීම නිසා ශ්‍රී ලංකාවට බාහිර කැලඹීම්වලින් පීඩාවට පත්වීමේ හැකියාවක් පවතින අතර ඒවායෙන් ගොඩ ඒමට ඇති හැකියාවද දුර්වල කරයි.

මෙම සන්දර්භයේ දී ශ්‍රී ලංකාවේ අපනයන ක්‍රියාකාරිත්වයේ ඉහළයෑමෙන් පිළිබිඹු වන ආකාරයට ගෝලීය ආර්ථික පරිසරයේ වර්ධනය දිරිගන්වන සුලුය. 2012 - 13 කාල පරිච්ඡේදයේ යුරෝපීය මහ බැංකුව පීඩාවට පත් මූල්‍ය වෙළඳ පොළ ස්ථාවර කිරීමට පෙර නොවූ විරූ පියවර ගෙන ඇත. නැවත වරක් යුරෝපීය රාජ්‍ය බැඳුම්කර කෙරේ ආයෝජකයන් යොමුවීමත් සමග පාරිභෝගික විශ්වාසය නැවත පිබිදීමත් සමාගම් වඩාත් ප්‍රවේශම් ලෙස පුළුල් කිරීමත් දැකිය හැකිය. යුරෝපය අවසානයේදී ආර්ථික අවපාතයෙන් මිදී එක්සත් ජනපදය සමග එක්වී කලක් තිස්සේ පැවති පසුබෑමෙන් ගොඩ එන බව පෙනේ. එහෙත් මෙම යළි නැගිටීම ප්‍රමාණවත් ආකාරයට ශක්තිමත් නැතැයි ප්‍රතිපත්ති සම්පාදකයන් තුළ බියක් ද පවතී.

යුරෝපයේ විරැකියා අනුපාතය, විශේෂයෙන්ම තරුණ සේවකයන් අතර තවමත් ඉහළ මට්ටමක පවතී. සාමාන්‍ය තරුණ විරැකියා අනුපාතය සියයට 23.5 ක් වන අතර එය අර්බුදයට පෙර 2008 පැවති සියයට 14.5 ට වඩා බෙහෙවින් වැඩිය. මෙම සාමාන්‍යයෙන් නිශ්චිත රටවල පවතින වඩාත් නරක තත්වය පෙන්නුම් කරන්නේ නැත. ග්‍රීසිය, ස්පාඤ්ඤය, පෘතුගාලය සහ ඉතාලිය යන රටවල විරැකියා අනුපාතය අනු පිළිවෙළින් සියයට 56, සියයට 53, සියයට 40, හා සියයට 33 ක් තරම් ඉහළය. මේ අතර කලාපයේ ඇතිවන දේශපාලන වෙනස්කම් ද අවිනිශ්චිත භාවය වැඩි කරවයි. රුසියාව ක්‍රිමියාව ඇඳා ගැනීම හා යුරෝපය තුළ ඉන් ඇති කරන බලපෑම් මෙන්ම යුරෝපා සංගමයේ මූල්‍ය සංකලනයට පරිපූරණ වශයෙන් වඩාත් දැඩි දේශපාලන සහයෝගිතාව සම මූල්‍ය සම්බන්ධීකරණය ගැන තිබූ බලාපොරොත්තු හීනවීමත් සමග යළි නැගී සිටීමේ දුර්වල ස්වභාවය පෙන්නුම් කරයි.

මේ අතර එක්සත් ජනපදයේ ආර්ථිකය පැහැදිලිවම පසුගාමී තත්වයෙන් මිදී ප්‍රබල වර්ධනයක් හා විරැකියාවේ අඩුවීමක් වාර්තා කරයි. කෙසේ වුවත් එක්සත් ජනපදයේ සුවිශේෂී මූල්‍ය ප්‍රතිපත්ති පියවර ඉවත් කර ගැනීමත් සමග ගෝලීය ආර්ථිකය ඊට හැඩ ගැසෙන්නේ කෙසේද යන්න ගැන විමසිලිමත් විය යුතුය. 2013 අග භාගයේදී මෙම පියවර ක්‍රියාත්මක වීමත් සමග වෙළඳ පොළ ව්‍යාකූල තත්වයක් ඇති වී නැගී එමින් පවතින ආර්ථික වලින් ප්‍රාග්ධනය පලා යෑමත් සමග එම රටවල මුදල් ඒකකයන්හි අගය තියුණු ලෙස අවප්‍රමාණය විය. නමුත් 2014 දී ඉවත් කර ගැනීමේ බලපෑම ගෝලීය ආයෝජකයන් මිල තීරණය කිරීමේ දී සැලකිල්ලට ගත් අතර ක්‍රියාවලියේ ඉතිරි කොටස ගැන අපේක්ෂාසහගතව සිටින බව පෙනේ. එහෙත් සංචිත පියවරේ කාලය සහ වේගය ගැන මතුවන ප්‍රශ්න ගැන කනස්සල්ලක් පවතී. එක්සත් ජනපදයේ ආර්ථිකයේ යළි නැගී සිටීම වේගවත් වන්නේ නම් සහ එය උද්ධමන පීඩනය වැඩි කිරීමට හේතු වන්නේයැයි සිතන්නේ නම් ඉවත් කර ගැනීම වේගවත් විය හැකිය. මෙය වේගවත්ව සිදු වුවහොත් පළමුවෙන්ම ව්‍යාප්තියේ ජයග්‍රහණ ආපසු හැරවෙනු ඇත. එය වඩාත් සෙමෙන් සිදු වුවහොත් පහසුවෙන් මුදල් ලබා ගැනීමේ කාලය වඩාත් දිගුවී දේපොළ වටිනාකම් ඉහළ යෑමේ (එක්සත් ජනපදයේ ප්‍රමාණාත්මක පහසු කිරීමේ උච්චතම අවස්ථාවේ නැගී එමින් පවතින ආර්ථිකවල සිදු වූ ආකාරයට) අස්ථාවර තත්වයක් නිර්මාණය විය හැකිය.

එක්සත් ජනපදයේ සහ යුරෝපයේ දැඩි මූල්‍ය තත්වයන් මුල් බැස ගනිත්ම ගෝලීය ආයෝජකයන් අවදානම් මග හරින බව පෙනේ. මෙහි පළමු සලකුණ වන්නේ 2013 දී නැගී එමින් පවතින ආර්ථිකයන්ට (EME) ගලා ආ ශුද්ධ ප්‍රාග්ධනය වසර අනුව ගණන් බැලීමේ දී සියයට 9.6 කින් පහත වැටීමයි.[2] මෙම තත්වය ගෝලීය මූල්‍ය අර්බුදය නිමවීමෙන් පසුව පැවති තත්වයට හාත්පසින්ම වෙනස්ය. එහිදී ගෝලීය ආයෝජකයන් තම ප්‍රාග්ධනය යෙදවීමට විකල්ප ස්ථාන සොයා යෑමේදී මතුවෙමින් පවතින ආර්ථිකයන්ට ගලා ආ ප්‍රාග්ධනය ශීඝ්‍රයෙන් ඉහළ යැවිණ. බැලූ බැල්මට 2013 දී මෙම තත්වය ආපසු හැරීම, ප්‍රධාන වශයෙන්ම ගෝලීය වාතාවරණය වෙනස්වීම හා එක්සත් ජනපද ප්‍රමාණාත්මක පහසු කිරීම ඉවත් කර ගැනීම නිසායැයි පෙනේ. නිසැකයෙන්ම මෙය කතාවේ වැදගත් කොටසක් පමණි. එහෙත් එය වෙනත් සාධකවලින්ද පැහැදිලි කළ හැකිය. අර්බුදයෙන් පසුව 'උණුසුම් මුදල්' ලැබුණු මතු වෙමින් පවතින ආර්ථික බොහොමයක් ද්‍රවශීලී තත්වයෙන් පිරී ගිය සමයේ තම දේශීය ඉල්ලුම මූල්‍යණය කිරීම සඳහා ද ගෝලීය ප්‍රාග්ධනය ගලා ඒම් කෙරේ වැඩි විශ්වාසයක් රඳවා තිබිණ. ඔවුන්ගේ මුදල් ඒකක අගය ඉහළ යෑමෙන් අපනයන තරගකාරිත්වය බිඳ වැටී වර්තන ගෙවුම් ශේෂයේ දැරිය නොහැකි හිඟයන් ඇති කෙරිණ.

ආසියානු මූල්‍ය අර්බුදයෙන් ආසියානු ආර්ථිකවල පැවති සාර්ව කළමනාකරණ සහ මූල්‍ය වෙළඳ පොළ නෛසර්ගික දුර්වලතා හෙළි කළ ආකාරයටම ෆෙඩරල් සංචිතයේ පහසුකිරීමේ ප්‍රතිපත්ති ඉවත් කර ගැනීමේ බලපෑම හා බැඳුණු ගෝලීය අර්බුදයෙන් පසුව මතුවෙමින් පවතින ආර්ථික ගණනාවක අභ්‍යන්තරයේ පවතින අවදානම් සහ ක්‍රියාකාරිත්වය කෙරේ අවධානය යොමු කෙරිණ. ගෝලීය අවපාතයෙන් පසුව නැගී සිටීමේ දී මතුවෙමින් පවතින ආර්ථික (අපනයන සඳහා තිබූ ඉල්ලුමේ හැකිළීමක් තිබුණ ද) ඔරොත්තු දීමේ ශක්තියක් ප්‍රදර්ශනය කළ නමුත් මතු වෙමින් පවතින ආර්ථික ගණනාවක, ආයෝජකයන් විසින් 'හාරා අවුස්සා බැලීම වැනි' ප්‍රශ්න මතු වෙමින් පවතී. විශේෂයෙන්ම ඉන්දියාව, ඉන්දුනීසියාව, තුර්කිය, බ්‍රසීලය හා දකුණු අප්‍රිකාව වැනි මතු වෙමින් පවතින ආර්ථික පහේ මෙම තත්වයට බලපාන සාධක ගණනාවක් පවතී. ඒවායේ වර්ධනය පහළ තලයකට වැටී ඇති අතර බදු සහ වර්තන ගිණුම්වල හිඟය ඉහළ යමින් පවතී. ව්‍යුහාත්මක ප්‍රතිශෝධන සඳහා අවම ප්‍රයත්න ගනිමින් පවතී.

කෙසේ වුවත් සමස්ත ගෝලීය ආර්ථිකයම යුරෝපය හා උතුරු ඇමරිකාවේ ස්ථාපිත කාර්මික ආර්ථිකවල සිට ලතින් ඇමරිකාව, අප්‍රිකාව සහ වඩාත් කැපී පෙනෙන ආකාරයෙන් ආසියාව කරා ආර්ථික

ප්‍රාණවත්භාවය මාරුවෙන පරිණාමයකට ලක්ව අති බව නිසැකය.

මෙම කලාපයේ මතුවෙමින් පවතින ආර්ථික කෙරේ ඇති ආයෝජක රුචියේ උච්ච සහ අවම අවස්ථා තිබුණ ද එය තවමත් ප්‍රාණවත්ව පවතී. මතුවෙමින් පවතින වෙළඳ පොළ සඳහා පළමු කෙටි නාමය BRICS (බ්‍රසීලය, රුසියාව, ඉන්දියාව සහ චීනය) ගෙතීමෙන් වසර 15 කට පසුවද මතුවෙමින් පවතින ආර්ථිකයන්හි නව ආයෝජන අවස්ථා ගැන උනන්දු වන තීරු ආයෝජකයන් (Portfolio Investors) සහ අරමුදල් කළමනාකරුවන් විසින් කෙටි නම් යෙදීමේ සහ කණ්ඩායම්වීමේ අඩුවක් නැත.[3] ආයෝජන තීරණ මෙවැනි කරුණු මත පදනම්වීම බුද්ධිමත් උපාය මාර්ගයක් නොවන බවට බොහෝ දෙනකු එකඟ වන නමුත් ගෝලීය ආර්ථිකයේ සිදුවෙමින් පවතින ගැඹුරු වෙනස්වීම් පුළුල් පිරිසකට ඉස්මතු කර දැක්වීමට හැකියාවක් පවතින බව ද පෙන්වා දිය යුතුය. වඩාත් වැදගත් වන්නේ මතුවෙමින් පවතින වෙළඳ පොළ එකතුන් තුළ කලාපයක් වශයෙන් ආසියාව කෙතරම් කැපී පෙනෙන තත්වයකට පත්ව ඇත්ද යන්නයි.

21 වැනි සියවසේ ආර්ථික, භූ දේශපාලන හා සමාජයීය වෙනස්වීම්වල ඉහළින්ම දැක්වෙන ලක්ෂණයක් වන්නේ ආසියාවේ පිබිදීමයි. ආසියානු ආර්ථිකයන්හි විශේෂයෙන්ම නැගෙනහිර සහ ඉන්දියාව ඇතුළත් අග්නිදිග ආසියාවේ පිබිදීම, සිදුවෙමින් පවතින ගැඹුරු වෙනස්වීම්වල හදවත බවට පත්ව තිබීමයි.

ආසියාව දැන් ලොව ජනතාවගෙන් සියයට 60 කට පමණ නිවහනයි. ගෝලීය නිමවුමෙන් හතරෙන් එකක් (එය 2050 වන විට අඩක් දක්වා ඉහළ යනු ඇත.) හා ලෝකයේ නිෂ්පාදනයෙන් සියයට 47 ක් සපයයි. මෙම නව සමෘද්ධියේ උදාවත් සමග ගෝලීය මධ්‍යම පංතියෙන් තුනෙන් එකකට ආසන්න ප්‍රමාණයක් සිටින්නේ ආසියාවේය. සමහර ප්‍රධාන ආර්ථිකයන්ට තදින්ම බලපෑ ආසියානු මූල්‍ය අර්බුදය ඇත අතීතයේ වූ අඳුරු සෙවණැල්ලකි. ගෝලීය අවපාතයෙන් පසුව ගත වූ වසර හයක් වැනි කාලයක් ඇතුළත ආසියාවේ නැගි එන සහ සංවර්ධනය වන ආර්ථිකයන්හි ප්‍රක්ෂේපිත සහ තත්‍ය වර්ධන වේගය දියුණු ආර්ථිකයන්හි සාමාන්‍යය මෙන් සියයට හයක් තරම් ඉහළ මට්ටමක පවතී. 2014 හා 2015 වසර තුළ දියුණු ආර්ථිකයන් සියයට 2.2 හා 2.3 ක් අතර ප්‍රමාණයකින් වර්ධනය වනු ඇතැයි අපේක්ෂා කරන අතර ආසියාවේ මතුවෙමින් පවතින හා සංවර්ධනය වන ආර්ථික පිළිවෙළින් සියයට 6.7 හා 6.8 ප්‍රමාණයකින් වර්ධනය වනු ඇත. මෙම ප්‍රමාණය මතු වෙමින් පවතින හා සංවර්ධනය වන පුළුල් ආර්ථික කණ්ඩායම සඳහා වන අනාවැකිය වූ සියයට 4.9 හා 5.3 ට වඩා වැඩිය.

ඉන්දියාව සමග කලාපයේ පදනම් දෙකෙන් එකක් වන චීනය ලොව ප්‍රධාන අපනයනකරු වශයෙන් බොහෝ කලකට පෙර සිටම ජර්මනිය පසුකර ඇත. ආසියානු සමාගම් (ජපන් වාහන, දකුණු කොරියානු ඉලෙක්ට්‍රොනික්, චීන ඊ වෙළඳ අඩවි යනාදිය) ලොව අගනාම වෙළඳ නාම බවට පත්ව ඇත. ජපන් සහ දකුණු කොරියානු කාර් යුරෝපීය මහා මාර්ගවල සුලබ දර්ශනයකි. ඇපල් වැනි ඇමරිකානු තාක්ෂණ දැවැන්තයෝ දකුණු කොරියානු සහ තායිවාන් සැපයුම්කරුවන්ගෙන් ඩොලර් බිලියන ගණන් වූ උපාංග මිලදී ගනිති. චීන සමාගම් අංශ ගණනාවක ජර්මන්, බ්‍රිතාන්‍ය සහ ඇමරිකානු සමාගම් මිලදී ගනිති. බටහිර බහුජාතික සමාගම් හා වෙළඳ නාම, බටහිර ජීවන මට්ටම කරා යන, එය පහසුවෙන්ම හිමිකර ගත හැකි ආසියානුවන් ග්‍රහණය කර ගැනීමට ආසියානු නගරවලට රොක්වෙති. ඇමරිකානු ඩොලර් බිලියන 80 ක් වන ගෝලීය සුඛෝපභෝගී භාණ්ඩ වෙළඳ පොළෙන් අඩක්ම ආසියානු පාරිභෝගිකයන්යැයි කර්මාන්තයේ ගණනය කිරීම්වලින් පෙනේ.[4] තාක්ෂණ ව්‍යාප්තිය ආසියානු සමාගම්වලට ගෝලීය පරිමානයෙන් වඩාත් හොඳින් තරග කිරීමේ හැකියාව කළ අතර ඊ වෙළඳාම තුළින් පරිභෝජන රටාවන්ගේ වෙනස්වීම් ඇති කරවීමට ද සමත්ව සිටී. නිදසුනක් වශයෙන් චීනයේ අලිබබා මාර්ගගත වෙළඳ පොළට දශ ලක්ෂ 180 ක් සම්බන්ධව සිටින අතර 2013 දී ඇමරිකානු ඩොලර් බිලියන 250 ක ගනුදෙනු කර ඇත. (ඊබේ සහ ඇමසොන් යන දෙකේම එකතුවට වඩා වැඩිය) එමෙන්ම ලොව විශාලතම තාක්ෂණ මූලික කොටස් නිකුතුව (IPO) වශයෙන් හැඳින්විය හැකි ඩොලර් බිලියන 20 ක කොටස් නිකුතුවකට ද සූදානම් වේ. (මෙය ෆේස්බුක් නිකුතුවට වඩා වැඩිය.) මේ අතර අන්තර් ආසියානු වෙළඳාම පශ්චාත් අර්බුද සමයේ ආසියානු ආර්ථික ජවයේ වඩාත්ම මූලික ලක්ෂණය බවට පත්ව ඇත. අග්නිදිග ආසියානු ජාතීන්ගේ සංගමයේ (ආසියාන්) අපනයන කරන රටවලින් ඉහළම 10 චීනයට කරන අපනයන ප්‍රමාණය උතුරු ඇමරිකානු නිදහස් වෙළඳ ගිවිසුම් කලාපයට හෝ යුරෝපා සංගමයට කරන අපනයන ඉක්මවා යයි.

වඩාත් මෑතකදී මතුවෙමින් පවතින ආසියානු ආර්ථික ද බලාපොරොත්තු සහගත තත්වයක් පෙන්නුම් කරයි. ආසියාන් කලාපයේ ජන සංඛ්‍යාවෙන් සියයට 40 කට නිවහන වන (දශ ලක්ෂ 240 ක පමණ ජන සංඛ්‍යාවක් ඇති) ඉන්දුනීසියාව කලාපයේ ද. දේ. නිෂ්පාදිතයෙන්

සියයට 40 කට මදක් අඩු ප්‍රමාණයකට වග කියයි. 2012 දී ඉන්දුනිසියාවේ ද. දේ. නිෂ්පාදිතය සංකේතාත්මකව වැදගත් ඩොලර් ට්‍රිලියනයේ සීමාව ඉක්මවා ගොස් ලොව 15 වැනි විශාල ආර්ථිකය බවට පත්විය. පුළුල් ආර්ථික ප්‍රතිශෝධනවලින් පසුව 'ආසියාවේ රෝගියා' වශයෙන් හැඳින් වූ පිලිපීනය විශාල ප්‍රගතියක් අත්කර ගනිමින් සිටී. 2013 දී ද. දේ. නිෂ්පාතය සියයට 7.3 කින් වැඩි වූ අතර එය ආසියාන් කලාපයේ ඉහළම වර්ධන වේගයයි. එවැනි වර්ධනයක් අත්පත් කර ගත්තේ හයිනෑන් කුණාටුවෙන් මහත් විනාශයක් සිදුව තිබියදීය. පිලිපීනයේ රාජ්‍ය ණය ෆිට්ච්, ස්ටැන්ඩර්ඩ් සහ පුවර්ස් සහ මූඩි වැනි තක්සේරු කිරීමේ ආයතන මගින් ආයෝජන ශ්‍රේණිය දක්වා ඉහළ දැමූ අතර එය ගෝලීය තරගකාරිත්ව දර්ශකයේ ස්ථාන 26 ක් (2010 සිට) සහ ව්‍යාපාරවලට හිතකර දර්ශකයේ ස්ථාන 30 ක් ඉහළට ගොස් ඇත.

එහෙත් ආසියාවේ පිබිදීම සම්පූර්ණයෙන්ම සුරක්ෂිත තත්වයක් නොවේ. ඉදිරියේ දී සාධක ගණනාවක් ආසියානු රටවල මෙම ගමන් මාර්ගයට බලපානු ඇත. එක් එක් රටට සුවිශේෂී වූ නොයෙකුත් අභියෝගවලට අමතරව විශේෂයෙන්ම ශ්‍රී ලංකාව ක්‍රියාත්මක වන පසුබිම පිළිබඳ අවබෝධ කර ගැනීමටත් සහ ශ්‍රී ලංකාවට ස්වකීය වර්ධන ප්‍රයත්නයේදී පාඩම් ඉගෙන ගැනීමටත් සමහර පුළුල් අභියෝග ගැන සාකච්ඡා කිරීම ප්‍රයෝජනවත්ය.

පාලනයේ ස්වභාවය සහ රාජ්‍යයේ භූමිකාව ආසියානු රටවල ආර්ථික වර්ධන ගමන් මාර්ගයේ කැපී පෙනෙන්නකි. ආර්ථික සංවර්ධනයේ දී ක්‍රියාකාරකම් ගණනාවක් තුළ රජයේ උපාය මාර්ගික සම්බන්ධතාවය එහි ව්‍යාප්තිය හා කාර්යක්ෂමතාව පිළිබඳව කැපී පෙනේ. සම්පත් වෙන් කිරීමේ දී සහ ආර්ථික නිෂ්පාදනයේ දී රජයට භූමිකාවක් තිබිය යුතුයැයි පැවසීම මීට පරම්පරාවකට පෙර දැඩි මධ්‍යගත සැලසුම් කිරීමේ අසාර්ථක වූ අත්හදා බැලීමෙන් පැහැදිලිවම දැක් වූ ආකාරයට මිථ්‍යා දෘෂ්ටික මතයක් විය හැකිව තිබිණ. එහෙත් වඩාත් මෑතකදී වැඩි වශයෙන්ම ආසියානු ආර්ථිකයන්ගේ සාර්ථකත්වය පිළිබඳ කතාන්දරයත් සමග රාජ්‍යයට භූමිකාවක් පවතී යන්නට වඩාත් පුළුල් පිළිගැනීමක් ලැබිණ. එවැනි ප්‍රතිපත්ති ඉවත දැමූ සංවර්ධිත රටවල් පවා විශේෂයෙන්ම අර්බූදයෙන් පසුව රාජ්‍ය මැදිහත්වීම වෙනුවෙන් දැඩිව පෙනී සිටී. තම බැංකු අර්බූදයෙන් මුදා ගැනීමට (සමහර බැංකුවල කොටස් මිලදී ගැනීම ඇතුළත්) තීරණය කිරීම, නිශ්චිත අංශවලට රජයේ ආධාර ලබා දීමට (එක්සත් ජනපදයේ අර්බූදයට ලක් වූ රථ වාහන නිෂ්පාදන කර්මාන්තය හා දැන් පුනර්ජනන බලශක්ති කර්මාන්තය වැනි) තීරණය කිරීම හෝ බදු සහන සැලසීම සහ වර්ධනය ප්‍රවේගවත් කිරීමට සුවිශේෂී මූල්‍ය විස්තාපනයට ඉඩ හැරීම වැනි තීරණ ගැනීමේදී එය දක්නට ලැබිණ.

ආසියාවේ ධනය සහ සමෘද්ධිය විස්මය ජනකය. එහෙත් මෙම ප්‍රදේශයේ ඇති වූ ශීඝ්‍ර වර්ධනයත් සමග එය පුදුමයක් නොවේ. කර්මාන්ත ක්ෂේත්‍රයේ ගණන් බැලීම් අනුව ලොව පුරා අලෙවි වන සුඛෝපභෝගී භාණ්ඩවලින් සියයට 10 කට වගකියන්නේ චීන පාරිභෝගිකයන්ය.[5] යුරෝපයේ සුපිරි නිමි ඇඳුම් අලෙවිසල්වලින් වාර්තාවන අලෙවියෙන් හතරෙන් එකත් භාගයත් අතර ප්‍රමාණයක් මිලදී ගන්නේ අග්නිදිග ආසියානු සාප්පු යන්නන්ය.[6] ආර්ථික වර්ධනයේ පසුබෑමක් තිබුණ ද ඉන්දියාවේ වටිනාකමෙන් වැඩි කාර් අලෙවිය 2013 දී සියයට 15 ත් 30 අතර ප්‍රමාණයකින් ඉහළ ගියේය.[7]

මීට වසර 60 කට පෙර ආසියාවේ තත්වය බෙහෙවින් වෙනස්ය. එය ලොව දුප්පත්ම කලාපයයි. ප්‍රබල ආර්ථික වර්ධනයත් සමග දශ ලක්ෂ ගණන් ජනතාව දරිද්‍රතාවයෙන් මුදවා ගැනිණ. එහෙත් තව බොහෝ දේ කළ යුතුව ඇත. ආසියානු සංවර්ධන බැංකුව ගණන් බලන ආකාරයට ආසියාවේ දිනකට ඩොලර් 2 කට වඩා අඩු ආදායම් ලබන සංඛ්‍යාව බිලියන 1.7 කි. දවසකට ඩොලර් එකට වඩා ආදායම් ලබන සංඛ්‍යාව දශ ලක්ෂ 800 ක් පමණ වේ.[8] ආසියාවේ උප කලාප අතර විසමතා පවතී. දකුණු ආසියාවේ දරිද්‍රතාව ඉහළම මට්ටමක පවතින අතර නැගෙනහිර ආසියාවේ පවතින්නේ පහත්ම මට්ටමකි. (ඊට මූලික වශයෙන් සාධක වන්නේ 1990 දී සියයට 85 ක් වූ චීනයේ දරිද්‍රතාව 2008 වන විට සියයට 30 ක් දක්වා පහත වැටීමය.)

දරිද්‍රතාවයට අමතරව ආදායම් විසමතා කලාපයේ තවමත් අභියෝගයක්ව පවතී. ආසියානු සංවර්ධන බැංකුවේ ගණන් බැලීම් අනුව ආසියාවේ ජන සංඛ්‍යාවෙන් පහෙන් හතරක්ම අයත්වන රටවල් 12 ක පසුගිය දශක දෙකක කාලය ඇතුළත ආදායම් විසමතාව වඩාත් වැඩිවිය. මෙම කාල පරිච්ඡේදය තුළ ආසියාවේ ගිනි සංගුණකය (ආදායම් අසමානතා මිම්ම) 38 සිට 47 දක්වා ඉහළ ගොස් ඇත.[9] චීන නගරයක් වන ෂැංහයි පෘතුගාලයට සමාන ජීවන තත්වයක් අත් කර ගෙන සිටින අතර ඉන්දියාවේ දුප්පත්ම ප්‍රාන්ත රාජ්‍ය අටක දුප්පතුන්ගේ සංඛ්‍යාව අප්‍රිකාවේ දුප්පත්ම රටවල් 26 දුප්පතුන්ගේ එකතුවට වඩා වැඩිය.

වැඩිවන අසමානතාව නිසා ජනතා නැගී සිටීමක් දැකිය හැකි වන්නේ චීනයේයි. එහි වෙරළාශ්‍රිත කාර්මික නගරවල අඩු වැටුප් යටතේ වැඩ කරන ග්‍රාමීය කම්කරුවන් ගේ නැගිටීමක් තිබිණ. 2010 පැවති කම්කරු අරගල නිසා වැටුප් සියයට 30 ක් වැනි ප්‍රමාණයකින් වැඩි කිරීමට චීනයට සිදුවිය. දේශීය පරිභෝජනයට නැඹුරුවීමේ ප්‍රයත්නයත් සමග මෙම ප්‍රවනතාව දිගටම පවතිනු ඇත. ඇත්තෙන්ම චීනයේ දැනට ක්‍රියාත්මක වන පස් අවුරුදු සැලැස්ම අනුව රට පුරාම අවම වැටුප අඩුම වශයෙන් වාර්ෂිකව සියයට 13 කින් වැඩි කිරීමට අපේක්ෂා කරයි. චීනයේ කාර්මික ප්‍රදේශ සහ මවු සමාගම් ඇති එක්සත් ජනපද නගර අතර වැටුප් පරතරය අඩුවෙමින් පවතී. ඇමරිකානුවන්ට අයත් කම්හල්වල වැඩ කරන චීන සේවකයන්ට එක්සත් ජනපද වැටුප්වලින් සියයට 25 ලැබෙන බව වාර්තා වේ. 2000 දී එම අනුපාතය සියයට 5 කි.

ආසියාවේ පිබිදීමේ තවත් ලක්ෂණයක් වන්නේ එහි ජනවිද්‍යා ව්‍යුහයේ ඇතිවෙමින් පවතින බලවත් වෙනස්වීම්ය. ආසියාව පෙර නොවූ ආකාරයට වයස්ගතවේ. මතුවෙමින් පවතින සාධක අනුව 'ජන සංඛ්‍යාව වයස්ගතවීමේ' වැඩිවීම බටහිරට වඩා වේගයෙන් සිදුවන අතර සෞඛ්‍ය රැකවරණය හා සමාජ සුභ සාධනය (විශ්‍රාම වැටුප් වැනි) මූල්‍යනය ඇතුළත් නොයෙකුත් රාජ්‍ය ප්‍රතිපත්තිමය අභියෝගයන්ට මුහුණ දීමට සිදුවනු ඇත. ජපානය සහ දකුණු කොරියාව වැනි සමහර රටවල් ඉන්දියාව සහ ඉන්දුනීසියාව වැනි රටවලට වඩා වේගයෙන් මෙම තත්වයට මුහුණ දෙනු ඇත. විශේෂයෙන්ම චීනය අනුගමනය කරන එක දරුවෙක් පමණක් ප්‍රතිපත්තිය යටතේ වයස්ගත යැපෙන්නන්ගේ සංඛ්‍යාවේ වැඩිවීමේ අභියෝගයට මුහුණ දෙනු ඇත. මෙම ආසියානු රටවල් බොහොමයකට වේගවත් ආර්ථික වර්ධනයක් අත්කර ගැනීමට ඉවහල් වූ යැපුම් මට්ටමේ ජන සංඛ්‍යාවට වඩා වැඩ කරන ජන සංඛ්‍යාව වැඩිවීමේ ජනවිද්‍යා ප්‍රතිලාභය සෙමෙන් අවසන් වනු ඇත.

කාර්මිකකරණයෙන් ඇති වූ ආසියානු වර්ධනයේ තවත් කැපී පෙනෙන ලක්ෂණයක් වන්නේ ගම්වලින් නගරවලට සංක්‍රමණය වීමෙන් ආසියානු නගර වඩාත් නාගරිකකරණය වී ප්‍රවාහනය, ජලය, නිවාස සහ සනීපාරක්ෂාව වැනි නාගරික යටිතල පහසුකම් කෙරේ ඇති පීඩනය සහ ඒ සමග පරිසර දූෂණය ඉහළ යෑමයි. චීනය හා ඉන්දියාව වැනි අලුතින් කාර්මික වූ ආසියානු රටවල තවමත් නාගරික ජන සංඛ්‍යාව බහුතරය නොවන නමුත් නාගරික ජන සංඛ්‍යාව වේගයෙන් වැඩිවෙමින් පවතී. 2025 වන විට ආසියාවේ ජන සංඛ්‍යාවෙන් අඩක් නාගරික විය හැකියැයි ගණන් බලා ඇත.

නාගරිකකරණය වේගවත් වර්ධනයෙන් මතු කෙරෙන පරිසර ගැටලුවලින් එකක් පමණි. ගෝලීය ආර්ථිකයේ ආසියාව කැපී පෙනෙන තත්වයට මතුවීම සිදු වන්නේ ගෝලීය ජෛව පද්ධතීන් සහ පරිසරය බරපතළ වෙනස්වීම්වලට ලක්වෙමින් පවතින තත්වයක් ඇතුළතය. ආසියාවට බටහිර සිදු වූ ආකාරයට 'දැන් දූෂණය කරන්න, පසුව ශුද්ධ කරන්න' රටාව අනුව වර්ධනය විය නොහැකිය යන්න දැන් පුළුල් පිළිගැනීමට ලක්ව ඇත. දේශගුණික වෙනස්වීම් වර්ධනයේ පාරිසරික බලපෑම් නොසලකා හැරීමට ඉඩ දෙන්නේ නැත. ඇත්තෙන්ම, ආසියාවේ සමහර කොටස්, විශේෂයෙන්ම නිවර්තන කලාපීය රටවල් සහ දූපත් ගෝලීය දේශගුණික වෙනස්වීමේ අවදානමට වැඩියෙන්ම ලක්වන රටවල්ය. ආසියාව ඉඩම් භාවිතාකිරීමේ අයහපත් කලමනාකරණය, චිරස්ථායී නොවන බල ශක්ති පරිභෝජනය හා ස්වභාවික සම්පත් පමණ ඉක්මවා භාවිතය හා බැඳුණු පරිසරය පරිහානියට ලක්වීමේ බරපතළ තත්වයකට මුහුණ දෙමින් සිටී. බොහෝ ආසියානු රටවල පාරිසරික පරිහානියට මුල්වී ඇත්තේ කාර්මිකකරණ ක්‍රියාවලියයි. බටහිර බොහෝ රටවල පාරිසරික ප්‍රමිතීන් දැඩිව ක්‍රියාත්මක කිරීම නිසා එම රටවල නිෂ්පාදකයන්ට ආසියානු රටවල පවතින පරිසර නීතියේ ලිහිල් බව එහි කර්මාන්ත පිහිටුවීමට ආකර්ෂණයක් විය.

චීනයේ සහ ඉන්දියාවේ වැඩි වෙමින් පවතින බල ශක්ති ඉල්ලුම සපුරාලීමට ගල් අඟුරු සහ පෙට්‍රෝලියම් භාවිතය වැඩිවීම හරිතාගාර වායු මෝචනය කෙරේ දැඩි බලපෑමක් ඇති කෙරිණ. මසුන් ඇල්ලීම සහ ජලජ කර්මාන්තවල තීව්‍රතාව (ජලජ නිෂ්පාදනයෙන් සියයට 70 - 90 අතර ප්‍රමාණයක් ලැබෙන්නේ ආසියාවෙනි.) ස්වභාවික ධීවර සම්පත් කෙරේ මහත් බලපෑමක් ඇති කෙරේ. පරිභෝජනය ඉහළ යෑමත් නවීකරණය පුළුල් වීමත් මෙම පීඩනය වඩාත් වැඩි කරවයි. මේ අතර ආසියානු දූවැන්ත නගරයක දර්ශනයක් අහසට නැගෙන දුමෙන් හා පැතිරෙන දුමාරයකින් තොරනම් අසම්පූර්ණය. ආසියානු නගරවල ඉහළ අහසේ එවැනි දුමාරය සහ දුඹුරු වලාකුළු ඉහළ යන සෞඛ්‍ය පිරිවැය ඇතුළු බොහෝ පිරිවැය ඉහළ නංවයි. මේ සියල්ල වෙනස්වන කාලගුණික රටාව හා අස්වාභාවික සිද්ධීන් කෙරේ බලපානු ඇත. ආසියාවේ ස්වභාවික ආපදා ඇතිවීමේ නිරන්තර භාවය සහ තීව්‍රතාවය වැඩිවන ප්‍රවනතාවයක් පෙන්නුම් කරයි. 1980 ත් 2009 අතර කාලයේ දී ස්වභාවික ආපදාවන් නිසා

ඇති වූ ගෝලීය ආර්ථික හානි වලින් සියයට 38 කටත් වඩා වාර්තා වූයේ ආසියාවෙනි.[10]

ඉහතින් දැක්වූයේ ආසියාවේ ආකර්ෂණීය ආර්ථික වර්ධනය අත්කර ගෙන ඇත්තේ ප්‍රාදේශීය, ජාතික හා ගෝලීය පරිසර පද්ධතීන්ට සැලකිය යුතු හානියක් සිදු කරමින් බවට ඇති ප්‍රබල සාක්ෂිවල ලක්ෂණ කීපයක් පමණි. ආර්ථික වර්ධනය භෞතික ධනය වශයෙන් කිසියම් ශක්තියත් අත්කර දී ඇති නමුත් ඒ හා බැඳී ඇති ජෛව පද්ධතියට සිදුව ඇති හානියත් ජෛව පද්ධති සේවාවන්ගේ පරිහානියත් මෙම ධනය සැබෑ මානව සුභ සාධනය බවට පරිවර්තනය කිරීමේ අවස්ථා හීන කරවයි.

ආසියාවට මෙම අභියෝගවලට මුහුණ දීමේදී අර්ථාන්විත ආකාරයෙන් ඉදිරියට යෑමට අවශ්‍යනම් සමස්ත කලාපීය සහයෝගිතාවයක් අවශ්‍ය වන්නේ ඒ අභියෝග බොහොමයක් දේශ සීමාවන්ගෙන් ඔබ්බට පැතිර යන නිසාය. එහෙත් එවැනි සහයෝගයක් ඇති කර ගැනීම පහසු නොවේ.

ආසියාව පුරාම භූ දේශපාලන දර්ශනය එදිරිවාදුකම්වලින් පිරී පවතී. ඉන් වඩාත් කැපී පෙනෙන්නේ දකුණු සහ නැගෙනහිර චීන මුහුදේ පවතින ආරවුල්ය. චීනය සහ ජපානය අතර මුහුදු සීමා වෙන් කර ගැනීම, චීනය සහ පිලිපීනයත් අතර විශේෂිත ආර්ථික කලාපය බෙදා වෙන් කර ගැනීම, චීනය, වියට්නාමය, බෘනායි සහ මැලේසියාව අතර ස්ප්‍රැට්ලි දූපත්වල අයිතිය ගැනත් පවතින අර්බුද වැනි කරුණුය. මේ අතර උතුරු සහ දකුණු කොරියාව අතර විරසකය දිගටම පවතී. වරක මිත්‍රශීලී සබඳතා ඇති කර ගැනීමේ සිට අවිගැටුම් දක්වා තීව්‍රවීමේ තත්වයක් ඇත. ආසියාවේ වඩාත් බටහිරට වෙත්ම ඉන්දියාව සහ චීනය අතරත් ඉන්දියාව සහ පාකිස්ථානය අතරත් නොසන්සුන්තාවයක් පවතී. ඉන්දියාව සහ චීනය අතර ටිබැටයේ දකුණු ප්‍රදේශයේ පාලනය ගැන දිගු කලක සිටම මතභේදයක් පවතී. ඉන්දියාව සහ පාකිස්ථානය අතර සම්බන්ධතා හැඩගැස්වීමේ වැදගත්ම කතන්දරය වන ජම්මු සහ කාශ්මීර ප්‍රදේශය ගැන පවතින ගැටුම ඒ දෙරට අතර පමණක් නොව කලාපයේ ද සබඳතා හැඩ ගැස්වීමේ තීරණාත්මක සාධකයකි. තත්වය වඩාත් සංකීර්ණවී ඇත්තේ ත්‍රස්තවාදී කණ්ඩායම් දේශ සීමා නොසලකා පැතිර යෑමෙනි. එය අස්ථායී භාවයක් නිර්මාණය කිරීමේ ප්‍රබල සාධකවක් බවට පත්ව ඇත.

ඉන්දියාව දකුණු ආසියාවේ බලවත් රැඳවුම් ලක්ෂ්‍යයක් වන අතර චීනය උපාය මාර්ගික ආයෝජන සහ ආධාර හරහා ආසියානු කලාපය පුරාම තම බලය ව්‍යාප්ත කර ගනියි. ආසියාවේ වැඩි වෙමින් පවතින චීන බලපෑම එක්සත් ජනපදය උපාය මාර්ගිකව නැවත ආසියාව දෙසට හැරීමේ ප්‍රතිපත්තියෙන් අභියෝග කරනු ඇතැයි සමහරු බලාපොරොත්තු වෙති. මේ සඳහා වන මූලික උපාය මාර්ගය වන්නේ ට්‍රාන්ස් පැසිපික් වෙළඳ හවුලයි. එය සාමාන්‍ය වෙළඳ ගිවිසුමක් පමණක් නොවේ. ඊට වෙළඳාම, ආයෝජන සහ උපාය මාර්ගික ආර්ථික සහයෝගිතාව ද ඇතුළත්ය. චීනයේ පිබිදීමෙන් ආරක්ෂාව පිළිබඳව ඇති කරන බලපෑම් ගැන විමසිලිමත් වන ආසියානු රටවල් මෙම කලාපය තුළ ඇමරිකානු බලය පැතිරීම උණුසුම් ලෙස පිළිගනු ඇත. ට්‍රාන්ස් පැසිපික් වෙළඳ හවුල කලාපයේ ආර්ථික බලපෑම් පිළිබඳව එක්සත් ජනපදය හා චීනය අතර පවතින තරගයේ මූලික සාධකයක් මෙන්ම චීනයේ පිබිදීම සීමා කිරීමට ආසියාවේ අනෙක් රටවලට ඇති මෙවලමක්ද විය හැකිය.

මෙම සියලු වර්ධනයන්ගෙන් හෙළිවන්නේ ආසියාව තම නැගී සිටීමේදී පොදු දැක්මක් අනුව කටයුතු කිරීමට කෙතරම් අවශ්‍යතාවයක් පවතින්නේද යන්නයි. මීට සමීපතම අවස්ථාවක් වන්නේ ආසියාන් සංවිධානය 2015 දී පූර්ණ රාජ්‍යතාන්ත්‍රික සහ ආර්ථික ප්‍රජාවක්' බවට පත්වීමට ගෙන ඇති තීරණයයි. එහෙත් එය ආසියානු ජාතීන්ගේ උප කලාපයකට පමණක් සීමා වූවක් බව අමතක නොකළ යුතුය. ආසියාවට ද යුරෝපයේ දක්නට ඇති ආකාරයට පුළුල් කලාපීය ප්‍රයත්නයක අවශ්‍යතාවය පවතී. එහෙත් එය කීමට පහසු වුවත් සාක්ෂාත් කර ගැනීම පහසු නොවේ.

ශත වර්ෂ ගණනාවක් අප්‍රසන්න ආරවුල් පැවතියද යුරෝපීය අන්තර්ග්‍රහණය පිළිබඳ ව්‍යාපෘතිය කලාපයේ දේශපාලන නායකයන් ගේ දැක්ම හා ධෛර්ය අවශ්‍ය වූ පුළුල්තම ප්‍රයත්නයකි. එවැනි ප්‍රගතියක් ආසියාවට අත්කර ගැනීම බොහෝ දුරස්ථ වූ ඉලක්කයකි. ආසියාන් හවුල සහ තවත් කලාපීය හා ද්වි පාර්ශ්වික මුල පිරීම් කීපයක් හැරුණ විට සමස්ත ආසියානු කලාපයම අන්තර්ග්‍රහණය කර ගන්නා ප්‍රයත්නයක් මෙතෙක් බිහිවී නැත. ආරක්ෂාව සහ හමුදා කටයුතු පිළිබඳව කලාපීය සුළු සහයෝගිතාවයක් පවතී. භූමි ප්‍රදේශ පිළිබඳ ආරවුල් දිගු කලක තිස්සේම විසඳුමක් නැතිව පවතී. 'යුරෝපීය ව්‍යාපෘතිය' මෙන් නොව 'ආසියානු ව්‍යාපෘතියක්' සඳහා තම වෘත්තිය අභියෝගයට ලක් කිරීමට ඉදිරිපත් වූ දේශපාලන නායකයන් සිටින්නේ කීප දෙනකි. රටවල් හා කණ්ඩායම්, කලාපීය බලවතුන් දෙදෙනා වන චීනය සහ ඉන්දියාව කෙරේ ඇති බිය/සැකය හා අන්‍යොන්‍ය වශයෙන් ලබා ගතහැකි වාසි නිසා රටවල් දෙක අතර දෝලනය වෙති. ආරක්ෂාව සහ හමුදා කටයුතු පිළිබඳ

සහයෝගිතාවයක් ඇත්තේම නැති තරම්ය. වඩාත් වැදගත්ව, මෙම සියලු න්‍යාය පත්‍ර ප්‍රබල, නොකඩවා සිදුවන හා පුළුල් පිළිගැනීමක් පවතින ආකාරයෙන් ඉදිරියට ගෙන යෑමේ සමස්ත ආසියානු ආයතනික වැඩ පිළිවෙළක් සහ එකඟතා (යුරෝපා කොමිසමට සමාන) නොමැත. මින් ආසියාවේ පිබිදීම මොහොතකටවත් සාමකාමී භාවයෙන් අඩු සහ නම්‍යශීලී නොවන බවක් අදහස් වන්නේ නැති වුවද එය සමස්තයක් වශයෙන් නැගී සිටීමට කලාපය තුළ ඇති හැකියාව පිළිබඳ ප්‍රශ්න මතු කරයි.

යුරෝපීය අන්තර්ග්‍රහණය සාපේක්ෂ වශයෙන් පහසු වූයේ එහි ඉතිහාසය, සංස්කෘතිය, භාෂාව සහ (බොහෝ දුරට) දේශපාලන පද්ධතීන්ගේ පොදු භාවය නිසාය. අනෙක් අතට ආසියාව භූගෝලීය වශයෙන් ඇති පුළුල් ව්‍යාප්තියත් සංස්කෘතික හා දේශපාලන වශයෙන් ඇති විවිධත්වයත් නිසා එවැනි අන්තර්ග්‍රහණයක් ගැන ප්‍රකාශයක් කිරීම පවා දුෂ්කරය. නැගෙනහිර ආසියාවේ සමහර රටවල් ගෝලීය වශයෙන් ව්‍යාප්ත වෙමින් සමෘද්ධිමත්භාවයක් අත්කර ගන්නා අතර මධ්‍යම ආසියානු සහ දකුණු ආසියානු රටවල් දරිද්‍රතාවයේ සහ පසුගාමීත්වයේ ගිලී සිටිති. සමහර රටවල ශක්තිමත් හා විටෙක අත්තනෝමතික කීප දෙනකුගේ හඬ අභිබවා බොහෝ දෙනකුගේ හඬ මතුවෙන ප්‍රජාතන්ත්‍ර පවතින අතර අනෙකුත් රටවල නිර්ලජ්ජව ප්‍රජාතන්ත්‍රවාදී නොවන හෝ පැහැදිලිවම අත්තනෝමතික හෝ ඒකාධිපති පාලනයන් පවතී. ආර්ථික පද්ධතීන් ද පොදු ආකෘතියකට ගැලපෙන්නේ නැත. චීනයේ පවතින රාජ්‍ය ධනවාදය ජපානයේ හෝ තායිලන්තයේ ක්‍රියාත්මක ලිබරල් ධනවාදයට බෙහෙවින් වෙනස්ය. මේ අතර වියට්නාමය, සිංගප්පූරුව, මියන්මාරය හා ඇත්තෙන්ම ශ්‍රී ලංකාව වැනි රටවල මේ දෙයාකාරයේම ලක්ෂණ පවතී.

ශ්‍රී ලංකාවට ආසියානු පිබිදීමේ වාසි සහ අවාසි වශයෙන් ඉගෙන ගත හැකි පාඩම් බොහෝය. 2005 න් පසු ශ්‍රී ලංකාවේ ආර්ථික ප්‍රතිපත්තියේ සංවර්ධනය තුළ ප්‍රබල රාජ්‍ය මැදිහත්වීමක් පවතින නැගෙනහිර සහ අග්නිදිග ආසියානු ලක්ෂණ බොහොමයක් පිළිබිඹු වේ. මහජන යටිතල පහසුකම් ව්‍යාපෘතීවල රාජ්‍ය සහභාගිත්වය, රාජ්‍ය ව්‍යවසාය පෞද්ගලිකකරණය නවතා දැමීම, තෝරා ගත් දේශීය කර්මාන්තවලට සහන ලබා දීම වැනි පියවර මෙවැනි ස්ථාවරයක මූලික ලක්ෂණයි. නැගෙනහිර ආසියාවේ දක්නට ලැබුණු ආකාරයට මෙය පෙර නොවූ විරූ ප්‍රතිපත්තියක් නොවේ. බොහෝ ආසියානු රටවල් 'මූලික සිද්ධාන්ත නිවැරදි කිරීමේ' සම්මත නව සම්භාව්‍ය අර්ථ ගැන්වීම ඉක්මවා ගියහ. ව්‍යුහාත්මක ගැලපීම් ඇති කිරීමේ දී සහ ඔවුන්ගේ ආර්ථික වැඩි දියුණු කිරීමේ දී වඩාත් ක්‍රියාශීලී කාර්මික ප්‍රතිපත්තියක් අනුගමනය කළහ. ඔවුහු යටිතල පහසුකම් ව්‍යුහ ව්‍යාපෘතීන් ශූර ලෙස ප්‍රමුඛතාගත කොට ඒවායේ පිරිවැය ඵලදායිතාවය සහ කර්මාන්ත ප්‍රතිපත්තියට ගැලපීම තහවුරු කළහ. ඔවුහු අධ්‍යාපනය සහ කුසලතා සංවර්ධන ප්‍රතිපත්ති ඉලක්කර ගත් අනාගත වර්ධන අංශවලට උෆණ පූරණ වන ආකාරයෙන් සකස් කළහ. මේ අනුව නැගෙනහිර ආසියානු අත්දැකීම්වලින් ඉගෙන ගතහැකි වැදගත්ම පාඩම වන්නේ රජයේ භූමිකාව කාර්මික ප්‍රතිපත්තිය, යටිතල පහසුකම් සංවර්ධනය හා අධ්‍යාපනය යන අංශ හරහා උපාය මාර්ගිකව සුසංයෝගී විය යුතුය යන්නයි.

එහෙත් නැගෙනහිර ආසියානු රටවල් යොදා ගත් කාර්මික ප්‍රතිපත්ති ඒ ආකාරයෙන්ම අනුකරණය කිරීම අද ගැටලුසහගත බව ශ්‍රී ලංකාව පිළිගත යුතුය. එක අතකින් ගෝලීය වෙළඳ නියමයන් වෙනස්ව ඇත. මේ ආර්ථික අනුගමනය කළ පැහැදිලි ආරක්ෂණවාදය අද යොදා ගත නොහැකිය. දෙවැනිව බොහෝ රටවල එකම දේශපාලන පද්ධතියක් නැති නිසා රාජ්‍ය ප්‍රතිපත්ති සකස් කිරීමේ දී දැඩි පිවිසුමක් ගත හැකිය. නිදසුනක් වශයෙන් ඡන්දයෙන් තේරී පත්වන නිලධාරීන් සමග සමීප සම්බන්ධතා ඇති මහා ව්‍යාපාර එකතුන් - චයෙබොල් - ඇති දකුණු කොරියානු ආදර්ශය අද පහසු නොවේ. තුන්වැනිව වර්ධනය දිරි ගැන්වීමට රාජ්‍ය සහාය ලබා දීමට අරමුණු කරන බොහෝ රාජ්‍ය වලට එසේ කිරීමට අවශ්‍ය බදු ප්‍රතිපත්ති අවකාශයක් නැත. නිදසුනක් වශයෙන් දකුණු කොරියාවට බැර සහ රසායන කර්මාන්ත ආරම්භ කිරීමේ ආයෝජන වශයෙක් එක්සත් ජනපදයෙන් ගෙවන ලද යුද හානි පූරණ මුදල් සහ සහන වශයෙන් ලැබුණු ආධාර මුදල් විශාල ප්‍රමාණයක් යොදා ගැනීමට හැකි විය. බොහෝ රටවලට කුමන කර්මාන්ත වලට සහාය දිය යුතුද, ප්‍රවර්ධනය කළ යුතුද යන්න දක්ෂ ලෙස හා කාර්යක්ෂම ලෙස හඳුනා ගැනීමට අවශ්‍ය කරන තාක්ෂණ හැකියාවන් නොමැති විය හැකිය. ශක්තිමත් සහ දුර්වල සමාගම් සියල්ලටම රාජ්‍ය සහාය ලබා දුන් ලතින් ඇමරිකානු රටවල මෙන් නොව ආසියාවේ ඉහළ හැකියාවක් ඇති අය කලින්ම හඳුනාගෙන ඔවුන්ට ආධාර ලබා දීම සිදුවිය. එවැනි සමාගම් ඉතා උසස් තත්වකට පත්විය. එහෙත් මෙම ප්‍රතිපත්තිය ක්‍රියාත්මක කිරීමේ දී කිසියම් වැරැද්දක් වුවහොත් සම්පත් වෙන් කිරීමේ බරපතළ වැරැද්දක් වන අතර එය ඉතා හොඳ තත්වයක් යටතේ ගජ මිතුරු ධනවාදය විය හැකි අතර ඉතා නරක තත්වයක් යටතේ ඉමහත් අකාර්යක්ෂමතාවයකට හේතු විය හැකිය.

බොහෝ ආසියානු රටවල් මෙන් ශ්‍රී ලංකාවද වයස්ගත ජනසංඛ්‍යා ශ්‍රේණියට ඇතුළු වීමට ආසන්නයේ සිටී. වසර 20 කටත් වඩා අඩු කාලයකදී ශ්‍රී ලංකාවේ වයස්ගත ජන සංඛ්‍යාව මුළු ජන සංඛ්‍යාවෙන් සියයට 20 කට වඩා වැඩිවිය හැකි අතර එමනිසා සෑම හතර දෙනකුගෙන් එක් අයෙකු විශ්‍රාමිකයෙකු වනු ඇත. ඉන් සුභ සාධන මූල්‍යනය පිරිවැය මෙන්ම වැඩ කරන වයසේ ජන සංඛ්‍යාවේ අඩුවීම නිසා වර්ධන වේගය පහත වැටීමේ පිරිවැය ආර්ථිකයට ඉමහත් බරක් වනු ඇත. මෙම වෙනස්වීම සිදුවෙමින් පවතින ජපානය වැනි රටවල දක්නට ලැබෙන ආකාරයට විශාලම අනතුර වන්නේ සුභ සාධන මූල්‍යනයයි. වයසට අදාල සමාජ ආරක්ෂණ වියදම් පසුගිය වසර 20 තුළ විශාල වශයෙන් ඉහළ ගොසිනි. ශ්‍රී ලංකාව දැන් සිටම සුභ සාධන මූල්‍යනය පවත්වා ගතහැකි බවත්, ආර්ථිකය කෙරේ බරක් නොවන බවත් සහතික කිරීමට ශක්තිමත් සමාජ ආරක්ෂණ වැඩ සටහන්වල ආයෝජනය කළ යුතුය. දැනට පවතින සමාජ ආරක්ෂණ වැඩ සටහන් ප්‍රමාණවත්ව මූල්‍යනය වී නැත. නැතිනම් එළඹෙන ජන විද්‍යාත්මක වෙනස්වීමට කාර්යක්ෂමව මුහුණ දීමට ආවරණ සහ සංගතභාවයක් නැත.

සෞඛ්‍ය අංශයද වයස්ගත වන ජන සංඛ්‍යාවේ වර්ධනය වන සෞඛ්‍ය අවශ්‍යතා වලට මුහුණ දීමට සකස් විය යුතුය. පවතින සෞඛ්‍ය රැකවරණ පද්ධතිය මෙම වෙනස්කම්වලට ගැලපෙන ආකාරයට ඉදිරියට ගොස් නැත. මෙම ප්‍රශ්නය නොවිසඳුන හොත් වයස්ගත වන ජනතාවට සෞඛ්‍ය වියදම් පෞද්ගලිකව දරා ගැනීමට සිදුවේ. වයස්ගත වන ජනතාවගේ සමාජ සුභ සාධන අවශ්‍යතා ඉටු කිරීමේ දී ඒවා මූල්‍යනය කිරීම සඳහා ශ්‍රී ලංකාවේ ආර්ථික වර්ධනය ද සිදු විය යුතුය. වැඩ කරන වයසේ ජන සංඛ්‍යාවේ පහත වැටීමත් සමග මෙය ගැටලුකාරී විය හැකිය. එමනිසා ස්ත්‍රීන්ට වැඩියෙන් ශ්‍රම බලකායට එක්වීමට දිරි ගැන්වීම, සේවයට බඳවා ගැනීම අධෛර්ය කරන බාධාකාරී කම්කරු නීති නැවත විමසා බැලීම, විශ්‍රාමිකයන්ට ඵලදායී ක්‍රියාකාරකම්වල යෙදීමට අවස්ථා සැලසීම සහ ඉහළ යන යැපුම් අනුපාතයට මුහුණදීම සඳහා දැනට වැඩ කරන ජනතාව වඩාත් ඵලදායී කිරීම කෙරේ ප්‍රතිපත්ති සැලසුම්කරුවන්ගේ අවධානය යොමුවිය යුතු තීරණාත්මක ක්ෂේත්‍රයි.

ජනතාවගේ ඵලදායීතාව සහ කුසලතා නගා සිටුවීමේදී ඉතාමත් ආසන්න ලක්ෂණවලදී පවා ශ්‍රී ලංකාවට ආසියානු ආර්ථිකයන්ගෙන් ඉගෙන ගැනීමට බොහෝ දේ ඇත. ආසියානු අධ්‍යාපන පද්ධතියේ සාර්ථකත්වය රඳා පවතින්නේ මනාව සිතා බලා සහ නිරන්තරයෙන්ම වැඩි දියුණු වන උපාය මාර්ගයක් මතය. තුලනාත්මක විග්‍රහයකින් මතුවන සාර්ථකත්වයේ තීරණාත්මක සාධකවලින් සමහරක් වන්නේ ගුරුවරුන්ගේ ගුණාත්මකභාවය වැඩි දියුණු කිරීමට යොදා ගත් උපාය මාර්ග සහ ගුරු වෘත්තියට දක්ෂතම අය ආකර්ෂණය කර ගැනීම, රජය විසින් වැය කරන ලද මුදලට සරිලන ආකාරයේ වගවීම සහ ක්‍රිකාරිත්වය තහවුරු කරන අතර පාසල් පද්ධතිය, විෂයධාරව සහ ඉගැන්වීමේ ක්‍රමවේද වැඩි දියුණු කිරීම සහ අධ්‍යාපනයට (විශේෂයෙන්ම පාසල්වලට) වෙන් කරන අයවැය ප්‍රතිපාදන වැඩි කිරීම යනාදියයි. ශ්‍රී ලංකාව මෙම සියලු කරුණු අතින් පසුගාමී වන අතර ඊට මූලික වශයෙන් හේතු වන්නේ කළමනාකරණ සහ සම්පත් (ගුරුවරුන් හෝ මුදල්) වෙන් කිරීමේ දුර්වලතා, වගවීමක් නොමැතිවීම සහ අධ්‍යාපන ක්‍රමයේ විවිධ මට්ටම්වල පවතින පාලන ක්‍රමයේ දුර්වලතායි.

නාගරික ජන අනුපාතය සියයට 18 ක් පමණ වූ අඩු ශ්‍රී ලංකාව අනෙකුත් ආසියානු රටවල් හා සසඳන විට නාගරික කරණයෙන් අඩු වුවද වඩාත් වේගයෙන් නාගරිකකරණයත් සමග විශේෂිත වූ අභියෝග ඉදිරිපත් වෙනු ඇත. සමාජයීය යටිතල පහසුකම්වල කෙරෙන ආයෝජන පුළුල් ප්‍රදේශයක පැතිර තිබීම හා කාර්මික ක්‍රියාකාරකම් බස්නාහිර පළාතෙන් බැහැරට ගෙන යෑමේ මුලපිරුමත් නිසා දිස්ත්‍රික්ක කීපයක හැර ශ්‍රී ලංකාවේ ප්‍රබල නාගරික කරණයක් දක්නට නැත. වෙනත් ආසියානු රටවල මෙන් ග්‍රාමීය ජනතාව විශාල වශයෙන් නගරවලට ගලා ඒමේ ප්‍රවනතාවයක් ද දැකිය නොහැකිය. ඊට හේතු දෙකක් දැකිය හැකිය. එක අතකින් ශ්‍රී ලංකාවේ ග්‍රාමීය දරිද්‍රතාවය වෙනත් බොහෝ ආසියානු රටවල මෙන් තියුණු නැති අතර සෞඛ්‍යය වැනි සුභ සාධන සේවා රට පුරාම හොඳින් ව්‍යාප්තව පවතී. අනෙක් අතට බස්නාහිර පළාතේ නගර වානිජ වශයෙන් වර්ධනය වුවද එම වර්ධන ප්‍රමාණය කැපී පෙනෙන ආකාරයෙන් සංක්‍රමණිකයන් ආකර්ෂණය කිරීමට තරම් නොවීම ද විට හැකිය. ඊට වෙනස්ව චීනයේ දකුණේ වෙරළබඩ නගරවලට ග්‍රාමීය ජනතාව විශාල වශයෙන් සංක්‍රමණය විය. ඒ එම ප්‍රදේශයේ අපනයනය සඳහා නිෂ්පාදන පහසුකම් විවෘතවත්ම ඉන් ගම්බදව උපයාගත හැකි ආදායමට වඩා වැඩි ආදායමක් උපයාගත හැකිවීම නිසාය.

කෙසේ වුවත් යුද්ධයෙන් පසුව වාර්තා වූ වර්ධනය හා මධ්‍යම ප්‍රමාණයේ ආදායම් ලබන තත්වයට පත්වීමත් සමග ආදායම්, ජීවන රටා සහ අපේක්ෂා වෙනස්වන්ම, නාගරික කරණයේ ගැටලු ප්‍රතිපත්තිමය සැලකිල්ලට ලක්

වූ කාරණයක් විය. ආසියානු රටවල අත්දැකීමෙන් ශ්‍රී ලංකාවට මෙම වෙනස්වීම් හොඳින් කළමනාකරණය කරන්නේ කෙසේද යන්න අවබෝධ කරගැනීමට හැකි වනු ඇත. පිටස්තර කම්කරුවන් නගරවල ඵලදායී රැකියාවන්ට සම්බන්ධ කිරීමෙන් නාගරිකකරණය පහසු කෙරෙන ආකාරයට නාගරික මහජන ප්‍රවාහනයේ පෙර සිටම ආයෝජනය කිරීමේ වැදගත්කම ජපන් ආදර්ශයෙන් පෙන්නුම් කරයි. කොළඹ සහ අනෙකුත් ප්‍රධාන නගරවල නාගරික ජනතාව දිනපතාම මුහුණ දෙන දැඩි මාර්ග තදබදයෙන් පෙන්නුම් කරන ආකාරයට ශ්‍රී ලංකාව දැනටමත් ප්‍රමාද බව පෙනේ. නාගරිකකරණයේ ප්‍රබල ඒකරාශීවීම් පවතින බව ආසියානු නගර බොහොමයක දැකිය හැකිය. කර්මාන්ත ඒකරාශී වීමෙන් කම්කරුවන්ගේ ආදායම් වැඩිකොට ඵලදායිතාවය සහ නවීකරණය දිරි ගැන්විය හැකිය. ශ්‍රී ලංකාවේද මැලේසියාව මෙන් කර්මාන්ත සහ සෘජු විදෙස් ආයෝජන යොමු කළ යුතු නාගරික ප්‍රදේශ හඳුනා ගැනීමෙන් ඒ වටා බල ශක්ති, නිවාස සහ පරිසර කළමනාකරණය වැනි යටිතල පහසුකම් ගොඩනැගීමෙන් අවශ්‍යතාවයක් පවතී. ශ්‍රී ලංකාව මෙම ක්ෂේත්‍රයට සාපේක්ෂ වශයෙන් අලුත් නිසා සම්පූර්ණ සහ විරස්ථායී නාගරිකකරණය වඩාත් හොඳින් සැලසුම් කිරීමේ දී සහ ගොඩනැගීමේ දී වාසිසහගත තත්වයක සිටියි.

මහ කොළඹ බොහෝ ප්‍රදේශවල නාගරික පුනරුත්ථාපන වැඩ සටහන් කඩිනමින් ආරම්භ කර ඇති නමුත් ජනතාව නුහුරු ප්‍රදේශවල නැවත පදිංචි කිරීමේදී ඔවුන්ගේ සුභ සාධනය, පවතින සමාජ සම්බන්ධතා බිඳවැටීමෙන් ඇතිවිය හැකි සමාජ ගැටලු, නැවත පදිංචි කිරීම කම්කරුවන්ගේ (විශේෂයෙන්ම නොවිධිමත් අංශයේ කම්කරුවන්ගේ) ජීවන මාර්ග කෙරේ ඇති කරන බලපෑම් ගැන නිසි අවධානය යොමු කළ යුතුය. දැනට කෙරීගෙන යන නාගරික පුනරුත්ථාපන කටයුතු බෙහෙවින් මධ්‍යගතව සැලසුම් කොට ක්‍රියාත්මක කරන බවක් දක්නට ඇති අතර ඒ සඳහා අවශ්‍ය මුදල් ලබා ගැනීමේ තේරුමක් පවතින නමුත් මෙම උපාය මාර්ගයේ පවතින යහපාලන බලපෑම් පිළිබඳවද සැලකිල්ල යොමු කිරීම වැදගත්ය. සියලුම නාගරික පුනරුත්ථාපන කටයුතු මධ්‍යගත පාලනයකින් කළ යුතු නැත. මහ කොළඹ ප්‍රදේශයෙන් බැහැර ඇති මහ නගර සභා වැනි පළාත් පාලන ආයතන එම ප්‍රදේශවල වඩාත් හොඳ නාගරික පහසුකම් සැපයීමේ දී බලගැන්වීමේ අවශ්‍යතාවයක් පවතී.

බොහෝ ආසියානු රටවල පවතින ආකාරයේ පරිසර දූෂණ ගැටලුවලට මුහුණ නොදෙනු සඳහා ශ්‍රී ලංකාව පරිසර ආරක්ෂාව සහ ජෛව පද්ධති පරිහානිය වැළැක්වීමට ප්‍රතිපත්ති සහ ආයතනික රාමු ශක්තිමත් කළ යුතුය. දූර්වල නීති වඩාත් ශක්තිමත් කිරීම, දැනටමත් සකස් කර ඇති සවිස්තරාත්මක සැලසුම් ක්‍රියාත්මක කිරීම, උපරිම ඵලය ලබා ගැනීම සඳහා අදාල ආයතන අතර වඩාත් හොඳ සම්බන්ධීකරණය සහ කාර්මික ක්‍රියාකාරකම්වල පාරිසරික බලපෑම අවම කිරීමේ නව මාර්ග සොයා ගැනීම තීරණාත්මක උපාය මාර්ගයි.

පශ්චාත් අර්බූද සමයේ පහසු ණය ලබා ගැනීමේ මාර්ග අවසන්වීම සහ ආසියාවේ ආර්ථික වැනි මතුවෙමින් පවත්නා වෙළඳ පොළ ආර්ථිකයන්ට ගලා එන අරමුදල් අඩුවීමත් සමගම සංවර්ධනයේ ඊළඟ රැල්ල දිරිමත් කිරීමට මුදල් සහ ආයෝජන ආකර්ෂණය කර ගැනීම සඳහා වර්ධනය ඉහළ නංවන ව්‍යුහාත්මක ප්‍රතිශෝධන කෙරේ වඩාත් හොඳින් අවධානය යොමු කිරීමට රටවලට සිදුවනු ඇත. ශ්‍රී ලංකාවට ද මුහුණ දීමට ඇත්තේ සමාන අභියෝගයකටය. යුද්ධයෙන් පසු කාලීන වර්ධන පිබිදීම පැහැදිලිවම අවසන්වීමත්, අත්‍යවශ්‍ය එහෙත් වියදම් අධික යටිතල පහසුකම් ණයට ගත් අරමුදල් වලින් සිදු කිරීම නිසා විරස්ථායී වර්ධන ගමන් මාර්ගයක් තහවුරු කිරීමට තීරණාත්මක ප්‍රතිශෝධන සිදු කිරීම තවදුරටත් නොසලකා සිටිය නොහැකිය. ආසියානු අත්දැකීම් කිසියම් පාඩමක් ඇත්නම් ඒ නිවැරදි ප්‍රතිපත්ති ක්‍රියාත්මක වන සහ අවශ්‍ය විට ප්‍රතිශෝධන සිදු කරන මූලික වශයෙන් ප්‍රබල ආර්ථිකයන්ට බොහෝ වූ ගෝලීය කුණාටු සාර්ථකව පසු බෑමට හා ආර්ථික උන්නති ගමන් මාර්ගයේ රැඳී සිටීමටත් හැකි බවය. ඇත්තෙන්ම ඊට ඉවහල් වූ නෛසර්ගික වාසි සහගත තත්වයන් ද තිබිණ. නිදසුන් වශයෙන් වාසිදායක ජනවිද්‍යාත්මක ව්‍යුහය, සංවර්ධනයට නැඹුරු වූ රාජ්‍ය පාලන ආකෘති සහ සීඝ්‍ර කාර්මික කරණය වෙනුවෙන් පාරිසරික බලපෑම් නොසලකා හැරීම යනාදිය දැක්විය හැකිය. ශ්‍රී ලංකාවේ තත්වයන් ඊට වෙනස්ය. ආසියානු ගමන් මාර්ගය එලෙසින්ම අනුකරණය පහසු හෝ අවශ්‍ය කටයුත්තක් නොවේ. එහෙත් ආසියානු පිබිදීමෙන් ශ්‍රී ලංකාවේ සංවර්ධන ගමන් මාර්ගයට පමණක් නොව වඩාත් හොඳින් ඊට ගැලපෙන්නේ කෙසේදැයි ඉගෙන ගැනීමට යොදා ගත හැකි අර්ථදායී පාඩම් ද ඇත.

එහි ශෛලිය හා පරිමාණය ගැනත්, එහි ස්වභාවය සහ අභිප්‍රාය ගැනත්, විවාද පැවතිය හැකි වුවත් ආසියානු පිබිදීම යථාර්ථයක් බවත් ඉදිරි දශක ගණනාවක තීරණාත්මක ලක්ෂණයක් බවත් අමතක කළ නොහැකිය. පිබිදෙන ආසියාවට ගැට ගැසීමට අපේක්ෂාවෙන් ශ්‍රී ලංකාව ඊට වඩාත් හොඳින් අනුගත වන්නේ කෙසේදැයි

ඉගෙන ගත යුතුය. පිබිදෙන ආසියාව සෙසු ලෝකය හා යා කෙරෙන වැදගත් භූගෝලීය කේන්ද්‍රීය ස්ථානයක ශ්‍රී ලංකාව පවතින බව අමතක කළ නොහැකිය. ශ්‍රී ලංකාවට බටහිරෙන් ඇති රටවල් - අප්‍රිකාව හෝ මැද පෙරදිග හෝ සාම්ප්‍රදායික හවුල්කරුවන් වන බටහිර අමතක කළ නොහැකිය. බොහෝ දෙනකු සිතන ආකාරයට යුරෝපය හෝ උතුරු ඇමරිකාව සමස්ත පිරිහීමකට ලක්ව නැත. ඒවා නව්‍යකරණය, නිර්මාණශීලීත්වය, පරිභෝජනය හා ගෝලීය නායකත්වය පිළිබඳ කේන්ද්‍ර ලෙස තවත් කලක් පවතිනු ඇත. මෙය තේරුම්ගැනීමටත් ඒ අනුව ගමන් මග සකසා ගැනීමටත් අපොහොසත්වීම ශ්‍රී ලංකාවේම විනාශයට හේතු විය හැකිය.

1. கொள்கை நோக்கு

2009 மே மாதமாகும் போது ஆயுதப் போராட்டம் நிறைவடைந்து ஐந்து வருடங்கள் நிறைவடந்துள்ள போது இலங்கையின் பொருளாதாரம் தற்பொழுது நிலையான பொருளாதார வளர்ச்சிப் போக்கிற்கு அடியெடுத்து வைத்துள்ளது. யுத்தத்தின் பின்னரான காலத்தில் இலங்கை ஆபத்து நிறைந்த வெளிநாட்டு மீளச் செலுத்தல் நிலைமையிலிருந்து 2012 ஆம் ஆண்டில் சர்வதேச நிதி நிறுவனத்தின் உதவியைப் பெற்றுக் கொள்ளும் வாக்குறுதி ஒப்பந்தமொன்றினை வெற்றிகரமாக (Stand-by Agreement) ஏற்படுத்திக் கொள்ள முடிந்துள்ளது. 2000 – 2009 ஆம் ஆண்டு காலப் பகுதியில் நூற்றுக்கு 5.5 சதவீதமாக இருந்த மொத்தத் தேசிய உற்பத்தியானது யுத்தத்தின் பின்னரான கால எல்லையில் 7.5 சதவீதமாக இருந்ததுடன் 2014 ஆம் ஆண்டில் நூற்றுக்கு 7 சதவீதத்தை விஞ்சியுள்ளதாக கணக்கிடப்பட்டுள்ளது. பணவீக்க நிலைமையானது பத்திலும் குறைந்த குறை மட்டத்தில் ஐந்து வருடங்கலாக பேணிச் செல்கின்றமை 2014 ஆம் ஆண்டு பெப்ருவரி மாதத்தில் உறுதிப்படுத்தப்பட்டுள்ளது. தற்பொழுது இந்த நாட்டிற்கு சர்ச்சைகள் நிறைந்த ஐரோப்பிய நாடுகள் பெற்றுக் கொள்ள முடியாத அளவில் குறைந்த வட்டி வீதத்தில் சர்வதேச மூலதனச் சந்தையில் கடன் பெறும் இயலுமை காணப்படுகின்றது. தெளிவாக வெளிப்படுகின்ற பரந்த பிரபல்யமான உட்கட்டமைப்பு வசதிகளின் நிர்மாணிப்புக்கள் வேகமாக நடைபெறுவதுடன் நாட்டிற்கான வெளிநாட்டு முதலீட்டினை கவர்ந்து கொள்ளும் புதிய போக்கொன்று மற்றும் வலயத்தில் பிரபல்யமான பொருளாதார கேந்திர முக்கியத்துவம் மிக்க இடமாக மாறும் நெருங்கிய நிலையில் உள்ளது. எனினும் பொருளாதாரம் யுத்தத்தின் பின்னரான சாதகமான நிலைமையினை முழுமையாக அடைந்து கொள்ள இயலாது போனமை மற்றும் அம் மட்டத்திலும் குறைந்த மட்டத்தில் செயற்படுகின்றமை பற்றிய கவலையும் நிலவுகின்றது.

இது தொடர்பாக தெளிவாகத் தெரிகின்ற அடையாளமாக இருப்பது நேரடி வெளிநாட்டு முதலீடுகளில் குறைவான வளர்ச்சியைக் காட்டுகின்ற தனியார் துறை முதலீடுகளில் நிலவுகின்ற மந்த நிலையாகும். கடந்த 18 மாத கால எல்லை பூராகவும் உள்நாட்டு வெளிநாட்டு முதலீடு மற்றும் தனியார் பிரிவின் கடன் பெறல் இயலுமை மிகவும் குறைந்த மட்டத்தில் காணப்படுவதனை அவதானிக்க முடிகின்றது. 2012 ஆம் ஆண்டு திசம்பர் மாதத்தில் நிதிக் கொள்கையினை இலகுபடுத்தப்பட்டதனைத் தொடர்ந்து 2013 ஆம் ஆண்டு பூராகவும் 2014 ஆம் ஆண்டு வரையும் காணப்பட்ட குறைந்த வரிச் சதவீதம் தனியார் துறை சார்பாக அதிக அளவில் கடன் வழங்கும் அளவிற்கு மாற்றம் அடையவில்லை. 2013 ஆம் ஆண்டில் கடன் வளர்ச்சி வீதம் 7.5 சதவீதமாக தேக்க நிலையில் காணப்பட்டதுடன் 2014 ஆம் ஆண்டு ஏப்பிரல் மாதமாகும் போது அது நூற்றுக்கு 3.3 சதவீம் வரை வீழ்ச்சியடைந்துள்ளது.

2013 இல் மொத்த தேசிய உற்பத்தியானது நூற்றுக்கு 7.3 சதவீதமாக இருக்கும் என கணக்கிடப்பட்டுள்ளது. எனினும், மொத்த பொருளாதார குறிகாட்டியானது இலங்கையின் பொருளாதாரத்தில் மாற்றமடைந்து வருகின்ற போக்கினை முழுமையாக உள்வாங்கிக் கொள்வதற்கு இயலுமை கிடைத்துள்ளதா என்ற வினா எழுந்த வண்ணம் உள்ளது. உதாரணமாக நிர்மாணத் துறை 2013 ஆம் ஆண்டில் 14.4 சதவீத வளர்ச்சியினைக் கொண்டிருந்த போதும் சீமேந்து விற்பனை வளர்ச்சி 2.9 சதவீதமாகவே காணப்படுகின்றது. நிர்மாணத் துறை 2012 ஆம் ஆண்டில் நூற்றுக்கு 21.6 சதவீதமாக அதிகரிக்கின்ற போது சீமெந்து விற்பனை நூற்றுக்கு 28.7 சதவீதமாக காணப்பட்டது[1]

யுத்தத்தின் பின்னரான இலங்கையின் பொருளாதாரத்தில் மாற்றமடைந்து வருகின்ற

கட்டமைப்பானது இதனிலும் பார்க்க பகுதி அளவில் காரணமாக இருக்க முடியும். கடந்த வருடங்களின் வளர்ச்சியில் அதிக அளவில் தெளிவாகக் தெரிகின்ற மூல விடயமாக இருப்பது உள்நாட்டு வர்த்தகம் சாராத் துறையாகும். இங்கு பிரதானமாக இருப்பது மொத்த மற்றும் சில்லறை வியாபாரம், நிர்மாணம் மற்றும் பொது வசதியளிப்புக்கள் போன்ற வர்த்தமல்லாத கைத்தொழில் செயற்பாடுகளாகும். அரசின் செயற்பாடுகள் கருதத் தகு அளவில் காணப்படுகின்ற பிரிவுகளும் காணப்படுகின்றன. அதே வேளை தனியார் துறையின் கடன் தொடர்பாகக் காணப்படுகின்ற கேள்வி மந்தப் போக்கில் காணப்படுகின்றமை அசாதரண நிலையன்று. பாரிய வளர்ச்சி காணப்படுகின்ற துறைகளில் தனியார் முதலீடு தொடர்பான சந்தர்பங்கள் ஒப்பீட்டு அளவில் வரையறைக்குட்பட்டதாகும்.

புள்ளிவிபரங்களுக்கிடையில் நிலவுகின்ற பொருத்தப்பாடின்மைக்கு மேலுமொரு காரணியாக இருப்பது நடைபெற்றுக் கொண்டிருக்கின்ற பொருளாதாரச் செயற்பாடுகளின் தன்மை நிலவுகின்ற தேசிய கணக்கீட்டு முறைமைக்கு முழுமையாக அகப் படாமையாகும். இதனை சீர் செய்வது தொடர்பாக அரசாங்கத்தின் தொகை மதிப்புப் புள்ளிவிபரத் திணைக்களம் தேசியக் கணக்குகளைத் தயார் செய்வதனை திருத்தம் செய்ய வேண்டியது எவ்வாறு மற்றும் நிலவுகின்ற முறைமையை இற்றைப்படுத்த வேண்டியதன் முக்கிய முயற்சியில் ஈடு பட்டுக் கொண்டிருக்கின்றது. தேசிய கணக்குகளைத் தயார் செய்தல் "மீண்டும் அடிப்படையாக்கிக் கொள்ளல்" அதாவது பொருளாதாரத்தில் பலதரப்பட்ட துறைகளின் கூட்டு மற்றும் அளவினை வெளிக்காட்டுவது மிக நெருங்கிய ஆண்டுகளில் பொருளாதார நிலைமை பற்றிய நோக்கொன்றினைப் பெற்றுக் கொள்ளல், தரவுகளை சேகரித்துக் கொள்ளல் மற்றும் பகுப்பாய்வுகளை மேம்படுத்தும் முயற்சிகள் தொடர்பான நம்பிக்கையிற்கு வலுச் சேர்த்தல் திடமான காரணியாக உள்ளது.

2014 ஆம் ஆண்டின் இரண்டாவது அரையாண்டில் (ஒரு வருடத்திற்கு அண்மித்த காலத்தில்) வட்டி வீதம் குறைந்த மட்டத்தில் நிலவுகின்றமையினால் தனியார் துறையின் கடன் உயர்வடையும் என எதிர்பார்க்கப்படுகின்றது. தனியார் கம்பனிகள் முதலீடுகளை விஸ்தரிப்புச் செய்தல் தொடர்பாக மிகவும் குறைந்த மட்டத்தில் காணப்படுகின்ற கடன் பெற்றுக் கொள்ளும் கிரயத்திற்கு பிரதிபலிப்புக் காட்டுகின்றமை தொடர்பான அடையாளங்கள் தற்பொழுது புலனாகின்றது. எனினும், 2014 ஆம் ஆண்டின் இறுதிக் பகுதியில் வட்டி வீதமானது குறைந்த மட்டத்தில் காணப்படுகின்றமையினால் சொத்துக்களின் பெறுமதி உயர்வடைதல் பற்றியும் மற்றும் வட்டி வீதம் நீண்ட காலமாக குறைந்த மட்டத்தில் காணப்படுமாயின் இலகுபடுத்தப்பட்ட நிதிக் கொள்கையில் பணவீக்க அழுத்மொன்றை ஏற்படுத்தும் ஆபத்து பற்றியும் அதிகாரிகள் கவனம் செலுத்துதல் வேண்டும்.

கைவிட வேண்டியது நிதிக் கொள்கையினை பரந்த அளவில் இலகுபடுத்தும் முதலாவது சுற்றின் போது 2010 / 11 ஆம் ஆண்டு காலப் பகுதியைப் போன்று நுகர்வு தொடர்பான கடன் தொடர்பான கேள்வியில் அதிகரிப்பொன்றை மீண்டும் ஏற்படுத்தலாகும். அது சர்வதேச தங்கத்தின் விலை வீழ்ச்சியடைந்ததைத் தொடர்ந்து தடைப்பட்ட 'அடகு வைப்பதில் ஏற்பட்ட வளர்ச்சி' உடன் தொடர்பு பட்டது. அண்மித்த மீளச் செலுத்தல் நிலுவைச் சச்சரவினை தவிர்ப்பது தொடர்பாக 2012 ஆம் ஆண்டில் படிமுறைகள் பல எடுக்கப்பட்டன. எனவே ஏற்றுமதித் தீர்வை வரியினை மீண்டும் திருத்துதல், செலாவாணி சதவீத முகாமையில் மாற்றமொன்று, வங்கியினை அடிப்படையாகக் கொண்டு கடன் வழங்கும் உச்ச அளவிற்கு வரையறை இடல் போன்ற விடயங்களாகும். இச் சந்தர்ப்பத்தில் முழு அளவிலான பொருளாதாரத்தின் நிலையற்ற தன்மை தொடர்பான அடையாளங்கள் வெளிப்படுகின்ற போது முன் கூட்டியே மதி நுட்பமான கொள்கை ரீதியான நடவடிக்கைகளை மேற்கொள்வோமாயின் கொள்கை சூழலில் மாற்றமடையாத தன்மையினை ஏற்படுத்துவதுடன் தனியார் துறை தொடர்பாக முதலீடு செய்வதற்கும் ஊக்கம் வழங்குவதாகவும் அமையும்.

2014 ஆம் ஆண்டின் இறுதி அரைப் பகுதியின் போது கடன்கள் தொடர்பாக உள்ள கேள்வியினை மீண்டுமொரு முறை அதிகரிப்பதுடன் வட்டிச் சதவீதத்தில் உயர்வொன்று ஏற்பட முடியும். இது எளிமையாக சமநிலையினை ஏற்படுத்தல் வேண்டும். இலங்கையானது தமது வரிப் பற்றாக் குறையினை நிதியீட்டம் செய்தல் தொடர்பாக திறைசேரி

உண்டியல்கள் மற்றும் திறைசேரி பிணையங்களின் விற்பனை தொடர்பாக அதிகமாக விசேடமான முதலீட்டின் படி தங்கியுள்ளது. வட்டி வீதம் மேலும் வீழ்ச்சியடையுமாயின் திறைசேரி பிணையங்களின் வட்டி வருமானம் வெளிநாட்டு முதலீடுகளுக்கு அவ்வளவு தூரம் கவர்ச்சிகரமாக இருக்க முடியாது. திறைசேரி பிணையங்களின் பயன்கள் மற்றும் அரச பிணையங்களின் பயன்களுக் கிடையில் காணப்படுகின்ற பரம்பல் மிகவும் குறைந்த மட்டத்திற்கு வருமாயின் பண அலகின் ஆபத்து நிலைமை உயர் வடைந்துள்ளது என கருதுகின்ற வெளிநாட்டு முதலீடொன்றாயின் முதலீடுகளை விற்பனை செய்வதற்கு நடவடிக்கை எடுக்கப்படும். இல்லையாயின் குறைந்த பட்சம் ரூபா திறைசேரி உண்டியல்கள் மற்றும் பிணையங்கள் எதிர்காலத்தில் முதலீட்டினை ஊக்கப்படுத்துவதிலிருந்து தவிர்க்கப் படும். இது தற்பொழுது நடைபெற்றுக் கொண்டிருக்கின்ற அதே போன்று அரசாங்கத்திற்கு அத்தியவசியமான மூலதனத்தினை சேகரிப்பதற்கு பாதகமாக தாக்கம் செலுத்தும்.

வட்டிச் சதவீதம் உயர்வடைவதற்கு ஏதுவாக இருக்கின்ற மேலுமொரு காரணியாக இருப்பது ஐக்கிய நாடுகளின் விசேடமான நிதி நடவடிக்கைகளை (ஐக்கிய அமேரிக்கவின் பெடரல் ஒதுக்கத்தினை போதியளவில் இலகுபடுத்தல்) நீக்கிக் கொள்வதாகும். இதனுடன் தொடர்புடைய ஐக்கிய அமேரிக்கவின் பொருளாதாரத்தில் உற்பத்தியானது இடைவிடாது உயர்வடை-கின்றமையினால் பூகோள வட்டிச் சதவீதம் உச்சம் அடையும் பெறுபேறொன்றாக இலங்கையில் சர்வதேச கடன் பெறும் கிரயம் உயர்வடைந்துள்ளது.

வெளியக நடைமுறைக் கணக்கிலிருந்து எழுகின்ற பாரிய அழுத்தமொன்று இன்மையினால் தற்பொழுது ரூபாவின் பெறுமதி நிலையாகக் காணப்படுகின்றது. ஏற்றுமதிச் செலவீனத்தில் மந்தமான அதிகரிப்பு மற்றும் இணைந்த ஏற்றுமதி வருமானம் சிறந்த நிலைமையிற்கு திரும்பியிருத்தல், உள்ளீர்ப்பு வருமானங்கள் பாரிய அளவில் அதிகரித்தல் (முன்னைய வருடங்களிலும் பார்க்க குறைவாக இருந்த போதும்) சுற்றுலா வருமானம் பாரிய அளவில் வளர்ச்சியடைதல் போன்ற சகல விடயங்களும் நடைமுறைக் கணக்கின் பற்றாக்குறையினை குறைவடையச் செய்வதற்கு காரணியாக அமைந்துள்ளது. 2012 ஆம் ஆண்டில் தேசிய உற்பத்தியில் நூற்றுக்கு 6.6 சதவீதமாக இருந்த மொ.தே.உ. ஆனது 2013 ஆம் ஆண்டில் நூற்றுக்கு 3.9 சதவீதம் வரை வீழ்ச்சியடைந்ததுடன் 2014 ஆம் ஆண்டில் மேலும் வீழ்ச்சியடைவதற்கு வாய்ப்புள்ளது. 2014 ஆம் ஆண்டின் முதற் காலாண்டின் போது கிடைக்கின்ற புள்ளிவிபரங்களின் எதிர்பார்ப்புக்கள் நிறைந்ததாகும். 2014 ஆம் ஆண்டின் முதற் காலாண்டின் போது ஏற்றுமதி வருமானம் கருதத்தகு அளவில் (2013 ஆம் ஆண்டில் அக் காலாண்டுடன் ஒப்பீடு செய்யும் போது நூற்றுக்கு 19.1 சதவீதத்தினால்) உயர்வடைதல் சகல பிரிவுகளிலும் காணக் கிடைக்கின்றமை வெளியக சூழல் மீள இயக்கும் தன்மையினை வெளிக்காட்டுகன்றது.

ஏற்றுமதிச் செயற்பாடுகளானது இலங்கைக்கு சிறந்த செய்தியாகும். நாட்டின் பொருளாதாரம் மிகவும் ஆபத்துக்குள்ளாவது நிதிப் பிரிவின் ஊடாகவாகும். நாட்டின் இருப்பு அளவு பில்லியன் 08 இற்கு அண்மியதாக இருந்த போதும் அவை யாவும் ஒன்று திரண்டிருப்பது நாட்டின் திரண்ட கடன்களினாலாகும். நாட்டின் அபிவிருத்தி நிதித் தேவைகள் தொடர்பாக வெளியக சேமிப்பு பால் அதிகமாக தங்கியிருப்பதுடன் பொருளாதாரத்தில் இடைக் கால மற்றும் நீண்ட கால வெளிநாட்டு முதலீடுகள் மீது நம்பிக்கையினை உருவாக்கிக் கொள்வது தொடர்பாக வெளியகப் பிரிவின் நிலையான தன்மையினைப் பேணிச் செல்லல் முக்கியமாகும். பல்நோக்கு திசைகளிலிருந்து வெளியகப் பிரிவின் வளர்ச்சிக்கு அரசாங்கத்தின் மறைமுக வெளிநாட்டுக் கடன் பெறல் மற்றும் தனியார் துறையின் கடன் பெறுகையுடன் ஒருங்கிணைந்து இருப்பதனால் இந் நிலைமை மிக முக்கியமாகும்.

ஏற்றுமதிச் செயற்பாடுகளை அதிகரித்தல் வெளிநாட்டு நேரடி முதலீடு தொடர்பாகவும் சிறந்த நிலைமையினை ஏற்படுத்தும் என எதிர்பார்க்கப்படுகின்றது. யுத்தம் நிறைவடைந்து ஐந்து வருடங்களின் போது நாட்டினுள் உட்பாய்ந்த நேரடி வெளிநாட்டு முதலீட்டின் அளவு முன்னர் இருந்த நிலைமையிலும் மாறுபடவில்லை. 2013 ஆம் ஆண்டில் நேரடி வெளிநாட்டு முதலீடு டொலர் 916 மில்லியன்களாக இருந்ததுடன் 2012 ஆம் ஆண்டில் வெளிநாட்டு முதலீடானது 941 மில்லியன்கள் வரையே காணப்பட்டது. இந்த நேரடி வெளிநாட்டு முதலீடுகள் பெரும் பாலும்

ஈடுபடுத்தப்பட்டது ஏற்றுமதி உற்பத்தித் துறை சார்பாகவன்றி, அமேரிக்க டொளர் 600 மில்லியன்கள் பல்நோக்கு அபிவிருத்தி செயற்திட்டங்கள், ஐந்து நட்சத்திர ‘ோடேல் போன்ற சங்கிரிலா மற்றும் ஐடிசி ‘ோட்டல் போன்ற நிர்மாணங்கள் தொடர்பாகவாகும். இது போன்ற செயற்திட்டங்களின் குறுங்கால நிர்மாணங்கள் மற்றும் அதனுடன் தொடர்புடைய பிரிவுகளில், நடுத்தர கால ஒருங்கிணைந்த சேவைகள் மற்றும் தொழில் உருவாக்க வளர்ச்சியானது உயர்வடைவதுடன் மாறாக ஊழியர் படையின் திறன், மற்றும் உள்நாட்டு கம்பனிகளின் வினைத்திறன் சாதகமனா வளர்ச்சியில் நீண்ட கால ரீதியாக தொழில் நுட்பசார் துறைகள் தொடர்பாக சாதகமான தாக்கம் ஏற்படுத்தப்படுவதில்லை.

மிகவும் சிறந்த நேரடி வெளிநாட்டு முதலீடுகளை கவர்ந்து கொள்ளல் உள்நாட்டு சேமிப்பு வீழ்சியடைந்து காணப்படல், மோசமான அரச நிதி நிலைமை காணப்படுகின்ற இலங்கை போன்ற நாடுகளுக்கு விசேடமாக முக்கியமாகும். வரிச் சேகரிப்பு இலங்கையில் குறைந்த அளவில் காணப்படுகின்றது. அது 2013 ஆம் ஆண்டின் மொத்தத் தேசிய உற்பத்தியின் சதவீதமாக நூற்றுக்கு 11.6 சதவீதத்தினால் அண்மைய ஆண்டுகளில் நிலவிய சதவீதமாக அறிக்கையிடப்பட்டுள்ளது. குறைந்த அளவான வருமானம் பெறுகின்ற நாடுகள் தொடர்பாக வரிச் சேகரிப்புச் சதவீதமானது நியமச் சராசரியானது நூற்றுக்கு 18 சதவீதமாக காணப்படுவதுடன் உயர் நடுத்தர வருமானம் உழைக்கின்ற நாடுகள் தொடர்பாக அச்சதவீதமானது நூற்றுக்கு 25 சதவீதமாகக் கருதப்படுகின்றது.

வருமானம் பெறுதல் தொடர்பாக உள்ள பிரச்சினைகள் அரசாங்கத்தின் வழங்குனர்களுக்கு (உதாரணமாக உர இறக்குமதியாளர்களுக்கு மற்றும் நிர்மாண ஒப்பந்ததாரர்கள்) கொடுப்பனவுகளை மேற்கொள்வதற்கு தாமதமடைவதற்கு காரணியாக இருப்பதாக அறிக்கையிடப்பட்டுள்ளது. பாரிய தொகையான கொடுப்பனவு நிலுவைகளை ஒரு வருடத்திலிருந்து இன்னொரு வருடத்திற்கு முன்கொண்டு செல்வதானது வருடத்தின் போதான வரவு செலவுத்திட்ட பற்றாக்குறையினை இலக்கு வைக்கப்பட்ட மட்டத்தில் பேணிச் செல்கின்ற உபாயத் திட்டங்களுக்கு பொருந்துகின்ற ஆனால் அவை உரிய கம்பனிகளின் நிதி பயன்பாடு தொடர்பாக பாரிய அளவிலான தாக்கங்களை ஏற்படுத்துவதுடன் அக் கம்பனிகளுக்கு முற்பணம் செலுத்திய வங்கிகளுக்கு மிக மோசமான நிலைமையாகும். இந்த பாதகமான போக்கினை மட்டுப்படுத்த முடியுமாக இருப்பது நட்டம் உழைக்கின்ற அரசாங்கத்தின் தொழில் முயற்சிகள் தொடர்பாக வரையறைகளை விதிப்பதன் ஊடாக அரசாங்கத்தின் தேவையற்ற செலவீனங்களை கட்டுப்படுத்தும் மற்றும் அரச வருமானத்தை மிகவும் உயர் மட்டத்திற்கு கொண்டு செல்லும் இருபக்கசார் கொள்கையாகும். எனினும், இலங்கையில் அரச வருமானத்தில் அதிக அளவில் நுகர்வு செய்யப்படுவது தொடர்பான வரிகளிலிருந்து கிடைக்கின்றமையினால் மொத்த பொருளாதார நடவடிக்கைகளை உயர்வடையச் செய்வதன் ஊடாக மற்றும் ஏற்றுமதிகளை அதிகரிப்பதன் ஊடாக வருமான நிலைமையினை மீண்டும் உயர்வடையச் செய்ய முடியும். எனினும் வரி வருமானத்தில் பேணிச் செல்லக் கூடிய அதிகரிப்பொன்று தொடர்பாக வரிக் கொள்கையில் மற்றும் வரி நிருவாகத்தில் ஆரம்ப மறுசீரமைப்புக்களை மேற்கொள்ள வேண்டிய தேவை மிக இன்றியமையாததாக உள்ளது. 2009 இல் மொத்த தேசிய உற்பத்தியின் சதவீதமாக நூற்றுக்கு 9.9 சதவீதமாக இருந்த வரி வருமான வேகம் (Fiscal Deficit) யுத்தம் நிறைவடைந்து ஐந்து வருடங்கள் கடந்த பின்னர் 2013 ஆம் ஆண்டில் நூற்றுக்கு 5.9 சதவீதம் வரை குறைவடைந்துள்ளது. சாதகமான பண்பாக இருப்பது மூலதன செலவீனம் தொடர்ச்சியாக மேற்கொள்ளப்பட்டு வருகின்றமையாகும். தீர்க்கமான உட்கட்டமைப்பு வசதிகள், ஒன்றுடன் ஒன்று ஒன்றிணைந்த உட்கட்டமைப்பு வசதிகள் அல்லது தொழில்நுட்ப உட்கட்டமைப்பு வசதிகள் அல்லது (பாடசாலை, பல்கலைக் கழகம் பொன்றன) சமுக உட்கட்டமைப்பு வசதிகள் போட்டித்தன்மையில் மற்றும் சகலரையும் உள்ளடக்குகின்ற அபிவிருத்தியின் அடிப்படைகளை வலுப்படுத்தும் போது இலங்கைக்கு சமவாயங்களை ஏற்படுத்திக் கொள்ளல் இயலாது.

பாதகமான நிலைமையாக இருப்பது உட்கட்டமைப்பு வசதிகளின் அபிவிருத்தி பிரதானமாக வெளிநாட்டு கடன்களிலிருந்து அல்லது வெளிநாட்டு அரச

அனுசரனை பெறுகின்ற கம்பனிகளினால் (விசேடமாக சீனா) அமுல்படுத்தப்படுகின்ற செயற்திட்டங்களாக இருக்கின்றமையாகும். பாரிய அளவான உட்கட்டமைப்பு வசதிகள் செயற்திட்டங்கள் பலவற்றிற்கு அரசாங்கத்தின் உத்தரவாதம் கிடைக்கப் பெற்றுள்ளது. உதாரணமாக வீதி அபிவிருத்தி அதிகாரசபை மற்றும் வருமானம் உருவாக்கம் மேற்கொள்ளப்படாத வேறு அரச நிறுவனங்கள் தொடர்பாக வழங்கப்பட்டுள்ள சான்றிதழ்களில் அரசாங்கத்தின் நிச்சியமற்ற பொறுப்புக்கள் உயர்வடைவதற்கு ஊக்கக் காரணிகளாக உள்ளன. கவலைக்குரிய மிக பிரதான காரணியாக இருப்பது ஏற்கனவே குறிப்பிட்ட பிரகாரம் வெளியிலிருந்து கடன் பெறல் தொடர்பான நம்பிக்கையில் இருக்கின்றமையினால் இலங்கை வெளியக பாதிப்புக்களினால் அழுத்தங்களுக்கு உள்ளாகும் இயலுமை காணப்படுவதுடன் அவற்றிலிருந்து வெளிவருவதற்கு இருக்கின்ற இயலுமையை நலிவடையச் செய்யும்.

இந்த நிமையில் இலங்கையின் ஏற்றுமதிச் செயற்பாட்டில் ஏற்பட்ட அதிகரிப்பின் காரணமாக உருவாகின்ற விதத்தில் பூகோள பொருளாதார சூழலின் வளர்ச்சியினை ஊக்கப்படுத்தல் இலகுவானது. 2012 - 2013 கால எல்லையின் போது ஐரோப்பிய மத்திய வங்கி அழுத்தத்திற்கு உள்ளான நிதிச் சந்தையினை ஸ்தீரப்படுத்துவதற்கு முன்னர் உறுதியான நடவடிக்கைகள் எடுக்கப்பட்டுள்ளன. மீண்டுமொரு முறை ஐரோப்பிய அரசாங்கமானது பிணையங்கள் பால் முதலீட்டாளர்கள் கவனம் செலுத்தும் அதே வேளை நுகர்வோர் நம்பிக்கை மீண்டும் புத்துயிர் பெற்றிருப்பதனால் கம்பனிகள் மிகவும் கவனமாக விஸ்தரிப்புச் செய்வதனையும் காண முடியும். ஐரோப்பாவனது இறுதியில் பொருளாதார மந்தநிலையிலிருந்து விடுபட்டு ஐக்கிய அமேரிக்காவுடன் இணைந்து சொற்ப காலமாக நிலவி வந்த மந்தநிலையிலிருந்து மீளெழுந்து வருவதனைக் காண முடிகிறது. எனினும் இதனை மீள கட்டியெழுப்புதல் போதியளவான விதத்தில் வலுவுடன் இல்லை என கொள்கை வகுப்பாளர்களிடையே அச்சமொன்று நிலவுகின்றது.

ஐரோப்பாவில் வேலையின்மைச் சதவீதமானது, விசேடமாக இளம் ஊழியர்கள் மத்தியில் இன்னும் உயர் மட்டத்தில் காணப்படுகின்றது. சராசரி இளைஞர் வேலையின்மையானது நூற்றுக்கு 23.5 சதவீதமாக இருப்பதுடன் அது யுத்தத்திற்கு முன்னர் காணப்பட்ட நூற்றுக்கு 14.5 சதவீதத்திலும் பார்க்க மிகவும் அதிகமாகும். இந்த சராசரியில் குறிப்பிட்ட சில நாடுகளில் நிலவுகின்ற மிகவும் மோசமான நிலைமையினை வெளிக்காட்டுவதில்லை. கிரீஸ், ஸ்பெய்ன், போரத்துக்கல் மற்றும் இத்தாலி போன்ற நாடுகளில் வேலையின்மைச் சதவீதம் முறையே நூற்றுக்கு 56 சதவீதம், நூற்றுக்கு 53 சதவீதம், நூற்றுக்கு 40 சதவீதம் மற்றும் நூற்றுக்கு 33 சதவீதம் என்ற வகையில் உயர் சதவீத்தைக் கொண்டுள்ளன. இதே வேளை வலயத்தில் ஏற்படுகின்ற அரசியல் மாற்றங்களும் நிச்சயமற்றதன்மையினை அதிகரிக்கின்றன. ரஷ்யா கிரிமியாவினை இழுத்துக் கொள்ளுதல் மற்றும் ஐரோப்பாவில் அது ஏற்படுத்துகின்ற தாக்கங்கள் மற்றுமல்லாது ஐரோப்பியச் சங்கத்தின் நிதி கோட்பாட்டிற்கு முழுமையாக மிகவும் விசாலமான அரசியல் ஒத்துழைப்பினை தமது நிதி ஒருங்கிணைப்பு தொடர்பாக இருந்த எதிர்பார்ப்புக்கள் நலிவடைந்து வருவதனைத் தொடர்ந்து மீள எழுந்திருப்பதற்கான மோசமான தன்மையினை வெளிகாட்டுகின்றது.

அதே வேளை ஐக்கிய அமேரிக் நாடுகளின் பொருளாதாரம் தெளிவாக பிற்போக்கு நிலைமையிலிருந்து விடுபட்டு பாரிய வளர்ச்சி மற்றும் வேலையின்மையில் வீழ்ச்சியினை வெளிக்காட்டுகின்றது. எவ்வாறாயினும் ஐக்கிய அமேரிக்க நாடுகளின் விசேடமான நிதிக் கொள்கைகளைக் நீக்கிக் கொண்டதனைத் தொடர்ந்து பூகோள பொருளாதாரமானது அதற்கு எவ்வாறு முகங்கொடுப்பது என்பது பற்றி கவனம் செலுத்துதல் வேண்டும். 2013 ஆம் ஆண்டின் நடுப்பகுதியின் போது இந்த நடடிக்கை அமுல்படுத்தப்பட்டதைத் தொடர்ந்து சந்தையில் சிக்கல் நிலைமையொன்று ஏற்பட்டு நிலவுகின்ற பொருளாதாரத்திலிருந்து மூலதனம் விலகிச் செல்கின்மையினைத் தொடர்ந்து அந்த நாடுகளின் பண அலகுகளின் பெறுமதி துரிதமாக குறைவடைந்துள்ளது. எனினும், 2014 ஆம் ஆண்டில் நீக்கிக் கொள்ளும் பாதிப்பு பூகோள முதலீட்டாளர்கள் விலைகளைத் தீர்மானிக்கின்ற போது கவனத்திற் கொண்டுள்ளதுடன் செயற்பாட்டின் எஞ்சிய பகுதி தொடர்பாக எதிர்பார்ப்புக்களுடன் இருப்பது தெரிய வருகின்றது. எனினும் ஒதுக்க

நடவடிக்கையின் காலம் மற்றும் வேகம் பற்றி எழுகின்ற வினாக்கள் தொடர்பாக கவலையொன்று நிலவுகின்றது. ஐக்கிய அமேரிக்க நாடுகளின் பொருளாதாரத்தின் மீள் எழுச்சி துரிதமடையுமாயின் மற்றும் அது பணவீக்க அழுத்தத்தினை அதிகரிப்பதற்கு காரணமாக இருக்கும் என எண்ணுவோமாயின் நீக்கிக் கொள்வதனை துரிதப்படுத்திக் கொள்ள முடியும். இது வேகமாக நடைபெற்றால் முதலாவதாக செயற்திட்டத்தின் வெற்றிகள் மறுபுறம் திருப்பப்பட்டுள்ளது. அது மிக மெதுவாக நிகழ்ந்திருந்தால் இலகுவாக நிதியினைப் பெற்றுக் கொள்ளும் காலம் மிகவும் நீண்டு ஆதனங்களின் பெறுமதிகள் உயர்வடையும் (ஐக்கிய அமேரிக்க நாட்டின் போதியளவான இலகுபடுத்தலின் உச்ச சந்தர்ப்பத்தில் எழுந்துள்ள பொருளாதாரங்களில் ஏற்பட்ட பிரகாரம்) நிலையற்ற தன்மையொன்று உருவாக முடியும்.

ஐக்கிய அமேரிக்க நாட்டினது மற்றும் ஐரோப்பாவில் பாரியளவான நிதி நிலைமைகளை காலூன்றச் செய்வதன் ஊடாக பூகோள முதலீடுகளின் ஆபத்துக்கள் விடுவிக்கப்படுவதாக காட்டப்பட்டுள்ளன. இதன் முதலாவது குறிகாட்டியாக இருப்பது 2013 ஆம் ஆண்டில் மேலெழுந்து நிலவுகின்ற பொருளாதாரங்களுக்கு உட்பாய்ந்து வருகின்ற நிகர மூலதனம் வருடங்களுக்கு ஏற்ப கணக்கிடும் போது நூற்றுக்கு 9.6 சதவீதத்தினால் வீழ்ச்சியடைந்தமையாகும்[2] இந்த நிலைமை பூகோள நிதி நெருக்கடி சுமுக நிலையடைந்ததைத் தொடர்ந்து நடைபெற்ற நிலைமைக்கு முழுமையாக மாற்றமானதாகும். இங்கு பூகோள முதலீட்டாளர்கள் தமது முதலீடுகளை ஈடுபடுத்துவதற்கு மாற்று இடங்களை தேடிச் செல்கின்ற போது எழுகின்ற பொருளாதாரத்திற்கு உட்பாய்கின்ற மூலதனமானது துரிதமாக உயர்வடைந்துள்ளது. ஒரே முறையில் 2013 ஆம் ஆண்டில் இந்த நிலைமை மீளத் திரும்புதல், பிரதானமாக பூகோள நிலைமைகள் மாற்றமடைதல் மற்றும் ஐக்கிய அமேரிக்க நாடுகள் போதியளவான இலகுபடுத்தல்களை நீக்கிக் கொண்டமையின் காரணமாக என்பது தெளிவாகின்றது. உண்மையாக இது கதையின் ஒரு பகுதி மாத்திரமாகும். எனினும் இது காரணிகளினாலும் தெளிவுபடுத்த முடியும். யுத்தத்தின் பின்னர் "துரித நிதி" கிடைத்தவுடன் எழுகின்ற பொருளாதாரங்கள் பல திரவத்தன்மை நிறைந்திருந்த போது தமது உள்நாட்டு கேள்வியினை நிதியீட்டம் செய்வது தொடர்பாகவும் பூகோள மூலதனம் உட்பாய்தல் பால் நம்பிக்கை காணப்பட்டது. அவர்களுடைய பண அலகுகளின் பெறுமதி உயர்வடைந்தமையினால் ஏற்றுமதி போட்டித் தன்மையானது வீழ்ச்சியடைந்து நடைமுறை கணக்கு கொடுப்பனவு நிலுவையின் தாங்கிக் கொள்ள இயலாத நிலுவையொன்றினை ஏற்படுத்தியுள்ளது.

ஆசிய நிதிப் பிரச்சினையினால் ஆசியப் பொருளாதாரங்களில் காணப்பட்ட முழு மொத்த முகாமை மற்றும் நிதிச் சந்தையில் சட்டரீதியான குறைபாடுகள் வெளிக்காட்டிய விதத்தில் பெடரல் ஒதுக்கத்தினை இலகுபடுத்தும் கொள்கையினை நீக்கிக் கொள்ளும் தாக்கங்களுடன் இணைந்த பூகோள சர்ச்சைகளின் பின்னர் எழுந்திருக்கின்ற பொருளாதாரங்கள் பலவற்றில் உள்ளக ரீதியாக நிலவுகின்ற இடர்கள் மற்றும் செயற்பாடுகள் தொடர்பாக கவனம் செலுத்தப்பட்டுள்ளது. பூகோள பொருளாதார மந்தநிலையின் பின்னர் எழுந்திருக்கும் போது ஏற்பட்டிருக்கின்ற பொருளாதார (ஏற்றுமதி தொடர்பாக இருந்த கேள்வியில் குறைபாடொன்று இருந்த போதும்) தாக்குப் பிடிக்கும் வலுவொன்று காட்டப்பட்ட போதும் எழுந்து வருகின்ற பொருளாதாரங்கள் பலவற்றின் முதலீடுகளினால் " ஆழமாக விசாரணை செய்தல் போன்ற" பிரச்சினைகள் ஏற்பட்டு வருகின்றன. விசேடமாக இந்தியா, இந்துனேசியா, துர்க்கி, பிரசீல் மற்றும் தென்னாபிரிக்கா போன்ற எழுந்து வருகின்ற பொருளாதாரங்கள் ஐந்தில் இந்த நிலைமைக்கு பாதிப்புச் செலுத்துகின்ற காரணிகள் பல காணப்பட்டன. அவற்றின் வளர்ச்சி வீழ்ச்சி நிலைமைக்கு வந்துள்ளதுடன் வரி மற்றும் நடைமுறைக் கணக்குகளின் பற்றாக்குறை உயர்வடைந்து காணப்படுகின்றது. அவற்றின் வளர்ச்சி கீழ் நிலைக்கு வீழ்ச்சியடைந்துள்ளதுடன் வரி மற்றும் நடைமுறைக் கணக்குகளின் பற்றாக்குறை உயர்வடைந்து காணப்படுகின்றது. கட்டமைப்பு ரீதியான மறுசீரமைப்பு தொடர்பாக குறைந்த முயற்சிகள் எடுக்கப்பட்டு வருகின்றது.

எவ்வாறாயினும் மொத்த பூகோள பொருளாதாரமும் ஐரோப்பா மற்றும் வட அமேரிக்காவின் நிலையான கைத்தொழில் பொருளாதாரங்களிலிருந்து இலத்தின் அமேரிக்கா மற்றும் மிகவும் தெளிவாக வெளிக்காட்டுகின்ற விதத்தில் ஆசியா நோக்கிய

பொருளாதாரங்கள் உயிரோட்ட நிலைமைக்கு மாற்றடைகின்ற பரிமாற்றத்திற்கு உட்பட்டுள்ளதது என்பது திடமாகும்.

இவ் வலயத்தில் எழுச்சி பெற்றுள்ள பொருளாதாரங்கள் நோக்கிய முதலீட்டு நன்மையின் உச்ச மற்றும் குறைந்த பட்ச சந்தர்பங்கள் இருந்த போதும் அவை இன்னும் உயிரோட்டமாகக் காணப்படுகின்றது. எழுச்சி பெற்று நிலவுகின்ற சந்தை தொடர்பாக முதலாவது சுருக்கப் பெயர் BRICS (பிரசீல், ரஷ்யா, இந்தியா மற்றும் சீனா) சூட்டப்பட்டதனைத் தொடர்ந்து 15 வருடங்களின் பின்னர் எழுச்சி பெற்றுள்ள பொருளாதாரங்களின் புதிய முதலீட்டுச் சந்தர்பங்கள் தொடர்பாக ஆர்வம் காட்டுகின்ற நிரல் முதலீட்டாளர்கள் (Portfolio Investors) மற்றும் நிதியத்தின் முகாமை-யாளர்களினால் சுருக்கப் பெயர்கள் வைக்கின்ற மற்றும் குழுக்களை உருவாக்குவதில் குறைபாடுகள் இல்லை[3] முதலீட்டுத் தீர்மானங்கள் இது போன்ற விடயங்களின் அடிப்படையில் அமைந்தல் மதிநுட்பமான உபாய மார்க்கம் அல்லாதது என்று பலர் உடன்படுவதுடன் மாறாக பூகோள பொருளாதாரத்தில் நிலவி வருகின்ற ஆழமான மாற்றங்கள் பாரியதொரு தொகுதியினர்களுக்கு வெளிப்படுத்திக் காட்டுவதற்கான இயலுமை காணப்படுவதாகவும் சுட்டிக் காட்டுதல் வேண்டும். மிகவும் முக்கியமாக இருப்பது எழுச்சிபெற்றிருக்கின்ற சந்தைகளின் ஒருங்கிணைப்பில் வலயமொன்றாக ஆசியா எவ்வளவு தூரம் தெளிவாகத் தெரிகின்ற நிலைமைக்கு உருவெடுத்துள்ளது என்பதாகும்.

21 ஆம் நூற்றாண்டில் பொருளாதார, புவியல் அரசியல் மற்றும் சமுக மாற்றங்களின் உச்சத்தில் காணக் கூடிய பண்பாக இருப்பது ஆசியாவில் ஆசிய பொருளாதாரத்தில் விசேடமாக கிழக்கு மற்றும் இந்தியா உள்ளடங்கலாக ஆசிய பசுபிக் வலயத்தின் மறுமலர்ச்சி, நிகழ்ந்து வருகின்ற ஆழமான மாற்றங்களின் இதயமாக உருவெடுத்துள்ளதுள்ளமையாகும்.

ஆசியா தற்பொழுது உலக மக்களில் 60 சதவீதமானோருக்கு இருப்பிடமாக உள்ளது. பூகோள உற்பத்திகளின் நான்கில் ஒரு பங்கு (இது 2050 ஆம் ஆண்டாகும் போது அரைவாசியாக உயர்வடையும்) மற்றும் உலகின் உற்பத்திகளின் 47 சதவீதத்தினை விநியோகம் செய்கின்றது. இந்த புதிய சுபீட்சத்துடன் பூகோள மத்திய தர வகுப்பினர்களில் மூன்றில் ஒன்றுக்கு அண்மித்த அளவினர் வசிப்பது ஆசிய நாடுகளிலாகும். சில பிரதான பொருளாதாரங்களுக்கு அழுத்தமாக தாக்கம் செலுத்திய ஆசிய நிதி நெருக்கடியானது நெடுங்காலத்திற்கு முற்பட்ட இருட்டு யுகத்தின் ஒரு நிழலாகும். பூகோள பொருளதார மந்த நிலையின் பின்னர் கடந்த ஆறு வருட காலத்திற்குள் ஆசியாவில் மறுவெழுச்சி பெற்று வருகின்ற மற்றும் அபிவிருத்தியடைந்து வருகின்ற பொருளாத-ாரங்களின் எதிர்பார்த்த மற்றும் உண்மை வளர்ச்சி வேகமானது முன்னேற்றமடைந்த பொரு-ளாதாரங்களின் சராசரியினைப் போன்று நூற்றுக்கு ஆறு சதவீதம் மட்டில் உயர் மட்டத்தில் காணப்படுகின்றது. 2014 ஆம் ஆண்டு மற்றும் 2015 ஆண்டுகளின் போது முன்னேற்ற மடைந்த பொருளாதாரங்கள் நூற்றுக்கு 2.2 மற்றும் 2.3 இடையிலான அளவுகளினால் வளர்ச்சியடையும் என எதிர்பார்க்கப்படுவதுடன் ஆசியாவின் எழுச்சி பெற்று வருகின்ற மற்றும் அபிவிருத்தியடைந்து வருகின்ற பொருளாதாரங்கள் முறையே நூற்றுக்கு 6.7 மற்றும் நூற்றுக்கு 6.8 சதவீதத்தினால் வளர்ச்சியடையும். இந்த அளவானது எழுச்சி பெற்று வருகின்ற மற்றும் அபிவிருத்தியடைகின்ற பரந்த பொருளாதார குழுக்கள் தொடர்பான எதிர்வு கூறல்களான நூற்றுக்கு 4.9 மற்றும் நூற்றுக்கு 5.3 சதவீதத்திலும் பார்க்க அதிகமாகும்.

இந்தியாவுடன் வலயத்தின் அடிப்படை இரண்டில் ஒன்றான சீனா உலகின் பிரதான ஏற்றுமதியாளராக அனேக காலங்களிற்கு முன்னிருந்த ஜேர்மனியினைப் பின்தள்ளியுள்ளது. ஆசியக் கம்பனிகள் (ஜப்பான் வாகனம், தென்கொரியா எலட்ரோனிக் சாதனங்கள், சீனா இலத்திரனியல் சந்தை வலையமைப்பு போன்றன) உலகின் பெறுமதிமிக்க வர்த்தகப் பெயர்களாக உருவெடுத்துள்ளன. ஜப்பான் மற்றும் தென்கொரியா கார் ஐரோப்பியப் பெரும் தெருக்களில் காணக்கூடிய காட்சிகளாகும். அப்பிள் போன்ற அமெரிக்காவின் தொழில்நுட்ப முன்னோடிகள் தென்கொரியா மற்றும் தாய்வான் வழங்குநர்களின் டொலர் பில்லியன் கணக்கில் உதிரிப்பாகங்களைக் கொள்வனவு செய்கின்றன. மேற்கத்தைய பல்நோக்குக் கம்பனிகள் மற்றும் வர்த்தகப் பெயர்கள் மேற்கத்தைய வாழ்க்கைத்தர

மட்டம் நோக்கிய பயணத்தில் அவை இலகுவாக அடைந்து கொள்ளக் கூடிய விதத்தில் ஆசியாவில் சந்தை ஆக்கிரமிப்பினைப் பெற்றுக்கொள்வதற்கு ஆசிய நகரங்களுக்கு புடைசூழ்ந்துள்ளன. அமெரிக்க டொலர் பில்லியன் 80 அளவிலான பூகோள சுகபோகப் பொருட்கள் சந்தையில் தொடர்ச்சியாக ஆசிய நுகர்வோர்கள் கைத்தொழில்களின் எண்ணிக்கை கைத்தொழில் கணக்கீடுகளில் சுட்டிக்காட்டப்பட்டுள்ளன. தொழில்நுட்பப்விரிவு, ஆசியக் கம்பனிகளுக்கு பூகோள அளவில் மிகவும் சிறந்த விகிதத்தில் போட்டியிடுவதற்கு இயலுமையினை வழங்கியுள்ளதுடன் இலத்திரனியல் சந்தையூடாக நுகர்வினைக் கொள்கின்ற நுகர்வு அமைப்பினை நுகர்வு அமைப்புக்களினை மாற்றமடையச் செய்வதிலும் வெற்றியடைந்துள்ளன. உதாரணமாக சீனாவின் அலிபா வழிமுகப்படுத்தப்பட்ட சந்தைக்கு 180 மில்லியன் தொடர்பாக இருப்பதுடன் 2013 இல் அமெரிக்க டொலர் பில்லியன் 250 அளவிலான கொடுக்கல்வாங்கல்கள் செய்யப்பட்டுள்ளன. (ஈபே மற்றும் அமசோன் ஆகிய இரண்டினதும் விற்பனைத் தொகையிலும் விட அதிகம். அதே போன்று உலகின் மிக விசாலமான தொழில்நுட்ப பிரதான பகுதியினை உற்பத்தி செய்கின்ற (IPO) என்ற அடிப்படையில் குறிப்பிடக் கூடிய 20 பில்லியன் டொலர் வகுதியிற்கு ஆயத்தமாகின்றது. (இது பேஸ்புக் பகுதியிலும் பார்க்கப் பெரியது) இதே வேளை இடை ஆசிய நாடுகளுக்கிடையிலான விற்பனையானது யுத்தத்தின் பின்னரான காலத்தில் ஆசியப் பொருளாதாரத்தின் வலுவினை மிகவும் பிரதானமாக உருவாகியுள்ளது. ஆசிய மக்களின் சங்கம் (ஆசியான்) ஏற்றுமதி செய்கின்ற உயர் 10 நாடுகள் சீனாவிற்குச் செய்கின்ற ஏற்றுமதியின் அளவு தென் அமெரிக்க சுதந்திர வர்த்தக உடன்படிக்கை வலயத்திற்கு அல்லது ஐரோப்பிய சங்கத்திற்கு மேற்கொள்கின்ற ஏற்றுமதியினை மிஞ்சிச் செல்கின்றன.

மிக அண்மையில் மேலெழுந்து நிலவுகின்ற ஆசியான் பொருளாதார எதிர்பார்ப்புகளுடன் கூடிய நிலைமையொன்றினை வெளிக்காட்டுகின்றது. ஆசியான் வலயத்தில் சனத்தொகையில் நூற்றுக்கு நாற்பது வீதத்திற்கும் வதிவிடமாக இருக்கின்ற (240 மில்லியன் சனத்தொகையினைக் கொண்ட) இந்தோநேசியா வலயத்தின் மொத்தத் தேசிய உற்பத்தியில் நூற்றுக்கு நாற்பது வீதத்திற்கு ஓரளவு குறைந்தளவுக்கு உரிமை கோருகின்றது. 2012 ஆம் ஆண்டின் இந்தோநேசியாவின் மொத்தத் தேசிய உற்பத்தி ஒப்பீட்டு ரீதியாக முக்கியமான டொலர் ட்ரில்லியன் எல்லையினை மிஞ்சிச் சென்று உலகின் 15 வது பாரிய பொருளாதாரமாக உருவெடுத்துள்ளது. பரந்த பொருளாதார மீள்கட்டமைப்புகளின் பின்னர் ஆசியாவின் நோயாளி என அறிமுகப்படுத்தப்பட்ட பிலிப்பைன்ஸ் பரந்த முன்னேற்றமொன்றினை ஏற்படுத்தியுள்ளது. 2013 இன் மொத்தத் தேசிய உற்பத்தி நூற்றுக்கு 7.3 வீதத்தினால் அதிகரித்துள்ளதுடன் அது ஆசிய வலயத்தின் உயர் வளர்ச்சி வேகமாகும். அவ்வாறான வளர்ச்சியொன்றினை அடைந்துகொண்டது இயற்கை அனர்த்தங்களான புயல் போன்ற பாரிய அழிவுகள் ஏற்படுத்தப்பட்ட சந்தர்ப்பத்திலாகும். பிலிப்பைன்சின் அரச கடன் ரிச் ஸ்ரான்டட் மற்றும் புவர் மற்றும் மூடி போன்ற மதிப்பீடு செய்கின்ற நிறுவனங்களின் ஊடாக முதலீட்டுத்தரம் வரை முன்னோக்கிச் சென்றுள்ளதுடன் அது பூகோள போட்டித்தன்மைக் குறிகாட்டியில் 26 ஆவது இடத்தில் (2010 முதல்) மற்றும் கைத்தொழில்களுக்குச் சாதகமான குறிகாட்டியொன்றான 30 வது இடத்திலும் முன்னோக்கிச் சென்றுள்ளது.

எனினும் ஆசியாவின் மறுமலர்ச்சி முழுமையான பாதுகாப்புத் தன்மையற்றதாகும். எதிர்காலத்தில் பலதரப்பட்ட காரணிகள் ஆசிய நாடுகளுக்கு இந்தப் பயணத்தில் தாக்கம் செலுத்தும். ஒவ்வொரு நாடுகளுக்கும் விசேடமான பல்வேறுபட்ட சவால்களுக்குப் புறம்பாக அதிவிசேடமாக இலங்கையில் அமுல்ப்படுத்தப்படுகின்ற மற்றும் இலங்கையின் வளர்ச்சி முயற்சியில் பாடங்களைக் கற்றுக்கொள்ளல் போன்ற அடிப்படையில் பலரதப்பட்ட பரந்த சவால்கள் பற்றியும் கலந்துரையாடல்கள் பயனுடையதாகும்.

நிருவாகத்தின் தன்மை மற்றும் அரசாங்கத்தின் பாத்திரம் ஆசிய நாடுகளில் பொருளாதார வளர்ச்சியின் போக்கில் தெளிவாகக் காணப்படும் பண்புகளாகும். பொருளாதார வளர்ச்சியில் செயற்பாடுகள் பலவற்றில் அரசாங்கத்தின் உபாயவழி ரீதியான தொடர்புகள் அதன் வளர்ச்சி மற்றும் வினைத்திறன் பற்றித் தெளிவாக வெளிப்படுத்துகின்றன. வளங்களை ஒதுக்கீடு செய்தல் மற்றும் பொருளாதார உற்பத்தியின் போது

அரசாங்கத்திற்குப் பாத்திரம் ஒன்று இருக்கவேண்டியதைக் குறிப்பிடுதல். பல தசாப்தங்களுக்கு முன்னர் துரித ஊடகப்படுத்தப்பட்ட திட்டமிடல் மூலம் தெளிவாகக் காட்டப்பட்ட விதத்தில் ஒரு மர்மமான கருத்தாக இருந்தது. எனினும் மிக அண்மையில் அதிகமாக ஆசியப் பொருளாதாரத்தின் வெற்றி பற்றிய கதைகளுடன் அரசாங்கத்தின் பாத்திரம் ஒன்று காணப்படுகிறதா என மிகவும் பரந்த அளவில் பாராட்டுக்கள் கிடைக்கப்பெற்றன. அதுபோன்ற கொள்கைகளினை நீக்கி அபிவிருத்தியடைந்த நாடுகள் கூட விசேடமாக யுத்தங்களின் பின்னர் அரசாங்கத்தின் முன்வருகை தொடர்பாக மிக உக்கிரமாக முன்வந்து செயற்படுகின்றன. தமது வங்கிகளின் பிணக்குகளினை விடுவித்தல் (சில வங்கிகளின் பங்குகளினைக் கொள்வனவு செய்தல் உள்ளடங்கலாகத் தீர்மானம் எடுத்தல்) குறிப்பிட்ட பிரிவுகளுக்கு அரசாங்கத்தின் நன்கொடைகளை வழங்குவதற்கு (ஐக்கிய அமேரிக்கவின் பிணக்குகளுக்கு உட்பட்ட வாகன உற்பத்திக் கைத்தொழில் மற்றும் தற்பொழுது நிலைபெறும் சக்திக் கைத்தொழில் போன்ற) தீர்மானம் எடுத்தல் அல்லது வரிச்சலுகையினை வழங்குதல் மற்றும் அபிவிருத்தியினை வேகமடையச் செய்வதற்கு விசேட நிதிப் பரம்பலிற்கு வாய்ப்பளித்தல் போன்ற தீர்மானங்கள் எடுத்தலில் அரசாங்கம் பங்களிப்புச் செய்கின்ற நிலை காணக்கூடியதாக இருக்கின்றது.

ஆசியாவின் வளங்கள் மற்றும் வளர்ச்சி மற்றும் சுபீட்சம் பாராட்டத்தக்கது. எனினும் இப்பிரதேசத்தில் ஏற்பட்டுள்ள துரித வளர்ச்சியுடன் இது ஒரு அதிசயம் அன்று. கைத்தொழிற்துறையின் கணக்குப் புள்ளி விபரங்களுக்கேற்ப உலகம் பூராவும் விற்பனை செய்யப்படுகின்ற சுகபோகப் பொருட்களின் நூற்றுக்குப் பத்து சத வீதத்திற்கு பொறுப்புக் கூறுபவர்கள் சீன நுகர்வோர்களாவர். ஐரோப்பாவில் அதி உன்னத பூர்த்தி செய்யப்பட்ட ஆடைகள், ஆடை விற்பனை நிலையங்களின் அதிதியாக இருக்கின்ற விற்பனையில் நான்கில் ஒன்று என்ற அளவில் கொள்வனவு செய்வது ஆசிய விற்பனை நிலையங்களிலாகும். பொருளாதார வளர்ச்சியில் பின்னடைவொன்று இருந்தபோதும் இந்தியாவின் பெறுமதியில் அதிக கார் விற்பனை 2013 இல் நூற்றுக்குப் பதினைந்திலிருந்து முப்பதுக்கிடையிலான அளவில் உயர்வடைந்துள்ளது.[7]

இற்றைக்கு 60 ஆண்டுகளுக்கு முன் ஆசியாவின் நிலைமை மிகவும் மாறுபட்டதாகும். அது உலகின் மிகவும் வறிய ஒரு வலயமாகும். பிரபல்யமான பொருளாதார வளர்ச்சியுடன் பல மில்லியன் கணக்கான மக்களினை வறுமையிலிருந்து மீட்டெடுத்துள்ளது. ஆசிய அபிவிருத்தி வங்கி கணக்கீடு செய்கின்ற விதத்தில் ஆசியாவில் நாளொன்றுக்கு இரண்டு டொலரிலும் பார்க்கக் குறைந்த வருமானம் பெறுகின்ற எண்ணிக்கை 1.7 பில்லியன் மக்களாகும். நாளொன்றுக்கு ஒரு டொலரிலும் கூடிய வருமானம் பெறுகின்ற எண்ணிக்கை 800 மில்லியன் அளவில் உள்ளனர். ஆசியாவில் உப வலயங்களுக்கிடையில் முரண்பாடுகள் காணப்படுகின்றன. தென்னாசியாவில் வறுமை நிலைமை உயர்மட்டத்தில் காணப்படுகின்றதுடன் கிழக்காசியாவில் வறுமை நிலைமை குறைந்தமட்டத்தில் காணப்படுகின்றது. (இதற்கான பிரதான விடயமாக இருப்பது 1990 களில் நூற்றுக்கு எண்பத்தைந்து வீதமாக இருந்த சீனாவின் வறுமை 2008 ஆம் ஆண்டாகும் போது நூற்றுக்கு முப்பது வீதம் வரை வீழ்ச்சியடைந்தமையாகும்.)

வறுமைக்குப் புறம்பாக வருமான சமமின்மை, வலயத்தில் காணப்படுகின்ற இன்னுமொரு சவாலாகக் காணப்படுகின்றது. ஆசிய அபிவிருத்தி வங்கியின் புள்ளி விபரங்களுக்கேற்ப ஆசிய வலயத்தின் சனத்தொகையின் 5 இல் 4 பேர், உள்ளடங்குகின்ற 12 நாடுகள் கடந்த இரண்டு தசாப்த காலத்தின்போது வருமான முரண்பாடுள் மிகவும் அதிகரித்துள்ளது. இந்தக் கால எல்லையின்போது (வருமான சமமின்மையினையை அளவீடு செய்யும் போது ஆசியாவின் பங்கு 38 இலிருந்து 47 வரை அதிகரித்துள்ளது. சீன நகரமொன்றான சங்காய் போத்துக்கல்லுக்குச் சமமான வாழ்வாதார நிலைமையினைக் கொண்டிருப்பதுடன் இந்தியாவின் மிகவும் வறுமையான 8 பிராந்தியங்களின் வறிய மக்களின் எண்ணிக்கை ஆபிரிக்காவின் மிகவும் வறிய 26 நாடுகளில் உள்ள மக்களின் எண்ணிக்கையிலும் பார்க்க மிக அதிகமாகும்.

அதிகரித்துவருகின்ற வருமான சமமின்மை காரணமாக மக்கள் எழுந்துநிற்கின்றதினைக் காணக்கூடிய விதத்தில் எழுந்து நிற்பதினைச் சீன நாட்டில் காணக்கூடியதாக உள்ளது. அந்நாட்டில் கடலோரங்களை அண்மித்த கைத்தொழில்

நகரங்களுக்குக் குறைந்த சம்பளங்களில் பணியாற்றுகின்ற கிராமப்புற தொழிலாளர்களின் எழுச்சியொன்று காணப்படுகின்றது. 2010 ஆம் ஆண்டு நடைபெற்ற தொழிலாளர் போராட்டத்தின் காரணமாக அவர்களின் சம்பளங்கள் நூற்றுக்கு முப்பது வீதம் போன்ற அளவினால் அதிகரித்துக் கொள்வதற்குச் சீன அரசாங்கம் முனைய-வேண்டியேற்பட்டது. உள்நாட்டு நுகர்விற்கு மிகவும் ஆழமாகப் பழக்கப்படும் முயற்சி ஒன்றுடன் இந்தப்போக்கானது தொடர்ச்சியாகக் காணப்பட்டு வருகின்றது. உண்மையாகச் சீனாவில் தற்போது அமுல்ப்படுத்தப்படுகின்ற 5 வருடத்திட்டத்திற்கேற்ப நாடுபூராகவும் குறைந்த சம்பளம் குறைந்த பட்டசம் வருடாந்தம் நூற்றுக்கு 13 சதவீதத்தினால் அதிகரிப்பதற்கு எதிர்பார்க்கப்படுகின்றது. சீனாவின் கைத்தொழில் பிரதேசங்கள் மற்றும் தாய்க் கம்பனிகளைக் கொண்டுள்ள ஐக்கிய நாடுகளுக்கிடையில் சம்பள எல்லையானது சம்பள வேறுபாடுகள் குறைந்துகொண்டுவருகின்றன. அமெரிக்கர்களுக்குரிய கைத்தொழிற்சாலைகளில் பணியாற்றுகின்ற சீனத் தொழிலாளர்களுக்கு ஐக்கிய அமெரிக்கா சம்பளத்தில் நூற்றுக்கு இருபத்தைந்து சதவீதம் கிடைப்பதாக அறிக்கையிடப்படுகின்றது. 2000ஆம் ஆண்டில் அந்தச் சதவீதமானது நூற்றுக்கு 5 வீதமாகும்.

ஆசியவாவின் மறுமலர்ச்சியின் இன்னுமொரு பண்பாக இருப்பது அதன் சனத்தொகையில் ஏற்பட்டு வருகின்ற பாரிய மாற்றங்களாகும். ஆசியா முன்னரைப் போன்னறல்லாது வயோதிபம் அடைபவர்களின் எண்ணிக்கை அதிகரி-த்துவருகின்றது. வெளிப்படுகின்ற தகவல்களுக்கேற்ப சனத்தொகை வயோதிபமடைதல் அதிகரித்தல் மேற்கத்தைய நாடுகளிலும் பார்க்க வேகமாக மேற்கொள்ளப்படுவதுடன் சுகாதாரப் பாதுகாப்பு மற்றும் சமூக நலன்புரி (ஓய்வூதியச்சம்பளம் போன்றன) நிதியீட்டம் உள்ளடங்கலான பல்வேறுபட்ட அரச கொள்கைகளுக்குச் சவால்களுக்கு முகம் கொடுப்பதற்கு ஏற்பட்டுவருகின்றது. ஜப்பான் மற்றும் தென்கொரியா போன்ற சில நாடுகள் இந்தியா மற்றும் இந்தோநேசியா போன்ற நாடுகளிலும் பார்க்க இந்நிலைமைக்கு முகங்கொடுத்துள்ளன. விசேடமாக சீனா அங்கு ஒரு பிள்ளை என்ற கொள்கையின் அடிப்படையில் வயோதிபமடையும் வேகம் அதிகரித்த சவால்களுக்கு முகம் கொடுத்துள்ளது. இது ஆசிய நாடுகள் பலவற்றுக்குத் துரிதமான பொருளாதார வளர்ச்சியினை அடைந்துகொள்வதற்கு உதவி புரிவதுடன் தங்கியிருப்போர் மட்டம் சனத்தொகை மட்டத்திலும் பார்க்கத் தொழில் புரிகின்ற சனத்தொகை அதிகரிக்கின்ற குடியியல் நன்மைகள் விரைவாக முடிவடைந்துள்ளன.

கைத்தொழில் மயமாக்கலினால் ஏற்பட்டுள்ள ஆசிய வளர்ச்சியின் மற்றுமொரு தெளிவாகத் தெரிகின்ற பண்பாக இருப்பது கிராமங்களிலிருந்து நகரங்களுக்குக் குடிபெயர்கின்ற ஆசிய நகரங்கள் மிகவும் நாகரிகமடைந்த போக்காகும். நீர், வதிவிடம் மற்றும் சுகாதாரப்பாதுகாப்புப் போன்ற நகர உட்கட்டமைப்பு வசதிகள் தொடர்பாக எற்பட்டுள்ள அழுத்தங்கள் மற்றும் அதனுடன் சூழல்மாசடைதல் உயர்வடைந்து வருகின்றன. சீனா மற்றும் இந்தியா போன்ற புதிதாகக் கைத்தொழில் மயமாகிய ஆசிய நாடுகள் இன்னும் நகரச் சனத்தொகை அதிக பெரும்பான்மை அல்லாத ஆனால் நகரச் சனத்தொகை எண்ணிக்கை துரிதமாக அதிகரித்து வருகின்றது. 2025 ஆகும் போது ஆசியச் சனத்தொகையில் அரைப்பங்கினர் நகர மயமாக்கப்படுவர் எனப் புள்ளி விபரங்கள் வெளிப்படுத்தியுள்ளன.

நகரமயமாக்கல் துரிதமான வளர்ச்சியினூடாக ஏற்படுத்துகின்ற சுற்றாடல் பிரச்சனைகளில் ஒன்று மாத்திரமே ஆகும். பூகோளப் பொருளாதாரத்தில் ஆசியா தெளிவாகத் தெரிகின்ற தன்மைக்கு முன்வந்திருப்பது பூகோள உயிரினப் பல்லினத் தன்மை மற்றும் சுற்றாடல் பாரிய மாற்றங்களுக்கு உட்பட்டிருக்கின்ற நிலைமையின் காரமணாகும். ஆசிய நாடுகள் மேற்கத்தைய நாடுகளில் ஏற்பட்ட பிரகாரம் □தற்போது மாசு படுத்துங்கள் பின்னர் தூய்மைப்படுத்துங்கள்□ என்ற போக்கிற்கு ஏற்ப வளர்ச்சியடைய முடியாது என்று தற்போது பரந்த அளவில் ஏற்றுக்கொள்வதற்கு முன்வந்துள்ளனர். காலநிலை மாற்றங்களின் வளர்ச்சி சுற்றாடல் தாக்கங்களைக் கணக்கெடாமல் விடுதல் என்பவற்றிற்கு வாய்ப்பளிப்பதில்லை. உண்மையாக ஆசியாவின் சில பகுதிகள் விசேடமாக பருவகால வலய நாடுகள் மற்றும் தீவுகள் பூகோளக் கால நிலை மாற்றங்களின் பாதிப்புக்களுக்குப் பரந்த

அளவில் உட்பட்டு வருகின்ற நாடுகளாகும். ஆசிய நாடுகளின் காணிகளுக்குப் பயன்படுத்துகின்ற முறைகேடான முகாமைத்துவம், நிலையற்ற வலுச்சக்தி நுகர்வு மற்றும் இயற்கை வளங்களின் துரிதமான பயன்பாடு மற்றும் அதனுடன் பிணைந்த சுற்றாடல் அழிவுகளுக்கு உட்படுகின்ற பாரிய நிலைமையொன்றுக்கு முகம் கொடுகின்றது. அநேகமான ஆசிய நாடுகளில் சுற்றாடல் பாதிப்புகளுக்குப் பிரதானமாக இருப்பது கைத்தொழில் மயமாக்கல் செயற்பாடுகளாகும். மேற்கத்தைய அநேக நாடுகளில் சுற்றாடல் தரங்கள், நியமங்கள் கடுமையாக அமுல்ப்படுத்தப்படுவதன் காரணமாக அந்நாடுகளில் உற்பத்தியாளர்களுக்கு ஆசியா போன்ற நாடுகளில் நிலவுகின்ற சுற்றாடல் சட்டத்தின் இலகுத்தன்மை காணப்படுகின்றதினால் கைத்தொழிற்சாலைகளை ஆசிய நாடுகளில் அமைப்பதற்கு அவர்கள் கவர்ந்திழுக்கப்படுகின்றனர்.

சீனா மற்றும் இந்தியாவில் அதிகரித்துவருகின்ற வலுச்சக்திக் கேள்வியைப் பூர்த்தி செய்வதற்கு நிலக்கரி மற்றும் பெற்றோலியப் பாவனையானது அதிகரித்தல், பச்சைவீட்டு வாயு வளிமண்டலத்திற்கு விடப்படுகின்ற பாரிய தாக்கமாகக் காணப்படுகின்றது. மீன்பிடித்தல் மற்றும் நீரியல் கைத்தொழில் மிகவும் வளர்ச்சி போக்கு (நீரியல் உற்பத்தியில் நூற்றுக்கு எழுபது தொடக்கம் தொண்ணூறுக்கு இடைப்பட்ட அளவில் கிடைப்பது ஆசியாவிலிருந்தாகும்.) இயற்கையான மீன் வளம் நோக்கிய பாரிய தாக்கங்கள் ஏற்படுத்தப்பட்டுள்ளன. நுகர்வு உயர்வடைவதுடன் நவீனமயப்படுத்தல் விஸ்தரிப்புச் செய்யப்படுவதுடன் இந்த அழுத்தமானது மிகவும் அதிகரித்து வருகின்றது. மேலும் ஆசியாவின் பாரிய நகரமொன்றின் காட்சியொன்றானது வானுக்கு எழுகின்ற புகை மற்றும் பரவுகின்ற புகைசார்ந்த மேகமூட்டத்தினால் சூழ்ந்துள்ளது. ஆசிய நாடுகளில் ஆசிய நகரங்களில் உயர் ஆகாயத்தில் அது போன்ற புகைமண்டலங்கள் மற்றும் கருமேகங்களின் அதிகரித்துவருகின்ற சுகாதார பாதிப்புக்கள் உள்ளடங்கலான அநேக பாதிப்புக்கள் அதிகரித்தவண்ணமுள்ளன. இவ்வாறு மாற்றமடைகின்ற காலநிலைப் போக்கு நோக்கித் தாக்கம் செலுத்துகின்றன. ஆசியாவின் இயற்கையான அழிவுகள் ஏற்படுதல் நிரந்தரத்தன்மை மற்றும் அதன் போக்கு அதிகரித்துவருகின்ற போக்கினை வெளிக்காட்டுகின்றது. 1980 முதல் 2009 இற்கு இடைப்பட்ட காலத்தில் இயற்கை அழிவுகளின் காரணமாக ஏற்பட்ட பூகோளப் பொருளாதார அழிவுகளில் நூற்றுக்கு முப்பத்தெட்டு சதவீதம் அறிக்கையிடப்பட்டிருப்பது ஆசிய நாடுகளிலாகும்.[10]

மேலே குறிப்பிடப்பட்டது ஆசியாவின் கவர்ச்சிகரமான பொருளாதார வளர்ச்சியடைந்திருப்பது பிரதேச, தேசிய மற்றும் பூகோள உயிரினக் கட்டமைப்புகள் தொடர்பான கருதத்தகு அழிவுகளை மேற்கொண்டதுடன் அழிவுகளிற்கு உட்படுத்தியதுடன் மேற்கொள்ளப்பட்ட வளர்ச்சியொன்றாகவே. பொருளாதார வளர்ச்சி பௌதீக வளம் என்ற அடிப்படையில் ஏதேனும் வளத்தினை வலுவினை ஏற்படுத்தியுள்ள ஆனால் அதனுடன் தொடர்புடைய உயிரின பல்லினத்தன்மைக் கட்டமைப்புக்கு ஏற்பட்டுள்ள பாதிப்புக்கள் உயிரினக் கட்டமைப்பு சேவைகளின் அழிவுகள் இந்த வளங்கள் உண்மையான மானிட நலன்புரிக்கு மாற்றமடையச் செய்கின்ற போது கிடைக்கின்ற பெறுபேறுகளின் அளவு குறைவடைந்துகொண்டு வருகின்றது.

இந்தச் சவால்களுக்கு முகம் கொடுக்கின்றபோது வலய ரீதியான ஒத்துழைப்புக்கள் தேவைப்படுவது அவை அநேகமாகத் தத்தமது நாட்டு எல்லைகளுக்கு வெளியாக ஏற்படுகின்ற காரணத்திலாகும். எனினும் இதுபோன்ற ஒத்துழைப்பொன்றினை எற்படுத்திக்கொள்ளுதல் இலகுவன்று.

ஆசிய நாடுகள் பூராகவும் அரசியல் கட்சிகள் மற்றும் எதிர்ப்புகளினால் நிறைந்துள்ளது. இவற்றில் மிகவும் தெளிவாகத் தெரியக்கூடிய தென்னாசிய மற்றும் கிழக்குச் சீனக் கடற்பரப்பில் ஏற்பட்டுள்ள கடல் எல்லை தொடர்பான பிணக்காகும். விசேடமாக ஜப்பான் மற்றும் சீனா என்பனவற்றுக்கிடையில் சீனா மற்றும் பிலிப்பைனுக்கிடையில் விசேட பொருளாதார வலயத்தினைப் பிரித்து வேறாக்கிக் கொள்வது தொடர்பில் சீனா வியட்நாம் மற்றும் மலேசியா என்பனவற்றுக்கிடையில் இஸ்பெக்லி தீவுகளின் உரிமைகள் பற்றியும் காணப்படுகின்ற பிணக்குகள் பற்றிய வியடங்களாகும். இதற்குப் புறம்பாக வடக்கு மற்றும் தென் கொரியா ஆகிய நாடுகளுக்கிடையிலான பகைமை உணர்வு தொடர்ச்சியாகக் காணப்படுதல் ஒருமுறை புரிந்துணர்வு தொடர்புகள் ஏற்படுத்திக் கொண்டது

முதல் ஆயுதப் பிணக்குகள் வரை தீவிரமடைந்த நிலைமை உள்ளது. ஆசியாவில் மேற்கத்தேயத்திற்கு புறம்பாக இந்தியா மற்றும் சீனாவிற்கு இடையிலும் இந்தியா மற்றும் பாகிஸ்தான் ஆகிய நாடுகளுக்கிடையிலும் அமைதியற்ற நிலைமை காணப்படுகின்றது. இந்தியா மற்றும் சீனாவிற்கிடையில் திபேத்தின் கிழக்குத் தென் பிரதேசத்தின் நிர்வாகம் பற்றி நீண்ட காலம் முதல் கருத்து வேறுபாடுகள் காணப்படுகின்றன. இந்தியா மற்றும் பாகிஸ்தானுக்கிடையில் ஜம்மு மற்றும் கஸ்மீர் பிரதேசங்கள் பற்றி நிலவுகின்ற யுத்தம் போன்ற விடயங்கள் அந்நாட்டுக்கு இருக்கின்ற பிரச்சனை மாத்திரமன்றி வலயத்தின் ஒத்துழைப்பினைக் கட்டியெழுப்புவதில் தீர்க்கமான காரணியாகக் காணப்படுகின்றன. நிலைமை மிகவும் சிக்கல் நிலைமையில் காணப்படுவது பயங்கரவாதக் குழுக்கள் தேச எல்லையினைக் கவனத்திற் கொள்ளாது விரிவடைந்து செல்கின்றமையினாலும். இவை சமநிலையற்ற தன்மையொன்றினை உருவாக்குவதில் பாரிய காரணகளாகக் காணப்படுகின்றன.

இந்தியா தென்னாசியாவின் பலமான தங்கியிருக்கும் காரணியாக இருப்பதுடன் சீனா உபாய வழிகளிலான முதலீடுகள் மற்றும் நன்கொடைகளினூடாக ஆசிய வலயம் பூராகவும் தமது அதிகாரத்தினை விஸ்தரிப்புச் செய்துள்ளது. ஆசியாவில் அதிகரித்து வருகின்ற சீன அச்சுறுத்தல்கள் ஐக்கிய நாடுகளின் உபாயவழிகளினை மீண்டும் ஆசியான் நோக்கித் திருப்பி விடுவதற்குக் கொள்கை ரீதியாகச் சவால் விடப்பட்டுள்ளதாகச் சில எதிர்பார்ப்புகள் குறிப்பிடுகின்றன. இது தொடர்பான அடிப்படை உபாய வழிகளாக இருப்பது ட்ரான்ஸ்பசுபிக் வர்த்தகக் கூட்டாகும். இது பொதுவான வர்த்தக உடன்படிக்கை மட்டுமன்று. இதில் வர்த்தகம், முதலீடு மற்றும் உபாயவழி பொருளாதார ஒத்துழைப்பு போன்ற விடயங்கள் உள்ளடங்குகின்றன. சீனாவின் மறுமலர்ச்சியினால் பாதுகாப்புப் பற்றி ஏற்பட்டுள்ள பாதிப்புக்கள் பற்றியும் கவனம் செலுத்த வேண்டிய ஆசிய நாடுகள் இந்த வலயத்தினுள் அமெரிக்க அதிகாரத்தினை விரிவடையச் செயய வேண்டிய தேவையினை வெகுவாக ஏற்றுக்கொள்கின்றனர். ட்ரான்ஸ்பசுபிப் வர்த்தகக் கூட்டு வலலயத்தில் பொருளாதார அச்சுறுத்தல்கள் பற்றிய ஐக்கிய நாடுகள் மற்றும் சீனாவிற்கு இடையில் நடைபெறுகின்ற போட்டியின் பிரதான விடயமாகவும் மற்றும் சீனாவின் மறுமலர்ச்சியினைக் கட்டுப்படுத்துவதற்கான ஆசியாவின் ஏனைய நாடுகளுக்குள்ள கருவியாகவும் இருக்கமுடியும்.

இந்தச் சகல வளர்ச்சிகளினாலும் வெளிப்படுவது என்னவெனில் ஆசியா தமது எழுச்சியில் பொது இலக்கு ஒன்றுக்கு ஏற்ப செயற்படவேண்டிய நோக்கமாகும். அண்மைய காலத்தில் அமைக்கப்பட்டிருப்பது ஆசியான் அமைப்பாகும். 2015 ஆம் ஆண்டளவில் பூர்வாங்க இராஜதந்திரீக மற்றும் பொருளாதார சமூகமாக ஆவதற்காக எடுக்கப்பட்டுள்ள தீர்மானமாகும். எனினும் இது ஆசிய மக்களின் உப வலயங்களுக்கு மாத்திரமல்லாது வலயங்களுக்கு வரையறுக்கப்படாது என்பதினை மறுக்க முடியாது. ஆசியாவிற்கும் ஐரோப்பாவில் காணக்கூடிய விதத்தில் பரந்த வலய முயற்சிகளின் தேவை காணப்படுகின்றது. எனினும் அவை குறிப்பிடுவதற்கு இலகுவாக இருந்தபோதும் அடைந்துகொள்ளுதல் இலகுவன்று.

ஐரோப்பிய ஆக்கிரமிப்பானது பல தசாப்தங்களாக விரும்பத்தகாத பிணக்குகள் காணப்பட்ட போதும் வலயத்தில் அரசியல் தலைவர்களின் நோக்கு மற்றும் உறுதிப்பாடுகள் தேவையாக இருக்கின்ற விரிந்த முயற்சிகளின் விஸ்தரிப்பாகும். அவ்வாறான முன்னேற்றமொன்றினை ஆசிய நாடுகள் அடைந்துகொள்ளுதல் மிகத் தூரத்திலுள்ள இலக்கொன்றாக இருக்கிறது. ஆசிய ஒத்துழைப்பு மற்றும் வலய மற்றும் மேலும் வலயங்களுக்கிடையேயான இருபக்க ஆரம்ப முன்னெடுப்புகளை விட மொத்தமாக ஆசிய வலயத்தினை ஆட்படுத்தியுள்ள முயற்சிகள் இதுவரை உருவாகவில்லை. நிலப்பிரதேசம் பற்றிய பிணக்குகள் நீண்டகாலமிருந்தே தீர்வொன்று இல்லாமலே காணப்படுகின்றது. ஐரோப்பியச் செயற்றிட்டம் மட்டுமல்லாது ஆசிய செயற்றிட்டம் தொடர்பாகத் தமது தொழில்சார் சவால்களுக்கு முகங்கொடுப்பதற்கு முன்வைக்கப்பட்ட அரசியல் தலைவர்கள் மிகச் சிலரே. நாடுகள் மற்றும் குழுக்கள் வலய அதிகாரம் படைத்தோர் ஆகிய இரு சாராராகிய சீனா மற்றும் இந்தியா நோக்கிக்

காணப்படுகின்ற அச்சம் சந்தேகம் மற்றும் பரஸ்பர ரீதியாகப் பெற்றுக்கொள்ளக்கூடிய பயன்களின் காரணமாக நாடுகள் இரண்டுக்குமிடையில் மாறுபட்டுவருகின்றன. பாதுகாப்பு மற்றும் இராணுவ நடவடிக்கைகள் பற்றிய ஒத்துழைப்பானது உண்மையில் காணப்படுவதில்லை. மிக முக்கியமாக (ஐரோப்பிய கொமிசன் ஐரோப்பிய ஆணைக்குழுவிற்குச் சமமாக) இந்தச் சகல நிழகழ்ச்சித் திட்டங்கள் தொடர்ச்சியாக நிகழ்கின்ற மற்றும் பரந்த பாராட்டுகள் காணப்படுகின்ற விதத்தில் முன்னெடுத்துச் செல்கின்ற மொத்த ஆசிய நாடுகளின் நிறுவன ரீதியான நிகழ்ச்சித் திட்டமொன்று மற்றும் உடன்பாடின்மையுமாகும்.

இவற்றில் ஆசியாவின் மறுமலர்ச்சி ஒரு சிறு காலத்திற்காவது அமைதியாக குறைந்த மற்றும் உண்மைத் தன்மையற்றதாக கருதப்படாத போதும் அது முழு அளவில் மறுவெழுச்சி பெறுவதற்கான வலயத்தினுள் உள்ள இயலுமை பற்றிய சிக்கல்களை வெளிப்படுத்துகின்றது.

ஐரோப்பிய ஆக்கிரமிப்பானது ஒப்பீட்டு ரீதியில் இலகுவடைந்தமைக்கான காரணம் அதன் வரலாறு, கலாச்சாரம், மொழி மற்றும் (அனேகமாக) அரசியல் கட்டமைப்புக்களின் பொதுப்படைத் தன்மையாகும். மறு புறுமாக ஆசியா பூகோள ரீதியாக உள்ள பரந்த பரம்பலை கலாச்சார மற்றும் அரசியல் ரீதியாக உள்ள பலதரப்பட்ட தன்மைகளின் காரணமாக அது போன்ற உள்வாங்கல் ஒன்று தொடர்பாக குறிப்பிடுதல் கூட கடினமானதாகும். கிழக்காசியாவின் சில நாடுகள் பூகோள ரீதியாக பரவலடைந்து சுபீட்ச நிலையினை அடைந்துள்ளதுடன் மத்திய ஆசிய மற்றும் தென் ஆசிய நாடுகளின் வறுமை நிலை மற்றும் பிற்போக்கில் ஆழ்ந்துள்ளன. சில நாடுகளில் வலுவான மற்றும் சிலவேளைகளில் ஏதேட்சையான சிலரின் கோசத்தினை விஞ்சி பலரின் குரல் வெளிப்படுகின்ற சனநாயகம் நிலவுவதுடன் ஏனைய நாடுகளில் சனநாயகமற்ற அல்லது தெளிவாக தான்றோன்றித்தனமாக அல்லது ஏகாதிபத்திய ஆட்சி நடைபெறுகின்றது. பொருளாதாரக் கட்டமைப்பானது பொதுவான மாதிரி வடிவத்துடன் பொருந்துவதில்லை. சீனாவில் நிலவுகின்ற அரச முதலாளித்துவப் போக்கு யப்பான் அல்லது தாய்லாந்தில் அமுல்படுத்தப்படுகின்ற லிபரல் முதலாளித்துவம் என்பன வெகுவாக வேறுபட்டதாகும். இதற்கிடையில் வியட்னாம், சிங்கப்பூர், மியன்மார் மற்றும் உண்மையாக இலங்கை போன்ற நாடுகளில் இந்த இரண்டு வகையான பண்புகள் காணப்படுகின்றன.

இலங்கைக்கு ஆசியாவின் சுபீட்சத்தின் நன்மைகள் மற்றும் பாதகங்கள் என்ற வகையில் கற்றுக் கொள்ளக் கூடிய பாடங்கள் ஏராளமாகும். 2005 ஆம் ஆண்டின் பின்னர் இலங்கையில் பொருளாதார கொள்கையில் அபிவிருத்தியில் பிரபல்யமான பாரிய அரச தலையீடு காணப்படுகின்ற கிழக்கு மற்றும் ஆசிய பசுபிக் வலயப் பண்புகள் அனேகமானவை வெளிப்படுகின்றன. பொதுமக்கள் உட்கட்டமைப்பு வசதிகள் தொடர்பான செயற்திட்டங்களில் அரச பங்களிப்பு, அரச தொழில் முயற்சிகள் தனியார் மயப்படுத்தலை நிறுத்தியமை, தெரிவு செய்யப்பட்ட உள்நாட்டு கைத்தொழில்களுக்கு நிவாரணங்களை வழங்குதல் போன்ற நடவடிக்கைகள் இவ்வாறான நிலைமையின் பிரதான விடயங்களாகும். கிழக்காசியாவில் காணக் கூடிய விதத்தில் இது முன்னர் இல்லாத கொள்கையொன்றன்று. அனேகமான ஆசிய நாடுகள் "பிரதான கோட்பாடுகளை சரி செய்யும்" ஏற்றுக் கொள்ளப்பட்ட புதிய போக்குகளை பொருள் கூறுதல் கடந்து சென்றுள்ளது. கட்டமைப்பு ரீதியான சீராக்கங்களை மேற்கொள்ளும் போது மற்றும் அவர்களுடைய பொருளாதாரத்தை மேம்படுத்தும் போது மிகவும் செயற்பாடுடைய கைத்தொழில் கொள்கையொன்றினைக் கடைப்பிடிக்கின்றது. அவர்கள் உட்கட்டமைப்பு வசதிகள் தொடர்பான உபாயத் திறன் நிறைந்த வகையில் முன்னிலைப்படுத்தி அவற்றின் கிரயத் தாக்கங்கள் மற்றும் கைத்தொழில் கொள்கைகளுக்கு சீராக்கங்களை உறுதிப்படுத்தியுள்ளன. அவர்கள் கல்வி மற்றும் திறன் அபிவிருத்திக் கொள்கைகளை அடிப்படையாகக் கொண்டு எதிர்கால வளர்ச்சிக்குரிய குறைபாடுகளை நிவர்த்தி செய்துள்ளன. இதன் பிரகாரம், கிழக்காசிய அனுபவங்களின் ஊடாக கற்றுக் கொள்ளக் கூடிய முக்கியமான பாடமாக இருப்பது அரசாங்கத்தின் பாத்திரம் கைத்தொழில் கொள்கைகள், உட்கட்டமைப்பு வசதிகள் அபிவிருத்தி மற்றும் கல்வி பற்றிய அரச பாத்திரம் உபாய ரீதியான வழிகாட்டல் மற்றும் ஒத்துழைப்பு நிறைந்ததாகவுமாகும்.

எனினும் கிழக்கு ஆசிய நாடுகள் ஈடுபடுத்துகின்ற கைத்தொழில் கொள்கைகளை அவ்வாறே பின்பற்றுதல் இன்று பிரச்சினையான விடயம் என்பதை இலங்கை கற்றுக் கொள்ளுதல் வேண்டும். ஒரு வகையில் பூகோள வர்த்தக நியதிகள் மாற்றமடைந்துள்ளன. இந்த பொருளாதாரத்தைக் கடைப்பிடித்த தெளிவான பாதுகாப்புத்தன்மையினை இன்று பயன்படுத்திக் கொள்ள முடியாது. இரண்டாவதாக அனேகமான நாடுகளில் ஒரே அரசியல் கட்டமைப்பு இன்மையினால் அரசானது கொள்கைகளை தயார் செய்யும் போது பாரிய பிரிவேசமொன்றினைப் பெற்றுக் கொள்ள முடியும். உதாரணமாக தேர்தல்களின் மூலம் தெரிவு செய்யப்படுகின்ற அலுவலர்களுடன் நெருங்கிய தொடர்புகளை வைத்திருக்கின்ற பாரிய வியாபார சமுகம் -சயெபோல்- உள்ள தென்கொரிய மாதிரிகள் இன்று இலகுவன்று. மூன்றாவதாக வளர்ச்சியை ஊக்கப்படுத்துவதற்கு அரசாங்கத்தின் ஒத்துழைப்பை வழங்குவதற்கு நோக்கம் வைத்துள்ள அனேக அரசாங்கங்கள் அவ்வாறு செய்வதற்குத் தேவையான வரிக் கொள்கைச் சந்தர்பங்கள் இல்லை. உதாரணமாக தென்கொரியாவிற்கு செலவு மற்றும் இரசாயன கைத்தொழில்களை ஆரம்பிப்பதற்கான முதலீடாக ஐக்கிய அமேரிக்காவினால் செலுத்தப்படுகின்ற யுத்தப் பாதிப்பு முற் கொடுப்பனவுகள் மற்றும் சலுகை கிடைக்கப் பெற்ற நன்கொடை நிதி பாரிய அளவினை பயன்படுத்திக் கொள்வதற்கு இயலுமை கிடைத்துள்ளது. அனேக நாடுகளுக்கு எவ்வகையான கைத்தொழில்களுக்கு ஒத்துழைப்பு வழங்குதல் வேண்டும் மேம்படுத்த வேண்டும் என்பது பற்றிய திறமையாக மற்றும் வினைத்திறனாக இனம் கண்டு கொள்வதற்குத் தேவையாக இருக்கின்ற தொழில்நுட்பத் திறன்கள் இல்லாமல் இருக்கலாம். வலுவான மற்றும் மோசமான கம்பனிகள் யாவற்றிற்கும் அரச ஒத்துழைப்புக்களை வழங்கிய இலத்தின் அமேரிக்க நாடுகளைப் போன்றல்லாது ஆசியாவில் உயர் திறன்களைக் கொண்டவர்களை முதலாவதாக இனங்கண்டு அவர்களுக்கு நன்கொடை வழங்குதல் நிகழ்ந்தது. அவ்வாறான கம்பனிகள் மிக உயர் நிலைக்குச் சென்றுள்ளன. எனினும், இந்தக் கொள்கையினை அமுல்படுத்தும் போது ஏதேனும் எதிர்ப்புக்கள் ஏற்பட்டால் வளங்களை ஒதுக்கீடு செய்தல் பாரிய தவறாக இருப்பதுடன் அது மிகச் சிறந்த நிலைமையின் கீழ் சினேக பூர்வ முதலாளித்துமாக இருக்க முடிவதுடன் மிகவும் மோசமான நிலைமையிலிருந்து உன்னதமான கவர்ச்சித் தன்மைக்கு காரணியாகவும் இருக்க முடியும். அனேகமான ஆசிய நாடுகளைப் போன்று இலங்கையும் முதுமையடைந்த சனத்தொகைத் தரத்திற்குள் ஒன்று சேர்ப்பதற்கு அண்மையில் இருக்கின்றது. 20 வருடங்களிலும் குறைந்த காலத்தில் இலங்கையில் முதுமையடைந்த சனத்தொகை மொத்தச் சனத்தொகையில் நூற்றுக்கு 20 சதவீதத்திலும் அதிகரிக்க முடியும் அத்துடன் அதன் காரணமாக ஒவ்வொரு நான்கு பேர்களில் ஒருவர் ஓய்வூதியம் பெறுபவராக இருக்கின்றார். இவற்றில் நலன்புரி நிதியீட்ட கிரயம் போன்று தொழில் புரிகின்ற வயதிலான சனத்தொகை குறைவடைவதன் காரணமாக வளர்ச்சி வேகம் வீழ்ச்சியடையும் கிரயம் அமேரிக்காவிற்கு பாரிய சுமையாக உள்ளது. இந்த மாற்றம் நடைபெற்று வருகின்ற யப்பான் போன்ற நாடுகளில் காணக்கூடிய விதத்தில் பாரிய பாதிப்புக்களாக இருப்பது நலன்புரி நிதியீட்டமாகும். வயதுத் தொகுதிக்குரிய சமுகப் பாதுகாப்புச் செலவீனங்கள் கடந்த 20 வருடங்களின் போது பாரிய அளவில் அதிகரித்துள்ளது. இலங்கையில் தற்பொழுது முதல் நலன்புரிய நிதியீட்டத்தை பேணிச் செல்லக் கூடியதுடன், பொருளாதாரம் தொடர்பான சுமையற்றது என்றும் சான்றுப்படுத்துவதற்கு வலுவான சமுக பாதுகாப்பு நிகழ்ச்சித்திட்டங்களில் முதலீடு செய்தல் வேண்டும். தற்பொழுது நிலவுகின்ற சமுகப் பாதுகாப்பு நிகழ்ச்சித்திட்டங்கள் போதியளவான நிதியீட்டம் செய்யப்பட்டிருக்கவில்லை. இல்லையெனில் எழுகின்ற குடியியல் மாற்றங்களுக்கு வினைத்திறனாக முகங் கொடுப்பதற்கு பாதுகாப்பு மற்றும் புள்ளிவிபரவியல் தன்மை இல்லை.

சுகாதாரத் துறையிலும் முதுமையடைகின்ற சனத்தொகையில் அதிகரித்து வருகின்ற சுகாதாரத் தேவைகளுக்கு முகங் கொடுப்பதற்கு தயார் செய்து கொள்ளுதல் வேண்டும். நிலவுகின்ற சுகாதார பாதுகாப்பு கட்டமைப்பு இந்த மாற்றங்களுக்குப் பொருந்தும் விதத்தில் முன்னோக்கிச் சென்றுள்ளது. இந்த பிரச்சினை தீர்க்கப்படாவிடில் முதுமையடைகின்ற சனத்தொகைக்கு சுகாதார செலவீனங்களை தனிப்பட்ட முறையில் ஏற்றுக் கொள்ள வேண்டி ஏற்படும். முதுமையடைகின்ற

சனத்தொகையின் சமுக மற்றும் நலன்புரித் தேவைகளை நிறைவேற்றும் போது அவற்றினை நிதியீட்டம் செய்வது தொடர்பாக இலங்கையில் பொருளாதார வளர்ச்சியும் நடைபெறுதல் வேண்டும். தொழில் புரியக் கூடிய வயதிலான சனத்தொகை வீழ்ச்சியடைவதைத் தொடர்ந்து இது சிக்கல் நிறைந்ததாக மாறலாம். எனவே பெண்களுக்கு அதிகமாக தொழில் படையில் சேர்வதற்கு ஊக்கமளித்தல், தொழில்களுக்கு ஆட்சேர்ப்புச் செய்து கொள்வதற்கு தைரியப்படுத்தும் அதிகாரம் பெற்ற தொழில் சட்டங்களை மீள விசாரணை செய்து பார்த்தல், ஓய்வூதியம் பெறுவோர்களுக்கு வினைத்திறனான செயற்பாடுகளில் ஈடுபடுவதற்கு சந்தர்ப்பங்களை தயார் செய்து கொடுத்தல் மற்றும் உயர்வடைகின்ற வெளிச் செல்லும் சதவீதத்திற்கு முகங்கொடுப்பது தொடர்பாக தற்பொழுது தொழில் புரிகின்ற மக்கள் மிகவும் வினைத்திறனாக்குதல் தொடர்பாக கொள்கை வகுப்பாளர்களின் கவனம் செலுத்தப்பட வேண்டிய தீர்க்கமான துறையாகும்.

மக்களின் வினைத்திறன் மற்றும் திறன்களை கட்டியெழுப்பும் போது மிகவும் அண்மிய குறிகாட்டிகளில் கூட இலங்கைக்கு ஆசிய பொருளாதாரத்தில் இருந்து கற்றுக் கொள்வதற்கு அனேக விடயங்கள் உள்ளன. ஆசிய கல்விக் கட்டமைப்பின் வெற்றிகரமான நிலைமை தங்கியிருப்பது பற்றி சிறப்பாக சிந்தித்துப் பார்த்து நிதமும் முன்னேற்றமடைந்து வருகின்ற உபாய வழியின் ஊடாகவாகும். சமநிலையான பகுப்பாய்வின் ஊடாக எழுகின்ற வெற்றிகரமான தன்மையின் தீர்க்கமான விடயங்களில் சில விடயங்களாக இருப்பது ஆசிரியர்களின் பண்புசார் தன்மைகளை மேம்படுத்துவதற்கு பயன்படுத்தப்பட்ட உபாய வழிகள் மற்றும் ஆசிரியத் துறைக்கு திறமையானவர்களை கவர்ந்திழுத்துக் கொள்ளல், அரசாங்கத்தினால் செலவு செய்யப்படுகின்ற பணத்திற்கும் சமமான விதத்தில் வகை கூறல் மற்றும் செயற்பாடுகளை உறுதிப்படுத்துவதுடன் பாடசாலைக் கட்டமைப்பு, பாடத்திட்டம் மற்றும் கற்பிக்கும் முறைகளை மேம்படுத்தல் மற்றும் கல்விக்கு (விசேடமாக பாடசாலைகளுக்கு) ஒதுக்குகின்ற வரவு செலவுத்திட்ட ஒதுக்கீடுகளை அதிகரித்தல் போன்றனவாகும். இலங்கை இந்த சகல விடயங்களில் பின்னடைவில் இருப்பதுடன் அதற்கு பிரதான காரணமாக இருப்பது முகாமைத்துவ மற்றும் வள (ஆசிரியர்கள் அல்லது நிதி) ஒதுக்கீடு செய்வதில் உள்ள குறைபாடுகள், வகை கூறல் இல்லாதிருத்தல் மற்றும் கல்வி முறைமையில் பலதரப்பட்ட மட்டங்களில் நிலவுகின்ற நிருவாகத்தின் குறைபாடுகள்.

நகரச் சனத்தொகை சதவீதம் நூற்றுக்கு 18 சதவீதத்திலும் பார்க்க குறைந்த இலங்கை ஏனைய ஆசிய நாடுகளுடன் ஒப்பீடு செய்யும் போது நகரமயமாக்கல் குறைவாக இருந்த போதும் மிகவும் வேகமான நகரமயமாக்கலுடன் விசேடமான சவால்கள் முன்வைக்கப்படுகின்றன. சமுக உட்கட்டமைப்பு வசதிகளில் மேற்கொள்ளப்படுகின்ற முதலீடுகளை பரந்த பிரதேசத்தில் பரவலடையச் செய்திருத்தல் மற்றும் கைத்தொழில் செயற்பாடுகளை மேல்மாகாணத்திலிருந்து வெளிக் கொண்டு செல்லும் முன்னோடி நடவடிக்கையின் காரணமாக மாவட்டங்கள் சில தவிர இலங்கையில் பிரபல்யமான நகரமயமாக்கல்களை காண முடியாது. வேறு ஆசிய நாடுகளைப் போன்று கிராமியச் சனத்தொகை பாரிய அளவில் நகரங்களுக்கு படையெடுத்தலை காணக் கூடியதாக இல்லை. அதற்கான காரணங்கள் இரண்டினைக் குறிப்பிட முடியும். ஒரு புறமாக இலங்கையின் வறுமை நிலை ஏனைய அனேக நாடுகளைப் போன்று மிக தீவிரமாக இலலை. சுகாதாரம் போன்ற நலன்புரிச் சேவைகள் நாடு பூராகவும் சிறப்பாக வியாபித்துக் காணப்படுகின்றது. மறு புறமாக மேல்மாகாண நகரங்கள் வர்த்தக ரீதியாக வளர்ச்சியடைந்துள்ளதுடன் அந்த வளர்ச்சிப் அளவானது சிறப்பாக வெளிப்படும் விதத்தத்தில் குடிபெயர்வோர்களை கவர்ந்திழுக்கும் அளவிற்கு இல்லை. இதற்குப் மாறாக சீனாவில் தென் கடற்கரை நகரங்களுக்கு கிராமிய மக்கள் பாரிய அளவில் இடம் பெயர்கின்றனர். அது அப்பிரதேசத்தின் ஏற்றுமதி தொடர்பான உற்பத்தி வசதிகள் வெளிப்படையாக கிரமங்களில் உழைத்துக் கொள்வதிலும் பார்க்க கூடிய உழைப்பினை பெற்றுக் கொள்ள முடிவதன் காரணத்தினாலாகும்.

எனினும் யுத்தத்தின் பின்னர் அறிக்கையிடப்பட்ட வளர்ச்சி மற்றும் நடுத்தர அளவிலான வருமானம் பெறுகின்ற நிலைமையினை அடைந்ததைத் தொடர்ந்து வருமானங்கள், வாழ்கைப் பாணி மற்றும் எதிர்பார்ப்புக்கள் மாற்றமடைதல், நகரமயமாக்கலின் சிக்கல்கள்கள் தொடர்பான கொள்கைகள்

தொடர்பான விடயமாக உள்ளன. ஆசிய நாடுகளின் அனுபவங்களில் இலங்கைக்கு இந்த மாற்றங்களை சிறப்பாக முகாமை செய்வது எப்படி என புரிந்து கொள்வதற்கு இயலுமை கிடைத்துள்ளது. அவ்வாறே தொழிலாளர்கள் நகரங்களில் வினைத்திறனான தொழில்களுக்கு இணைப்புச் செய்வதன் ஊடாக நகரமயமாக்கலை இலகுபடுத்துகின்ற நகர்பகுதி பொதுமக்கள் சார் செயற்பாடுகளில் முற்கூட்டியே முதலீடு செய்யும் முக்கியத்தும் யப்பானின் முன்மாதிரியுடன் வெளிக்காட்டுகின்றது. கொழும்பு மற்றும் ஏனைய பிரதான நகரங்களில் நகர மக்கள் நாளாந்தம் முகங் கொடுக்கின்ற அதிக வீதி நெரிசல் மூலம் வெளிக்காட்டும் விதத்தில் இலங்கையில் தற்பொழுது தாமதமொன்று தென்படுகின்றது. நகரமயமாக்கலின் பிரபல்யமான ஒன்று சேர்தல்கள் நடைபெறுகின்ற ஆசிய நகரங்கள் பலவற்றில் காணக் கூடியதாக உள்ளது. கைத்தொழில்கள் ஒன்று சேர்வதன் ஊடாக தொழிலாளர்களின் வருமானங்கள் அதிகரிக்கப்பட்டு வினைத்திறன் மற்றும் நவீனமயப்படுத்தலை ஊக்கப்படுத்த முடியும். இலங்கையில் மலேசியாவைப் போன்று கைத்தொழில் மற்றும் நேரடி வெளிநாட்டு முதலீடுகள் ஈடுபடுத்தப்பட வேண்டிய நகரப் பிரதேசங்களை இனங்கண்டு அவற்றிற்கு வலுச் சக்தி, வீடமைப்பு மற்றும் சுற்றாடல் முகாமைத்தும் போன்ற உட்கட்டமைப்பு வசதிகளை கட்டியெழுப்புவதற்கான தேவை காணப்படுகின்றது. இலங்கை இத் துறைக்கு ஒப்பீட்டு ரீதியாக புதிதாக இருப்பதனால் முழுமையான மற்றும் சமநிலையான நகர மயமாக்கலை மிகச் சிறப்பாக திட்டமிடும் போதும் கட்டியெழுப்பும் போதும் பயன்களைப் பெற்றுக் கொள்ளக் கூடிய நிலையில் உள்ளது.

பெரிய கொழும்பின் அனேகமான பிரதேசங்களில் நகர திருத்த நிகழ்ச்சித்திட்டங்கள் துரிதமாக ஆரம்பிக்கப்பட்டுள்ளதுடன் மாறாக மக்கள் பழக்கப்படாத பிரதேசங்களில் மீண்டும் வதிவு செய்யும் போது அவர்களின் நலன்புரி, நிலவுகின்ற சமுகத் தொடர்புகள் வீழ்ச்சியடைவதனால் ஏற்படக் கூடிய சமுகப் பிரச்சினைகள், மீள் குடியேற்றம் செய்தல் தொழிலாளர்களின் (விசேடமாக ஒழுங்கு முறையற்ற துறைகளில் உள்ள தொழிலாளர்கள்) வாழ்க்கை முறை மீது தாக்கம் செலுத்துகின்ற விடயங்கள் தொடர்பாக உரிய விதத்தில் கவனம் செலுத்தப்படுதல் வேண்டும். தற்பொழுது மேற்கொள்ளப்பட்டு வருகின்ற நகர திருத்த நடவடிக்கைகள் சிறப்பாக பன்முகப்படுத்தப்பட்ட விதத்தில் திட்டமிட்டு அமுல்படுத்தப்பட்டு வருவதனைக் காணக் கூடியதாக உள்ளதுடன் அது தொடர்பாக தேவையான நிதியினைப் பெற்றுக் கொள்வதில் தெரிவொன்று காணப்படுகின்றதுடன் ஆனால் இந்த உபாய வழியில் காணப்படுகின்ற நல்லாட்சி அச்சுறுத்தல்கள் தொடர்பாக கவனம் செலுத்துதல் முக்கியமாகும். சகல நகர திருத்த நடவடிக்கைகள் மத்தியமயப்படுத்தப்பட்ட நிருவாகத்தினால் மேற்கொள்ள வேண்டியதில்லை. பெரிய கொழும்பு பிரதேசத்திலிருந்து வெளியில் உள்ள நகர மற்றும் உள்ளூராட்சி நிறுவனங்கள் அப் பிரதேசங்களில் மிகச் சிறந்த நகர வசதிகளை வழங்கும் போது வலுப்படுத்த வேண்டிய தேவை காணப்படுகின்றது.

அனேகமான ஆசிய நாடுகளில் நிலவுகின்ற விதத்தில் சுற்றாடல் மாசடைதல் தொடர்பான பிரச்சினைகளுக்கு முகங்கொடுக்காமை தொடர்பாக இலங்கை சுற்றாடல் பாதுகாப்பு மற்றும் உயிரினப் பல்லினத் தன்மை அழிவினைத் தவிர்ப்பதற்கு கொள்கை மற்றும் நிறுவன வேலைச் சட்டகத்தினை வலுப்படுத்தல் வேண்டும். நலிவான சட்டங்களை மேலும் வலுப்படுத்தல், தற்பொழுது தயார் செய்யப்பட்டுள்ள விளக்கமான திட்டங்களை அமுல்படுத்தல், உச்ச பயனினைப் பெற்றுக் கொள்வது தொடர்பாக உரிய நிறுவனங்களுக்கிடையில் மிகச் சிறந்த ஒருங்கிணைப்பு மற்றும் கைத்தொழில் செயற்பாடுகளில் சுற்றாடல் தாக்கங்களை இழிவுபடுத்தும் புதிய வழிமுறைகளை கண்டறிதல் போன்றன மிக முக்கியமான உபாய வழிகளாகும்.

யுத்தத்தின் பின்னரான காலத்தில் இலகு கடன் பெறும் வழிகள் நிறைவடைந்தமை மற்றும் ஆசியாவின் பொருளாதாரம் போன்ற உயிர்ப்பித்தெழுந்து வரும் சந்தைப் பொருளாதாரத்திற்கு உட்பாய்கின்ற நிதியங்கள் குறைவடைதல் அபிவிருத்தியில் அடுத்த கட்ட போக்கினை ஊக்கப்படுத்துவதற்கு நிதி மற்றும் முதலீடுகளை பாதுகாத்துக் கொள்ளல் தொடர்பாக வளர்ச்சியை உயர்வடையச் செய்கின்ற கட்டமைப்பு ரீதியான மறுசீரமைப்புக்கள் பால் மிகவும் சிறப்பாக

கவனம் செலுத்தப்பட்டு வருகின்றது. இலங்கையும் முகங்கொடுப்பதற்கு இருப்பது அதே போன்று சமமான சவால்களாகும். யுத்தத்தின் பின்னரான காலத்தின் போதான வளர்ச்சி சுபீட்சமடைதல் தெளிவாக முடிவடைந்ததும் அத்தியவசியமான எனினும் செலவு அதிகமான உட்கட்டமைப்பு வசதிகளை கடனுக்குப் பெற்றுக் கொண்ட நிதியங்களினால் மேற்கொள்ளுதல் பற்றிய தற்பொழுதைய போக்கினை மேலும் மறந்து விட முடியாது. ஆசிய அனுபவத்தின் ஊடாக ஏதேனுமொரு பாடத்தினை கற்றுக் கொள்ள முடியுமாயின் அது சரியான கொள்கைகளை அமுல்படுத்துகின்ற மற்றும் தேவையான போது மறுசீரமைப்புச் செய்கின்ற பிரதானமாக பிரபலமான பொருளாதாரங்களுக்கு அனேகமாக பூகோள புயல்களை வெற்றிகரமாக பின் தள்ளுவதற்கு மற்றும் பொருளாதாரத்தினை கட்டியெழுப்பும் செயற்பாட்டில் தங்கியிருப்பதற்கும் இயலும் என்பதனால் ஆகும். உண்மையாக அவற்றிற்கு உதவி புரிந்த சட்டரீதியான பயன்கள் நிறைந்த நிலைமைகள் காணப்படுகின்றன. உதாரணமாக பயன் நிறைந்த குடியியல் கட்டமைப்பு, அபிவிருத்திக்கு ஆழமாக செல்வாக்குச் செலுத்துகின்ற அரச நிருவாக மாதிரி மற்றும் துரித கைத்தொழில் மயப்படுத்தல் தொடர்பாக சுற்றாடல் அச்சுறுத்தல்களை கவனத்திற் கொள்ளாது விடல் போன்ற விடயங்களை குறிப்பிட முடியும். இலங்கையின் நிலைமைகள் இதிலும் பார்க்க வித்தியாசமானது. ஆசிய பயணப் பாதையினை கடைப்பிடித்தல் இலகுவான பணியொன்றன்று. எனினும் ஆசியாவின் மறுமலர்ச்சியினால் இலங்கையில் அபிவிருத்தி போக்கிற்கு மாத்திரம் அல்லாது மிகச் சிறப்பாக அதற்குப் பொருந்துவது எவ்வாறு என்று கற்றுக் கொள்வதற்கு பயன்படுத்தக் கூடிய அர்த்தபுஷ்டியான பாடங்களும் உள்ளன.

அதன் இயக்கப்பாடு மற்றும் அளவு பற்றியும், அதன் பண்பு மற்றும் கருத்துப் பற்றியும், கலந்துரையாடல்களை நடாத்தக் கூடியதாக இருந்த போதும் ஆசியாவின் மறுமலர்ச்சியானது உண்மையானது என்றும் எதிர்வரும் பல தசாப்தங்களுக்கு தீர்க்கமான பண்பொன்றாக இருக்கும் என்பதை மறந்து விட முடியாது. இலங்கை அதற்கு மிகச் சிறப்பாக எவ்வாறு பின்பற்றுவது பற்றி கற்றுக் கொள்ளுதல் வேண்டும். இலங்குகின்ற ஆசியா ஏனைய உலகத்துடன் இணைக்கின்ற முக்கியமான பூகோள கேந்திர முக்கியத்துவம் மிக்க இடத்தில் இலங்கை காணப்படுகின்றது என்பதை மறக்க முடியாது. இலங்கைக்கு மேற்கில் உள்ள நாடுகள் - ஆபிரிக்கா அல்லது மத்திய கிழக்கு அல்லது மரபுரீதியாக பங்காளர்களான மேற்கத் தேயத்தையும் மறந்து விட முடியாது. அனேகமானவர்கள் சிந்திக்கும் விதத்தில் ஐரோப்பா அல்லது வட அமேரிக்க முழுமையாக அருகலடைந்து விட வில்லை. அவை நவீனமயப்படுத்தல், நிர்மாணநிபுனத்துவம், நுகர்வு மற்றும் பூகோள தலைமைத்துவம் போன்ற முக்கியத்துவம் மிக்க துறைகளில் குறிப்பிட்டளவு காலத்திற்கு முன்னிலையில் நிலவும். இவற்றை புரிந்து கொள்வதற்கும் அதன் பிரகாரம் தமது முன்னோக்கிய பணியினை தயார் செய்து கொள்வதற்கும் இயலாது போதல் இலங்கையின் பாதிப்புக்கான காரணங்களாக இருக்க முடியும்.

2. Macroeconomic Performance

2.1 Introduction

Sri Lanka has witnessed a period of impressive growth in recent years, averaging 7.5 per cent per annum during 2010-13. Whilst growth dipped in 2012 to 6.3 per cent, a recovery to 7.3 per cent in 2013 appears to herald renewed optimism that the country can hold its medium term growth at above 7 per cent without significant overheating of the economy. Indeed, Sri Lanka is seen as one of the better performing emerging-market economies in Asia.

During the decades of conflict that Sri Lanka endured, the country's economic fortunes were subject to intermittent shocks in addition to taking a heavy toll on government resources. Now that the country has enjoyed a period of sustained peace, the demand for better infrastructure, jobs and public services is at the forefront of people's minds. Indeed, the government has viewed infrastructure as Sri Lanka's opportunity to unlock growth. Many of the big road infrastructure projects offering better internal connectivity do meet growing demand for public goods. At the same time, however, these and other high cost public infrastructure investments in ports, airports and such that have been powering the Sri Lankan economy cannot continue indefinitely without private sector involvement.

Private investment has been a persistent problem. The ratio of private investment to GDP has declined from 23.9 per cent in 2006 to 22.7 per cent in 2013, even as government investment rose from 4.1 per cent to 6.9 per cent of GDP over the same period. Whilst the government has been asking businesses to invest more and at the same time exerted moral suasion on the country's banking sector to lend more, private investment continues to be lacklustre. Indeed, a more visible and heavy-handed state presence in the economy - fuelled by the large public investment led infrastructure projects - appear to be one factor obstructing greater private sector participation in Sri Lanka's growth success story.

An enhanced private sector role in driving investment and job creation are essential if the government is to focus on bettering the social and economic advances already made. Sri Lanka has seen a sharp improvement in addressing poverty and inequity over the last eight years. Renewed focus on social sector investment to raise productivity, and reforms to cut red tape, simplify taxes and improve regulatory laws, will help get private investment on track to support the country's long-term development objectives.

2.2 Sri Lanka in an Asian Growth Perspective

The depiction of Sri Lanka's economic future comes from the government's stated goal to develop the country as the 'Wonder of Asia'. The belief that Sri Lanka is gaining ground towards this goal is pervasive in sections of the country's policy elite, backed by seemingly indisputable numbers on many economic indicators. Indeed, in March 2014, Sri Lanka was recognized by France-based credit insurer Coface as one of the brightest emerging economies to watch, alongside Peru, the Philippines, Indonesia and Colombia.[1]

[1] http://www.coface.com/.

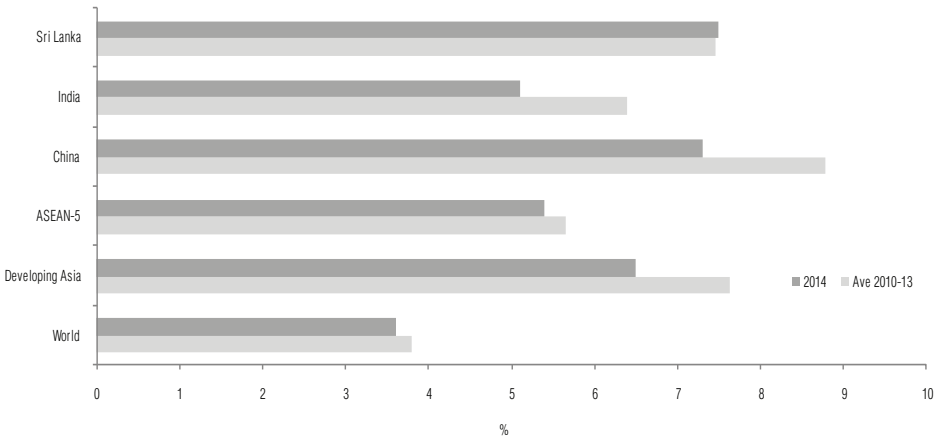
An enhanced private sector role in driving investment and job creation are essential if the government is to focus on bettering the social and economic advances already made.

Despite the many drawbacks to GDP as a measure of economic success, it is inevitably one of the key comparative statistics employed to assess the health of a country vis-à-vis its global partners. By any yardstick, Sri Lanka has performed creditably on the growth front. GDP growth has averaged 7 per cent per annum during 2010-13 at a time when even its historically better performing competitors in Southeast Asia were struggling (Figure 2.1).

However, predictions of Sri Lanka's promising future outlook are being based not only on GDP growth, but also on broader indicators of macroeconomic performance and socio-economic development indicators. On the fiscal front, the country has seen a steady improvement in key indicators such as the fiscal deficit and public debt. The annual average rate of inflation has been held in check at single digit levels since mid-2009. With continued strong foreign investor appetite for Sri Lanka's sovereign bond issues, external sector pressures on the exchange rate from negative current account positions have been held back. Whilst Sri Lanka's performance on some of these indicators compares less favourably with key competitors in neighbouring Asian economies as evident from Table 2.1, the overall trend is showing significant improvement over time.

On the current trajectory, Sri Lanka appears reasonably close to achieving the government's target of doubling per capita GDP to US$ 4,000 by

Figure 2.1
Sri Lanka's GDP Growth in a Comparative Context



Source: IMF, *World Economic Outlook*, various issues.

Table 2.1
Comparative Macroeconomic Indicators

	Fiscal Deficit[a]	Debt[a]	Inflation[b]
India	-3.8	49.7	6.8
Indonesia	-1.7	28.4	8.1
Malaysia	-4.5	53.3	2.4
Philippines	-1.9	51.5	4.7
Sri Lanka	-6.1	79.1	10.4
Thailand	-2.2	28.6	2.9

Notes: a. Percentage of GDP; b. Annual average growth 2000-2012.
Source: World Bank, "Word Development Indicators 2014", World Bank, Washington, D.C.

2016, up from US$ 3,200 in 2013. But, there are misgivings on how far and how fast the economy can sustain growth without over-extending itself. Indeed, a recent study by the IMF estimates Sri Lanka's long-term potential output to be around 6.8 per cent, well below the more ambitious target of 8 per cent pursued by the government.[2] Sri Lanka's more recent sources of higher growth do suggest that impediments to faster growth exist in key sectors of the economy that need to be addressed if future generations are to benefit from achieving the goal of 'Miracle of Asia'.

2.2.1 Growth and Productivity

For Sri Lanka, the most assured source of immediate economic growth following the return of peace and stability in 2009 was to be found in a sustained infrastructure development effort. Not surprisingly, many of the sectors seeing higher growth in recent years is thus concentrated in construction and related economic activities, tourism and utilities (Figure 2.2). This has led to a

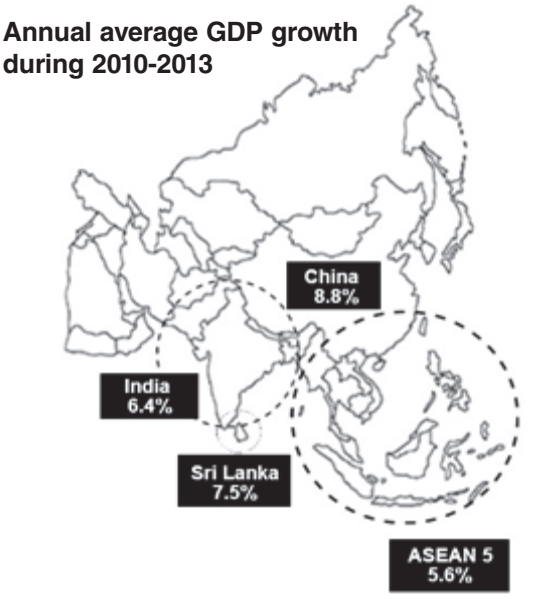
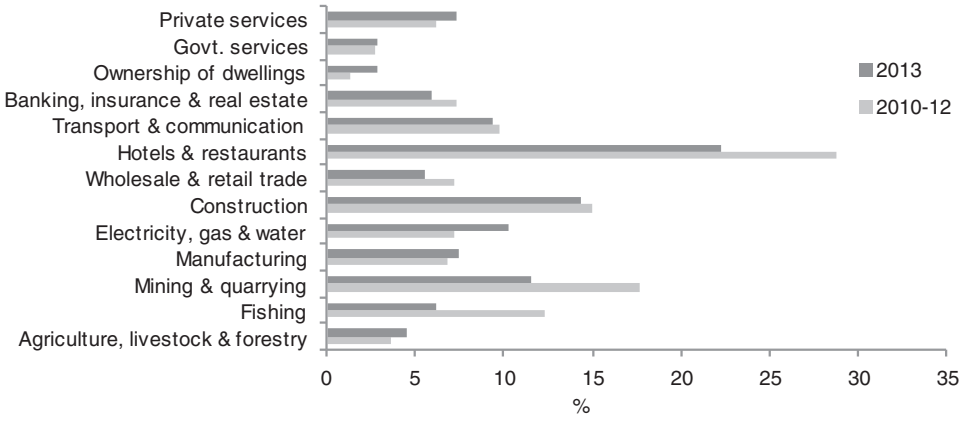


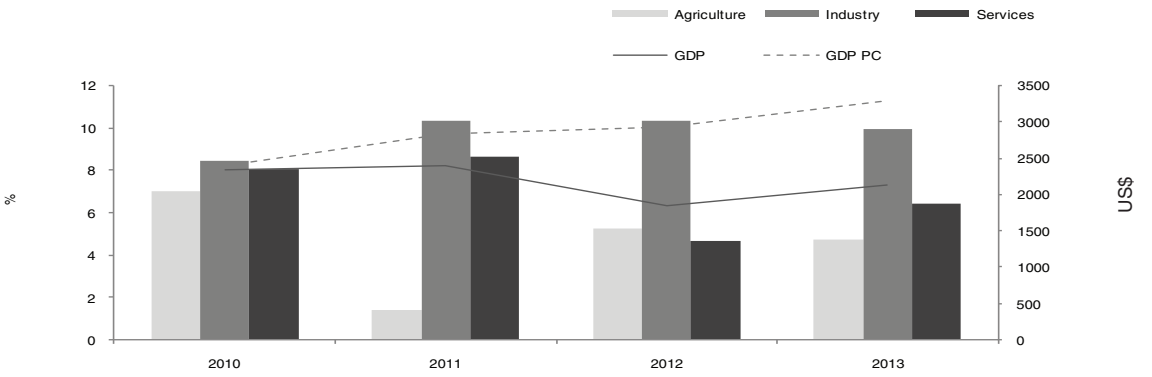
Figure 2.2
Sources of Growth



Source: CBSL, *Annual Report*, various years.

[2] D. Ding, *et al*., (2014), "Estimating Sri Lanka's Potential Output", IMF Working Paper WP/14/40, International Monetary Fund, Washington, D.C.

Figure 2.3
Output Trends



Source: CBSL, *Annual Report*, various years.

tilt towards the non-tradable sector assuming primacy as a source of higher growth viz., the tradable sector.

The balance between non-tradable and tradable sector growth matters in determining a long-term sustainable growth path, with the tradable sector an important driver of growth for developing economies. Indeed, for a small developing economy such as Sri Lanka, external demand is critical as an enabler of sustained long-term high growth, generating demand, absorbing surplus labour and raising productivity. In this context, the decline in Sri Lanka's exports-to-GDP ratio in recent years - from 28 per cent in 2004 to 15 per cent in 2013 - is of grave concern. Clearly, Sri Lanka's higher growth has not been driven by external demand for its goods and services, but rather by domestic demand financed with external debt.

In fact, robust industry sector growth during 2010-13, averaging well above GDP growth, is misleading (Figure 2.3). Much of that improved growth is derived from the construction and utilities sectors, with the more important sub-sector of manufacturing performing less impressively. However, there are positive signs that manufacturing sector growth is firming up, with annual average growth of 7.2 per cent during 2010-13 relative to 4.9 per cent during 2007-09 (Table 2.2). But, Sri Lanka's manufacturing sector remains heavily dominated by the food, beverages and tobacco sector, accounting for 47 per cent of total value added in manufacturing. This sector is far less export oriented compared to the

Table 2.2
Manufacturing Value Added

	Share	Growth	
	2013	2007-09	2010-13
Food, beverages & tobacco	47.0	5.9	6.7
Textile, wearing apparel & leather	22.9	3.7	7.4
Chemical, petroleum, coal, rubber & plastic	16.3	5.0	8.7
Fabricated metal products, machinery & transport equipment	8.5	4.9	7.1
Total		5.0	7.2

Source: CBSL, *Annual Report,* various years.

For a small developing economy such as Sri Lanka, external demand is critical as an enabler of sustained long-term high growth, generating demand, absorbing surplus labour and raising productivity.

textile and wearing apparel sector, comprising 23 per cent of total value added in manufacturing. On a more positive note, the latter has seen an improvement in growth during 2010-13, but it is not of a magnitude to reverse Sri Lanka's declining exports-to-GDP ratio.

A second and related concern with regard to the lopsided growth in the non-tradable sector arises with regard to productivity which has a direct bearing on growth as well as on other indicators such as price stability. Productivity in these sectors is much more difficult to estimate, with quality rather than the quantity of inputs carrying the greater weight in determining productivity in many services sectors for instance. Many non-tradable sectors, particularly in services are dominated by state presence such as in education, health, banking, utilities, etc. Thus, a worrying concern is the extent to which productivity in the non-tradable sector is compromised by the lack of sufficient competition, particularly in those areas where state-owned enterprises (SOEs) dominate the market.

Productivity improvements will be vital to stable and sustained long-term growth. With an ageing demographic profile, Sri Lanka's labour force has to be employed more efficiently to drive higher growth. Despite a progressive decline in agriculture's share of GDP to 10.8 per cent by 2013, it still continues to absorb nearly 30 per cent of the labour force. Those who have moved out of agriculture have tended to be absorbed into services, accounting for over 44 per cent of the labour force in 2013.

A breakdown of employment shares in the services sector indicates a high percentage in relatively low skilled services provision such as in retail trade, transport, etc. (Table 2.3). By contrast, employment shares in high skill activities such as information and communication, and financial activities tend to be rather low. If, as envisioned, Sri Lanka intends to transition to a higher middle-income economy by positioning itself as a hub in vital services-oriented activities - including that of a knowledge hub, a commercial hub, etc. - equipping its labour force with the requisite skills for gainful and productive employment in higher skilled services sector activities will be a key determining factor for success.

In this context, Sri Lanka's continuing high youth unemployment - estimated at 18.7 per cent in the age group of 15-19 years and 19.2 per cent in the age group of 20-24 years in 2013 - is of major concern.[3] Even more worryingly, a persistent high rate of unemployment of 8.6 per cent amongst those with education levels of GCE A/L and above reported in 2013 is another indication of loss of labour market efficiency in the economy. These numbers remain well above the national rate of unemployment of 4.4 per cent in 2013.

Thus, while enhanced volumes of investments, particularly in physical infrastructure, have boosted GDP growth in the medium term, sustaining higher growth into the longer term requires reforms that will unlock emerging supply side constraints in the labour market and related skills competencies provided through the education system in the

[3] CBSL, *Annual Report* 2013.

Table 2.3
Services Sector Employment by Activity

	Percentage of Total Employment
Wholesale & retail trade, repair of motor vehicles & motor cycles	13.7
Transport & storage	6.1
Accommodation & food services activities	2.2
Information & communication	0.7
Financial & insurance activities	1.8
Professional, scientific & technical activities	0.8
Administrative & support service activities	1.3
Public administration & defence	7.5
Education	3.9
Human health & social work activities	1.7
Other	4.3

Source: CBSL, *Annual Report*, various years.

country. The sources and elements that have driven Sri Lanka's higher growth in recent years need to be reviewed. A re-balancing between tradable and non-tradable sector growth in the immediate years ahead is important. This is particularly so in view of significant external debt incurred for investment purposes to drive growth, in an environment of continuing low domestic savings and investment.

2.3 Savings and Investment

The Sri Lankan economy is heavily consumption driven, with consumption as a percentage of GDP hovering at over 80 per cent (Table 2.4). Real consumption growth has remained relatively strong during the period 2007-13, particularly private consumption growth at 6.1 per cent, averaging just below GDP growth of 6.6 per cent per annum during the same period.

A high consumption rate implies low savings. Whilst the government has been a persistent dissaver, the other sectors of the economy - i.e., household and corporate sectors - also are not big savers. High and volatile inflation rates that result in low real returns on savings has been a deterrent to generating a culture of savings in the past. As a result, the savings-investment gap has seen Sri Lanka running a high and persistent current account deficit. The gap would be much wider if not for the remittances from overseas that has helped prop up national savings as well as helping to narrow the current account deficit.

Investment grew much more strongly over the same period, with government investment growing at a high speed of 15.7 per cent per annum in real terms during 2007-13. As a share of GDP, the increase is remarkable, growing from a ratio of 2.8 per cent in 2003-04 to 6.9 per cent during 2012-13.

What is of concern, however, is the decline in private investment growth since it peaked in 2010 on the back of a sharp slowdown in growth in the preceding year (Figure 2.4). Private consumption growth has also tapered off. These trends are reflective of a general lack of positive investor and consumer confidence in the economy despite improvements in key indicators such as inflation, interest rates and

Table 2.4
Consumption, Savings and Investment

	As Percentage of GDP				Growth (%)[a]
	2010	2011	2012	2013	2007-13
Consumption	80.7	84.6	83.1	80.8	6.1
Private	65.2	69.8	69.6	66.8	6.6
Government	15.6	14.8	13.5	13.1	4.4
Investment	27.6	29.9	30.6	29.6	7.8
Private	21.4	23.7	23.7	22.7	6.5
Government	6.2	6.3	6.9	6.9	15.7
Domestic savings	19.3	15.4	16.9	20.0	
National savings	25.3	22.1	24.0	25.7	

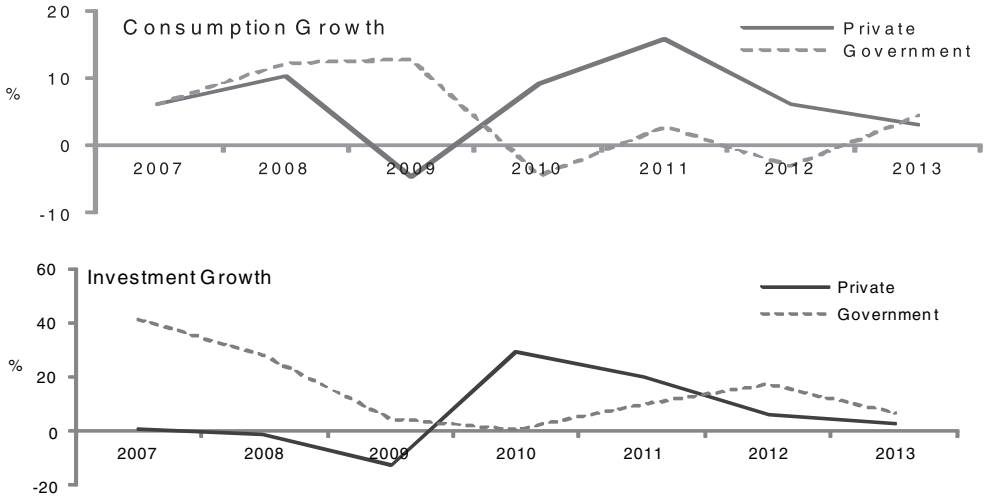
Notes: Annual average growth in 2002 constant rupee prices.
Source: CBSL, *Annual Report*, various years.

overall growth prospects of the economy. Indeed, the lack of private investor appetite in particular prompted monetary authorities to take measures from mid-2012 to encourage private sector credit growth through monetary policy interventions. However, such efforts have had only limited success in spurring the private sector to adopt a more bullish approach on the business front.

2.4 The Trials of Monetary Policy: Making Credit Work

A singular achievement of monetary policy in recent years has been ensuring a measure of price stability in the Sri Lankan economy. Since mid-2009, the

Figure 2.4
Real Consumption and Investment Growth



Source: CBSL, *Annual Report*, various years.

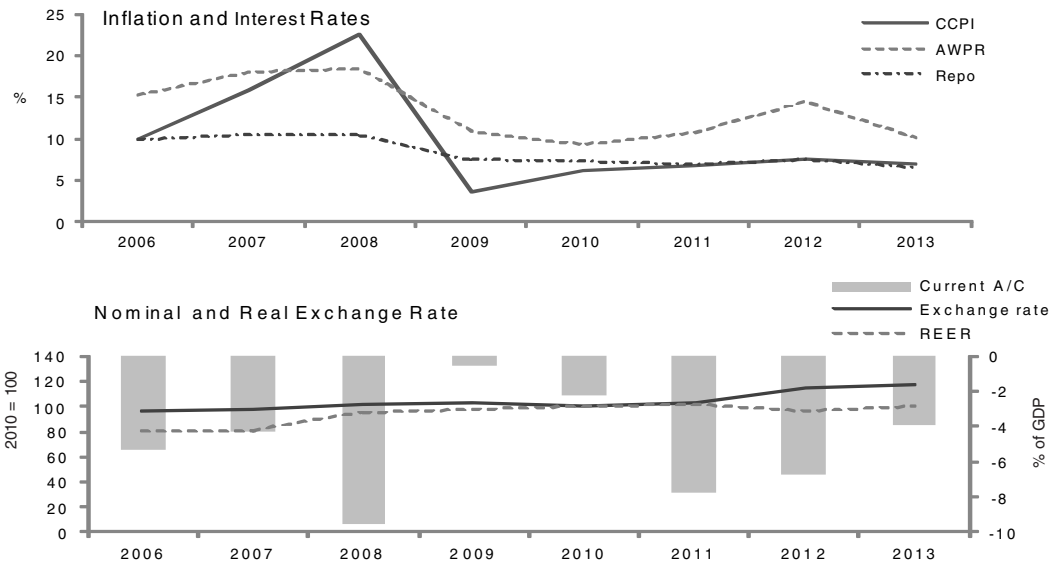
inflation rate has been held under single digit figures (Figure 2.5). Achieving a measure of price stability - the primary objective of monetary policy - has certainly been an uphill task, given that Sri Lanka's inflation rate reached a high of 22.6 per cent in 2008, just months before inflation settled to single-digit levels from February 2009.

The benign inflationary environment, however, has not had the desired impact in boosting private investor sentiment despite aggressive efforts to bring down the cost of borrowing. A 25 basis point reduction in policy rates in December 2012 was followed by a further rate reduction of 50 basis points in May 2013. The CBSL lowered commercial banks' Statutory Reserve Requirement (SRR) of Licensed Commercial Banks (LCBs) by 2 percentage points from 8 per cent to 6 per cent in June 2013. From August 2013, all LCBs were requested to reduce the penal rates of interest charged on all loans and advances including credit facilities already granted to a level not exceeding 2 per cent per annum, whilst finance and leasing companies were requested to reduce the penal rate of interest to 3 per cent per annum. In October 2013, policy rates were cut by a further 50 basis points to stand at 6.5 per cent.

Lending rates that remained fairly sluggish in the first half of 2013 owing to high government borrowing began to decline sharply from mid-2013. The Average Weighted Prime Lending Rate (AWPR) has fallen from 14.4 per cent in February 2013 to 7.9 by June 2014. Despite the steep fall, credit uptake by the private sector has remained poor. Credit growth to the private sector was a low 7.5 per cent in 2013 compared to 17.6 per cent in 2012. By June 2014, this had fallen further to a growth rate of 2 per cent on a year-on-year basis.

The poor credit uptake by the private sector in the latest round of interest rate easing is perhaps best explained by the spillover effects of the most recent credit boom of 2011-12. Post-2009, high domestic demand financed by external debt brought added complexity to monetary and exchange rate policy management. An interventionist exchange rate policy to prevent appreciation of the currency in the

Figure 2.5
Inflation, Interest and Exchange Rate Movements



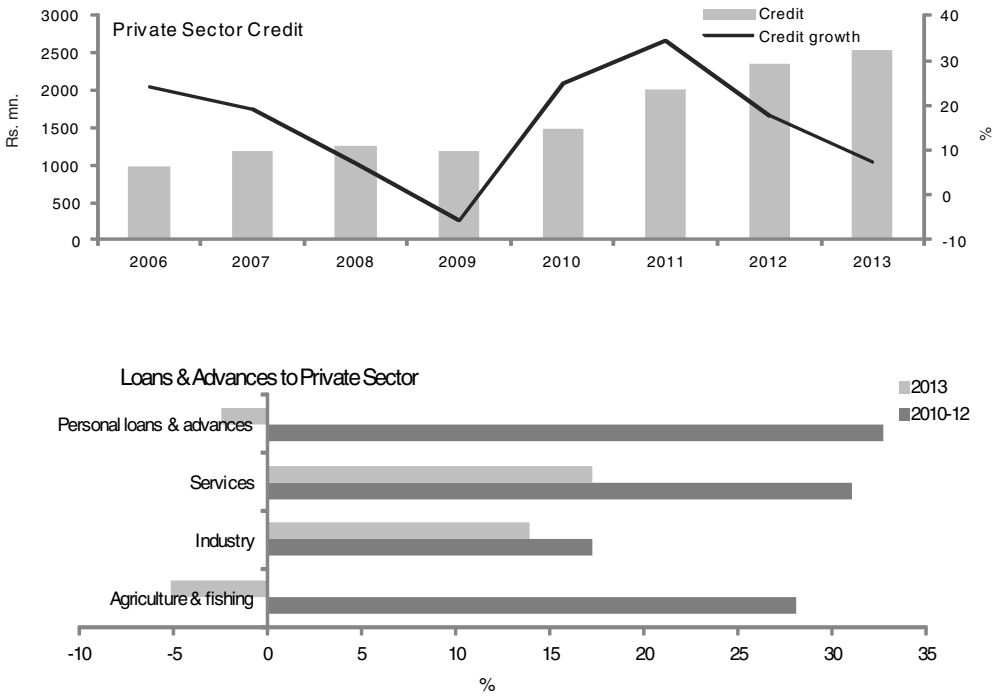
Source: CBSL, *Annual Report*, various years.

face of foreign capital inflows saw an expansion of the monetary base, with significant volumes of excess liquidity in the financial market. Credit growth to the private sector accelerated from mid-2010 - even as policy rates remained unchanged throughout 2011 - fuelling an import surge and precipitating the imposition of a mandatory ceiling on commercial bank credit growth, reversal on import tariff reductions on select products, and move to a flexible exchange rate policy in February 2012.

In view of the doubling in volume of credit to the private sector between 2009 and 2012, the lack of credit appetite in the latest round of monetary policy easing is not difficult to understand. Not only did it lead to macroeconomic volatility but it also led to significant policy swings in monetary policy, exchange rate policy and tariff policy that is unsettling for private sector investors.

On the other side of the coin, the past credit excesses have left LCBs to combat their own set of challenges. Much of the credit expansion was in the area of personal loans and advances, including pawning that suffered subsequent to a drop in gold prices. With a slower rate of economic output post-2012, the combined impact has been to expose the banking sector to rising non-performing loans (NPLs), with the gross NPL ratio climbing sharply to 5.6 per cent in 2013 from 3.7 per cent in 2012.[4] The banking sector is experiencing significant excess liquidity with the Statutory Liquid Assets Ratio (SLAR) at 37.7 per cent by end 2013, significantly exceeding the minimum requirement of 20 per cent. Overall profitability of the banking sector also declined with profits after tax contracting by nearly 10 per cent in 2013.

Figure 2.6
Credit Growth to the Private Sector



Source: CBSL, *Annual Report*, various years.

[4] CBSL, *Annual Report* 2013.

In the midst of a challenging business environment for both bank and non-bank financial institutions (NBFIs), the CBSL is pursuing its second objective of financial system stability via a financial consolidation effort. Whilst it undoubtedly has long-term objectives, the immediate concern is primarily to minimize systemic risks posed by deposit taking finance companies at high risk. At present, banks and NBFIs account for 64 per cent of the entire financial system assets, with banks accounting for 57 per cent and NBFIs for 7 per cent. Several NBFIs came under severe liquidity pressure in 2009 following the collapse of some legal and illegal entities run on the lines of pyramid schemes, with the contagion effects spreading to banks and finance companies. In total, 8 NBFIs faced liquidity problems in 2009 with another NBFI facing similar problems in 2013. Post-2009, the NFBI sector has continued to expand with the CBSL elevating some Specialized Leasing Companies (SLCs) to Licensed Finance Companies (LFCs) whilst also granting new licences to LFCs so that by end 2013, the total stood at 58 (Table 2.5).

The immediate consolidation process aims to bring down the numbers of NBFIs from 58 to 20. These have been divided into three categories of A (19 NBFIs), B (38 NFBIs), and C (1 NBFIs). Category B NBFIs are to merge with local banks or Category A NBFIs, or merge among themselves so that they fulfill conditions of Category A NBFIs, the most important being an asset base of over Rs. 8 billion.

Table 2.5
Non-bank Financial Sector

	LFCs (No.)	SLCs (No.)
2013	48	10
2012	47	13
2011	39	16
2010	37	21
2009	35	21

Source: CBSL, *Annual Report*, various years.

The end goal through consolidation and mergers of banks and NBFIs is to ensure that at least five domestic banks emerge with total assets in excess of Rs. 1 trillion, and those with less than Rs. 100 billion to achieve this threshold benchmark. In the case of the NBFIs, the intention is to bring the total number down to 20 NBFIs, each with an asset base of over Rs. 20 billion.

Efforts to encourage mergers and acquisitions to bring about consolidation in the financial sector are being pursued quite strenuously by the regulator. Whilst the consolidation is in the right direction, it is incumbent on the regulator to ensure that it is carried through in the best interests of all the entities involved, with long-term goals in mind.

For Sri Lanka, the consolidation process is also expected to ease conditions for the country's commercial banking sector to tap foreign savings.

Table 2.6
Distribution of Banks and NBFIs

Asset Base (Rs. bn.)	Domestic Banks[a] No.	Market Share	Asset Base (Rs. bn.)	NBFIs No.	Market Share (%)
> 500	5	66.3	> 20	10	61.5
250-500	1	6.3	8-20	7	13.8
100-250	3	9.2	< 8	40	24.1
50-100	3	5.2	Litigation	1	0.5
< 50	4	3.1			

Notes: a. Excludes four small state-owned banks with assets less than Rs. 100 billion.
Source: CBSL, "Master Plan on Consolidation of the Financial Sector".

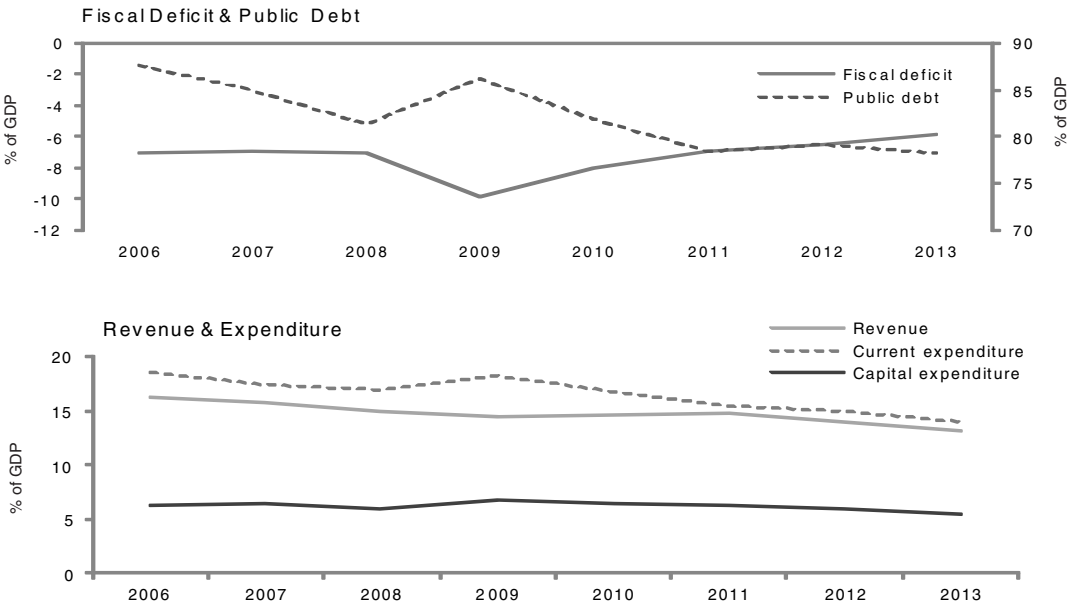
The National Savings Bank (NSB) shelved initial plans to issue a 10-year US$ 1 billion bond and instead issued a five-year bond for US$ 750 million bond at 8.875 per cent in September 2013. Subsequently, in accordance with Budget 2013 proposals where the DFCC and NDB banks were encouraged to raise long-term foreign development finance up to US$ 250 million each, the DFCC raised a five-year bond of US$ 100 at 9.625 per cent in October 2013. This was below its US$ 250 million quota, while its counterpart NDB Bank raised US$ 125 million and US$ 75 million in March and June 2014, respectively. The foreign exchange risk on such borrowing is underwritten by the government.

The government did not have plans to issue sovereign bonds in 2013. Instead, it relied on financial entities to do so. In effect, such borrowing amount to proxy borrowing by the government, with added risks of multiple parties exposing their balance sheets to international capital markets. Moreover, by underwriting exchange rate risk, such efforts do not necessarily help develop financial institutions in the country to tap capital markets on their own efforts. To an extent, the proposed financial consolidation efforts - that between DFCC and NDB for example - are partly driven by intentions to develop institutional strength to tap foreign capital markets in the future. This is seen as the answer to domestic resource constraints, especially continued low revenue generation by fiscal authorities to meet Sri Lanka's development expenditure needs.

2.5 Fiscal Stimulus for Growth

Sri Lanka's fiscal outlook in terms of the overall deficit and public debt has been improving progressively over time. The fiscal deficit, from having weakened to 9.9 per cent of GDP in 2009 has improved steadily to 5.9 per cent in 2013. The most positive feature of the adjustment has been a steady decline in the share of current expenditure whilst maintaining public investment at around 6 per cent of GDP.

Figure 2.7
Fiscal Indicators



Source: CBSL, *Annual Report*, various years.

Despite improvements in headline numbers, concerns do remain with regards to weak financial positions of many SOEs, not captured in the fiscal deficit numbers, and adjustments made in terms of delayed payments from time to time. Additionally, robust GDP growth has meant that many indicators have benefited from the denominator effect. For instance, all three major current expenditure items - salaries and wages, transfers and subsidies, and interest payments - have shown a decline in share of GDP. However, in real terms, expenditure on these items has grown. For example, wages and salaries have recorded a real growth in expenditure of 2.7 per cent per annum during 2010-13 despite declining as a share of GDP from 5.4 per cent in 2010 to 4.5 per cent in 2013 (Table 2.7).

By contrast, where a robust denominator should have helped raise revenue, there has in fact been a sharp decline. Tax revenue which comprises approximately 85 per cent of total revenue has dropped from 12.9 per cent of GDP in 2010 to a low of 11.6 per cent in 2013 (Table 2.8). Critically, VAT collection which accounted for approximately 25 per cent of tax revenue in 2013 has not kept pace with higher economic output in the country post-2009. The widespread use of tax exemptions - be it on VAT, import duties or FDI approved projects - has been a critical factor weakening the tax base in the country, despite efforts put in to improve overall tax administration and compliance.

Slack revenue generation means that Sri Lanka will continue to look for foreign savings to bridge resource gaps as done over recent years. Besides planned physical infrastructure projects, attention will also need to focus increasingly on investments to raise productivity and efficiency in social infrastructure, especially in vital areas of health and education. With an ageing demographic profile and rising incomes, the country's health sector challenges are in transition and will become more acute in the coming years. Similarly, the education sector needs to exponentially transform the skills and competencies of the country's shrinking labour force. All these require a re-balancing of existing investment priorities and call also for fresh investments.

Clearly, some of this re-balancing is already taking place viz., government expenditures. Current spending on defence has contracted in real terms and fallen as a share of GDP post-2009 (Table 2.9). Education sector spending has grown in real terms, although its share as a percentage of GDP has declined marginally to 1.7 per cent in 2013. However, government spending on education has grown in real terms at an annual average of 3.6 per cent during 2010-13. Whilst Sri Lanka's spending on education as a share of GDP remains an under-estimate in view of significant private sector investments, it is clearly rather low to meet expanding demand. At present, only 3.6 per cent of those in the age group of 20-24 years are at university and another 3.6 per cent at technical and vocational training institutes.[5] Public spending on

Table 2.7
Current Expenditure Patterns

	Share of GDP		Real Growth[a]
	2010	2013	2010-13
Total current expenditure	16.7	13.9	1.3
Salaries & wages	5.4	4.5	2.7
Transfers & subsidies	3.5	2.9	0.1
Interest payments	6.3	5.1	2.6

Notes: Deflated using 2006/07 CCPI index.
Source: CBSL, *Annual Report*, various years.

[5] Weerakoon. D., and N. Arunatilake (2011), "Macroeconomic Policy for Full and Productive Employment and Decent Work for All: Sri Lanka Country Study", Employment Working Paper No. 110, International Labour Organization, Geneva.

Table 2.8
Tax Revenues as a Percentage of GDP

	2010	2011	2012	2013
Tax revenue	12.9	12.4	12.0	11.6
Income taxes	2.4	2.4	2.3	2.4
VAT	3.9	3.3	3.0	2.9
Excise taxes	2.3	2.8	3.0	2.9
Import duties	1.1	1.2	1.1	1.0
Other taxes	3.1	2.7	2.7	2.5

Source: CBSL, *Annual Report*, various years.

health too has grown in real terms during 2010-13, albeit at a much faster pace.

To meet Sri Lanka's expenditure needs for development, the country has increasingly relied more heavily on external financing of its fiscal deficit (Figure 2.8). In 2013, the trend reversed in the face of low private sector demand for credit, allowing the government to rely more heavily on domestic financing without fear of crowding out private investment. By and large, however, Sri Lanka is likely to continue to tap foreign savings for its development financing. Unlike in the past, grants and long-term concessionary development finance has played only a very limited role in the country's resource mobilization efforts. Instead, Sri Lanka has resorted to non-concessionary forms of borrowing, including sovereign bonds, foreign investment in Treasury bills and bonds and bilateral loans from countries such as China. The mix has meant a rapid transformation of outstanding government foreign debt, with the non-concessionary component rising sharply to 50 per cent of the total share.

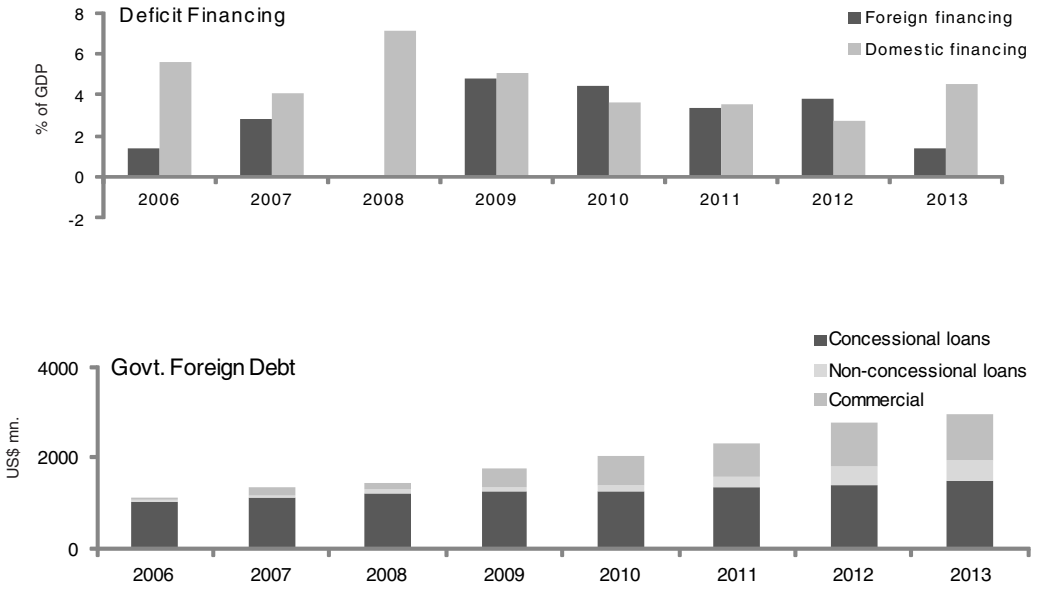
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Table 2.9
Functional Expenditures in Select Sectors

	Share of GDP		Real Growth[a]
	2010	2013	2010-13
Defence[b]	2.6	2.0	-2.4
Education[c]	1.9	1.7	3.6
Health[c]	1.3	1.4	6.8
Transport & communications[c]	3.5	2.8	8.7

Notes: Deflated using 2006/07 CCPI index; b. Current expenditures only; c. Current and capital expenditures.
Source: CBSL, *Annual Report,* various years.

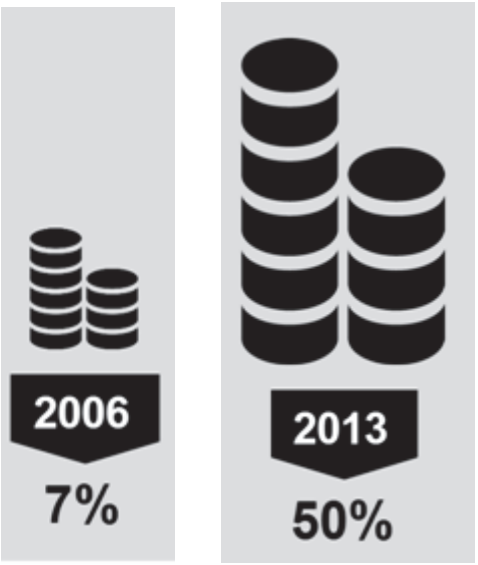
Figure 2.8
Deficit Financing and Government External Debt



Source: CBSL, *Annual Report*, various years.

Sri Lanka's uptake of non-concessionary foreign debt has helped not only to bridge the fiscal deficit, but also to prop-up the country's foreign exchange reserves and provide balance of payments (BOP) support over the years. The risks associated with greater exposure to sentiments of international capital markets and foreign investors are linked to a country's external sector performance and its medium to long-term outlook. In this respect, there have been positive developments, but also continuing concerns regarding the overall competitiveness and health of Sri Lanka's export sector.

Share of non-concessionary and commercial borrowing in total external debt



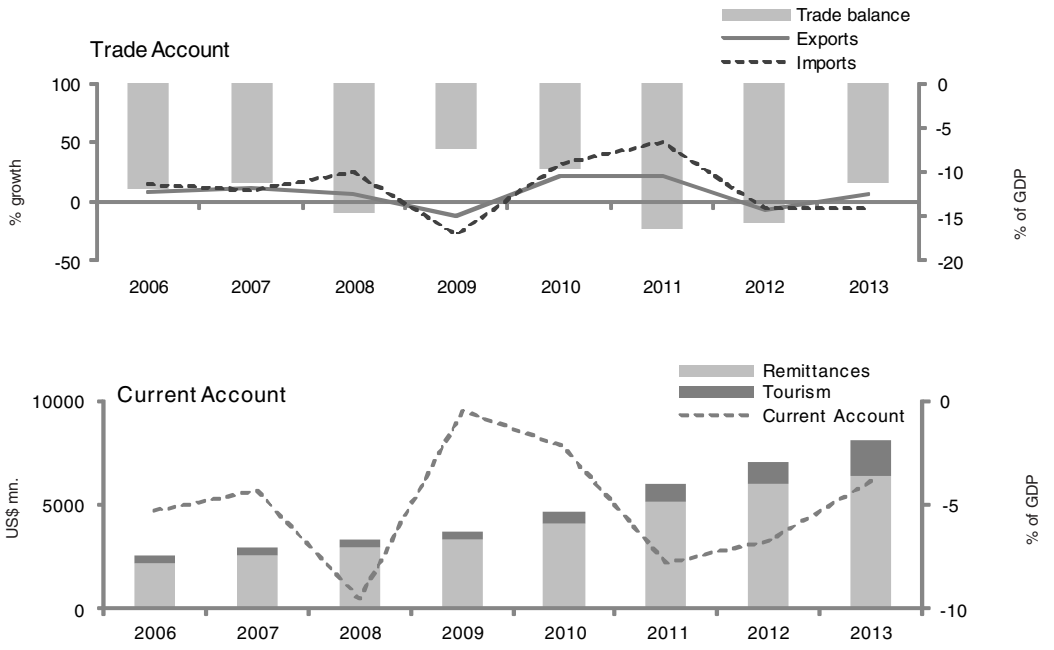
2.6 External Sector Stability

Despite higher overall GDP growth in recent years, what appears to be an inexorable decline in the ratio of exports-to-GDP - falling to a low of 15.5 per cent

in 2013 - is a matter of serious concern on two counts. First, it is a reflection that higher GDP growth is being driven by domestic demand rather than exports, which is an untenable long-term strategy for a small open economy. Second, the declining share in GDP is compounded by loss of market share globally, which is an indicator of the country's waning competitiveness in international markets.[6] The country's exchange rate policy too has not helped to maintain competitiveness. With significant capital inflows as a result of higher foreign borrowing, the tendency has been for the rupee to appreciate in real terms (see Figure 2.5). Clearly, the currency movements are not reflecting the underlying fundamentals of the economy - i.e., a weak current account position reflective of external demand for Sri Lanka's goods and services. Rather, it is being distorted 'artificially' and hurting the competitiveness of the country's export sector.

Despite higher overall GDP growth in recent years, what appears to be an inexorable decline in the ratio of exports to GDP - falling to a low of 15.5 per cent in 2013 - is a matter of serious concern.

Figure 2.9
Trade and Current Account Trends



Source: CBSL, *Annual Report,* various years.

[5] IPS (2013), "Global Developments and External Sector Competitiveness" in *Sri Lanka: State of the Economy 2013*, Institute of Policy Studies of Sri Lanka, Colombo.

Sri Lanka's trade deficit has averaged 13 per cent of GDP per annum during 2010-13. Import expenditure grew by over 50 per cent in 2011 following the easing on import duty rates on select products in 2010, particularly on motor vehicles, fuelled by consumption driven credit growth in the economy and an artificially over-valued exchange rate. Policy corrections introduced in early 2012 - a much delayed depreciation of the currency, re-imposition of high import duties and a curb on lending by banks - saw Sri Lanka's trade account begin the slow journey towards a measure of stability. After contracting in 2012, export earnings grew by 6.3 per cent in 2013, holding out some optimism of a more sustained growth in export earnings in the immediate future.

The signs so far are good. Export earnings have continued to grow by 16.8 per cent in the first half of 2014, with strong growth in earnings from garments of 20.5 per cent. Import expenditure is also picking up, an early signal of a more positive renewal of economic activity.

For Sri Lanka, worker remittances, and increasingly earnings from tourism are the stabilizing factors in the external current account. Remittances have historically been the mainstay. However, there is a disquieting development in 2013, whereby remittances grew by only 7 per cent compared to an annual average growth rate in excess of 21 per cent per annum during 2010-12 (Table 2.10). This is surprising in view of continued growth in the numbers of migrant workers departing for work overseas, with total numbers at 293,105 in 2013. The explanation perhaps lies in an easing-off of transfers to former conflict-affected households in the aftermath of 2009. Another explanation may well be the low interest rate climate that prevailed for much of 2013, prompting workers to remit only a part of their earnings. In the first half of 2014, remittances continued to grow at a lower rate of 10.6 per cent.

The explanation may also lie in a discrepancy on data compilation. Remittances were reported at US$ 6.8 million at end 2013 on the basis of monthly compilation of figures; the annualized figure is reported at US$ 6.4 million.[7] On that basis, remittances grew by 13 per cent. At the same time, tourism earnings figures have undergone a re-adjustment, rising from US$ 1.4 million on a monthly basis to US$ 1.7 million on an annualized basis, accounting for the sharp increase in earnings of 65 per cent. Even without the adjustment, tourism earnings did rise at a healthy rate (35 per cent), with Sri Lanka recording the highest ever numbers of arrivals at 1.3 million in 2013. Indeed, with much of FDI inflows concentrated in tourism and related sectors, it is expected to be a significant driver of growth and employment in the coming years.

Table 2.10
Migrant Remittances and Tourism Earnings

	Growth in Numbers (%)		Earnings Growth (%)	
	2010-12 average	2013	2010-12 average	2013
Migrant workers	4.7	3.8	21.6	7.1
Tourism	31.5	26.7	44.6	65.1

Source: CBSL, *Annual Report*, various years.

[7] See CBSL, "External Sector Performance - December 2013" and *Annual Report* 2013, respectively.

[8] From 2013, Sri Lanka started compiling its external accounts under the latest BOP Manual BPM6.

Net FDI in 2013 stood at US$ 916 million compared to US$ 941 million received in 2012.[8] This includes total direct investment received by BOI companies (US$ 887 million), non-BOI companies and listed companies under the Colombo Stock Exchange (CSE). In addition to the direct investment, BOI companies also received US$ 505 million by way of loans, raising the total FDI to US$ 1.4 million from US$ 1.3 million received in 2012. The total for 2013 fell short of the US$ 2 billion target that was set. Little of the FDI received has gone into technology and knowledge enhancing economic activities, with the bulk concentrated in infrastructure and tourism sector developments. Besides this drawback, the quantum of FDI is still so low that Sri Lanka has to keep relying on other forms of foreign funds to bridge its savings-investment gap.

In 2013, Sri Lanka relied heavily on non-direct foreign borrowing by state entities and private sector, especially by the country's banking sector. Inflows to commercial banks and savings banks together amounted to US$ 1.5 billion, up from US$ 970 million in 2012. In the face of indirect borrowing by state-owned banks and private banks with a government stake in 2013, the government focused on issuing Sovereign bonds to the value of US$ 1.5 billion in 2014. The target was met by April 2014, with two consecutive Sovereign bonds issued in January and April for US$ 1 billion and US$ 500 million, respectively (Table 2.11). Sri Lanka has indeed been successful in getting ever more attractive pricing on its Sovereign bonds, particularly in the more recent issues in the wake of foreign investors leaving many emerging markets.

Greater recourse to tapping international capital markets by a cross-section of actors also means that the sources of Sri Lanka's outstanding external debt are changing rapidly. Total government external debt has remained flat at about 36 per cent of GDP, and has in fact shrunk to 34 per cent in 2014 (Figure 2.10). This is of course not withstanding the significant changes in the composition of that debt towards non-concessionary sources as detailed earlier.

What is notable is that Sri Lanka's total external debt has in the interim risen quite sharply, especially post-2011 with the inclusion of banking sector liabilities. Whilst the argument can be made that non-sovereign backed debt is not under the purview of the government and relies on corporate balance sheets, the East Asian financial crisis offers a salutary lesson that at times of intense stress, the lines between government, government-backed or private debt become blurred when a 'herd instinct' strikes investors.

Sri Lanka's debt service ratio - measured by the conventional definition as a ratio of the exports of goods and services - is also on the rise (Figure

Table 2.11
Sovereign Bond Issues

Issue Date	Amount (US$)	Expiry Date	Yield (%)
October 2007	500 million	October 2012	8.25
October 2009	500 million	October 2015	7.40
September 2010	1 billion	October 2020	6.25
July 2011	1 billion	July 2021	6.25
July 2012	1 billion	July 2022	5.875
January 2014	1 billion	January 2019	6.00
April 2014	500 million	April 2019	5.125

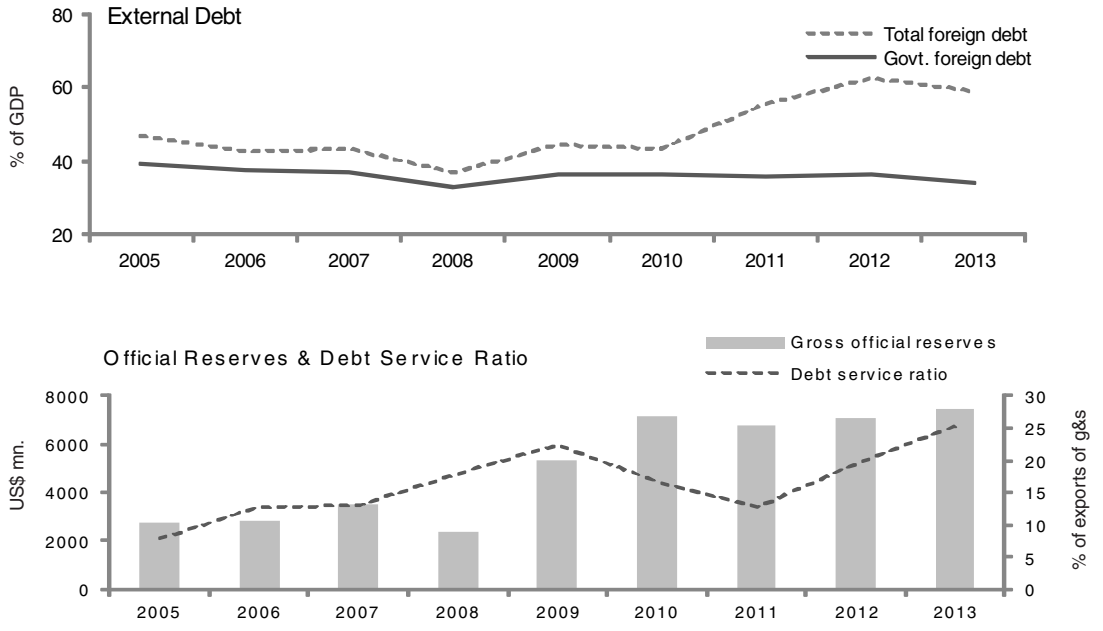
Source: CBSL, www.cbsl.gov.lk.

The East Asian financial crisis offers a salutary lesson that at times of intense stress, the lines between government, government-backed or private debt become blurred when a 'herd instinct' strikes investors.

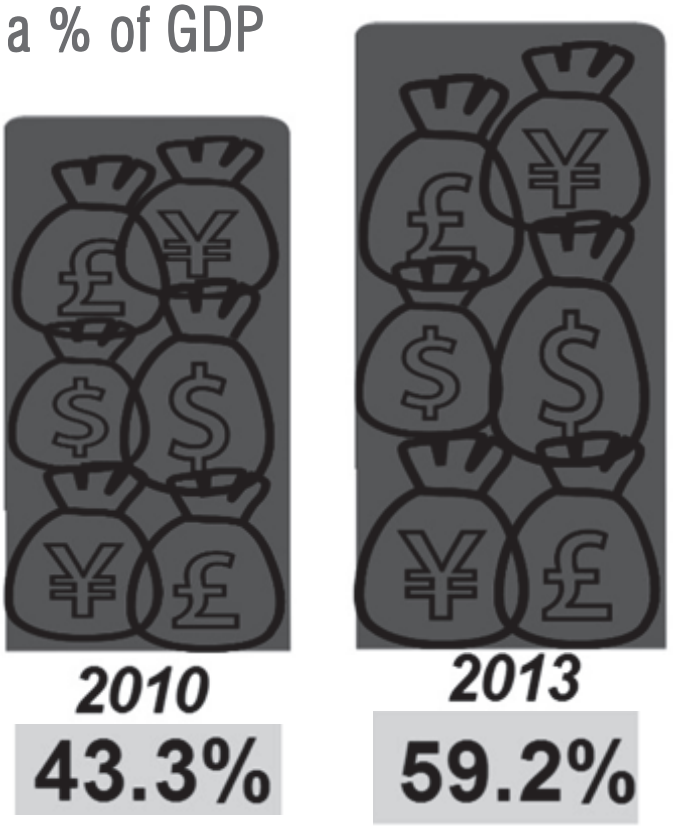
2.10). Despite a healthy-looking improvement in the country's official reserves position over the last four years, there is limited comfort to be had in view of the fact that almost the entirety of it is currently made up of borrowed funds. It reinforces the reason why Sri Lanka must focus acutely on strengthening the country's export earnings potential through goods and services. Even if workers' remittances are factored in to re-calculate the debt service ratio, it indicates a sharp increase from 13.5 per cent in 2012 to 17.6 per cent in 2013.

With Sri Lanka's medium term Sovereign bond settlements gathering pace from 2019, retaining investor confidence on the long-term outlook for the country will require a continuous bridging of its current account deficit to surplus levels, supplemented by higher volumes of FDI inflows in the capital account. This will mitigate risks inherent in rolling over debt over time. For now, the exchange rate remains stable in view of lacklustre import demand and subdued international oil prices.

Figure 2.10
External Sector Trends



Source: CBSL, *Annual Report,* various years.



However, these conditions can change, particularly commodity prices in the face of growing unrest in the Middle East and Russia. With the country more exposed to external shocks, any inability to withstand and ride them out, can unravel the many significant achievements already made in improving the overall macroeconomic fundamentals. The remedy lies in instituting reforms to improve productivity, efficiency and competitiveness of the Sri Lankan economy that will complement the strides being made in strengthening infrastructure services.

2.7 Conclusion

On the socio-economic front, Sri Lanka has made rapid strides in addressing poverty and inequity - the cornerstones of the government's vision for a peaceful post-conflict society. With GDP growth averaging 7.5 per cent per annum post-2009, and a relatively stable set of macroeconomic indicators - a prolonged spell of single digit inflation, a shrinking fiscal deficit, and a relatively steady exchange rate - Sri Lanka has partially established its economic credentials as an emerging economy to watch. The achievements have been magnified in view of weaker accomplishments from the country's historically better-performing competitors, particularly in Southeast Asia.

Yet, much remains to be done. The core of Sri Lanka's higher growth trajectory has been domestic demand financed with external debt. It is having an inevitable impact on the structure of the supply-side of the economy, in particular the balance between the tradable and non-tradable sectors. The latter has been driving growth, with greater state involvement in many of these sectors - such as construction, utilities, and many services sectors. An unintended consequence is that it is perhaps also keeping the private sector less engaged in Sri Lanka's post-2009 development efforts than might have otherwise been the case.

The main policy focus since the end of 2012 has been to encourage the private sector to borrow and raise levels of investment and economic participation. The response has been muted, partly as a result of past credit booms, the reverberations of which are yet to settle and work their way through the economy. A second, and equally disquieting, reason is likely tied to limited investment opportunities across a broad spectrum of economic activities, that will stimulate not only the big players, but also the small and

medium sized enterprises that are sub-contractors and suppliers of goods and services. Addressing the latter requires a commitment to engage the private sector and create a policy environment that is perceived as truly pro-business. For instance, the causes of Sri Lanka's export competitiveness problem go far deeper than the exchange rate. There exist long-ignored impediments to growth - developing a skilled and flexible work force; a consistent, predictable and cohesive policy framework to drive exports or attract FDI to high-tech knowledge-driven sectors; an efficient, cost-effective bureaucracy to reshape public spending; and transparent and effective institutional and governance mechanisms to support overall development efforts. Sri Lanka has much to learn from its Asian neighbours in many of these areas - best practices as well as pitfalls to be avoided - if the country is to achieve its dream of being a 'Wonder of Asia' in the years to come.

RISING ASIA:
OPPORTUNITIES AND CHALLENGES FOR SRI LANKA

3. Rising Asia: Opportunities and Challenges for Sri Lanka

3.1 Introduction

While predicting the future is fraught with risk, it is now generally accepted that the 21st Century will see Asia continue to emerge as the power house of the global economy, building on the remarkable socio-economic progress seen in the region over the last 50 years. It has overcome many hurdles, including the Asian financial crisis of 1997/98, the dot-com crash of 2001, and the more recent global financial crisis of 2008 and subsequent recession in many parts of the world. Although the countries in the region were affected differently, the fact remains that they weathered these crises, survived them and emerged more strongly to remain as a regional engine of growth.[1] Asia's rise is exemplified by its increasing contribution to the world economy which has grown from one-fifth in 2000 to about one-third of world GDP at present, and is expected to increase further to over 50 per cent by 2050.[2] Some have called this possibility the 'Asian Century'.

In addition, the Asian region is already the most populous in the world, and in the 21st Century it is expected to be home to the largest middle class in the world, providing much of the momentum for global GDP growth.[3] Asia will not only be the largest consumer of goods, but also the largest producer of goods and services. Indeed, it is also influencing global trends, be it through hard or soft power by way of increasing military prowess,[4] and popular culture. The latter include fashion (e.g., Uniqlo), music (e.g., J-pop, k-pop), and movies/TV/animations (e.g., Bollywood, Korean dramas, manga). However, Asia's continued rise is not given or 'pre-ordained'.[5] As their economies develop, Asia will find itself tackling more complex challenges such as increasing inequalities, and coming up against structural rigidities identified with the notion of a 'middle-income trap' etc., while regional frictions can also threaten to derail Asia's economic growth and achievements, if not satisfactorily contained.

These developments are likely to have profound implications for countries right across the world, including Sri Lanka. As the centre of global gravity shifts to Asia, Sri Lanka - strategically located in Asia next to the Indian Sub-continent, and in close proximity to Southeast Asia - will have sizable economic opportunities to explore in its own backyard. Sri Lanka has a long history of engagement with the region which needs to be deepened and broadened. China and India are

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[1] Tellis, A. J. (2010), "Strategic Asia: Continuing Success with Continuing Risks", in Tellis, A. J., A. Marble and T. Tannner (eds.), *Asia's Rising Power and America's Continued Purpose*, National Bureau of Asian Research, Washington D.C.

[2] ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

[3] Lee Kuan Yew (2014), "Congratulatory Remarks" at the 20th International Conference on the Future of Asia "Rising Asia - Messages for the Next 20 Years", 22-23 May 2014, Tokyo. Available at: http://future-of-asia.nikkei.jp/asia2014/eng/message.html.

[4] The leading powers in the Asian region are building militaries to match their economic might. Even though its defence budget is less than a quarter the size of the US, China has been increasing its defence spending by about 12 per cent a year for the past decade, and the country is expected to become the world's largest military spender in 20 years [see *The Economist* (2012), "Asia's Balance of Power: China's Military Rise", April 7, 2012].

[5] ADB (2011), *Asia 2050: Realizing the Asian Century,* Asian Development Bank, Manila.

Asia's rise is exemplified by its increasing contribution to the world economy which has grown from one-fifth in 2000 to about one-third of world GDP at present, and is expected to increase further to over 50 per cent by 2050.

already major economic partners, in terms of both development assistance and FDI. At the same time, Sri Lanka's trade and investment links with other emerging Asian economies, such as Malaysia and Singapore, are also gaining momentum. Nurturing strong relationships with Asian markets and improving the domestic capacity are key ingredients to utilizing opportunities from a growing Asia. It is imperative that Sri Lanka lowers barriers to trade and cost of doing business, and integrates further with regional markets. In this context, this Chapter will examine the broad shifts in global output, trade, FDI flows from the West to the East over the years, including the rising Asian middle class; the role of Asia in global economic governance; intra-regional trends within Asia, and some of the main risks and challenges facing the region; the opportunities for Sri Lanka in the context of rising Asian trade and financial flows, and the associated policy implications for the country.

3.2 A Rising Asia in the Global Economy

The belief in a future 'Asian Century' parallels the characterization of the 20th Century as the 'American Century', and the 19th Century as the 'British Century'. The phrase Asian Century arose in the mid to late 1980s, and is attributed to a 1988 meeting with the former leaders of China and India (Deng Xiaoping and Rajiv Gandhi, respectively) at which the Chinese leader commented that "[i]n recent years people have been saying that the next century will be the century of Asia and the Pacific, as if that were sure to be the case. I disagree with this view."[6] The reasoning was that "no genuine Asia-Pacific Century or Asian Century can come until China, India and other neighbouring countries are developed" - apparently an unlikely occurrence any time soon. Prior to this, the phrase made an appearance in a 1985 US Senate Committee on Foreign Relations hearing; leaders of the region began talking about a coming economic leap that would propel them into an "Asian Century".

A quarter of a century later, however, the Asian Century seems to have materialized with China emerging as the world's second largest economy and India as the third largest on a purchasing power parity (PPP) basis.[7] And on many dimensions, Asia is booming. Asia's performance has been the best in the 21st Century with the incomes of developing Asia at nearly US$ 5,000 (PPP) in 2010,[8] growing by 9.4 per cent between 2000 and 2010. Investment rates reached a high of 35 per cent of GDP over the last decade, while exports grew by 11.4 per cent. Net inflows of private capital averaged US$ 83 billion a year, while external debt fell to 14.5 per cent of GDP. Asia has accumulated huge foreign exchange reserves in excess of US$ 3.5 trillion. While these aggregate numbers are heavily weighted by China

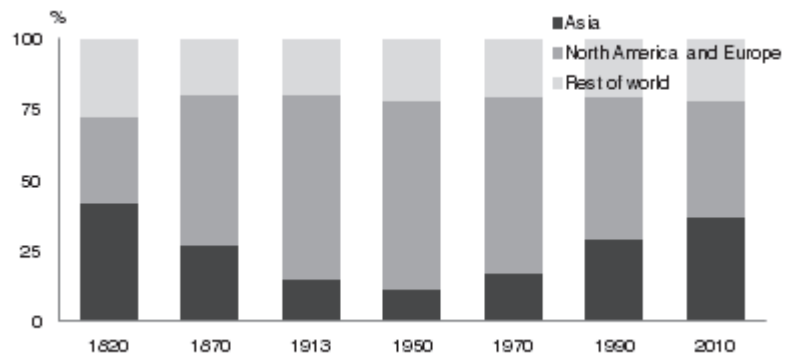
[6] Pan, C. (2013), "The Asian/Chinese Century from the Chinese Perspective", *Griffith Asia Quarterly*, Vol. 1, No. 1, pp. 30-52.
[7] *Ibid*.
[8] ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

and India, the performance of Asia has been relatively broad based. Living standards for billions of people in Asia have improved at a rate not previously experienced in human history. The region's quick V-shaped recovery from the recession of 2008/09 is another testament of Asia's economic resilience and capacity to undertake reforms. The notion of an Asian Century has been subsequently reaffirmed by Asian political leaders, and is now a popularly used term in the media.[9]

While many call Asia's recent economic success the 'Rise of Asia', a more apt description would be the re-emergence of Asia.[10] In the middle of the 18th Century, Asia accounted for 58 per cent of the world's economy, led by China and India (Figure 3.1). However, the West saw much faster growth in the following two centuries after the Industrial Revolution, and Asia's share fell to 15 per cent around the 1960s. This trend was reversed with Asia re-emerging after 1950 led by Japan, and the rise of the newly industrialized economies (NIEs) such as Hong Kong, South Korea, Singapore and Taiwan. Starting from the 1980s, first Malaysia and Thailand, then China followed by India, Indonesia and Vietnam, boosted this growth further, raising Asia's share of global GDP beyond 20 per cent by 2010.

More recent developments offer greater optimism for Asia's pre-eminence in the world economy. The past three decades have been accompanied by a shift in the world production base to Asia from advanced economies; the overtaking of some of the world's advanced economies by a number of emerging economies, including China and India; and the emergence of Asia as the world's largest consumer market, with the prospects of becoming home to the largest middle class in the world, a major origin and destination of FDI, and a key trading partner in the world. The next section will look at these issues in turn.

Figure 3.1
Asian Economic Output (% of World Output), 1820-2010



Note: GDP is adjusted for purchasing power parity (1990)
Source: Commonwealth of Australia (2012), "Australia in the Asian Century - White Paper", available at http://www.murdoch.edu.au/ALTC-Fellowship/_document/Resources/australia-in-the-asian-century-white-paper.pdf.

Asia's growth is increasingly being driven by the large economies of China and India.

[9] Despite forecasts and prediction of the rising economic and political strength of Asia, the idea of an 'Asian Century' has faced criticism from a number of commentators who have argued it to be journalistic hype. They have pointed to the possibility of continuing high rates of growth leading to revolution, economic slumps, and environmental problems, especially in mainland China. Some believe that the 21st Century will be 'multipolar', or no one country or continent will have such a concentration of influence (i.e., 'nobody's Century').

[10] ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

3.2.1 Unprecedented Growth and Shift in Global Production to Asia

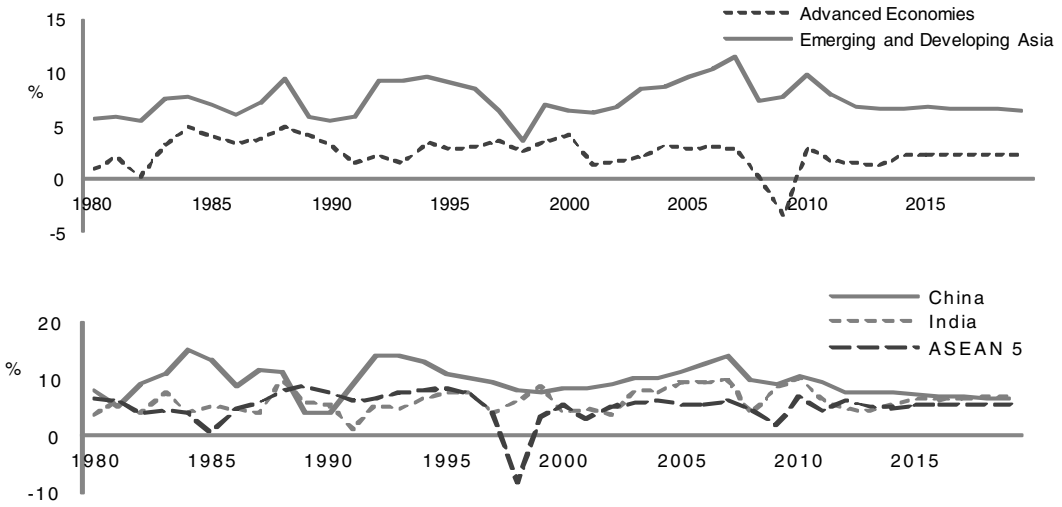
Since the Second World War, Asia has grown more than twice as fast as the rest of the world, despite poor performance under Maoist China and pre-reform India.[11] Seven of the 10 most rapidly growing economies in the world since 1955 are Asian countries.[12] Asian growth was spearheaded by Japan in the late 1950s, followed later by the NIEs, and then Southeast Asia. China's acceleration began in the late 1970s while India's take-off followed China by 15 years. Following several years of high growth, the Asian economies decelerated sharply following the Asian financial crisis (Figure 3.2). China, however, was barely affected with its closed capital account. Between the Asian financial crisis and the global financial crisis of 2008, Asia re-emerged as the world's most dynamic region.

Asia's growth is increasingly being driven by the large economies of China and India.

While crisis-affected economies settled into somewhat slower growth, the region's overall growth returned roughly to pre-crisis levels.

Asia's growth is increasingly being driven by the large economies of China and India. These two countries house over a half of world population, including some its poorest.[13] Asia's contribution to world output growth will largely be the result of

Figure 3.2
Comparative GDP Growth



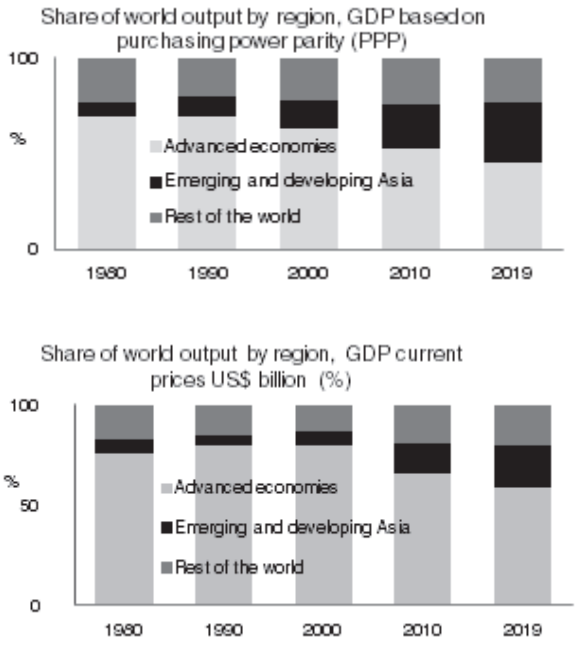
Source: Calculated based on IMF, "World Economic Outlook" database available at: http://www.imf.org /external/pubs/ft/weo/2014/01/weodata/index.aspx.

[11] Petri, P.A. (2010), "Asia and the World Economy in 2030: Growth, Integration, and Governance", in Tellis, A. J., A. Marble and T. Tannner (eds.), *Asia's Rising Power and America's Continued Purpose*, National Bureau of Asian Research, Washington D.C.

[12] ADB (2009), *Emerging Asian Regionalism*, Asian Development Bank, Manila.

[13] Tellis, A. J. (2010), "Strategic Asia: Continuing Success with Continuing Risks", in Tellis, A. J., A. Marble and T. Tannner (eds.), *Asia's Rising Power and America's Continued Purpose*, National Bureau of Asian Research, Washington D.C.

Figure 3.3
Shifts in World Production, 1980-2019



Source: Calculated based on IMF, "World Economic Outlook" database available at: http://www.imf.org /external/pubs/ft/weo/2014/01/weodata/index.aspx.

China and India are expected to grow rapidly, albeit at a slightly slower pace.

sustained growth by China and India. They are expected to grow rapidly, albeit at a slightly slower pace compared to the past decade.

Consequently, world output which was largely dominated by advanced economies is shifting to emerging and developing Asia, with the Asian region catching up in terms of both PPP and current US dollar terms, and accounting for an increasing share of world output (Figure 3.3).[14] It should be noted that Asia's share in global GDP is much larger in PPP terms than in market prices.

Asia's share of global output has increased from 7.5 per cent in 1980 to 23 per cent by 2010. The share is expected to reach around 30 per cent by 2019 according IMF projections. The ADB contends that if the region continues to grow on its present trajectory, Asia could account for more than a half of global GDP by 2050, increasing from US$ 17 trillion in 2010 to US$ 174 trillion by 2050 (Figure 3.4). It assumes the following: i) the seven high income developed economies,[15] will continue to be important markets as well as sources of research and innovations in the region; ii) the 11 fast-growing converging economies,[16] which have demonstrated

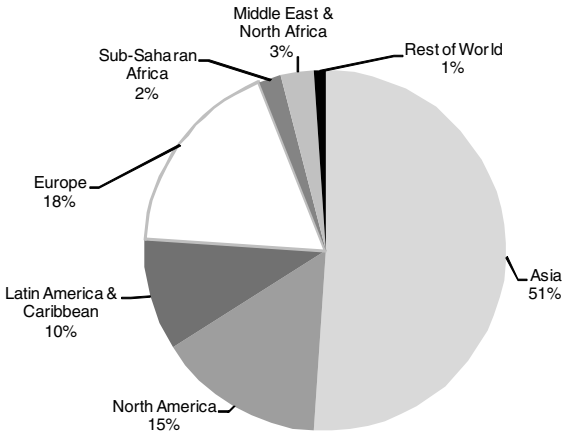


[14] GDP can be calculated based on market exchange rates and PPP exchange rates. The IMF defines PPP exchange rate as the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country, while GDP in current US dollar terms is measured based on market exchange rates prevailing in the foreign exchange market. See IMF (2007), "PPP Versus the Market: Which Weight Matters?", available at: https://www.imf.org/external/pubs/ft/fandd/2007/03/basics.htm.

[15] Brunei, Hong Kong, Japan, Korea, Macau, Singapore and Taipei.

[16] Armenia, Azerbaijan, Cambodia, China, Georgia, India, Indonesia, Kazakhstan, Malaysia, Thailand and Vietnam.

Figure 3.4
Asian Century Scenario, 2050

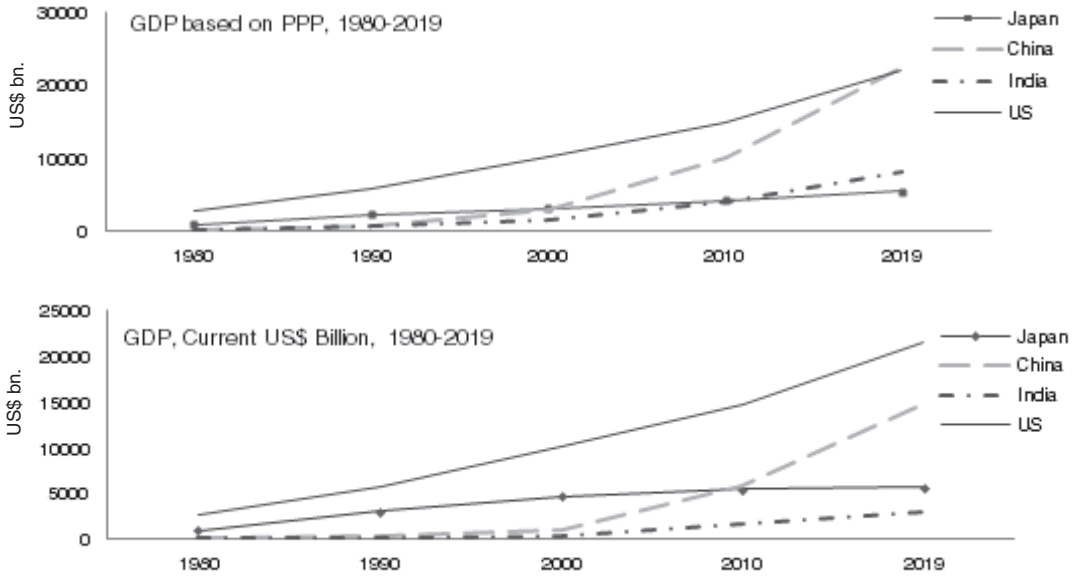


Source: ADB (2011), *Asia 2050: Realizing the Asian Century,* Asian Development Bank, Manila.

consistently high growth since 1990 would continue to do so for the next forty years; and iii) 31 slow/modest growing economies,[17] which have achieved modest or low long-term growth would succeed in joining the ranks of their fast-growing group by 2020, and raising their economic growth between 2020 and 2050. However, the study warned that continued growth is not guaranteed or 'preordained.'

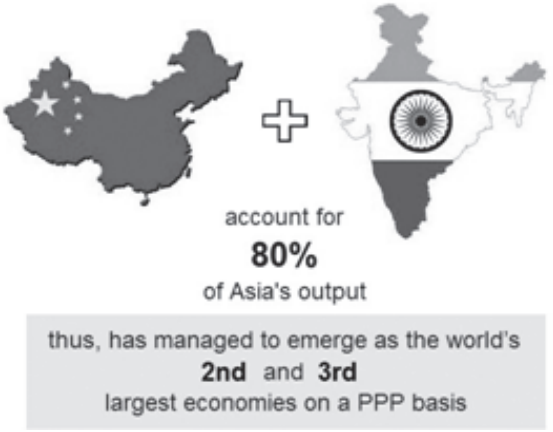
China and India which account for 80 per cent of Asia's output, have managed to emerge as the world's second and third largest economies on a PPP basis. Whilst China remains the second largest economy even in current US dollar terms, India's position ranks lower (Figure 3.5). Japan, one of the largest economies in the 1980s, was overtaken by China in 2002 on PPP basis, and later by India in 2011 on the back of a prolonged recession coupled with buoyant growth in China

Figure 3.5
Performance of China and India vis-à-vis Key Advanced Economies



Source: Calculated based on IMF, "World Economic Outlook" database available at http://www.imf.org/ external/pubs/ft/weo/2014/01/ weodata/index.aspx.

[17] Afghanistan, Bangladesh, Bhutan, Cook Islands, Fiji, Iran, Kiribati, Kyrgyzstan, Laos, Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Pakistan, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Tajikistan, Timor-Leste; Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu.



and India. Moreover, China seems to be catching up even with the US - the world's largest economy since 1872 - with IMF projections suggesting that it will overtake the US in PPP terms by 2019. Other projections estimate that China will overtake the US by 2017 in PPP terms, and in 2027 in market exchange terms.[18] These predictions have been advanced with the release of the latest World Bank (2014) International Comparison Programme report which shows that China is expected to overtake the US in 2014 to become the world's largest economy in PPP terms.[19] Nevertheless, China was behind the US based on GDP at market exchange rates - the US share of 22.1 per cent of global GDP was more than double that of China's 10.4 per cent. Although these emerging and developing Asian countries have been doing well in absolute terms, they rank lower in per capita terms (Table 3.1).

3.2.2 Asia as the Largest Global Market

In 2010, Asia was home to around 60 per cent of the world's population (Figure 3.6). Though projections show Asia's share of the world's population is set to slightly decline to around 54 per cent by 2050, Asia is still expected to remain the most populous region by 2050 accounting for around a half of the world's population.

Table 3.1
Twelve Largest Economies by Share of World GDP, 2011

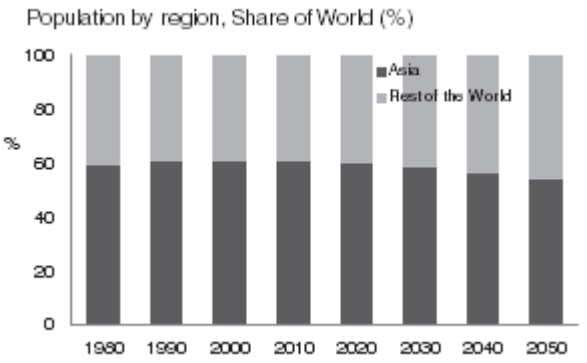
Ranking by GDP (PPP based)	Economy	Share of World GDP (PPP based, world=100)	Share of World GDP (exchange rate based, world = 100)	Ranking by GDP Per Capita (PPP based)
1	US	17.1	22.1	12
2	China	14.9	10.4	99
3	India	6.4	2.7	127
4	Japan	4.8	8.4	33
5	Germany	3.7	5.2	24
6	Russian Federation	3.5	2.7	55
7	Brazil	3.1	3.5	80
8	France	2.6	4.0	30
9	UK	2.4	3.5	32
10	Indonesia	2.3	1.2	107
11	Italy	2.3	3.1	34
12	Mexico	2.1	1.7	72

Source: World Bank (2014), "International Comparison Programme".

[18] Price Waterhouse Coopers (2013), "World in 2050, the BRICs and Beyond: Prospects, Challenges and Opportunities", available at: http://www.pwc.com/en_GX/gx/world-2050/assets/pwc-world-in-2050-report-january-2013.pdf; Kupchan. C.A. (2012), "The World in 2050: When the Five Largest Economies are the BRICs and US", available at: http://www.theatlantic.com/business/archive/ 2012/02/the-world-in-2050-when-the-5-largest-economies-are-the-brics-and-us/253160/.

[19] World Bank (2014), "Purchasing Power Parities and Real Expenditures of World Economies: Summary of Results and Findings of the 2011 International Comparison Programme", World Bank, Washington, D.C.

Figure 3.6
Population Share, 1980-2050



Source: UN, "The 2012 Revision of the World Population Prospects", available at http://esa.un.org/wpp/.

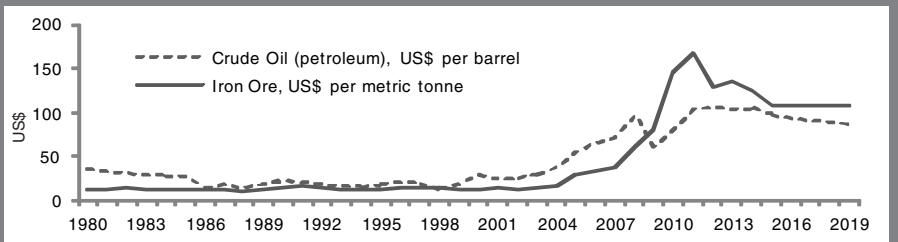
Per capita GDP in emerging and developing Asia has recorded high growth rates during the past three decades. It increased from US$ 411 to US$ 5,227 over the period 1980-2010 due to very rapid economic growth. According to IMF projections, it is expected to almost double to US$ 10,119 by 2019 (Figure 3.7), indicating an increasing purchasing power and market potential of the region. [20] The pace and scale of the transformation is staggering when considering the fact that it took the UK over 50 years to double its income per person during the industrial revolution.[21] Nevertheless, when considering GDP in per capita terms, emerging and developing countries' incomes would still be substantially less than that of advanced countries.

Box 3.1
Rising Demand from China and India for Crude Oil

Global oil prices have been largely driven by the demand from China and India both of which have been increasing their net oil imports. According to British Petroleum (2012), China and India are predicted to be the world's largest and third largest energy consumers, respectively, by 2030. Moreover, China and India are anticipated to account for 35 per cent of the global population and are likely to have 94 per cent of the net oil demand growth.

In fact, a study analyzing different scenarios for China's oil demand through 2020 finds that new demand from China's transport sector would raise world oil price by 1-3 per cent by 2020. However, according to IMF predictions, world oil prices as well as steel prices are likely to decline or remain the same from 2014 to 2019.

Prices of Crude Oil and Iron, 1980-2019



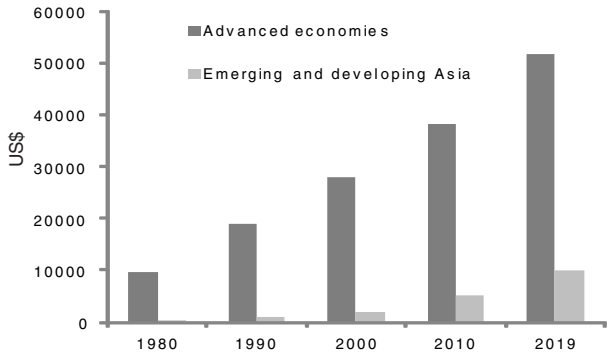
Source: IMF, "World Economic Outlook", various issues (includes projections for 2014-19).

Source: Niklaus, A. and J. Inchauspe (2013), *How Increased Crude Oil Demand by China and India Affect the International Market*, Curtin University, Perth; British Petroleum (2013), "Energy Outlook 2013"; IMF, "World Economic Outlook", various issues.

[20] The growing affluence of the region, particularly by a select few is represented by ranking of a number of Asia's key cities like Hong Kong, Beijing, Seoul, and Mumbai in the Forbes "Top Ten Billionaire Cities" in 2013. See Geromel. R. (2013), "Forbes Top Ten Billionaire Cities – Moscow Beats New York Again", available at: http://www.forbes.com/sites/ricardogeromel/ 2013/03/14/forbes-top-10-billionaire-cities-moscow-beats-new-york-again/.

[21] Commonwealth of Australia (2012), "Australia in the Asian Century - White Paper", available at: http://www.murdoch.edu.au/ALTC-Fellowship/_document/Resources/australia-in-the-asian-century-white-paper.pdf.

Figure 3.7
Per Capita GDP (PPP) of Advanced Economies and Emerging and Developing Asia



Source: Calculated based on IMF, "World Economic Outlook" database available at: http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx.

Asia's per capita income could rise six-fold in PPP terms by 2050, allowing an additional 3 billion Asians to enjoy living standards similar to those in Europe today.

Going forward, the ADB (2011) forecasts that Asia's per capita income could rise six-fold in PPP terms by 2050, allowing an additional 3 billion Asians to enjoy living standards similar to those in Europe today.

3.2.3 Asia's Growing Middle Class

With rising in incomes and people escaping poverty, Asia's low income earners have been gradually progressing to the middle income class over the past couple of decades. Typically, the middle class enjoys a higher standard of living, income and purchasing power, and is considered as major drivers of growth owing to more active participation in economic and political spheres.[22] In fact, the middle class can apply pressure for economic reforms and lay the foundation for a transition to a democracy as demonstrated in the cases of South Korea and Taiwan.

An ADB (2010) study on the middle class (defined as those consuming on average between US$ 2-20 per day), found that Asia's middle class accounted for 21 per cent of the region's population

In 2008, 1.9 billion of the population in Asia belonged to the 'middle class' category



By 2030, Asia's middle class is projected to expand to



of its population

[22] Chun. N. (2010), "Middle Class Size in the Past, Present, and Future: A Description of Trends in Asia", ADB Economics Working Paper Series No. 217, Asian Development Bank, Manila.

Table 3.2
Summary of Population, Class Size, and Total Expenditures by Region for 1990 and 2008

1990	% of Population		
	Poor (<$2 per person per day)	Middle ($2-$20 per person per day)	High (>$20 per person per day
Developing Asia	79	21	0
Developing Europe	12	84	4
Latin America & the Caribbean	20	71	9
Middle East & North Africa	18	80	2
OECD	0	24	76
Sub-Saharan Africa	75	24	1
2008			
Developing Asia	43	56	1
Developing Europe	2	87	11
Latin America & the Caribbean	10	77	13
Middle East & North Africa	12	86	3
OECD	0	16	84
Sub-Saharan Africa	66	33	1
2030			
Developing Asia	20	59	21
Developing Europe	1	69	30
Latin America & the Caribbean	7	56	37
Middle East & North Africa	16	80	3
OECD	0	8	92
Sub-Saharan Africa	45	50	5

Source: Chun. N. (2010), "Middle Class Size in the Past, Present, and Future: A Description of Trends in Asia", ADB Economics Working Paper Series No 217, Asian Development Bank, Manila.

in 1990 (Table 3.2). Although the proportion is relatively small compared to other parts of the world, it has grown to 56 per cent by 2008. Consequently, Asia has emerged as a region with the largest segments of a middle class population in 2008 with 1.9 billion of emerging Asia's population in the middle class category. While there are large variations in the size and growth of the middle class across countries in the region, China and Vietnam have made great strides in increasing the share of their middle class population. Asia's middle class is projected to expand to 59 per cent of its population by 2030, while the region's higher income class (those spending more than US$ 20 a day) is projected to increase from 1 per cent in 2008 to 21 per cent by 2030.

Other studies find that Asia will account for a larger share of the global middle class, as high as 66 per cent of the global middle-class population (and 59 per cent of middle-class consumption by 2030).[23] Nevertheless, much of Asia's middle class still belongs to the lower middle class, consuming on average between US$ 2-4 per day and vulnerable to falling back into poverty.[24] For example, in China, India, Indonesia and the Philippines, the lower middle class is more than a half of the total middle class compared to Malaysia and Thailand with a bigger share of their population in the middle and upper middle classes.

[23] Pezzini, M. (2012), "An Emerging Middle Class", available at http://www.oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html.

[24] ADB (2010), "Key Indicators for Asia and the Pacific 2010", Asian Development Bank, Manila.

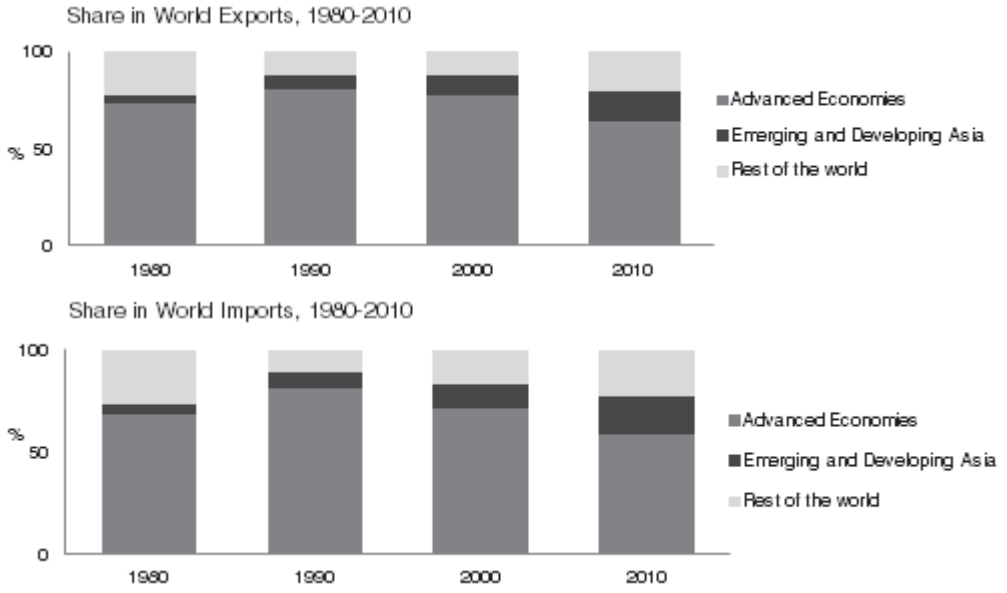
The rising middle class is expected to bring about higher expenditure and consumption patterns. In line with this trend, Asia is expected to become the foremost consumer in the world by 2030 accounting for 42 per cent of global expenditure - a two-fold increase from consumption levels in 2008.[25] The signs of Asia's growing middle class can be seen through the sales of consumer durables such as refrigerators, television sets, mobile phones and automobiles. China has now overtaken the US as the world's largest automobile market, while China and India are now the world's largest market for mobile phones. However, Asia's growing consumption can place pressure on natural resources and the environment. Moreover, emerging Asia is also experiencing a dramatic rise in middle class health problems, namely obesity, diabetes, cancer and heart diseases.

3.2.4 Shaping World Trade, FDI and Aid

Developing Asia's rapid economic growth has not only shifted the global economic centre of gravity away from the advanced countries, but has also raised the region's importance in world trade, boosting South-South trade.[26] Asia's share in world trade has been growing vigorously over the years; exports and imports from the region have grown at twice the rate of the rest of the world over the

Developing Asia's rapid economic growth has also raised the region's importance in world trade.

Figure 3.8
Share of World Trade Flows

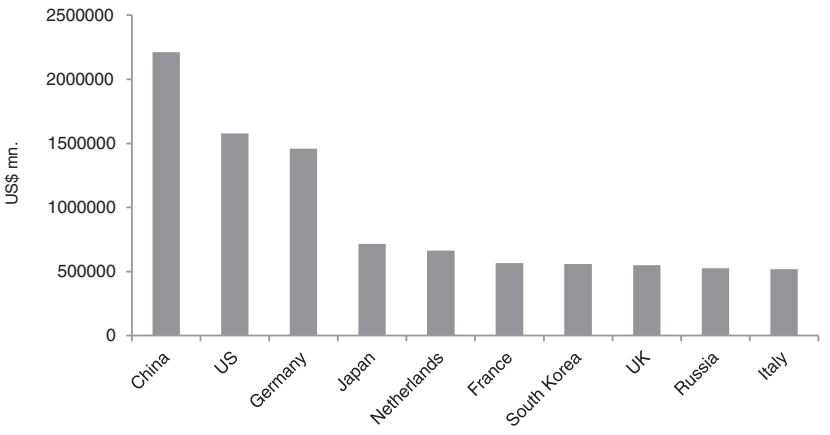


Source: Calculated based on IMF, "Direction of Trade Statistics", and "International Financial Statistics", various years.

[25] Chun. N. (2010), "Middle Class Size in the Past, Present, and Future: A Description of Trends in Asia", ADB Economics Working Paper Series No. 217, Asian Development Bank, Manila.

[26] Anderson. K., and S. Strutt (2011), "Asia's Changing Role in World Trade: Prospects for South-South Trade Growth to 2030", ADB Economics Working Paper Series. No. 264, Asian Development Bank, Manila.

Figure 3.9
Top 10 Exporting Countries, 2013 (US$ mn.)



Developing Asia is also a growing source of investment as well as a destination of global FDI flows.

Source: Compiled from International Trade Centre, "Trade Map" database, ITC, Geneva.

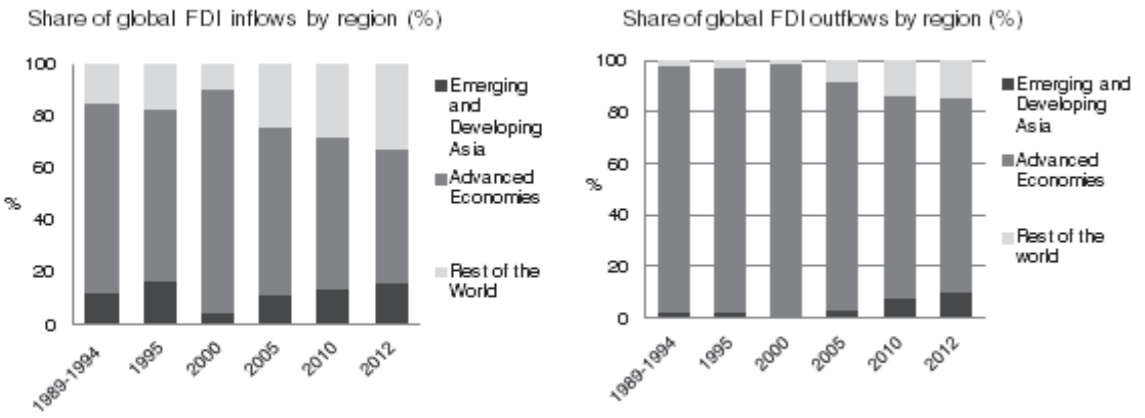
past three decades. Consequently, the share of emerging and developing Asia's exports has grown from 4.2 per cent in 1980 to 15 per cent in 2010, while the share of imports has increased from 4.6 per cent to 19 per cent during this period (Figure 3.8). An expansion in trade in Asia has been matched by a declining share of other regions including that of advanced countries. China is now the world's largest exporter (in value terms), followed by the US, Germany, Japan, the Netherlands, France, South Korea, UK, Russia and Italy (Figure 3.9). India is ranked as the 16th largest exporter. According to some estimates, developing Asia will continue to increase its share of global trade in the future, and come to account for as much as 40 per cent of world exports and 29 per cent of world imports by 2030.[27]

With regard to FDI, both inward and outward flows in advanced economies have slowed during the past three decades, while FDI flows to developing Asia have picked up. Advanced economies which accounted for around three-fourth of global FDI inflows during 1989-1994, accounted for only a half of FDI inflows by 2012, while its share in global FDI outflows have fallen to 75 per cent in 2012 compared to its share of 95 per cent during 1989-1994 (Figure 3.10). With the deepening recession and worsening economic conditions in advanced countries, coupled with stronger growth in emerging markets, FDI inflows to developing economies surpassed FDI inflows to developed economies in 2012 for the first time.[28] In fact, FDI inflows to the Asian region have been growing over the past three decades, and now account for 15 per cent of total global inflows, up from 11 per cent in 1980. Similarly, FDI outflows from Asia have grown but at a faster pace after 2005, and the region has increased its share to almost 10 per cent of outflows in 2012. While Asia's growing role as a source of investment as well as a destination is strengthening, advanced countries still account for a substantial share of global FDI flows despite the declining trends.

[27] *Ibid*.

[28] UNCTAD (2014), "Global Investment Trends Monitor" No.15, available at http://unctad.org/en/PublicationsLibrary /webdiaeia2014d1_en.pdf.

Figure 3.10
World FDI Flows, 1989-2012



Source: Calculated based on UNCTAD, "World Investment Report", various years.

Box 3.2
Emergence of Asian Brands

The rise of Asia has been accompanied by the emergence of several strong Asian brands which have managed to win over a large global presence in recent times. Japanese brands including Toyota, Honda, Cannon, Nissan, Sony and Panasonic and South Korean brands including Samsung, Hyundai and KIA are some of the leading brands in Asia which have been included in the world's top 100 brands as per the Global Inter-brand Ranking of 2013 (a leading global branding consultancy firm). Chinese brands including Lenovo, Huawei and Cherry, and Indian brands such as Tata, Reliance, Hero, Bajaj, Maruti Suzuki are also examples of Asian brands which have managed to conquer global markets with their value for money product propositions. Asian brands with their unique product offerings have set the stage for an era of affordability matched by superior quality.

Samsung is an example of an Asian brand which has emerged as a champion in the global market. Samsung, which had a net sales value of US$ 270 billion and total assets worth of US$ 470 billion in 2013, is currently ranked as the world's 8th best brand, and Asia's number one brand. It operates in a diverse set of sectors including consumer electronics, IT and mobile communications, health and medical equipment, etc. According to Strategy Analytics, a leading global market research firm, Samsung has even managed to overtake the two leading Western mobile brands – Apple and Nokia –as the most profitable phone firm. As per the Global Inter-brand report of 2013, Samsung with its innovative products such as Galaxy S4 and Galaxy Note II has grabbed a market share of 30 per cent in smartphone shipments surpassing Apple in smartphone sales.

Asian brands have also been making steady progress in acquiring global brands. Lenovo, the leading Chinese computer technology company, which acquired IBM'S PC business in 2005, also plans to acquire IBM's server business at a purchase price of approximately US$ 2.3 billion. Tata Motors in its efforts to diversify into the luxury car market has acquired Ford's Jaguar-Land Rover brands at a price of US$ 2.3 billion.

Aside from trade and FDI, emerging Asian countries have embarked upon an array of political and economic strategies. These are in part reflected by the role played by emerging Asian economies - such as South Korea, China and India - as sources of aid and development finance as countries compete for natural resources and regional and global influence. The economic motivation behind China's aid to Africa for example, is largely viewed as a means of procuring and securing Africa's natural resources. China's 'trinity-style' of cooperation aims to combine aid with market mechanisms such as trade and investment. However, the political intentions behind China's FDI and aid channeled to South and Southeast Asia have been more diplomatic and strategic. China's strategic interests in the Pacific and Indian Oceans have been referred to as the "String of Pearls", which is a chain of ports and maritime facilities in Southeast and South Asia developed by Chinese firms. Although China claims these initiatives to be a 'maritime silk road' that offer economic opportunities to Southeast and South Asian regions, these initiatives are often times perceived as a partial military strategy that would allow easy access to China's naval presence in the region.

By contrast to China, the bulk of India's development assistance and grants are confined largely to South Asia, although India has been active in training civil servants, public sector managers and engineers in some African countries to raise its political profile. By and large, however, India's overseas development assistance is mainly channelled to Afghanistan, Bhutan and Nepal. Similar to China, India's economic motivations behind provision of aid have both commercial and political undertones. For example, assistance to Nepal and Bhutan are to fulfil India's energy needs. India is expected to become a net exporter of aid as a result of collective factors, especially India's competition with China for energy resources and political influence, India's self-conscious role as an emerging power, and the belief that provision of assistance for economic and political purposes could be an effective way of improving international relations.

3.2.5 Asia's Global Economic Leadership

With the rise of Asia, the global economic architecture is already adjusting, as reflected by the emergence of the Group of Twenty (G20), expanding the existing Group of Eight (G8).[29] In the aftermath of the Asian financial crisis in 1997/98, due to the inadequacy of existing institutions, it was felt that crisis prevention and resolution efforts required the cooperation and involvement of significant emerging economies. Also, formal institutions such as the Bank for International Settlements and the IMF had decision-making bodies which were insufficiently representative, flexible, or independent from a very small group of powerful members.[30] As a result, the G20 was formed in 1999 with the inclusion of a number of emerging economies, expanding the 'club' of advanced economies that typically dealt with global economic and financial issues. The G20 which initially consisted of finance ministers and central bankers in the late 1990s was later elevated to a leaders' summit at the outbreak of the global financial crisis in 2008. It is now the 'premier forum for international economic cooperation', representing around 85 per cent of global GDP, over 75 per cent of global trade, and two-thirds of the world's population. The inclusion of emerging economies such as Brazil, India, China, Mexico and South Africa within the fold of G20 reflects the changing economic as well as political weight of emerging economies in the global economy. With

[29] Petri, P.A. (2010), "Asia and the World Economy in 2030: Growth, Integration, and Governance", in Tellis, A. J., A. Marble and T. Tannner (eds.), *Asia's Rising Power and America's Continued Purpose*, National Bureau of Asian Research, Washington D.C.

[30] Smith, G. S. (2011), "G7 to G8 to G20: Evolution in Global Governance", CIGI G20 Papers No. 6, Centre for International Governance Innovation, Canada.

The inclusion of emerging economies such as Brazil, India, China, Mexico and South Africa within the fold of G20 reflects the changing economic as well as political weight of emerging economies in the global economy.

Asia leading the global recovery in the wake of the financial crisis of 2008, the region is expected to have a bigger voice/role in the global stage, including the shaping of the G20 agenda.[31] In fact, these countries have become more active and outspoken in advocating for reforms in global architecture, through the G20 process as well as at UN and other global meetings. Given their limited formal voting power and the US and the European dominance of the World Bank and IMF, respectively, the emerging economies also prefer the G20 as the premier forum for deliberations on global policy.[32]

In 2009, G20 leaders agreed to reform the governance structures of the IMF and the World Bank to reflect better the increasing economic weight of dynamic emerging market economies in the world economy. They committed themselves to shift voting power from developed to developing countries in the IMF and the World Bank by at least 5 and 3 per cent, respectively.[33] Further to the reforms made, the quotas held by IMF members were doubled from their current level of US$ 340 billion and the quota expansion was used to shift the structure of quota holding in favour of some emerging market economies such as China and India.[34]

The global trade regime too has changed during the past two decades to encompass most developing countries, including China, which was outside the trading system in earlier rounds of trade talks. China's accession to WTO in 2001 has changed the balance of power within the organization, while countries like India which were less engaged in earlier rounds - reflecting the views of economies that were largely closed at one time - have become more vocal and active. In fact, these emerging Asian countries are playing an increasingly important role and are having a notable impact on the WTO's agenda. A recent development in the WTO, spearheaded and influenced by India, is the agreement to allow countries to provide a subsidy on staple food crops without any threat on punitive action. This agreement was passed in recognition of the right of developing nations for public stock-holding of food grains to ensure food security for their citizens. However, developed nations, particularly the US, are blaming India for failing to do more to cut global barriers to trade, like reducing red-tape from customs procedures, and delaying the Doha round of negotiations by trying to introduce a 'massive new loophole'. It is argued

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31 ADB and Peterson Institute for International Economics (2011), *Reshaping Global Economic Governance and the Role of Asia in the Group of Twenty (G20)*, Asian Development Bank, Manila.

32 Wade, R. H. (2011), "Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF", *Politics and Society*, Vol. 39, No. 3, SAGE Publications, New Delhi.

33 Vestergaard, J and R.H. Wade (2014), "Out of the Woods: Gridlock in the IMF, and the World Bank Puts Multilateralism at Risk", DIIS Report 2014:06, Danish Institute of International Studies, Denmark.

34 Harding, R. (2014), "G20 Gives US Ultimatum over IMF Reform", *Financial Times*, available at http://www.ft.com/intl/ cms/s/0/eb06deb2-c1b7-11e3-83af-00144feabdc0.html#axzz34te6mBHF.

that such policies would create national surpluses of agriculture products that would eventually get dumped on world markets and hurt the interests of non-subsidized farmers elsewhere.

Emerging economies' representation at the UN Security Council has also shown some progress. While China is one of the five permanent members in the UN Security Council, in 2011, China officially expressed its support for an increased Indian role at the UN, without explicitly endorsing India's Security Council ambitions. However, recently China has expressed its support for Indian candidacy as a permanent member of the Security Council if India revoked its support for Japan's candidacy, thus making India the only candidate that has received support from all permanent members and most other nations as well. However, even as Asia makes an impact at global forums, intra-Asian tensions are also clearly visible in many instances.

3.3 Intra-Asian Developments: Towards Co-operation?

The 2008 global financial crisis led to a downturn in Asia's growth, with growth rates slowing down to 7.7 per cent in 2009 and exports falling by about 35 per cent from a peak to trough during July 2008 to February 2009.[35] Though the decline in growth in emerging Asia following the financial crisis was not as severe as that experienced during the 1997 Asian financial crisis, post-2008 growth is yet to reach pre-crisis levels. With the onset of the recession and slow down of the region, some have called into question the notion of an 'Asian Century', arguing that it is more of hype than a reality. However, Asia has shown a steady turnaround, recording positive growth levels. Though Asia was not at the epicentre of the crisis and this would have led to a quicker-than-expected turn around, it is still a sign of Asia's strong resilience to the stresses of the external environment.

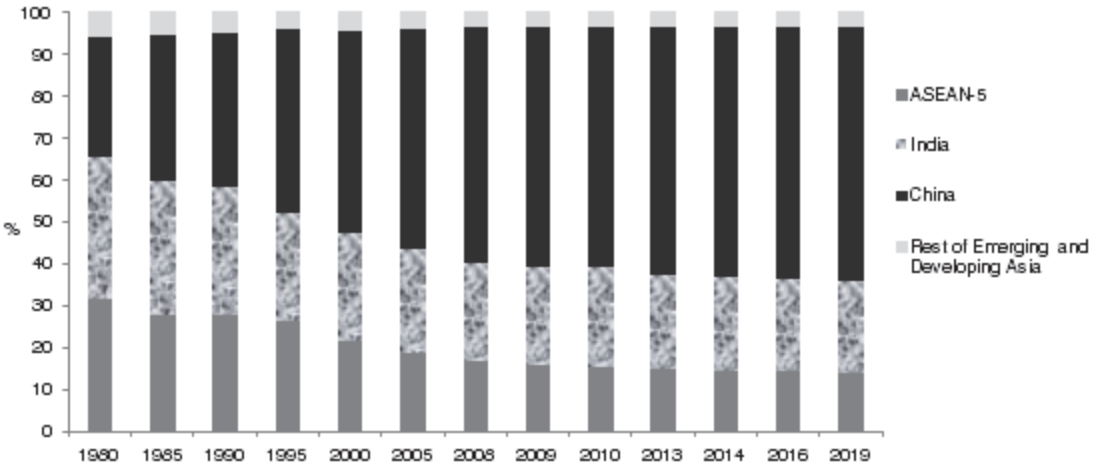
Asia's fortunes are overwhelmingly dependent on the continuing growth of its two major economies of China and India. Both countries dominate the landscape individually, whether in terms of their intra-regional share of GDP, consumer power, or in terms of their political influence on their Asian neighbours.

Despite growth slowing down across Asia in recent years, the prospects for Asia appear promising in the light of favourable developments taking place in the policy space of its two key economies, China and India. China's 12th Five-year Plan (2011-2015), endorsed by the National People's Congress, aims for an average annual growth of 7 per cent by moving the Chinese economy from export-and investment-driven growth to a more consumption-led growth. It also aims to undertake structural adjustment, improve social services, protect the environment, and promote transparency and governance.

Additionally, hopes of India's economic recovery have been rekindled, with the landslide electoral victory of the Bharatiya Janata Party (BJP) in May 2014. The new government, viewed as pro-business, is expected to nurture the manufacturing sector, attract foreign investment and build roads, bridges, ports, etc. It is also expected to trim spending on wasteful subsidies, reversing the previous government's retroactive tax claims, etc. The decisive election outcome suggests the new government will be able to implement reforms at a faster rate than previously expected, raising India's growth projections. India has been weighed down in recent years by high inflation, a weak currency

[35] Keat. H. S. (2009), "The Global Financial Crisis: Impact on Asia and Policy Challenges Ahead", paper presented at "Asia Economic Policy Conference: Asia and the Global Financial Crisis", Federal Reserve Bank of San Francisco, California, 19-20 October 2009.

Figure 3.11
Share of GDP (PPP) of Emerging and Developing Asia



Source: Calculated based on IMF, "World Economic Outlook" database, available at: http://www.imf.org/ external/pubs/ft/weo/2014/01/weodata/index.aspx

and a fall in foreign investment. The new government has pledged to boost growth, which has been below 5 per cent in recent years. A higher level of growth of at least 8 per cent is needed to provide enough jobs for India's growing labour force.

This section examines the trends within Asia and the prospects for intra-regional cooperation in the coming years.

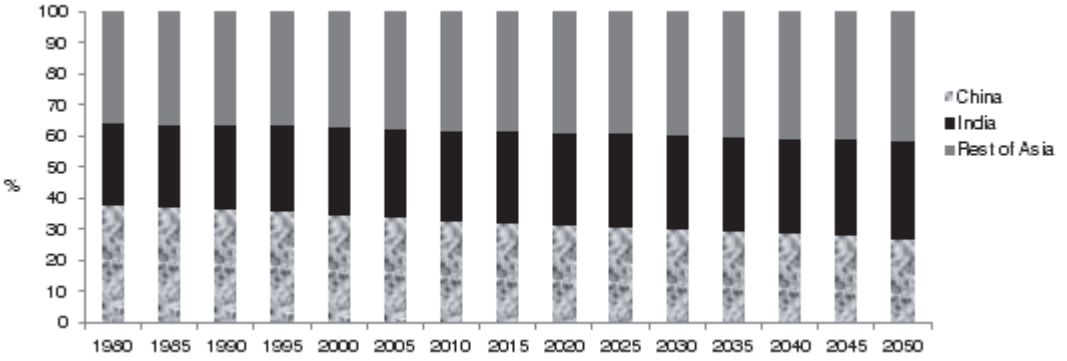
3.3.1 Intra-Asian Developments

Within emerging and developing Asia, China has become the biggest producer. Its contribution to GDP of emerging and developing Asia has been on a rapid upward drive since the 1980s, peaking at nearly 60 per cent in 2014. Near term projections reveal that China's contribution to Asia's GDP will remain at around 60 per cent as the country re-focuses on promoting growth that is more equitable and balanced, as a result of which China's growth rate is expected to moderate (Figure 3.11). India is the next largest economy in Asia, accounting for 22 per cent of emerging and Developing Asia's output in 2014, while its share in Asia's GDP is projected to hover around 20 per cent in the near term. India and China collectively accounts for over 82 per cent of output of emerging and developing Asia and are expected to be the catalysts of growth in the region.

ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) are also an important group of countries in the region, contributing around 14 per cent to emerging and developing Asia's GDP. Their contribution to Asia's GDP suffered a major blow from the Asian financial crisis of 1997, has been on the decline since then and is projected to dip further by 2019.

In terms of population, China accounting for around 32 per cent of Asia's population is the most populous country in emerging and developing Asia, followed by India accounting for a share of around 28 per cent of Asia's population (Figure 3.12). Projections show that India's population is expected to expand in the coming years to a share of 30 per cent of emerging and developing Asia's total population, while projections for China show a contraction in its population, possibly owing to the adoption of the one-child-policy.

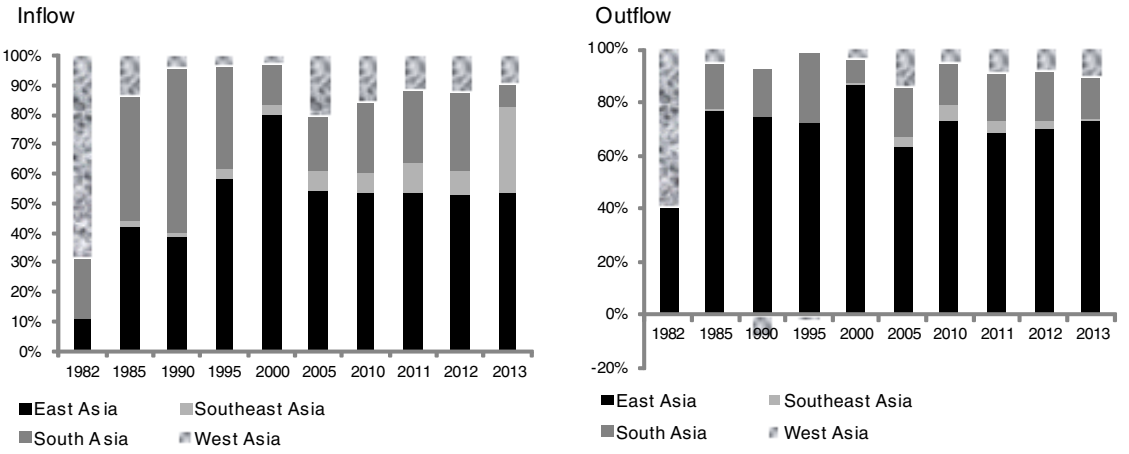
Figure 3.12
Population by Country, Share of Emerging and Developing Asia



Source: UN, "The 2012 Revision of the World Population Prospects", available at: http://esa.un.org/wpp.

Within the developing world, Asia recorded the highest level of FDI inflows. However, East Asia remained Asia's largest FDI destination as well as investor, accounting for 54 per cent of Asia's FDI inflows and 72 per cent of Asia's FDI outflows in 2013, respectively (Figures 3.13). China has the largest share in both FDI outflow and inflow among the East Asian countries accounting for over 56 per cent and 40 per cent, respectively.[36] Similarly, India dominates FDI inflows and outflows of South Asia, with about 90 per cent share of the total FDI inflows to the region and almost 98 per cent share of total FDI outflows from the region.[37]

Figure 3.13
Asia's Regional Share of FDI (1982-2012), in US$ million



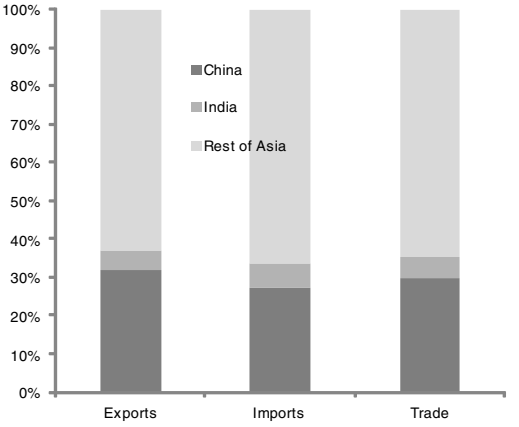
Source: UN, UNCTAD database.

[36] UNCTAD (2014), "Global Investment Trends Monitor No.16", available at: http://unctad.org/en/PublicationsLibrary /webdiaeia2014d5_en.pdf.
[37] *Ibid*.

Since the 1990s, and especially after China's accession to the WTO, China has become one of the most-favoured destinations for FDI.[38] In 2012, China attracted inflows amounting to US$ 120 billion and ranked as the second largest host country in the world behind the US (US$ 168 billion).[39] China has also been catching up as a major global investor, climbing up from 32nd place in 2000 to become the third largest investor by 2012 (behind US and Japan).[40] China's outward FDI strategy has gone through stages from initial political opposition, to selective approval, and to enthusiastic encouragement.[41] Its outward FDI has been driven by a growing need to secure overseas energy and raw material resources, to remain competitive in the face of intensified domestic competition and over-capacity in a number of key sectors, continuingly rising foreign exchange reserves and associated currency appreciation, and increasing government support arising around the 'going abroad' strategy. China's rapid economic development, surging foreign exchange reserves, and strong interest in encouraging outward FDI, is expected to see Chinese corporations continue to invest abroad and emerge as a large source of FDI in the near future.

China and India have also emerged as significant trading nations not only within Asia but also globally. Together they account for roughly 36 per cent of Asia's total trade, with China holding a larger share (Figure 3.14). Internationally, China is ranked as the largest exporter and second largest importer in the world in 2013, while India held the 16th and 12th positions, respectively. In fact, 2013 marked another milestone for China - it is very likely that China overtook the US as the largest trader - a title the US has held for decades though concerns have been flagged about the accuracy of China's export data.[42]

Figure 3.14
Exports, Imports and Total Trade, by Country, 2013



Source: Compiled from ITC Trade Map, International Trade Centre, Geneva.

3.3.2 Asian Integration

Asia's economies are increasingly vital not only to the world but to each other. As Asia's economies have grown larger, they also have become more integrated - through trade, financial flows and direct investment. However, increasing integration in the region is mostly confined to East Asia. Intra-regional integration in trade as a share of East Asia's total trade increased from 45.5 per cent in 1990 to 61.5 per cent, which is slightly lower than EU (64.9 per cent) but higher than for North America (40 per cent) and other developing regions (Table 3.3). Interdependence within the region has increased significantly after the 1997/98 Asian financial crisis.[43] Regional integration in East Asia is more developed

[38] Chen, C. (2011), "Asian Foreign Direct Investment and the 'China Effect" in Ross, G. *et al*. (eds.), *China: The Next Twenty Years of Reform and Development*, ANU Press, Canberra.

[39] Other Asian countries among the top 20 host economies of FDI flows in 2012 included Hong Kong (ranked 3), Singapore (8), India (15) and Indonesia (17). See UNCTAD, "World Investment Report 2013".

[40] *Ibid*.

[41] Cheng, S. and R. R. Stough (2007), "The Pattern and Magnitude of China's Outward FDI in Asia", Regional Research Institute, West Virginia University, US.

[42] BBC, "China Overtakes US as World's Largest Good's Trader", available at http://www.bbc.com/news/business-25678415.

[43] ADB (2009), *Emerging Asian Regionalism: A Partnerships for Shared Prosperity*, Asian Development Bank, Manila.

because of manufacturing supply chains which are linked to global markets, namely in the West.[44] Integration efforts in the region have made more headway in terms of trade and FDI than in finance and monetary policy, which remains very much a national policy preserve.

With the slow progress of the WTO's Doha round, many Asian economies have turned to negotiating bilateral and plurilateral free trade agreements. Consequently, there has been an upsurge in the number of trade agreements in the region despite being a relative late comer to using FTAs. [45] Most of the agreements in the region are bilateral FTAs (190 recorded in 2013) rather than plurilateral agreements (71), probably because bilateral agreements are easier to negotiate.[46] The majority are with partners outside the region. The major Asian players - China (a total of 27 agreements as of 2013), India (34), Japan (26) and South Korea (32) are all heavily involved. Of the ASEAN countries, Singapore has the highest number of FTAs at 38. In South Asia, aside from India, Pakistan is also a partner to 27 agreements. However, these agreements are considered to be 'weak-to-very-weak', in terms of being partial, somewhat dirty and mostly 'trade light'.[47] That is, they have been largely limited to tariff cuts; they have hardly dealt with non-tariff barriers in goods, services and investment and suffer from complex rules of origin.

Much of the past integration efforts have centred in Southeast Asia. The ASEAN Free Trade Area (AFTA), adopted in 1992, was the first major regional free trade agreement in Asia. AFTA aimed to promote the free flow of goods within ASEAN. It has since been upgraded to an Asian Economic Community (AEC) to be established by 2015 to create a single market for goods, services, capital and movement of persons. While ASEAN has had success in bringing down intra-regional tariffs under AFTA, it has seen little progress on AFTA-plus issues such as services, investment, non-tariff barriers and mutual recognition and harmonization of standards.[48] In order to improve existing ties with other major partners in the region, namely China, Japan, and South Korea, ASEAN+3 as a forum was created in 1997. This was followed by the even larger East Asia Summit (EAS), which included these countries as well as India, Australia, and New Zealand - forming the ASEAN+6.

ASEAN which has concluded free trade agreements with China, Korea, Japan, Australia, New Zealand, and India is now in the process of establishing a Regional Comprehensive Economic Partnership (RCEP) by building on the East Asia Free Trade Agreement (EAFTA) and the Comprehensive Economic Partnership in East Asia (CEPEA) initiatives of ASEAN+3 and ASEAN+6, respectively. The bloc will contain three of the largest economies in the world (China, India and Japan), representing 49 per cent of the world's population and 30 per cent of world GDP. The RCEP, formed in 2012, aims to deepen cooperation by focusing on opening more trade in goods and services, eliminating trade barriers, and gradually liberalizing services and FDI. The RCEP is also expected to help further entrench ASEANs centrality to economic cooperation within Southeast and East Asia. Working groups on goods, services and investment have been already established, and negotiations amongst the 16 parties which began in early 2012 are expected to be completed by 2015. However, harmonizing/

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44 Sally, R. (2010), "Regional Economic Integration in Asia: The Track Record and Prospects", ECIPE Occasional Paper No. 2/2010, Brussels.

45 Kawai, M. and G. Wignaraja (2009), *Asian FTAs: Trends and Challenges*, Asian Development Bank Institute, Tokyo.

46 Compiled using the ADB Asian Integration Centre Database, available at http://aric.adb.org/fta.

47 Sally, R. (2010), "Regional Economic Integration in Asia: The Track Record and Prospects", ECIPE Occasional Paper No. 2/2010, European Centre for International Political Economy, Brussels.

48 *Ibid*.

consolidating various disparate agreements into RCEP is likely to be a challenge.[49]

Another mega-regional agreement that has emerged recently in the region is the Trans-Pacific Partnership (TPP), which does not include all ASEAN member countries. To manage trade, promote growth and regionally integrate the economies of the Asia-Pacific region, the TPP was proposed in 2008 as an expansion of an earlier agreement between Brunei, Chile, New Zealand and Singapore signed in 2005. The US, Canada, Australia, Peru, Vietnam, Mexico and Malaysia subsequently joined. TPP countries account for about 40 per cent of the world economy. The entry of the US into the TPP is seen as a means of keeping the US engaged in Asia as well as controlling China's increasing economic and strategic interests and influence in the East Asian region. Thus far, 19 rounds of negotiations have been held with the objective of developing an agreement which goes beyond existing 'traditional' trade agreements.[50] TPP has been called a 'state-of-the-art' trade agreement covering trade in goods and services, investment, intellectual property rights, environmental protection, labour, financial services, technical barriers, etc. In fact, TPP calls for deeper integration than RCEP, which will be a partial WTO-plus agreement. Moreover, it is less flexible than RCEP; the latter considers each country's needs and enable special and differential treatment of ASEAN member countries. Thus, certain provisions under TPP will be difficult for developing countries to meet. Nevertheless, TPP is pushing for an ambitious conclusion as early as possible.

Some observers argue that competition between the two regional trade agreements to be Asia's predominant economic arrangements has the potential to create divisions within ASEAN.[51] Singapore, Malaysia and Vietnam may focus on promoting TPP to other Southeast and East Asian countries while the rest of the ASEAN countries are likely to aim to further develop RCEP.

In comparison to East and Southeast Asia, South Asia's regional integration initiatives have been weak and the region remains the least integrated. This is reflected in a very low level of intra-regional trade at below 5 per cent of the region's total trade, lagging well behind other regions in the world (Table

Table 3.3
Intra-regional Trade Share (%)

	1990	1995	2000	2005	2010
EU	65.7	65.4	64.1	64.9	64.9
Asia	45.2	52.5	53.2	55.1	55.6
East Asia	28.6	35.4	36.8	36.9	36.8
South Asia	1.9	4.1	3.9	4.3	3.1
South East Asia	16.9	21.0	22.7	24.9	24.6
Africa	7.8	9.4	8.3	9.3	10.4
North America	37.2	41.9	46.8	43.0	40.0
Latin America	14.8	18.6	15.4	18.0	19.3

Source: Compiled from ADB, Asian Regional Integration Centre Database available at: http://aric.adb.org/integrationindicators.

[49] Armstrong, S., (2013), "Will Asian Trade Strategies Unite or Divide?", East Asia Forum, available at http://www.eastasiaforum.org/2013 / 09/15/will-asian-trade-strategies-unite-or-divide/

[50] Cheong, I., (2013), "Negotiations for the Trans-Pacific Partnership Agreement: Evaluation and Implications for East Asian Regionalism", ADBI Working Paper Series, Asian Development Bank Institute, Tokyo.

[51] Pakpahan, B., (2012), "Will RCEP Compete with the TPP?", East Asia Forum, available at http://www.eastasiaforum.org/2012/11/28/ will-rcep-compete-with-the-tpp/.

3.3). The South Asian Association of Regional Cooperation (SAARC) was formed in 1985, and a South Asian Preferential Trade Area (SAPTA) became operational in 1995. The latter had limited product coverage. For this reason, the preferential trading area was upgraded to a free trade area through the formation of the South Asian Free Trade Area (SAFTA), which came into effect in 2006. It is supposed to be a full-fledged FTA by 2015 but intra-regional trade remains very low; tariff lines in members' 'sensitive lists' exclude just over a half of intra-regional trade. Also, countries maintain relatively high tariffs with respect to each other and third countries, in addition to high non-tariff barriers (NTBs) and FDI restrictions. Compared to developments in ASEAN and its FTAs with other Asia-Pacific countries, South Asia has been reserved about the inclusion of services, investments, trade facilitation and infrastructure development.

In an important step to strengthen the SAFTA process and deepen integration in the region, the SAARC Agreement on Trade in Services (SATIS) was signed in April 2010 and the agreement entered into force in November 2012. However, the agreement is yet to become functional as all countries have not submitted their schedules for liberalization. Negotiations for the Agreement on Promotion and Protection of Investment are still on. This is likely to create an enabling environment for cooperation beyond mere trade to include investment and finance flows.

Unlike ASEAN, SAARC has not had much luck in forging trading agreements as a regional grouping with other countries/regions in the world; India and Pakistan and some of the smaller South Asian economies have pursued trade agreements with countries/regions outside South Asia on their own. However, studies suggest that tackling key impediments in cross-border infrastructure, barriers to trade in goods and services, and business regulations can foster South Asian integration with the rest of Asia, especially with East Asia.[52] Moreover, India is seen to have an incentive to include its South Asian neighbours in an FTA with East Asia rather than going it alone. Thus, the rest of South Asia can stand to gain by deepening South Asian integration and fostering ties with East Asia. The key to such a regional strategy include investments in infrastructure, improvements of logistics, and greater openness to trade and investment.

3.4 Major Challenges Confronting Emerging and Developing Asia

As Asia continues to grow and converge with average global living standards, there will be risks and challenges for the region to overcome to sustain its growth momentum to realize the Asian Century. Indeed, the challenges over the next 20 years have been identified by key policy makers in the region. The next section will discuss some of these risks including the middle-income trap, income disparities, environmental degradation and climate change, rapid urbanization, political tensions, and demographic changes.

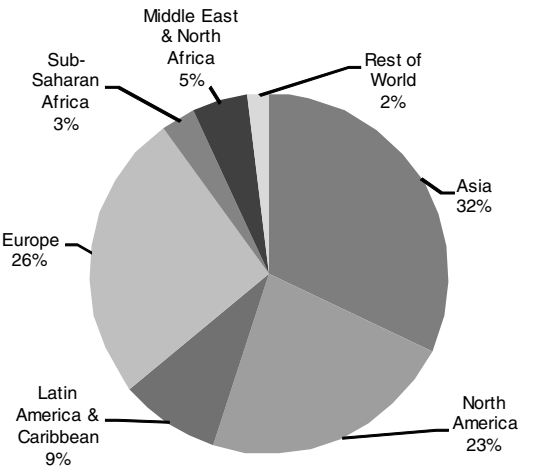
3.4.1 Middle Income Trap

As already discussed, it has been suggested that if Asia continues to grow on its present trajectory, it could account for more than a half of global GDP by 2050. The notion of the Asian Century assumes that Asian economies can maintain their present growth momentum for another 40 years, whilst adapting to changes in global economic and technological environment, and recreate comparative advantages on a continuous basis. Alternative scenario to the Asian Century is the

[52] Wignaraja, G., (2014), "Assessing the Experience of South Asia-East Asia Integration and India's Role", ADBI Working Paper Series No. 465, Asian Development Bank Institute, Tokyo.

As Asia continues to grow and converge with average global living standards, there will be risks and challenges that Asia will have to overcome to sustain its growth momentum.

Figure 3.15
Middle Income Trap Scenario



Source: ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

'Middle Income Trap' scenario, a pessimistic scenario whereby the 11 fast growing countries stagnate and not grow to advanced country levels, while the other 31 slow-modest growth economies do not improve upon their past record. Under this scenario, these countries will fail to shift from investing in physical capital to investing more in human capital, create a better environment for entrepreneurship and innovation, and improve their environment performance. Consequently, they cannot make a timely transition from resource-driven growth with low cost labour and capital to productivity-driven growth. In other words, Asia would follow the pattern of Latin America over the past 30 years. Under this scenario, Asia would fall far short of the Asian Century and the costs would be staggering; total GDP in 2050 would reach only US$ 61 trillion and not US$ 148 trillion, and GDP per capita (PPP) would be only US$ 20,300, as opposed to US$ 38,600. Consequently, Asia would only be able to increase its share of the world GDP to about 32 per cent (Figure 3.15) as opposed to 51 per cent under the Asian Century scenario (see Figure 3.4).

3.4.2 Asia's Rising Inequality

High growth and development is accompanied by risks and challenges in different forms. The forces that drive Asia's rapid growth, namely advanced technology, globalization, and market-oriented reforms, prompt an inevitable escalation in inequality.[53] While Asia's rapid growth in recent decades has lifted hundreds of millions out of extreme poverty, the region still remains home to two-thirds of the world's poor, with more than 800 million Asians still living on less than US$ 1.25 a day and 1.7 billion surviving on less than US$ 2 a day.[54]

[53] ADB (2012), *Asian Development Outlook 2012: Confronting Rising Inequality in Asia,* Asian Development Bank, Manila.

[54] Kuroda, H. (2013), "Asia's Challenges", OECD Forum, available at http://www.oecd.org/forum/asia-challenges.htm.



Asia's progress in poverty reduction has accelerated in recent years. The number of poor in East and South Asia was reduced by 425 million during 2005-2010.[55] South Asia alone is expected to see a poverty reduction of 430 million over 2005-2015, representing a fall in its poverty rate from 40 per cent to under 9 per cent.[56] Nevertheless, the gap between Asia's rich and poor has widened alarmingly in the past two decades. In many countries, the richest 1 per cent of households account for close to 10 per cent of total consumption, and the top 5 per cent account for more than 20 per cent.[57] The Gini coefficient, a common measure of inequality, has increased in much of the region. Taking developing Asia as a single unit, it has increased from 39 to 46. Inequality widened in 11 of the 28 countries in the region including in the three most populous countries of the region - China, India and Indonesia.[58]

The gap between different economic levels is not only in income. Inequality of opportunity is prevalent and is a crucial factor in widening income inequality. For example, school-age children from households in the poorest income quintile are up to five times more likely to be out of primary and secondary schools than their peers in the richest quintile; infant mortality rates among the poorest households were 10 times higher than those among the affluent households; in South Asia, women's labour force participation is only 40 per cent of that of men's; and in Central and West Asia, girls' primary and secondary school enrolment levels are 20 per cent lower than those of boys.[59] For developing Asia as a whole, 1.7 billion people (45 per cent of the population) lack access to sanitation, and 680 million are without access to electricity.

Hence, the opportunities generated by rapid economic growth have not been equally shared by all. Large and increasing inequality could threaten social cohesion and political stability within countries. Countries are responding to rising inequality, with more and more countries placing emphasis on inclusive growth. For example, China is a strong supporter and follower of inclusive growth, a concept that is consistent with its pursuit of development and social harmony. While speeding up the transformation of economic growth patterns and maintaining stable and relatively fast economic growth, China is increasingly refocussing on integrating economic development with improvement of people's lives.[60]

3.4.3 Environment

Another most visible side-effect of Asia's rapid growth has been issues related to environmental degradation and climate change. Over-exploitation of natural resources, such as water, land, energy, forestry, and fisheries, has resulted in degrading air quality and eco-systems, reducing the supply of clean water, and creating significant health hazards. Asia has become the world's largest source of greenhouse gas emissions (GHGs), which are

55 ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.
56 *Ibid*.
57 Kuroda, H. (2013), "Asia's Challenges", OECD Forum, available at http://www.oecd.org/forum/asia-challenges.htm.
58 ADB (2012), *Asian Development Outlook 2012: Confronting Rising Inequality in Asia*, Asian Development Bank, Manila.
59 Kuroda, H. (2013), "Asia's Challenges", OECD Forum, available at http://www.oecd.org/forum/asia-challenges.htm.
60 *Ibid*.

linked to global warming and climate change. Its cities are amongst the most polluted and the most vulnerable to extreme weather incidents. Recent climate-related disasters in China, the Philippines and Thailand are a reminder that Asian policy makers must act now to protect their citizens and mitigate and reverse the signs of climate change to secure sustainable growth for the future.

For example, one of the growing concerns in China is the 8 per cent increase in wastewater each year and the main cause of this number is the absence of wastewater treatment facilities in more than 278 cities.[61] To counteract this environmental degradation, China has decided to deploy a comprehensive tariff reform for water and wastewater treatment. Further, the government has decided to issue corporate bonds to help fund the development of water treatment facilities throughout China. Moreover, China is currently the second largest emitter of energy-related carbon dioxide emissions mainly because it is the world's largest coal consumer. [62] China has intentions to make better use of their coal resources, primarily expending it on generating electricity. The country also stipulated that all power plants using coal install desulphurization equipment by 2010 to utilize their sulfur while reducing the amount of pollution produced. Nonetheless, much remains to be done in Asia to mitigate and address significant environment degradation and pollution that has accompanied rapid economic growth across the region.

3.4.4 Urbanization

Urbanization is the result of industrialization and economic growth across Asia as there has been a shift from agrarian to industry and service driven economies. Asia is going through a historic demographic transformation from a rural society to an urban society. Approximately 44 million people are being added to Asia's urban population every year. By 2025, the majority of Asia's population is expected to be urban, and by 2050, Asia is predicted to have 3.2 billion urban inhabitants led by internal migrants.[63] This represents an approximate doubling of the current urban population of 1.6 billion people. By 2050, even small, poor Asian countries are also expected to experience major changes. Cambodia's urban population will grow from 20 per cent to 44 per cent, an increase of 7.5 million people, in Lao PDR it will grow from 33 per cent to 68 per cent, adding 5.2 million people to its urban population.[64]

This rapid growth poses both enormous management challenges and opportunities for city leaders. While rates and percentages of urbanization vary across Asia, urbanization is expected to be approximately 53 per cent across Asia.[65] In the Asian context, the benefits of urbanization include better wages and increased productivity. Some countries have already achieved levels of urbanization that the rest of Asia will achieve by 2050. The economic prosperity and high living standards of Japan (67 per cent urban), South Korea (83 per cent urban) and Malaysia (72 per cent urban), along with the economies of Hong Kong, China and Singapore, demonstrate the potential benefits of Asia's future urbanization.[66] Therefore, the successful management of a national economy is closely linked to the successful management of urbanization since about 84 per cent of GDP is generated by cities.

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61 Yang, Hong, Zhuoying Zhang and Minjun Shi (2013), "Quenching China's Thirst for Economic Growth", East Asia Forum, available at http://www.eastasiaforum.org/2013/01/23/quenching-chinas-thirst-for-economic-growth.

62 Gardner, D., (2014), "Can China Win the War on Air Pollution?, East Asia Forum, available at http://www.eastasiaforum.org/ 2014/04/09/can-china-win-the-war-on-air-pollution.

63 UN (2011), *World Urbanization Prospects 2011*, Economic and Social Affairs Division.

64 ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

65 ADB (2008), *Managing Asian Cities: Sustainable and Inclusive Urban Solutions*, Asian Development Bank, Manila.

66 ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

The detriments of urbanization can include pollution, congestions, waste management, housing issues and over-burdened infrastructure. Some of the risks of urbanization are growing inequality in cities, unmet expectations of the rapidly emerging middle-class, and high carbon environments and consequences of climate change. City and town planning, professional urban management and self-financing will be important elements to manage the impending rapid urbanization.

3.4.5 Political Tensions

China's rapid economic rise both in terms of its size and power is challenging old and established regional orders. In addition, as China's influence grows over Asia, it is inevitable that it will confront US interests in the region, with relations becoming fraught with tensions at times. History has shown that the rise of new powers often leads to conflict with incumbent powers. Moreover, territorial and maritime disputes in the East and South China Seas can continue to fester while tensions in Asia between other countries due to unresolved historical issues, territorial disputes and nationalist populism are potential set-backs to the notion of greater Asian cooperation and integration efforts.

Maritime and territorial disputes in the South China Sea are arguably among the most pressing security issues facing the Asia-Pacific region, which involve both island and maritime claims among seven sovereign states in Asia, namely Brunei, China, Indonesia, Malaysia, the Philippines, Taiwan and Vietnam.[67] The disputes include the maritime boundary in the Gulf of Tonkin as well as maritime boundaries off the coasts of Vietnam, Malaysia, Brunei and the Philippines. The South China Sea area is potentially rich in natural gas and oil deposits and abundant in fishing opportunities where it is believed to have around 8 per cent of the world's fishing catches and the area is one of the busiest shipping routes in the world.[68] Hence, the disputes are spurred by different interests of nations, which include acquiring fishing areas around the two archipelagos, the potential exploitation of suspected crude oil and natural gas under the waters of various parts of the South China Sea, and the strategic control of important shipping lanes.[69]

Further complicating the South China Sea tensions, in 2011, China objected to India's naval presence and oil exploration initiatives in the South China Sea region. However, India had stood its ground and continued to maintain its presence. India has a stake in oil blocks in Vietnam and a growing strategic and defence partnership with Hanoi and other countries in the region.[70] China has been objecting to Indian exploration projects in the region, claiming that the territory comes under its sovereignty. Whereas India continues to maintain that its exploration projects in the region are purely commercial, China has viewed such activities as an issue of sovereign rights.[71] Like other major powers, India is concerned about China's challenge to free access to the South China Sea. The South China Sea passage is too vital for trade and international security to be controlled by a single country. Concerns have been rising about China's claim to ownership of much of the South China Sea and the Chinese Navy's assertive behaviour in the region.

Prolonged border tensions between countries are another problem that hinders Asian regional

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[67] Yuyuico, E., "The Real Story Behind the South China Sea Dispute", available at: http://www.lse.ac.uk/ideas/programmes/southeastasiaprogramme/pdfs/sa_southchinaseadispute.pdf.

[68] Odgaard, L. (2003), "The South China Sea: ASEAN's Security Concerns about China", *Security Dialogue*, Vol. 34, No. 1.

[69] Hookway, J. (2011), "Tensions Flare Over Disputed Asian Sea", *The Wall Street Journal*, available at http://online.wsj.com/news/ articles/SB10001424052702304259304576375203724909870.

[70] Chaudhury, D. R. (2014), "China-ASEAN Pact on South China Sea Region Can Bring Some Relief to India, *The Economic Times*, available at: http://articles.economictimes.indiatimes.com/2014-04-25/news/49406042_1_south-china-sea-territorial-claims-asean-and-china.

[71] Pant, H. V, (2013), "The South China Sea: A New Area in Chinese-Indian Rivalry", *The Nation*, available at: http://www. nationmultimedia.com/opinion/The-South-China-Sea-A-new-area-in-Chinese-Indian-r-30208644.html.

development. A Sino-India border dispute exists on sovereignty over two large and various smaller separated pieces of territory, under contest between China and India. The western most, Aksai Chin, is claimed by India as part of the state of Jammu and Kashmir and region of Ladakh but is controlled and administered as part of the Chinese autonomous region of Xinjiang.[72]

3.5 Implications of Emerging Asia for Sri Lanka

As a small open economy, the external environment plays an important role in determining Sri Lanka's growth prospects, albeit to a lesser extent in recent years as the country has seen its share of exports to GDP decline sharply to under 16 per cent. Nonetheless, developments across the world have a strong bearing on the country's future growth prospects.

The US and the EU remain important export destinations for Sri Lanka's exports. With the repercussions of the recession receding and global economic activity picking up pace, recent developments have offered better prospects for advanced economies. With US in the lead, growth in advanced economies (excluding Japan) is projected to be on the upside.[73] US growth is projected to increase from 1.9 per cent in 2013 to 3 per cent by 2015 due to upward pressure exerted by moderate fiscal consolidation, increase in inventory demand, a recovery in the real estate sector, declining level of unemployment, higher household wealth, and the easing of bank lending. Europe, where growth has been crippled in the aftermath of the Euro Crisis, has shown slight signs of recovery in 2013 with growth rates improving from -0.7 per cent recorded in 2012 to -0.5 per cent in 2013, while projections for 2014-15 also show signs of continued economic recovery. Emerging and developing Asia, despite recording a marginal slowdown in growth in 2013 compared to 2012 is projected to grow modestly in 2014-15. Though growth in emerging and developing Asia has been slowing down, Asia still by and large out-performs advanced economies in its growth prospects and remains the world's engine of growth.

Sri Lanka should seize new and expanding opportunities that will come with the rise of Asia – opportunities in trading goods and services that would benefit Sri Lankan businesses and consumers alike.

The transformation of the Asian region into a global powerhouse is gathering pace. Asia will not only be the largest consumer but also the largest producer of goods and services. In this context, Sri Lanka should seize new and expanding opportunities that will come with the rise of Asia - opportunities in trading goods and services that would benefit Sri Lankan businesses and consumers alike. Moreover, it will provide an opportunity for Sri Lanka to diversity its dependence away from industrial economies, reducing its susceptibility to developments and imperatives in these markets, as demonstrated by a dip in exports experienced in 2009 due to faltering economic activities in the major markets and the loss of GSP-plus concessions in 2010.

[72] Liu, Xuecheng Liu (2011), "Look Beyond the Sino-Indian Border Dispute", China Institute of International Studies, Beijing.

[73] IMF (2014), "World Economic Outlook", International Monetary Fund, Washington, D.C., April 2014.

Sri Lanka is well positioned to capitalize on these opportunities given its geographical position in Asia and its long history of engagement with countries in Asia. In this context, Sri Lanka should deepen and broaden its engagement with Asia in the years to come, namely with fast-growing converging economies as well as high-income developed economies in the region. Sri Lanka should engage with the region not only economically, but also politically, culturally and socially. Improving people-to-people contacts could unlock large economic gains.

3.5.1 FDI in Sri Lanka from Asia

While Asia has been rapidly integrating with the world, this has been accompanied by closer intra-regional integration of not only trade but also investments. Investments in the region by Japanese multinationals are not something new. This was followed by intra-regional investments by companies from high income economies such as Hong Kong, Korea, Singapore and Taiwan. Since early 2000, however, there has been the rise of investments by Chinese and Indian companies around the world and in particular, in the developing world and the rest of Asia.

In 2013, Sri Lanka received FDI amounting to US$ 916 million, with infrastructure and manufacturing sectors absorbing the highest amounts, with infrastructure alone receiving 57 per cent of the FDI flows. Major infrastructure investments included telephone and telecommunication networks, housing and property development and ports and container terminals. The manufacturing sector secured 25 per cent of FDI while the service sector attracted 17 per cent of the FDI, with the expansion of the tourism industry.

Sources of FDI to Sri Lanka are dominated by Asia with India, China, Malaysia, Hong Kong and Singapore being the largest investors in Sri Lanka (Table 3.4). Malaysia has been a significant investor in the country, with major investments including Dialog Axiata, the cellular mobile telephone network, and Merbok MDF Lanka which manufactures MDF boards. Since 2012, there has been a significant rise in investments from China to Sri Lanka mainly targeting infrastructure development according to the Board of Investment of Sri Lanka (BOI).

India is also an important FDI source, emerging as the second largest investor during 2010/11. While the profile of Indian investment in Sri Lanka is highly diversified, much of the initial flows were in manufacturing. Since the late 1990s, the composition has shifted in favour of services such as hospitals, restaurants, retail trade and oil distribution, helped by the removal of restrictions on outward FDI by India, opening up of a number

Table 3.4
Main Source of Investors in Sri Lanka

Rank	2008	2009	2010	2011	2012
1	Malaysia	Malaysia	India	Mauritius	Hong Kong
2	India	UK	Malaysia	India	UAE
3	Netherlands	India	U.A.E	Hong Kong	China
4	UK	Netherlands	UK	Malaysia	India
5	Luxembourg	Hong Kong	Singapore	British Virgin Island	Singapore
6	Hong Kong	Luxembourg	Hong Kong	Singapore	Mauritius
7	US	Singapore	Netherland	UAE	Netherland
8	Sweden	US	Mauritius	UK	Malaysia
9	China	Sweden	US	Netherlands	UK
10	Singapore	China	Japan	Japan	Luxembourg

Source: Board of Investment of Sri Lanka.

of services to foreign ownership in Sri Lanka, and the overall improvement in the investment climate with the end of the conflict. Indian Oil Corporation, Tata, Bharat Airtel, Aditya Birla Group, Ambuja, CEAT, Ashok Leyland and Hero are some of the most visible Indian investments in Sri Lanka.

FDI flows from China and India to Sri Lanka have gained momentum with the expansion of trade relations with Sri Lanka. As major drivers of growth in Asia, Sri Lanka can gain from expanding ties with China and India, beyond trade in goods, in the areas of services and investments. If Sri Lanka's existing FTA with India and the proposed FTA with China can accommodate services and investments, the benefits of trade will be more widespread.

3.5.2 Development Assistance to Sri Lanka from Asia

With the rise of Asian countries and other emerging economies like China, India, Brazil and South Africa, the global aid landscape is fast changing, especially over the last decade. Aid from traditional donors to Asia is declining, with total global aid falling by 6 per cent since its high point in 2010.[74] Meanwhile, the volume of development cooperation from non-OECD Development Assistance Committee (DAC) members is increasing, with non-DAC contributions expected to increase to at least US$ 50 billion by 2025. These rising development actors are changing the nature of international cooperation relationships, typically referring to themselves as South-South cooperation partners or providers, rather than as 'donors'. China is by far the dominant Southern provider. If a broader definition of aid is used - a definition that includes grants, no interest loans and concessionary loans - China is already the second largest bilateral donor in the world, behind only the US.[75]

Countries like China and India are the most visible within the Asian region in the case of Sri Lanka (Figure 3.16). The major bilateral partners include China, India, Japan, Middle East and multilateral partners including the World Bank and the ADB. Since 2007, China has emerged as the biggest donor to the country and Chinese assistance in the form of loans and grants have mainly gone into infrastructure development projects - such as roads and transportation, power and energy, and ports, largely financed through concessional loans. India too has emerged as an important development partner of Sri Lanka recently. Indian assistance has primarily gone into infrastructure (railway development) and livelihood development, especially in the Northern and Eastern Provinces of the country. The changing aid landscape has provided Sri Lanka with more choices in funding sources and instruments at a time when Sri Lanka's access to concessional finance from multilateral donors has declined due to being classified as a lower middle-income country, while the country's traditional donors, namely the US and EU countries reduced support as the conflict escalated during 2006-09 amidst charges of human rights violations. In this context, Asian donors have proved attractive given that they deliver with speed, impose few conditions and do not interfere with government policy, focusing on infrastructure development. An increase in funding sources has diminished traditional donors' ability to leverage aid as an incentive for 'good' behaviour.

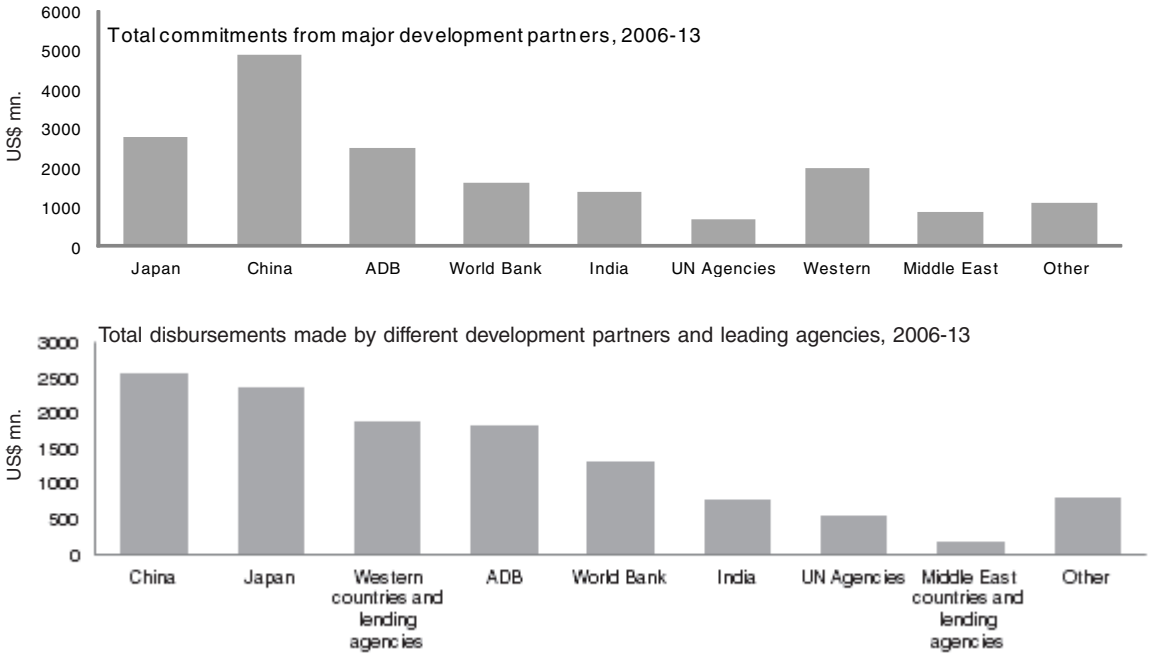
3.5.3 Sri Lanka's Trade in Goods and Services with Asia

Industrialized countries continued to be the major destinations for Sri Lanka exports over the last three decades while developing Asia accounted for a major share of imports (Figure 3.17). Industrialized

[74] Mulakala, A. (2014), "The Rise of Asia's Southern Providers in East Asia", available at: http://asiafoundation.org/in-asia/2014/02/12/the-rise-of-asias-southern-providers-in-east-asia/.

[75] Chin, G. and F. Quadir (2013), "Development Aid and the Rise of New Donors", Asia Research Brief Number 1, York Centre for Asian Research, Canada.

Figure 3.16
Total Commitments and Disbursements by Major Development Partners, 2006-13



Source: External Resource Department (2013), "Global Partnership Towards Development", Ministry of Finance and Planning, Colombo.

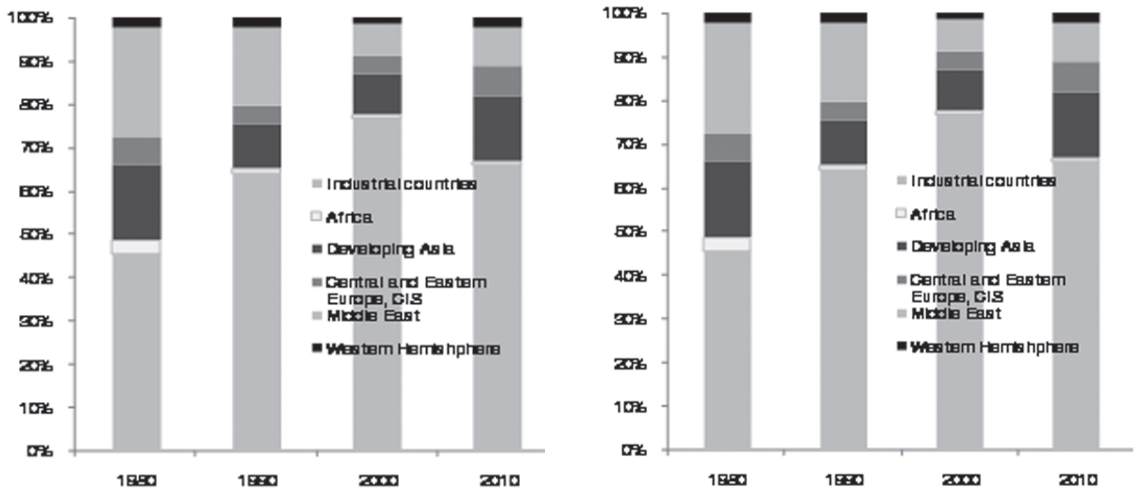
countries account for over 60 per cent of exports, with the US remaining the largest export destination. In 2013, the US accounted for about 24 per cent of Sri Lanka's total exports, followed by the UK (10.4 per cent) and India (5.2 per cent). The EU as a region accounted for 32 per cent of Sri Lanka's total exports.[76]

Sri Lanka's efforts at export diversification have been limited, and exports remain concentrated in industrialized countries and few products, namely the US and the EU and garments, respectively. Asia has managed to increase its share of Sri Lanka's total exports, especially in the last decade, indicating strengthening of trade links between Sri Lanka and the rest of the Asian region. In fact, exports from Sri Lanka to most Asian countries and the region as a whole grew at a higher rate than Sri Lanka's exports to the rest of the world. For example, Sri Lanka's exports to Asia grew by 32 per cent during 2008-2012, which was higher than its export growth to the world (6 per cent) while exports to 27 of the 38 countries in the region exceeded the world average.[77] Nonetheless, much of the increasing growth and share of exports to Asia was driven by market penetration into India which gained momentum in early 2000 with the signing and implementation of the India-Sri Lanka Free Trade Agreement (ISFTA).

Similarly, imports from Asia to Sri Lanka have grown substantially. Imports from the Asian region have on average grown by 33 per cent compared to imports from the rest of the world (14 per cent) over the last five years, while 19 out of the 29 countries from the region reported growth rates above the

[76] CBSL (2013), *Annual Report 2013*, Central Bank of Sri Lanka, Colombo.
[77] Compiled using ITC Trade Map Database.

Figure 3.17
Sri Lanka's Exports and Imports, by Region, 1980-2010



Source: IMF, "Direction of Trade", various years.

world average.[78] Currently, Sri Lanka sources as much as 60 per cent of its requirements from the region. Since 2000, India has become the largest source of imports and held this position in 2013, followed by China and Singapore. In 2013, India accounted for almost 18 per cent of Sri Lanka's total imports while China and Singapore accounted for 16 per cent and 9 per cent of total imports, respectively.

While Sri Lanka traded with almost all of the countries in the Asian region, Sri Lanka's trading partners appear to be concentrated amongst a few countries. The top ten trade partners in Asia, account for as much as 84 per cent of Sri Lanka's exports to Asia and 96 per cent of imports from Asia (Table 3.5). India is the most important Asian market for Sri Lanka accounting for a share of 30 per cent of Sri Lanka's exports to and imports from Asia. Notably, India has emerged as the largest trading partner of Sri Lanka, not only in Asia but with the rest of the world with bilateral trade exceeding US$ 3.7 billion in 2013. China is the next most significant trading partner in the Asia market, but mostly as a source of imports; China accounted for 22 per cent of imports from Asia. Increasingly Sri Lanka's trade flows within Asia are concentrated between India and China; in 2012, India and China collectively accounted for 53 per cent of Sri Lanka's imports from Asia and 36 per cent of Sri Lanka's exports to Asia. While the concentration in Chinese and Indian markets offer favourable prospects for Sri Lanka due to stronger growth prospects in the two countries, the reliance on two markets alone comes with considerable risk. Hence, it remains imperative that greater support is rendered for Sri Lankan traders to look for markets elsewhere in Asia, reaching beyond Indian and Chinese markets.

In terms of composition of exports to the Asian region as seen in Figure 3.18, Sri Lanka's export basket consists predominantly of vegetable products (29 per cent), textiles and clothing (16 per cent), plastics and rubber products (10 per cent) and transport, machinery and electrical and food products (7 per cent each) for which Asia's demand is expected to rise in the future in line with its rising income levels and a booming middle class. For example, the real value of world agrifood demand in 2050 (in 2007 US dollars) is projected to be 77

[78] *Ibid.*

Table 3.5
Sri Lanka's Top Ten Traders in Asia, 2012

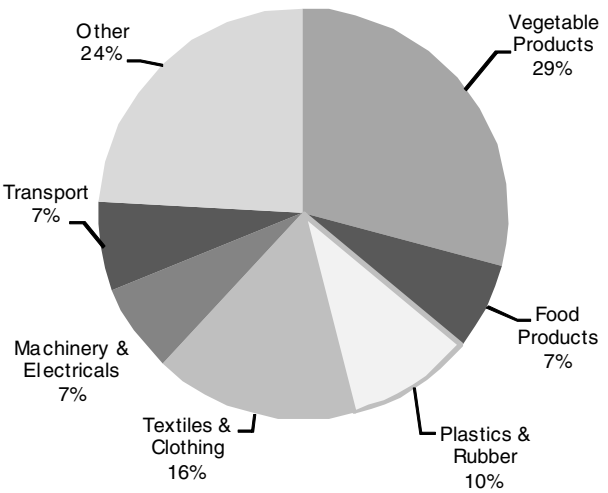
Country	Exports		Imports	
	Share of Asia	Share of World	Share of Asia	Share of World
India	30	6	31	20
China	6	1	22	14
Singapore	5	1	11	7
Iran	10	2	6	4
Japan	11	2	5	3
Hong Kong	6	1	5	3
Indonesia	6	1	4	2
Pakistan	4	1	3	2
Thailand	3	1	4	3
Malaysia	3	1	5	3

Source: Calculated based on International Trade Centre, "Trade Map", ITC, Geneva.

per cent higher than in 2007, and most of the projected rise is expected to come from Asia, accounting for 71 per cent of the projected increase between 2007 and 2050.[79] This increase will be led by China and India, accounting for 43 per cent and 13 per cent of the projected increase in demand, respectively.

Moreover, as evident from Figure 3.19, a simple analysis of Sri Lanka's indicative potential to trade with Asia shows that Sri Lanka has the potential capacity to expand trade with the region in these product categories,[80] namely textiles and clothing, followed by vegetable products and plastics and rubber for which Sri Lanka's exports to Asia have also been growing vigorously at an average annual rate of 14 per cent, 17 per cent and 20 per cent, respectively, during 2003-2012.[81] In this light, Sri Lanka stands to benefit from strengthening trade relations

Figure 3.18
Composition of Exports to Asia, 2012



Source: Calculated based on World Bank, WITS Trade Database.

[79] Linehan, V. *et al*. (2012), "Food Demand to 2050: Opportunities for Australian Agriculture", Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), Canberra.

[80] Indicative potential is defined as the lower of the value a selected country exports to the world or the value the partner country imports from the world minus the current trade between the two countries under review.

[81] Calculated based on World Bank, WITS Trade Database.

with Asia considering the demand prospects for its major exports to the region, combined with its geographic proximity. Sri Lanka has been strengthening its trade ties with the major economies in the region - it already has a FTA with India which has been in place since 2000 - and is now negotiating a trade deal with China with which it has established a very close relationship over a considerable period of time (Box 3.3).

Sri Lanka not only has a potential to expand trade in goods with the rest of the Asian region, but also in services. Intra-regional trade in services in Asia is expected to grow significantly from 2010 to 2020 mainly in the financial, computer and information, communication, travel and transportation sectors. Sri Lanka has a comparative advantage in producing and exporting travel, transportation, computer and information, communication, and insurance services. Among these, travel and transport services exports have expanded since 2009 securing a share of about 70 per cent of Sri Lanka's total services exports to the world in 2012 (Figure 3.20). With the growing affluence in Asia, the demand for travel and tourism services are expected to rise within Asia. Outbound tourist numbers from the region have already grown substantially. For example, China's figure increased from 4.5 million to 57 million between 1995 and 2010, and India's from 3 million to 11 million over the same period.[82]

In 2013, Sri Lanka saw 1.3 million tourist arrivals, as a result of which earnings from tourism rose to US$ 1,715 million. In terms of visitor arrivals, Western Europe accounts for over 30 per cent of tourist arrivals, while Asia secured 40 per cent of the total tourist arrivals (Figure 3.21). India remains the largest source of tourists to the country, followed by the UK, Germany and the Maldives. China is also emerging as a tourist market for Sri Lanka; growth in tourist arrivals from China has significantly increased over time, with a 96 per cent increase in 2013 alone.[83]

Figure 3.19
Sri Lanka's Existing and Indicative Potential to Trade with Asia (US$ mn)



Source: Calculated based on World Bank, WITS Trade Database.

[82] UNWTO (2011), "Tourism towards 2030", World Tourism Organization.

[83] SLTDA (2013), "Tourism Statistics 2013", Sri Lanka Tourism Development Authority, Colombo.

Box 3.3
Sri Lanka-China FTA

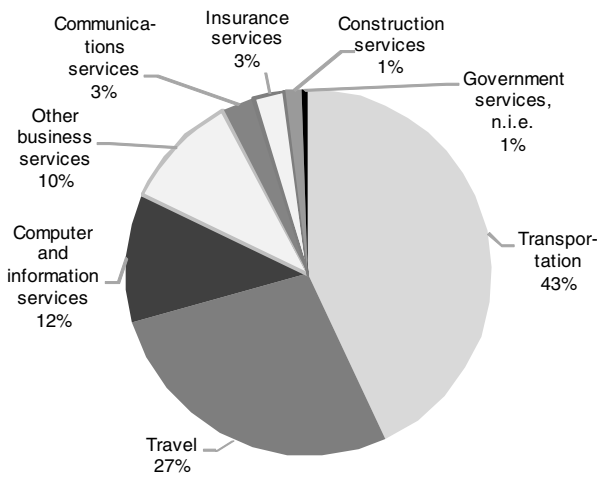
While historical and cultural relations between Sri Lanka and China date back to many centuries, modern day economic and political ties were established with the signing of the historic Sino-Lanka Rubber-Rice Pact in 1952 and establishment of formal diplomatic relations in 1957. Over the past 55 years, very cordial relations have prevailed between the two countries and bilateral economic cooperation has strengthened. During the last few years, relations between the two countries have been elevated to a higher level, cemented by several visits by Sri Lanka's President to China.

Trade flows between Sri Lanka and China have improved notably in recent times. Total trade has more than doubled between 2009 and 2013 from US$ 1.2 billion to US$ 3.1 billion, with China becoming the second largest trading partner of Sri Lanka, after India. However, while China is now the second largest source of imports to Sri Lanka, it is a much less prominent export destination. Nevertheless, it is encouraging that exports have been growing vigorously, recording an annual growth of 25 per cent during 2009-2013. While Sri Lanka's exports to China have grown over the last 5 years, imports from China have grown at a faster rate (32 per cent) than exports, resulting in an expanding trade deficit of US$ 2.8 billion in China's favour by 2013.

The strong political relations between the two countries provide a robust foundation for stronger economic ties. Both countries have agreed to embark on a free trade agreement (FTA) and commenced a joint feasibility study in August 2013. The study which was finalized in March 2014 reported that an FTA would bring substantial economic and trade benefits to both countries. In this context, negotiations are likely to commence at an early date. Indeed, the impending visit of China's President to Sri Lanka in 2014 - the first Chinese Head of State to visit Sri Lanka in three decades - is likely to accelerate the process.

In negotiating a trade agreement with China, a few concerns should be borne in mind taking into account Sri Lanka's experience with FTAs to date with India, Pakistan and SAFTA. Tariff concessions alone may not be sufficient in expanding trade between the two countries. The actual capacity of Sri Lankan exporters to cater to the large Chinese market, as well as non-tariff measures (NTMs), may constrain traders from fully utilizing a potential agreement. China has already signed 11 FTAs with other countries and regional groupings, with these partners producing similar goods as Sri Lanka and already having preferential or duty free access to the Chinese market. In this context, it is imperative that trade negotiations not only cover products in which Sri Lanka has a comparative advantage, but also that concessions awarded by China are greater or at least equivalent to tariff reductions granted to other countries/regions. Moreover, a well-conceived negative list as well as a longer tariff liberalization programme which provides special and differential treatment to Sri Lanka and its local industries would be vital to allay fears of a 'China threat' that afflicts businesses around the world, including those in Sri Lanka.

Figure 3.20
Composition of Sri Lanka's Exports of Services in 2012

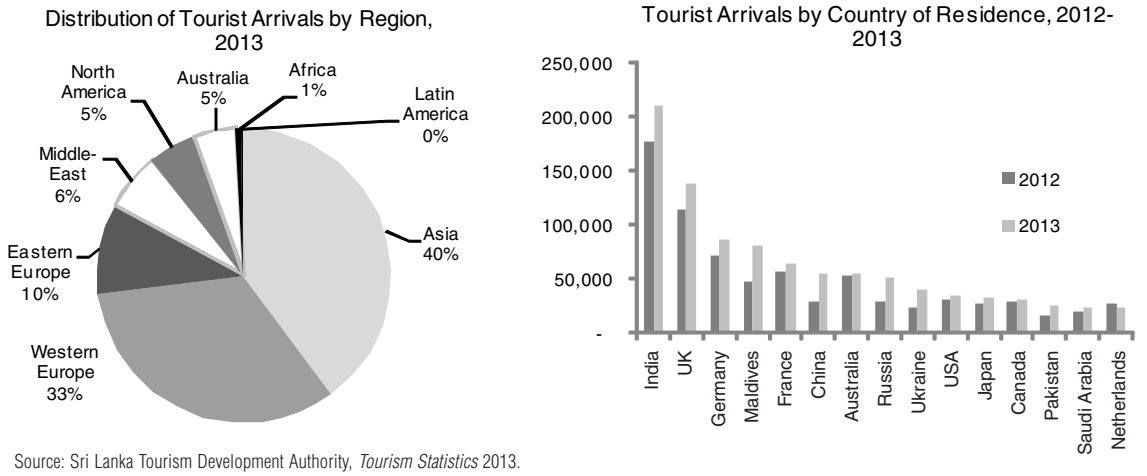


Source: Calculated using data from ITC Trade Map database available for 2012.

While the emergence of Asia provide opportunities, a number of countries in East and Southeast Asia have developed into hubs in competing areas of interest to Sri Lanka.

Despite the increasing tourist arrivals to Sri Lanka and several international chain-affiliated hotels (Shangri-la, Marriott, Hyatt, Mövenpick and Sheraton, etc.) in the process of setting up operations to meet future demand, the industry is faced with issues related to inconsistent service standards, lack of trained staff, lack of rooms and inadequate marketing efforts.[84] Hence, Sri Lanka needs to overcome these challenges and position the industry correctly in terms of both the capacity and service standards in order to better utilize the demand for travel by the expanding middle class in Asia.

Figure 3.21
Distribution of Tourist Arrivals



Source: Sri Lanka Tourism Development Authority, *Tourism Statistics* 2013.

[84] *Ibid.*

While the emergence of Asia provide opportunities in terms of trade in goods and services and financial flows to the country, a number of countries in East and Southeast Asia (Hong Kong, China, Singapore, South Korea, and Malaysia) have developed into hubs in competing areas of interest to Sri Lanka. This is a cause of concern as the government has a vision to develop Sri Lanka into a 'dynamic hub' in the areas of shipping, aviation, commerce, energy and knowledge. Comparative statistics of Sri Lanka vis-a-vis other countries in the region indicate that Sri Lanka is far behind in terms of shipping, aviation, commerce, energy and knowledge.[85] Across the five hubs, Sri Lanka performs relatively well in shipping but poorly in energy and knowledge. For example, the three busiest ports in the world are located in Asia (Singapore, Shanghai and Hong Kong). While Colombo port's performance is relatively modest, with an annual container throughput of 3.6 million twenty foot equivalent units (TEUs) in 2011 and ranks at 29th place amongst the 125 ports in the world, there are many Asian ports (19) handling larger volumes.[86] To better capitalize on Sri Lanka's geographic position and become a shipping hub, it is imperative that ports in the country are developed and regulatory reforms are undertaken. Some recent initiatives in this regard have been Hambantota port development, the Colombo South Port Expansion Project and development of a port city in Colombo.

In terms of carrier departures (take-offs of air carriers) Sri Lanka does far worse in terms of world ranking - coming at 68th place out of 150 airports worldwide in 2012,[87] despite infrastructural development (establishment of Mattala International Airport, modernization of Bandaranaike International Airport and domestic airports, etc.). There are many countries ahead of Sri Lanka, including China, Japan, India, Indonesia, Malaysia, South Korea, Thailand, Singapore, etc., and much remains to be done to establish Sri Lanka as an aviation hub like Dubai or Singapore. Sri Lanka also faces stiff competition from countries in the region from becoming a hub for commercial services, international banking and international investment; Hong Kong is the world's most popular city for international businesses, reflecting a shift in economic power to Asia in recent years. [88] Other top cities for business in Asia include Singapore, Beijing, Shanghai, Tokyo, and Mumbai, which are challenging cities such as New York, Frankfurt and London that have traditionally been the world's top business centres.

Developing Sri Lanka as a knowledge hub in Asia is also a key development strategy of the government and it is commendable that a number of initiatives have been taken in this regard over the years (i.e., establishment of new faculties and higher education institutes, introduction of new degree courses, invitation to foreign universities to set up campuses, etc.). However, Sri Lanka has to catch up as developments in tertiary education have not only been stagnant, but also fallen behind its neighbouring countries. While the US, UK and Australia have been traditional destinations of higher education and attract considerable numbers of international students, countries within Asia including Singapore, Malaysia, China, Hong Kong, and, India have embarked on reforms to create global educational hubs. Singapore stands out as an example; it has recruited prestigious foreign universities to establish local campuses, with the goal of expanding access for the local student population as well as serving as a higher education 'hub' for the region.[89] Thus, Sri Lanka not only has to raise the international standards of its education,

[85] Abeyratne, S. (2014), "Employment Implications of the Five-Hubs Strategy of Sri Lanka", International Labour Organization, Colombo.

[86] American Association of Port Authorities (2011), "World Port Rankings", available at http://www.aapa-ports.org/ Industry/ content. cfm?ItemNumber=900#Statistics.

[87] World Bank, "World Development Indicators", available at http://data.worldbank.org/indicator/IS.AIR.DPRT/countries/ LK? display=default.

[88] CNBC, "World's Most Popular Business Cities", available at http://www.cnbc.com/id/44084372.

[89] Altbach, P.G., *et al*. (2009), "Trends in Global Higher Education: Tracking an Academic Revolution", UNESCO, Paris.

but also has to face stiff competition from its neighbouring countries which are already far ahead.

3.6 Policy Implications of Rising Asia for Sri Lanka

While Sri Lankan businesses should take the lead in reaping the opportunities of emerging Asia, the government should support such efforts by reducing the cost of doing business, removing unnecessary barriers to trade, attracting foreign investment, and better integrating the country with regional markets.

- Sri Lankan businesses need to develop competitive products and services which will be in demand in Asia. In this regard, the government needs to work with businesses to build capabilities, identify opportunities given that the Asian region as a whole will be highly competitive, as businesses from other countries in the world will also be seeking to secure similar opportunities.

- Sri Lanka needs to raise awareness of the opportunities available to firms in Asia of doing business in Sri Lanka. In this regard, it is imperative that the cost of doing business in Sri Lanka is reduced. Sri Lanka's overall rank in 'Ease of Doing Business' has dropped from 83 in 2013 to 85 in 2014 out of 189 countries.[90] Sri Lanka's rank has improved in indicators such as dealing with construction permits, getting electricity, paying taxes, and trading across borders. However, Sri Lanka still has much to do to build an investor-friendly environment in the country. For instance, although Sri Lanka has made it easier to get construction permits, it still takes 186 days and 17 procedures compared to Hong Kong where it takes only 71 days and 6 procedures. Further, Sri Lanka's rank has deteriorated in the following indicators: starting business, registering property, getting credit, protecting investors, enforcing contracts, and resolving insolvency - all of which indicate that more needs to be done vis-à-vis East and Southeast Asia in attracting investments to the country. Apart from the regulatory reforms, macroeconomic stability is essential to create a conducive environment to attract investments and enterprises. For this reason, Sri Lanka needs to maintain macroeconomic stability whilst undertaking regulatory reforms.

While Sri Lankan businesses should take the lead in reaping the opportunities of emerging Asia, the government should support such efforts.

- Building a successful business partnership in Asia requires an ability to establish relationships with partners and customers; strong relationships are particularly important in the Asian markets. In this regard, bilateral business councils, industry and professional associations can support Sri Lankan businesses to network and make connections in the region.

- In order to capitalize on opportunities stemming from emerging Asian economies, there should be greater efforts made towards eliminating unnecessary trade related bottlenecks in the

[90] World Bank (2014), *Doing Business Report,* World Bank, Washington, D.C.

country. As reflected by the scores in the 2014 Global Enabling Trade Index[91] of the World Economic Forum, Sri Lanka is ranked at 84 out of 138 countries and fares well when compared to a number of countries in Asia (Bangladesh, India, Nepal, Pakistan, Laos), while it still lags behind when compared to most fast-growing Asian countries (China, Malaysia, Thailand, Vietnam) and the high-income developed countries in the region (Hong Kong, Japan, Singapore and South Korea). Sri Lanka has undertaken favourable improvements in most trade facilitation indicators over recent years. The number of documents needed to export and import has declined from 21 in 2007 to 12 in 2013, while the number of days required to export/ import has dropped from 52 in 2007 to 39 in 2013. The automation of customs procedures which began with the introduction of the Automated Systems for Customs Data (ASYCUDA) system in 1992 has contributed towards improving trade facilitation in Sri Lanka. Nonetheless, more needs to be done including implementing a fully automated customs system in the country along with the implementation of a Single Window concept under which all agencies and institutions involved in the customs process are linked through a single entry point. These will ensure the Sri Lanka will not only fall in line with the Trade Facilitation Agreement arrived at the Bali Ministerial Conference in December 2013, but they will be vital to fully benefit from growing trade prospects in Asia and elsewhere in the world. In addition, infrastructural development - roads, airports, ports and communications systems - is an essential component to facilitate cross-border trade and travel, and thereby link Sri Lanka to the region.

- Establishing strong trade links with countries in Asia through bilateral and regional paths are essential to accessing the growing regional markets. While being committed to a multilateral process, Sri Lanka has been a proponent of bilateral and regional preferential trade initiatives and currently has preferential/duty free access to a number of countries in the Asian region under the FTAs with India and Pakistan, SAFTA, and the Asia Pacific Free Trade Agreement (APTA). Sri Lanka which is also member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), aims to achieve a free trade area by 2017 amongst its neighbouring countries (Bangladesh, Bhutan, Burma, India, Nepal, and Thailand). However, the existing trade agreements of Sri Lanka are limited in their scope/coverage and include a handful of Asian countries, mainly from the South Asian region. However, access even to South Asia is rather limited under these agreements; the utilization rates of existing agreements by traders is low while the agreements have failed to progress from mere preferential agreements to high quality agreements covering broader economic cooperation beyond tariff liberalization. For example, the Comprehensive Economic Partnership Agreement (CEPA) between Sri Lanka and India, which covers the liberalization of services and investment sectors has been on a back-burner since 2008 due to reservations on the part of a few lobbyists. Nevertheless, there have been efforts to deepen bilateral and regional trade recently. [92] It is also commendable that Sri Lanka has taken initiatives to further improve trade links within the region by considering an FTA with China, Sri Lanka's important trading partner in Asia after India.

[91] The ETI assesses the extent to which economies have in place institutions, policies, infrastructure and services facilitating the free flow of goods over borders and to their destination.

[92] For example, the first meeting of India-Sri Lanka Joint Task Force (JTF) was held to explore means of improving bilateral trade and investment between the two countries in 2013, while the fifth technical meeting on the Pakistan-Sri Lanka FTA was held to resolve outstanding issues during the year.

4. The Asian Developmental State - 'Getting the Interventions Right'

4.1 Introduction

The French poet Paul Valery is thought to have believed that 'if the state is strong, it will crush us; if it is weak we will perish' hence an 'ideal' must rest somewhere in-between these two extremes.[1] States carry out many roles, some social, some political and some economic. Ever since Adam Smith (1776) published his seminal book, 'An Inquiry into the Nature and Causes of the Wealth of Nations' almost three-and-a-half centuries ago, the discourse centring around the role of the state in economic affairs has been a highly contentious one.[2]

Throughout the major part of contemporary economic history, two dominant development paradigms prevailed, one focused on markets, and the other on government and planning. Classical economists who drew their intellectual underpinnings from Adams Smith's 'invisible hand' took the view that markets would lead to efficient outcomes. 'Getting the prices right' was fundamental. With right prices, everyone would have the incentive to make the socially desired resource allocation. All that governments needed to do was to 'get out of the way'. At the opposite end of the spectrum, were those who had little faith in the market and looked to governments to ensure resources were deployed in a way that promoted growth.[3]

Contrary to these two dominant orthodoxies, the latter half of the 20th Century witnessed the strong emergence of a number of East Asian countries which followed neither of these two extremes. The policy orientation of these economies was mixed in





!Stop! Wait! Government's no longer the problem —it's the solution!"

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[1] Tanzi V. (1997), "The Changing Role of the State in the Economy: A Historical Perspective," IMF Working Paper, WP/94/114, Washington, D.C.

[2] *Ibid*.

[3] Stiglitz J.E. (1996), "Some Lessons from the East Asian Miracle", The World Bank Research Observer, pp. 151-177.

nature, where the state played a central role in facilitating structural adjustment.[4] The models of economic policy and practice adopted by many of these successful East and Southeast Asian economies, particularly at the height of their rapid industrialization and growth, has become known widely in the summary expression of 'developmental state'.[5]

Though it had gone somewhat out of favour from the 1970s, the recent decade has seen some revival of interest in the 'developmental state', owing in large part to the failure of neo-liberalism to deliver the much hyped rapid, sustained, inclusive growth and poverty reduction it had once promised amongst the majority of late industrializing countries.[6] From about 2005, the government of Sri Lanka too has embraced a 'look East' approach in its policy orientation. Though not explicitly stated, some similarities in the policies advocated under the development state model could be seen in the current phase of Sri Lanka's policy drive for rapid economic growth and development. Policy practices from at least some of the successful East and Southeast Asian countries are being selectively emulated in this endeavour.

In the preceding context, the literature on the developmental state in light of the East Asian experiences is revisited in an attempt to draw policy lessons for Sri Lanka. Understanding what these policies were, why they were adopted, and their successes and failures in bringing about economic growth in the context of the East Asian Miracle, would come a long way in providing insights for Sri Lankan policymakers. This would assist to formulate and implement interventions better in catalyzing long-term sustained, inclusive economic growth in Sri Lanka.

4.2 Explaining the East Asian Miracle: A Case of 'Developmental State'?

Japan, a developing country in the 1950s with a per capita GDP one-fifth that of the US, reached 63 per cent of US GDP by 1970 to become the second-largest economy in the world. Japan's unprecedented ascendance was largely a result of sustained annual GDP growth in excess of 9 per cent during the 1950s and 1960s, driven predominantly by the transformation of its economy from an agrarian to an industrial economy, and the continuous upgrading in key manufacturing sectors. Using a similar outward-oriented, market-friendly development strategy, the Asian 'tigers' - South Korea, Taiwan, Hong Kong and Singapore - followed closely by Malaysia, Thailand and Indonesia also saw their economies growing in excess of 7 per cent annually between the early 1960s and the early 1990s, demonstrating that it is possible to maintain impressive growth rates and to close the gap with more advanced economies.[7]



[4] *Ibid*.

[5] Lakshman, W.D. (2009), "A Developmental State Model for Sri Lanka", Professor Sirisena Tilakaratna Memorial Oration, National Library Auditorium, Colombo.

[6] The notion of neo-liberalism is primarily associated with reducing the role of the state in economic affairs.

[7] Lin, J.Y. (2012), *New Structural Economics: A Framework for Rethinking Development and Policy*, World Bank, Washington, D.C.

More recently, China has embarked on a similar transformation. At the time of making the transition from a planned to a market economy in 1979, it was a poor, inward-looking economy with a per capita income of US$ 182 which was less than one-third the average in Sub-Saharan African countries at the time. Since embracing a market-oriented stance, China's economic performance has been nothing short of miraculous. For a period spanning over three decades, China has been able to record annual GDP growth averaging 9.9 per cent and is now a middle-income country, with a per capita GDP of US$ 4,260 in 2010. Along with its growth trajectory, China has been successful in pulling more than 600 million people out of poverty.[8]

The remarkable success of the East Asian economies has, over the years, stimulated a whole array of studies to explain the causes of East Asia's economic ascendance. The greater majority of the literature adopts what could be called the mainstream, neo-liberal or 'Washington Consensus' interpretation, where they attribute a major part of East Asia's success to the role played by the respective governments of getting the economic fundamentals right. These studies take the view that growth is a natural or inherent element of capitalist economies, and that governments have an important role to play in providing public goods such as law enforcement, infrastructure, macroeconomic stability and education which are viewed to be difficult to be arranged through private contracts.[9]

The widely quoted World Bank (1993) study titled 'The East Asian Miracle: Economic Growth and Public Policy' is one of the leading proponents of the Washington Consensus interpretation. Firstly, the four-hundred-page report, finds that in large part, the growth of the eight High Performing Asian Economies (HPAEs) was achieved by getting the basics right, along with heavy, sustained government investment in social infrastructure and education. Secondly, the report finds that the HPAEs benefited from a government-led push for export manufacture; and thirdly, that well-directed selective credit programmes were effective in promoting exports as well as promoting research and development (R&D). However, a somewhat controversial fourth assertion was that sectoral industrial policies to support specific industries generally did not work, and therefore have little promise for other developing countries.[10]

Though the report placed greatest emphasis on getting the basics right, it was amongst the first mainstream narratives of the East Asian success story to acknowledge the existence of industrial policy in the non-Japanese East Asian economies.[11] In short, the contemporary mainstream view advances the case that countries should not have a vertical or sectoral industrial policy, but at most should have a horizontal, generic or sector-neutral policy, such as supporting SMEs and R&D. The default role of the state should be restricted to macroeconomic stabilization, trade liberalization and creating the right institutions. It assumes that the optimum industrial upgrading and changes in production structure will occur 'automatically' if the government gets prices and institutions right.[12]

The other wave of literature explaining East Asia's success attributes a slightly more different interpretation, going beyond the standard Washington Consensus prescription of 'getting the fundamentals right'. Also dubbed the 'Post-Washington Consensus', the heterodox

[8] *Ibid*.

[9] Wade, R. (1992), "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence", *World Politics*, Vol. 44, No. 2, pp. 270-320.

[10] Wade, R. (2003), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press, New Jersey.

[11] Chang, H.J. (1999), "Industrial Policy and East Asia: The Miracle, the Crisis, and the Future," paper presented at the World Bank workshop on "Re-thinking East Asian Miracle", San Francisco, 16-17 February 1999.

[12] Wade, R. (2010), "After the Crisis: Industrial Policy and Developmental State," presentation made at the International Monetary Fund, Washington, D.C.

Whilst acknowledging the limitations of the market but rather than replacing them, East Asian economies went on to promote, complement and use the markets by way of intelligent manipulation of economic policy.

interpretation of East Asia's success story attributes it to proactive governments, which leveraged industrial policy to facilitate structural adjustment and industrial upgrading in their respective economies. For markets to yield efficient outcomes, several preconditions must be satisfied. These include, the absence of externalities and public goods, the presence of perfect competition, and a complete set of markets extending infinitely far into the future and cover all risks. A market failure is said to arise if at least one of these conditions are not met. More in-depth studies show that for markets to perform efficiently, there also has to be no imperfections of information, no changes in the information structure, and no asymmetries of information. Since developing economies are often plagued by underdeveloped (missing) markets and imperfect information, and given that the development process is associated with acquiring new technology (new information), governments have a greater role to play in correcting market failures to facilitate the market to structurally adjust and achieve industrial upgrading.[13]

What the East Asian economies did differently to that of the former-Soviet Union was that, whilst acknowledging the limitations of the market but rather than replacing them, they went on to promote, complement and use the markets by way of intelligent manipulation of economic policy. Their role was confined to: (1) policies that actively sought to ensure macroeconomic stability; (2) making markets work more effectively (e.g., regulating financial markets); (3) creating markets where they did not exist; (4) helping to direct investments to ensure resources were deployed in ways that would enhance economic growth and stability; and (5) creating an atmosphere conducive for private investment and ensuring political stability.[14]

Nobel Prize-winning economist Joseph Stiglitz very succinctly sums up the current understanding of this decades long debate on the role of the state by noting that "the ideological debates should [by now] be over; there should be agreement that while markets are at the centre of the economy, governments must play an important role. The issue is one of balance, and where that balance is, may depend on the country, the capacity of its government [and] the institutional development of its markets".[15]

Each of the successful East Asian economies is unique both in terms of their characteristics and respective pathways to structural change. Each economy differs in its geography, culture and history. Some are small city states, whilst others are large, some were granted independence after centuries of colonial rule, whilst others re-emerged from the ashes of war, some are racially and culturally homogenous, whilst others such as Malaysia are

[13] Stiglitz J.E. (2004), "Redefining the Role of the State: Joseph Stiglitz on Building a Post-Washington Consensus", *World Economy*, Vol. 2, No. 3, pp.45-86.

[14] Stiglitz J.E. (1996), "Some Lessons from the East Asian Miracle", The World Bank Research Observer, pp. 151-177.

[15] *Ibid*.

The ideological debates should [by now] be over; there should be agreement that while markets are at the centre of the economy, governments must play an important role.

- Joseph Stiglitz

cultural melting pots. There exists no 'unique East Asian model' per se; what they share in common is the proactive nature in which the respective governments pursued economic policy in catalyzing their development. At the very heart of the developmental state was also, proactive 'industrial policy'.

4.3 Government in the 'Developmental State' Model

4.3.1 Market Failures: Rationale for Government Intervention

As noted earlier, developing economies are ridden with market failures, hence the state must take on a much broader role than what a pure laissez-faire approach would advocate. The presence of information externalities raises one such issue. Economic innovations, whether successful or not, yield information about profitable or unprofitable market opportunities. This information is however not only available to the innovators themselves, but also to their competitors and potential imitators who do not bear any costs, resulting in innovation being under-supplied by the market. By subsidizing such costs, governments could play a key role in spurring innovation and offsetting this first mover disadvantage.

Coordination failures are another important market failure which necessitates government intervention. Developing economies lag behind developed ones, not only in terms of technology and industrial structures, but also in terms of human capital, infrastructure and institutions. For countries to grow and structurally adjust, these complementary factors also need to develop and evolve concurrently to facilitate adjustment. As technology becomes more complex, capital requirements increase, the scale of production and market size increase, and market exchanges are more frequented through arm's length transactions. A flexible smooth transition requires simultaneous improvements in education, finance and legal institutions and infrastructure. Owing to their public good characteristics, individual firms clearly cannot internalize these changes cost effectively. Moreover, coordination amongst many firms to bring about the

Developing economies are ridden with market failures, hence the state must take on a much broader role than what a pure laissez-faire approach would advocate.

Table 4.1
Governance Indicators - 2012

	Voice & Accountability		Political Stability & Absence of Violence/Terror		Government Effectiveness		Regulatory Quality		Rule of Law		Control of Corruption	
	Governance Score	Percentile Rank	Governance Score	Percentile Rank	Governance Score	Percentile Rank	Governance Score	Percentile Rank	Governance Score	Percentile Rank	Governance Score	Percentile Rank
Southeast Asia												
China	-1.6	4.7	-0.5	28.4	0.0	56.0	-0.3	43.5	-0.5	38.9	-0.5	39.2
Japan	1.1	83.4	0.9	78.2	1.4	88.5	1.1	83.7	1.3	87.2	1.6	91.9
Malaysia	-0.3	37.9	0.0	44.5	1.0	80.4	0.5	69.9	0.5	65.9	0.3	65.6
Singapore	-0.4	35.6	1.3	96.7	2.2	99.5	2.0	100.0	1.8	95.7	2.2	97.1
Thailand	-0.3	37.4	-1.2	12.8	0.2	60.8	0.2	57.9	-0.2	50.2	-0.3	46.9
Taiwan	0.8	72.0	0.9	73.9	1.1	83.7	1.2	86.1	1.0	82.9	0.7	73.7
South Asia												
Sri Lanka	-0.6	29.9	-0.7	22.7	-0.2	45.9	-0.1	48.3	-0.1	52.1	-0.2	51.7
India	0.4	58.3	-1.2	11.8	-0.2	47.4	-0.5	34.0	-0.1	52.6	-0.6	34.9
Bangladesh	-0.4	34.1	-1.4	9.0	-0.8	22.5	-1.0	19.6	-0.9	19.4	-0.9	21.1
Pakistan	-0.9	23.7	-2.7	0.9	-0.8	23.4	-0.7	24.9	-0.9	19.0	-1.1	13.9

Notes: a. Estimate of governance is measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance; b. Indicates rank of country among all countries in the world. Zero corresponds to lowest rank and 100 corresponds to highest rank.

Source: World Bank (2013), "Worldwide Governance Indicators".

required changes are often impossible, hence governments can play a lead role either by taking steps to introduce such changes or to coordinate them.[16] The presence of these types of market failures provide a clear rationale for governments in developing economies to kick-start growth through the pursuit of proactive economic policy.

4.3.2 Governance

A state that is accountable, transparent, and provides predictability in the application and enforcement of rules, set the environment to encourage investment, productivity, and research and development which are also driving forces of economic growth and development. Some key governance indicators are given in Table 4.1. All selected East and Southeast Asian countries with the exception of China, Thailand and Singapore

A state that is accountable, transparent, and provides predictability in the application and enforcement of rules, set the environment to encourage investment, productivity, and research and development.

[16] Lin, J.Y. and H. J. Chang (2009), "Should Industrial Policy in Developing Countries Conform to Comparative Advantage or Defy it? A Debate between Justin Lin and Ha-Joon Chang", *Development Policy Review*, Vol.27, No.5, pp. 483-502.

(only in the 'voice and accountability' indicator) perform better in the reported indicators compared to South Asia. Japan and Singapore perform the best in a majority of the indicators. 'Rule of law' is particularly important given that it provides the basic underpinnings of all economic activity. Apart from China and Thailand, all other Asian economies rank above South Asian countries in this indicator. However, India and Sri Lanka perform better than China or Thailand in this category.

4.3.3 State Capitalism

State involvement in enterprises is not new, and despite extensive state reform and privatization, state capitalism is still at large in developed and developing countries.[17] In fact, it has undergone a dramatic revival with some state-owned enterprises (SOEs) which were little more than government departments in the emerging economies of the 1990s, developing into high value, large firms.[18] State backed firms accounted for 80 per cent of the stock market value in China and for a third of the emerging countries' FDI in 2003-2010;[19] in 2010, there were four SOEs among the top ten firms of the Global Fortune 100 list as opposed to none at the top in 2005.[20] SOEs apart, there has been a rise of 'hybrid capitalism' where minority investments are made in companies by development banks, pension funds, sovereign wealth funds and sometimes by the government itself. The debate is on whether hybrid capitalism is a means of solving market failures as justified by governments in emerging economies, or as the private entities see it, whether private companies backed by government loans are a threat which can be used by governments to influence markets.

Table 4.2
Government Expenses as Percentage of GDP[a]

	2000	2005	2010	2012
Japan	n.a.	16.0	18.1	19.3
Malaysia	16.5	17.7	18.8	21.6
Thailand	n.a.	16.4	18.6	21.0
Singapore	16.0	12.8	12.8	13.2
South Korea	16.6	19.7	19.9	20.4

Note: a. Expense is cash payments for operating activities of the government in providing goods and services. It includes compensation of employees (such as wages and salaries), interest and subsidies, grants, social benefits, and other expenses such as rent and dividends.

Source: World Bank (2014), "World Development Indicators 2014".

While supporters of state capitalism are of the view that it can produce stability and growth by addressing market failures and by diverging from pure profit-maximizing goals, others underscore the resulting inefficiencies of such involvement: when the government favours a group of companies, others can fail (i.e., the larger SOEs can soak up capital and talent in the market); the use of capital by state companies is less efficient than private entities - they grow more slowly, and are less competitive.[21] Further, state capitalism works well only when directed by a competent government and hence, is not a guarantee of stability.

A brief examination of the East and Southeast Asian economies in terms of government expenditure and public sector employment shows that government involvement in the economies is substantial. A glance at government expenditure in a few selected Asian countries show that government expenses as a percentage of GDP has generally increased

[17] Musacchio, A. and S.J Lazzarini (2012), "Leviathan in Business: Varieties of State Capitalism and their Implications for Economic Performance", Working Paper 12-108, Harvard Business School, US.

[18] *The Economist*, (2012), 'Emerging-Market Multinationals: The Rise of State Capitalism', January 21-27 2012, available at http://www.economist.com/node/21543160.

[19] *Ibid*.

[20] Musacchio, A. and S. J. Lazzarini (2012), "Leviathan in Business: Varieties of State Capitalism and their Implications for Economic Performance", Working Paper 12-108, Harvard Business School, US.

[21] *The Economist*, (2012), 'Emerging-Market Multinationals: The Rise of State Capitalism', January 21-27 2012, available at http://www.economist.com/node/21543160.

over the 2000-2012 period, except in the case of Singapore (Table 4.2). The rate remained close to, or over 20 per cent in the other economies of Japan, Malaysia, Thailand and South Korea. The level of public sector employment (as a percentage of total employment) for a few selected countries show that it is highest in Malaysia and Thailand, accounting for 13.2 per cent and 8.9 per cent, respectively, for the latest year of which data is available (Table 4.3). It is notably low in Indonesia and Bangladesh.

Table 4.3
Employment in the Public Sector as a Percentage of Total Employment

Country	%
Bangladesh	4.5 (2005)
Japan	7.0 (2006)
Indonesia	3.8 (2003)
Malaysia	13.2 (2008)
Singapore	6.3 (2008)
Thailand	8.9 (2008)

Note: Data for the latest available year is given within brackets.

Source: ILO (2014), "LABORSTA Internet", available at www.laborsta.ilo.org.

Box 4.1
The Asian Financial Crisis and the East Asian Developmental State

The 1997/98 financial crisis highlighted several weaknesses in the institutional arrangements of the East Asian developmental state model in an era of financial liberalization. The Asian financial collapse is attributed largely to macroeconomic flaws in the financial sector of the affected economies, particularly in Thailand and Indonesia. The crisis also underscored some key weaknesses of governments and other institutions in the developmental state.

Crony Capitalism
The East Asian financial crisis saw some of the state-business relations maintained in the developmental states being disparaged as forms of 'crony capitalism'. Crony capitalism in some East Asian economies, visible in the form of 'give-away privatizations' to the political leaderships' relatives and cronies, granting of artificial monopoly rights, direction of credit to government-favoured and politically connected entities is perceived by some analysts to have led to moral hazard of firms, misallocation of investments, falling returns to investment and a fragile financial system.

Weak Legal System
At the onset of the financial crisis some Southeast Asian countries like Indonesia, the Philippines, Malaysia and Thailand suffered from weak legal systems including weak property rights. Strong legal systems are key in drawing foreign investments, reducing transaction costs and attracting external finance to a country as they promote dynamism, competition, transparency and choice in an economy. These developmental states lacked such institutional arrangements.

Little Weight on Sound Financial Sector Policies
Financial sector policies of the developmental state placed little emphasis on proper auditing, accounting, credit rating, disclosure requirements, or experience and independence. This led to fragilities in the financial sector and is seen as weakness of the developmental state model.

As will emerge from the proceeding sections, the key to an effective developmental state is the capacity of the state to formulate and implement developmental policies. A state needs both a competent bureaucracy and an effective relationship with its business community to achieve this.

Source: Crafts, N. (1999), "Implications of Financial Crisis for East Asian Trend Growth", *Oxford Review of Economic Policy*, Vol. 15, No. 3; Lee, E. (1999), "The Debate on the Causes of the Asian Crisis: Crony Capitalism versus International System Failure", *International Politics and Society*, Vol. 2.: Park, Y. C. (1994), "Concepts and Issues", in H. T. Patrick and Y. C. Park (eds.), *The Financial Development of Japan, Korea, and Taiwan: Growth, Repression and Liberalization*, Oxford University Press, New York.

4.4 Government Intervention in Economic Policy

This section analyses the government's role in formulating and implementing industry and trade policy, investment, education and infrastructure development in the developmental state. Key interventions are analyzed in the following section in order to draw policy implications for Sri Lanka.

4.4.1 Industry and Trade Policy

Export success has been an underlying factor of many of the East and Southeast Asian economies' growth performance. Firms and industries have been encouraged to aim for export success from a very young stage, and the provision of protection, subsidized credit, tax benefits and other support has been often conditional on satisfactory export performance.[22] However, in some of the East Asian countries such as Japan, it is difficult to isolate unique trade policies as their focus on industrial policy has aimed at supporting the growth and competitiveness of industry in its entirety, with the objective of catching up with the West. Some of these key policies are discussed in the subsequent sections.

Efficient allocation of resources

Government intervention in East Asian economies is known to have been effective at driving development through re-allocative effects of resources. This is widely visible in Japanese policy where economic growth was pursued through industrial policies which aimed at efficient allocation of resources. Economic efficiency was defined in terms of world markets (not on domestic markets), competitive prices, high quality and other non-price factors.[23] The Ministry of International Trade and Industry (MITI) designed and implemented the industrial policy of the country with the goal of reaching the same position a market solution would reach, but at a faster pace, and in the case of a declining industry, at a lower social cost.[24] MITI officials believed they could better anticipate the long run strategic needs of the economy than the market-place. They identified the key sectors of the economy such as semiconductors, computers, telecommunication and other high-tech industries, and offered a comprehensive package to support these to make Japan a major economic force. The support included accelerated depreciation allowances,[25] R&D funding, tax benefits, and loans.[26] Furthermore, the policies tried to anticipate and use the market itself to draw incentives from, rather than replacing market incentives with other forms of instruments to allocate resources and to drive businesses in the desired direction such as import restrictions.

Driving competition and economies of scale

Policies in Japan for instance also encouraged competition among firms and created space to reap economies of scale. Although at the early stages, non-Japanese firms were not allowed entry into the market, it was accepted that there was adequate competition in the economy to make firms efficient. Although this was not an ideal neo-classical model of perfect competition, firms were competing in dynamic oligopoly market structures. As a result, Japanese firms during this time, built their competitiveness more than the other nations did,

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[22] Kokko, A. (2002), "Export-Led Growth in East Asia: Lessons for Europe's Transition Economies," National Europe Centre Paper No. 31, Australian National University, Canberra.

[23] Patrick, H. (1986), "Japanese High Technology Industrial Policy in Comparative Context", Working Paper No. 1, Center on Japanese Economy and Business, Columbia University, US.

[24] *Ibid*.

[25] Accelerated depreciation allows greater deductions in the earlier years of an asset and is used to minimize taxable income. Among other things, it encourages businesses to purchase new assets.

[26] Patrick, H. (1986), "Japanese High Technology Industrial Policy in Comparative Context", Working Paper No. 1, Center on Japanese Economy and Business, Columbia University, US.

In East Asia, firms and industries have been encouraged to aim for export success from a very young stage, and the provision of protection, subsidized credit, tax benefits and other support has been often conditional on satisfactory export performance.

protected behind import barriers, and achieved international competitiveness in a range of products, from consumer electronics to steel and small cars.[27] Despite consumers having to pay relatively high prices during the initial stages of any particular industry, agencies such as MITI stimulated pressure on firms (often via the threat of eventually losing protection) to increase efficiency and productivity to become internationally competitive, which subsequently lowered domestic prices as well. There were, however, exceptions to this such as the petroleum refining industry, which failed to realize low-cost production and optimum scale.

Facilitating structural adjustment

The governments encouraged sectors which were weak and uncompetitive to make structural adjustments. In the case of products such as petrochemicals, aluminium, and textiles in Japan, the rationale was that it was more efficient to close the firms which were the least efficient, while the government encouraged firms to achieve scale economies through mergers than bankruptcy.[28] Similarly in Singapore, motor vehicle assembly plants were closed by 1980 when it was apparent that the plants were unable to survive without constant assistance.[29] As it has been aptly summarized, the role of the government in Singapore has been one that is interventionist but runs things on a profit making basis, with intervention mainly taking the form of advice and implicit pressure.[30]

However, this is not to say that there was no protective policy. In fact, it was widespread in East Asia, if less so than in other countries.[31] However, contrary to other countries, these protective policies are not known to have blocked structural change of the economy. What particularly distinguished East Asian protective policy from others was the forward-looking nature of policies. It was made explicit that the objective of providing protection was not to preserve these sectors, but rather to phase them out in an 'orderly manner' or to upgrade technologically. Moreover, as Chang (1999) explains, the protective policies came with well specified performance targets which prevented the "policies from turning into 'nursing homes' for declining industries".[32] The design and implementation of these policies are known to have promoted rather than hindered structural change in East Asian economies.

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[27] *Ibid*

[28] *Ibid*.

[29] Roberts, B. (1988), *The Timing and Sequencing of a Trade Liberalization Policy: The Case of Singapore*, World Bank, Washington, D.C.

[30] Industry Commission, (1990), *Strategic Trade Theory: The East Asian Experience*, Government of Australia, Canberra.

[31] Chang, H. (1999), "Industrial Policy and East Asia - The Miracle, the Crisis, and the Future", paper presented at the World Bank workshop on "Re-thinking the East Asian Miracle", San Francisco, US.

[32] *Ibid*.

Nudging markets

Apart from providing fiscal incentives for specific products and protection linked to performance, the East Asian state also 'nudged' markets, encouraging firms, both local and transnational, to switch to local suppliers and to enter into higher value-added production. Some East Asian countries employed what is called 'below-the-radar' kind of policy which formed an important segment of the region's development strategy. Taiwan employed this effectively, where nudging policies included a mix method of 'jaw-jaw' and promises of goodwill for future ventures, fiscal incentives, and at times higher tariffs where the government's capacity to manage trade have been used to encourage or discourage trade.[33] Taiwan's Industrial Development Bureau for instance, hired around 200 engineers and associated professionals and economists who had engineering and finance skills to analyse input-output chains and monitor imports of a particular raw material, the buyers of the import products, and the capacity of the country to produce the specific input, etc.[34]

These professionals also spent several days visiting firms in the field to identify 'nudging opportunities' for import replacement and export promotion. The officials used various administrative methods to encourage the large players to switch to local suppliers. Established sectors of the economy were also 'nudged' to provide markets for firms in innovative enterprises, thereby driving and accelerating innovation in the country. While the nudging policies have been carried out at a sectoral level, on a case-by-case basis rather than across-the-board, these were employed only when the local suppliers could meet the price and quality of the imports.[35] This required a group of competent, dedicated and honest public officials, and a range of instruments to draw from.

Facilitating technology transfer

Authorities used a variety of ways to acquire technology which included mechanisms such as the purchase of patents, careful study of scientific papers, importation of new technology-embedded capital goods, and 'reverse engineering' which involved the dismantling and reproduction of the technology.[36] While some East Asian economies were apprehensive of foreign investment, others such as Singapore, Hong Kong and Taiwan acquired new technology via foreign affiliates or joint ventures. Studies have found convincing empirical evidence between productivity and imported technology in Japan and other dynamic Asian economies.[37] Similarly in China, special incentives were given to exporting companies in order for the companies to absorb local labour and to draw on the capital and technical know-how of foreign investors.

4.4.2 Coordinating Investments

Effective resource mobilization within the public sector

The developmental state was successful in effectively mobilizing resources from the public sector, thereby stimulating private investments into their economies. The East Asian countries have enjoyed very high levels of public and private savings and the capacity to mobilize these were enhanced through high levels of public investment. The Singapore government for example, intervened directly in the years following its independence,

[33] Wade, R. H. (2003), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press, Princeton.

[34] Wade, R. H., (2005), "Bringing the State Back: Lessons from East Asia's Development Experience," in Dauderstädt, M. (ed.), *Towards a Prosperous Wider Europe: Macroeconomic Policies for a Growing Neighborhood*, Friedrich-Ebert-Foundation, Bonn.

[35] *Ibid*.

[36] Industry Commission, (1990), *Strategic Trade Theory: The East Asian Experience*, Government of Australia, Canberra.

[37] Chen, E. K. Y. (1979), *Hyper-Growth in Asian Economies: A Comparative Study of Hong Kong, Japan, Korea, Singapore and Taiwan*, Macmillan, London.

investing substantially in selected sectors. From July 1968 to December 1970, Singapore increased its financial commitments dramatically, from US$ 45 million to US$ 340 million.[38] These were made in the form of loans, equity, investment and others, with one-third of the entire financial commitments made in selected economic sectors.

Effective bureaucracy

In examining the political economy of countries, cross-national evidence directs to certain common political features of countries with high public savings and high growth. A relatively high degree of political order, an anti-socialist and anti-populist ruling coalition and a relatively effective state bureaucracy are some common political features.[39] While these features may be more pronounced at one particular time period than another, public savings and growth can be expected to be higher in the more pronounced period. The example of Brazil is commonly identified in the literature, which in the period 1964-1974 was identified as a 'developmental state' in these terms. Brazil experienced remarkable levels of public savings and growth during this time. However, from 1985 onwards, the country which has been beset by an incoherent democracy, experienced public savings much below the average of developing countries and very low average growth.[40]

Coordinating investment

The Korean and Taiwanese governments in the 1960s managed to engineer a significant increase in the private return to capital by not only reducing barriers to investment and establishing a sound investment climate, but more importantly by clearing coordination failures which had blocked economic take-off.[41] This was done through strategic interventions by the governments which included investment subsidies, and the use of public enterprise and administrative guidance. With Taiwan announcing the Nineteen-Point Reform Programme in the 1960s, the simplification of administrative procedures and liberalizing regulative measures on economic matters became an official goal.[42] Similarly in South Korea, the signal was sent out that entrepreneurs who undertook investments in line with the government's priorities would be richly rewarded. The initial advantageous conditions of favourable human capital endowment stimulated the effectiveness of government intervention.

In order to drive investment, governments provided investment subsidies of different forms to firms such as low lending rates and tax subsidies. In South Korea, credit provided at negative real interest rates was the chief form of investment subsidy. Credit was provided based on the priority of the particular economic activity. The investment plans, technology, domestic linkages and scale economies were considered, and funds were allocated to those with some track record, resulting in the expansion of the manufacturing sector stemming from established firms rather than from the entrance of new firms, which was also the case in Taiwan.[43] Investments in selected sectors in South Korea were also subsidized via the socialization of investment. For example, the government provided a guarantee that the selected entrepreneurs would be bailed out if circumstances threatened the profitability of investments, and this is said to have invigorated the 'animal spirit' of large businesses, encouraging them

[38] Young, A. (1992), "A Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore," NBER Macroeconomics Annual 1992, Vol. 7, pp. 13- 64, MIT Press.

[39] Wade, R. H. (2003), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press, Princeton.

[40] *Ibid*.

[41] Rodrik, D. (1995), "Getting Interventions Right: How South Korea and Taiwan Grew Rich", *Economic Policy*, Vol. 10, No. 20, pp. 53-107.

[42] *Ibid*.

[43] *Ibid*.

to expand aggressively.[44] The government guaranteeing of external borrowings, subsidized infrastructure and financial guarantees of orders drove firms such as Hyundai to successfully embark and complete building one of the world's best shipyards. Nevertheless, the provision of implicit investment subsidies had to be contained as a result of the financial difficulties experienced by some of the investments.

Governments also played a direct role in co-coordinating investment decisions and organizing entrepreneurs into investments that would not have been made otherwise. It was the Taiwanese government that took the initial steps in establishing industries such as textiles, steel, plastics, fibre and electronics in the country. In South Korea too, every major shift in diversification in the 1960s and the 1970s was initiated by the government.[45]

The governments also used public investment and public enterprises to enhance the profitability of private investments. The availability of key inputs for private producers downstream was ensured with the state establishing new industries upstream. Glass, plastics, steel industries in Taiwan and Pohang Iron and Steel Company (POSCO), Korea's state-owned steel mill are examples of sectors that received such assistance. When the South Korean government request for a loan from the World Bank was turned down on the grounds that the country did not have comparative advantage in producing steel, the South Korean government went ahead, providing POSCO with capital assistance, infrastructure subsidies (i.e., to build water supply facilities, railway lines, etc.) and provided support to downstream enterprises to guarantee demand for POSCO's production. POSCO subsequently became one of the most efficient producers of steel. Further, it stimulated a wide range of other enterprises, ranging from capital goods to spare parts.[46] However, the role of government in redressing the coordination failure in some sectors such as steel has been a highly contested issue. Trade is seen as an alternative to the traditional justification of coordinating both upstream and downstream industries.[47]

4.4.3 Infrastructure

Infrastructure plays a key role in supporting a government's development policy. However, whether East Asian countries went about providing the necessary infrastructure at the onset of their development process or whether they simply responded to specific sector requirements is a point of contention. In other words, was infrastructure a causal factor in growth or a support mechanism to sustain growth?

Identifying and prioritizing infrastructure requirements

Many policy makers drawing lessons from the East Asian development experience see infrastructure as a key determinant of growth. They argue that as infrastructure investment in these countries is significantly higher than in many other countries and economic growth in these countries is also very high, the assumption that infrastructure was a catalyst in the development process of these countries can be justified. However, closer examination of these countries and their development process highlights that they did not aim to have the entire gamut of infrastructure necessary in place before attracting investors. It was a gradual process in which infrastructure developed to complement the structural changes that were taking place in the economy. While they did attempt to meet the demand ahead of time in some occasions, it was primarily a focused attempt to address needs as and when they arose.

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[44] Hong, W. (1993), "Trade and Development: The Experience of Korea and Taiwan" in G. Hasson (ed.), *International Trade and Development*. Routledge, London.

[45] Amsden, A. (1989), *Asia's Next Giant: South Korea and Late Industrialization*, Oxford University Press, UK.

[46] Rodrik, D. (1995), "Getting Interventions Right: How South Korea and Taiwan Grew Rich", *Economic Policy*, Vol. 10, No. 20, pp. 53-107.

[47] Stiglitz, J. E. (1996), "Some Lessons from the East Asian Miracle",The World Bank Research Observer, pp. 151-177.

For instance, South Korea emerged from the Korean War with two-thirds of its production capabilities demolished and significant damage to its physical infrastructure. The first Five Year Plan (1962-1966) focusing on light industry and import substitution, followed by the second Five Year Plan (1967-1971) on export promotion was established. During this time, the government invested in infrastructure needed to promote these selected economic sectors, which primarily included better transportation (several railways and highway projects) systems. The Seoul-Pusan highway was a milestone Korean infrastructure development project that was essential to improve business activities between the two cities at the time. This highway project is considered as the "cornerstone of Korea's industrial corridor".[48] It also spurred the rise of the construction industry in South Korea that has since then become a key contributor to construction and infrastructure development projects worldwide. By the early 1970s, South Korea had reached full employment, but needed to catch up on developing its infrastructure. The third Five Year Plan (1972-1976) required the country to develop its airports, seaports and telecommunications. In 1972, South Korea introduced a Ten Year Plan in which regional planning was given significance, and to promote these efforts, industrial estates with deep-water harbours were built and many port projects were initiated. In the 1980s, South Korea looked to policies that involved more private sector development and thus spending on transport, electricity and telecommunications were high as they were priority areas for improvement at the time.

In Japan, road construction became a priority by the early 1960s as a result of rising vehicle numbers and increasing business. In order to address this demand for better transportation, the Japan Highway Public Corporation (JH) was set up and a law titled the 'Japan Highway Public Corporation Law' was enforced. The JH along with other institutional bodies such as the Metropolitan Expressway Public Corporation, Hanshin Expressway Public Corporation, and Honshu-Shikoku Bridge Authority took the role of coordinating and implementing road development projects. Today, the length of roads is more than 1,171,645 km and the highway system in Japan contributes to 6 per cent of total transport and 24 per cent of total domestic cargo transport.[49]

In the case of East Asia, infrastructure development was often closely linked to their economic policies.

In the case of East Asia, infrastructure development was often closely linked to their economic policies. As these policies had distinct priorities, infrastructure development projects could also be prioritized to suit the needs of the time. As exemplified above, infrastructure projects by these countries were often implemented to address the infrastructure requirements that arose in the process of development. As the economies were flexible and willing to manage with the infrastructure they had, this did not severely hinder their growth. Industrial policy was also useful in financing infrastructure development and targeting resources to the right industry at the right time. Prioritizing investment in infrastructure helped them concentrate their resources to address the more pressing issues, build infrastructure along the way, and still achieve industrialization.

[48] Reinfeld, W. (1997), "Tying Infrastructure to Economic Development: The Republic of Korea and Taiwan (China)" in A. Mody (ed.), *Infrastructure Strategies in East Asia: The Untold Story*, World Bank, Washington D.C.

[49] *Ibid.*

Box 4.2
Financing of Infrastructure Projects and Attracting PPPs in East and Southeast Asia

Most infrastructure projects in the developmental state were funded by various levels of government. Internal sources of funding were pursued by these governments and these could be accommodated to a large extent, due to high rates of domestic savings in the East Asian economies. However, private sector financing of infrastructure development projects, though relatively small compared to the level of government investment, was also used as a funding strategy by some of these countries.

The Shajiao Power Plant for example, was the first build-operate-transfer (BOT) power plant in China. As there was a resource constraint that restricted China from financing this project, a private company in Hong Kong agreed to finance this project under the agreement that they would be given operational capabilities and ownership of the plant during the concessionary period in which the private company will recover its cost. Malaysia has also used a BOT method for many of its infrastructure development projects, particularly related to highway construction. The North-South highway is a case in point in which the Malaysian government took the initiative to privatize the latter stage of the project as the Malaysian Highway Authority was unable to complete the project as planned. Due to the failure of the Malaysian Highway Authority to complete the project, the Malaysian government decided to privatize construction and operation during the concessionary period.

Hong Kong also has a successful history of drawing in private sector for infrastructure development. For example, electricity is provided by two companies that are fully owned by private investors. However, the government thoroughly screens financial aspects of these companies. Drawing the private sector in to develop infrastructure has been a fairly recent strategy adopted by some East and Southeast Asian countries. However, even in these private sector financing efforts, the government plays a significant role by providing direction to these investments.

Source: Merna, T., and C. Nijru (2002), *Financing Infrastructure Projects*, Thomas Telford Publishing, London; Cao, A., K. Solh and H. Anderson (1993), *Infrastructure Project Financing in Asia Lessons Learned*,: Price Waterhouse, US.; Kai-Sun, K. (1997), "Private Participation with Strong Government Control: Hong Kong", in A. Mody (ed.), *Infrastructure Strategies in East Asia: The Untold Story*, World Bank, Washington, D.C.

4.4.4 Human Capital Development

At the onset of their development process, the East Asian countries focused on improving higher levels of education and ensuring that the education system was addressing labour market demands. Much like the infrastructure development strategies, developing human capital was also closely linked to the growth policies pursued at the time. As a result, education planning has played a crucial role in improving the human capital stock in East Asia. Education planning is often intertwined in economic planning. The education policies in many of the East Asian countries were integrated into the growth strategy of the country at the time and, therefore, the education system was geared to meet the labour market demands and minimize the potential occurrence of a skills mismatch.

Ensuring quality and relevance of education to meet the needs of a growth strategy

Singapore for instance, had a large unskilled supply of labour at the time of independence. While the initial stage of development looked to attract labour intensive industries, in order to facilitate adjustment to the next stage of development, the government

recognized that low skilled labour would not suffice and made a conscious effort to mobilize higher levels of skill in the prioritized sectors.[50] Thus, the education policies that followed went hand in hand with the growth and development policies, and skill development for future target sectors took prominence. For example, in the 1970s, Singapore had to grapple with a rising labour shortage and as such, resorted to attracting skilled foreign labour to meet the short-term demand. In their long-term plan, the government remodeled the education system to meet the demand for high skilled labour. Skills needed to promote the technology sector were given prominence as the Singaporean government was keen draw in more investment into this sector.

Careful planning of investment in human capital to meet the needs arising from structural change is a key feature in Singapore. Every six months, a ministerial committee (ranging across various ministries) evaluates supply and demand of skills in the country, and institutions such as the Workforce Development Agency (WDA) and Economic Development Board (EDB) are responsible for carrying out necessary action to ensure that the supply meets the demand.[51] This focused attempt at filling in the coordination gaps and ensuring the industry demands are met, has proven to be extremely successful in the case of Singapore. This exemplifies the state's level of commitment to keeping up with the demands of the economy.

Taiwan was fortunate to have a modern education system left behind after gaining independence from Japanese rule. Since 1966, a Manpower Development Plan (MDP) has provided the necessary guidance and coordination needed to build human capital. The first plan used projections of sector specific growth to project the skill

Education policies went hand in hand with the growth and development policies, and skill development for future target sectors took prominence.

requirements needed in these sectors. The planning process brought together various stakeholders from the government to discuss the problems at hand. The institutions responsible for carrying out the plans were given strict deadlines to implement them. For example, as a measure to address the increasing economic need for semi-skilled labour, in 1963, the MDP attempted to shift the number of students enrolled in high-school from 60 per cent to 40 per cent and the number of students in vocational schools from 40 per cent to 60 per cent. Due to the successful implementation of this plan, by the 1970s, the student enrolment in high school was 48 per cent and enrolment in vocational schools was 52 per cent. By 1980, the figures had changed to 34 per cent and 66 per cent, respectively, as the MDP had changed the target to 30:70 over time.[52]

Vocational training was a major success in Taiwan. This is largely owed to the role of government in improving this area of human capital development. The government was wise in taking on the role of facilitating vocational schools and filling in the

[50] Tilak, J. (2002), "Building Human Capital in East Asia: What Others Can Learn", World Bank, Washington D.C.

[51] Powell, M., and J. Lindsay (2010), "Skill Development Strategies for Rapid Growth and Development: The East Asian Economic Miracle", Centre for Employment Initiatives, Wales.

[52] Woo, J. (1991), "Education and Economic Growth in Taiwan: A Case of Successful Planning", *World Development*, Vol. 19, No.8. pp. 1029-1044.

coordination gaps, while allowing industries to decide on the type of training received. In addition to this, the industry worked closely with the government on planning matters related to vocational schools. The success of these vocational school trainings is evident by the very low rate of unemployment of graduates (only 4 per cent) from vocational schools.[53]

It is also important to note that while these East Asian countries did invest in education early, their investment in levels of education other than primary education were lower than some Latin American and South Asian countries even during the rise of their growth momentum.[54] Despite East Asia increasing its investment in education over the next few decades, what distinguishes their expansion of human capital as a key resource for growth, was the quality and relevance of education in tapping into and exploiting their latent comparative advantage.

For example, in 1960, Hong Kong and Taiwan invested 2.1 and 2.4 per cent of GNP respectively, in education. South Korea had significantly higher public investment in education in the 1960s but the share came down drastically after that. Singapore started with high investment but was unable to sustain it for long and therefore saw a reduction in public investment in education. In comparison, some advanced Western countries were spending over 5 per cent of GNP on education.[55] Taiwan however, is mandated by law to allocate at least 15 per cent of the national budget on education, making its share of public investment in education significantly higher than many other East Asian countries.

The role of the private sector in financing education is significant in nearly all these economies, but the level of private sector involvement varies according to the level of education. While primary education is provided almost entirely by the state in nearly all developed East and Southeast Asian economies, the role of the private sector in secondary education is also extremely limited. However, the private sector plays a significant role in meeting the demand for higher education in many of these countries.

Even the countries with significant private sector presence in education are often a form of a public private partnership (PPP) rather than solely private institutions. The government plays a crucial role in ensuring that there is effective coordination between private education institutions and economic policy/ structural changes pursued by the government.

4.5 Lessons for Sri Lanka

Analyses of economic policy in the recent years points to some key features of the Sri Lankan state's role in the economy. The end of the armed conflict in 2009 generated a surge of optimism about the economic prospects for Sri Lanka, and the government was well entrenched with a commanding majority in the legislature and popular support. The development strategies presented by the government such as the 'Mahinda Chinthana: A Vision for the Future' emphasized the role of the state. Privatization of key SOEs was ruled out in areas such as banking, power, energy and transport. Rather, the government has been focusing on carrying out management reforms within SOEs and on forming PPPs, particularly in the case of infrastructure projects. There is also an expansion of SOEs in the economy via majority state holding of previously privatized ventures, revitalizing of closed-down SOEs and initiating new-state controlled ventures. The 'Revival of Underperforming Enterprises and Underutilized Assets Act' passed in November 2011 also enabled the government to acquire and manage 37

[53] *Ibid*.

[54] Page, J. (1994), "The East Asian Miracle: Four Lessons for Development Policy", in S. Fischer and J. Rotemberg (eds.), NBER Macroeconomics Annual 1994, Vol. 9, MIT Press.

[55] *Ibid*.

Table 4.4
Public Expenditure as a Percentage of GDP

Item	2005-2007	2008-2010	2011-2013
Total Expenditure	24.2	23.7	20.8
Recurrent	18.0	17.3	14.8
Capital	6.2	6.4	6.0

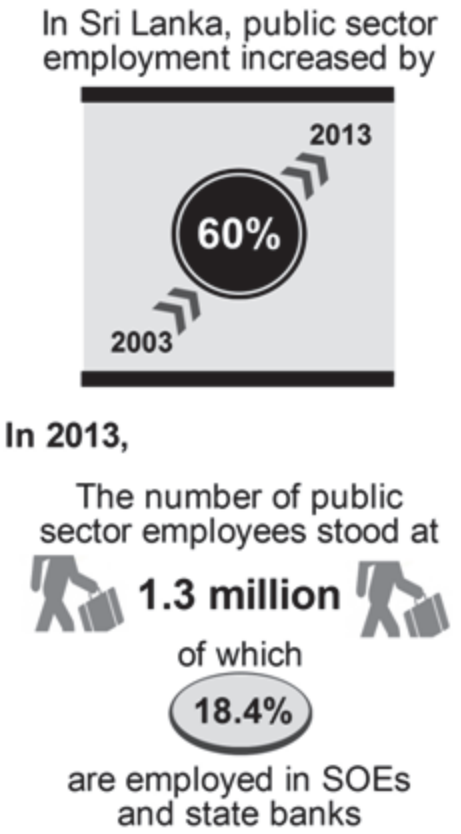
Source: Ministry of Finance and Planning, "Annual Report 2013".

'underperforming' or 'underutilized' private enterprises. Underpinning a greater state role in driving economic development, particularly in infrastructure, government expenditure on public investment has risen sharply in recent years as evident from Table 4.4.

Public sector employment too has increased over time in the past decade - by 60 per cent in 2013 compared to 2003.[56] The total number of public sector employees stood at 1.3 million in 2013,[57] of which 18.4 per cent are employed in SOEs and state banks while the majority of the others are in public service. Public sector employment as a percentage of total employed increased from 13.5 per cent in 2006 to 15.3 per cent by the last quarter of 2013. As previously highlighted (Table 4.3), this is in comparison to 6.3 per cent in Singapore, 13.2 per cent in Malaysia and 8.9 per cent in Thailand for 2008. The government has attributed the need to increase public sector employment to the acceleration of the development process.

As depicted in Table 4.1, in terms of governance, Sri Lanka performs better than other South Asian nations in the indicators 'political stability and absence of violence/terror', 'regulatory quality' and 'control of corruption'. It follows India closely in 'rule of law' and 'government effectiveness'. However, Sri Lanka has been unable to score a positive governance score in any of the indicators unlike the case of other East Asian countries.

Governments of successful East Asian economies played a leading role in their development and growth process which went beyond the standard neo-classical interpretation of getting the 'fundamentals right'. These countries proactively pursued industrial policy in bringing about structural adjustment and upgrading their respective economies. In Sri Lanka, despite the initial momentum created by the outward-oriented policy stance, industrial upgrading has failed to take-off and move beyond the apparel industry. The majority of the country's workforce is still absorbed in low productive sectors such as agriculture and low/semi-skilled labour absorbing industrial sectors.



[56] Ministry of Finance and Planning (2013), *Annual Report 2013*, Ministry of Finance and Planning, Colombo.
[57] DCS (2013), "Quarterly Report of the Sri Lanka Labour Force Survey 2013: Fourth Quarter", Department of Census and Statistics, Colombo.

Over the last decade or so, the government having recognised the need to move ahead and industrialize beyond the standard labour-intensive manufacturing sectors, has taken a proactive stance. The government can also effectively drive development by pursuing policies aimed at efficient allocation of resources, by encouraging competition among firms and by encouraging sectors which are weak and uncompetitive to make structural adjustments.

In terms of infrastructure, the recent progress in the development of infrastructure in Sri Lanka is commendable given its importance to support growth and development. Nevertheless, effective prioritization of infrastructure investment is essential given that the investment needs are often large and that it takes a long time to realize the economic returns of such projects. If not, financing of large investments can have significant economic repercussions. As the discussion on the East Asian development in this Chapter saliently highlights, rather than promoting enterprises that are consistent with taking advantage of infrastructure, these economies formulated policies at promoting businesses that are consistent with their latent comparative advantage, and directed policies at upgrading factor endowments and build infrastructure to complement these industries to structurally adjust and upgrade.

Taking advantage of the country's strategic geographic location, the government in Sri Lanka has invested heavily in mega infrastructure projects to spur economic growth. The 'five hub + tourism' concept has been formulated with the aim of developing industries which are consistent with taking advantage of the country's geographic location in terms of its proximity to major international shipping lanes and the Indian subcontinent. In hindsight, administering interventions let alone resourcing such interventions to assist them structurally adjust across six vastly different hubs seems a daunting challenge, given that each sector necessitates vastly different factor endowments and infrastructure requirements. Focusing on one or two closely related sectors as embraced by the majority of the East Asian economies would be a more prudent approach. A more streamlined approach would not only help minimize the investment outlay in bringing factor endowments up to the required level, but also ease the coordination interventions by freeing up more government resources to be concentrated in a particular thrust sector. Competitive bidding and transparency of the awarding of projects and evaluations can further improve the outputs of infrastructure projects.

In education, despite impressive performance of Sri Lanka in access to education, challenges remain in terms of improving the quality of education, access to higher education levels and the relevance of education.[58] In the developmental state, education policies and skill development were geared to complement future target sectors. For example, Singapore remodelled the education system to meet the demand for high skilled labour. Likewise, it is necessary for Sri Lanka to gear its education policy to complement its long-term growth strategy and aspirations of its workforce.

It is, however, important to note that although the developmental states in East Asia have taken on a broader role than the standard neo-classical interpretation of government, markets were at the core of the developmental model. Rather than replacing the market, the developmental state nurtured and guided the private sector to become globally competitive. While encouraging FDI at the outset in order to penetrate international markets, to infuse much needed capital and transfer of

[58] Arunatilake, N. (2013), "A Comment on 'New Educational Policies and Proposals' for General Education in Sri Lanka", available at www.ips.lk/talkingeconomics.

In the case of Sri Lanka's current development approach, it is important that the government enhances private sector participation instead of depending on a largely state-driven strategy.

technology, the state also supported local entrepreneurs to forge backward linkages with the multinationals.

In the case of Sri Lanka's current development approach, it is important that the government enhances private sector participation instead of depending on a largely state-driven strategy. FDI in particular needs to be encouraged to kick-start the industrialization process. This would make the development process a more sustainable one than a debt financed investment and consumption-led growth strategy. In a bid to attract FDI and other private sector investments, governance and macro-economic stability become crucial elements. Unlike resource-seeking investments which would flow to even more volatile regions in the world such as Sub-Saharan Africa, the type of FDI Sri Lanka needs to aim for (export-oriented) may be more sensitive to the above.

5. Demographic Challenges of an Ageing Asia

5.1 Introduction

Asia is the fastest growing region in the world. The emergence of Asia as an economic force over the past 40 years has been one of the most successful economic development stories in recent history. With Asian growth projected to account for more than 50 per cent of global GDP by 2050, and per capita income expected to rise six-fold by then, it is envisaged that the region will come to dominate the 21st Century.[1] However, Asia faces numerous risks and challenges that could impede this growth momentum if not adequately addressed. One such challenge is the rapid demographic changes the region will experience over the next few decades.

Asia is on track to become the oldest region in the world, with the elderly population projected to reach 922.7 million in 2050.[2] A rapidly ageing population could be a drag on economic growth. The rise in the elderly population will increase the fiscal burden on healthcare and social welfare. In addition, a shrinking working age population would create labour supply shortages, and have an adverse impact on total factor productivity which would adversely impact GDP growth.

Demographic change is a particularly relevant issue in Asia for two reasons. Firstly, Asia is ageing at an unprecedented pace. The transition in the population age structure in Asia will happen significantly faster than it did in the West, giving less time to prepare for the new demographic landscape. Secondly, the demographic dividend - where the proportion of working age population is significantly larger than the dependent population (those below 15 years, and 60 years and above) - was an important ingredient that contributed to the growth of many East and Southeast Asian economies. These favourable demographics are now turning less favourable, and the countries that experienced the demographic dividend must now prepare to face the 'demographic tax', and take measures to effectively accommodate this demographic change while ensuring productivity gains for growth.

Sri Lanka, for example, is currently at the tail end of its demographic dividend, which is expected to end

Asia is on track to become the oldest region in the world, with the elderly population projected to reach 922.7 million in 2050.

[1] ADB (2011), *Asia 2050 - Realizing the Asian Century*, Asian Development Bank, Manila..

[2] *Ibid*.

in 2017, where the proportion of elderly will increase to around 15 per cent.[3] The elderly population of Sri Lanka is expected to reach over 20 per cent of the total population by 2031 and will further increase to a point where one in every four persons in Sri Lanka will be elderly by 2041.[4]

In this context, this Chapter seeks to examine the demographic challenge Asia faces in the coming decades. Section 5.2 examines the current status of demographics in Asia and its implications. With Sri Lanka about to end its demographic dividend and enter a phase of population ageing, the demographic patterns and trends for the country are discussed in Section 5.3. Finally, Section 5.4 discusses some emerging issues and challenges in the areas of social protection, health and labour markets, and suggests policy options to face the demographic transition in Sri Lanka.

5.2 Asia's Demographic Transition: Boon or Bane?

As a consequence of falling fertility rates and improvements in life expectancy, Asia as a whole is experiencing a demographic transition towards older population structures. Within the region there is demographic heterogeneity, with various countries at different stages of the transition. As a result, the share of the elderly in the population is rising throughout the region, but not uniformly. Population ageing is most advanced in East Asia. Countries like Japan and South Korea are at advanced stages of their transition, while India, Indonesia and the Philippines are on the verge of realizing their demographic dividend.

Figure 5.1 illustrate the decline in fertility rates and the rise in life expectancy of Asian countries in recent decades. Countries in the advanced stages of their demographic transition, like Japan, Singapore and South Korea, have reached high levels of life expectancy rates due to advances in health and sanitation, as well as changes in social conditions such as urbanization. However, the increase in population shares of the elderly has been largely driven by the declining fertility rates in Asia, and intra-regional disparities in the age distributions resulting due to the differential decline in the fertility rates (Figure 5.1).

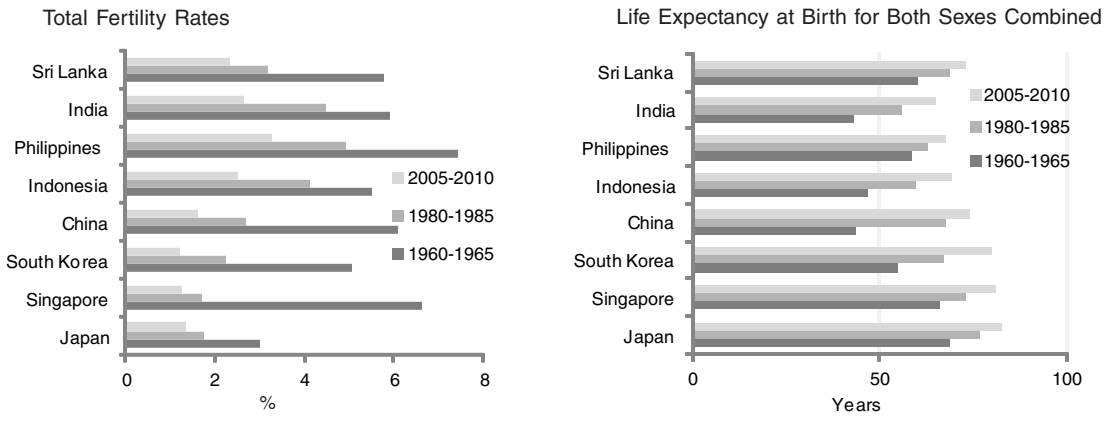
Changes in fertility rates and life expectancy have led to changes in the population structure of Asia, and this will continue to change in the coming decades. In Japan, the proportion of the population aged 65 and above, which stood at 7 per cent in 1970, is projected to reach 41.1 per cent in 2050. South Korea will also experience a rapid increase in the proportion of the 65 and over age group, where the proportion which stood at 3.3 per cent in 1970 is expected to rise to 39.3 per cent in 2050. China will go through a similar rise in the 65 and above proportion, though not as rapidly as Japan and South Korea (Figure 5.2).

As can be seen in Figure 5.2, the decline in the below 15 age group started in Japan in the 1970s, where the proportion stood at 24.1 per cent. South Korea and China experienced a similar decline in the 1990s, where the proportions stood at 25.6 per cent and 29.3 per cent, respectively. The populations of India and Indonesia are also experiencing declines in the 15 and below age group, but due to the fertility rate peaking at a later stage, the proportions will be higher than in East Asian countries. In the 1990s, the below 15 age group was 36.4 per cent of the population in Indonesia and 37.5 per cent in India. As a result, these countries are entering a period of increasing demographic dividends as fertility rates continue to drop, reducing the youth dependency burden and increasing the size of the labour force.

[3] De Silva, W. I. (2012) "The Age Structure Transition and the Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka," *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No. 1.

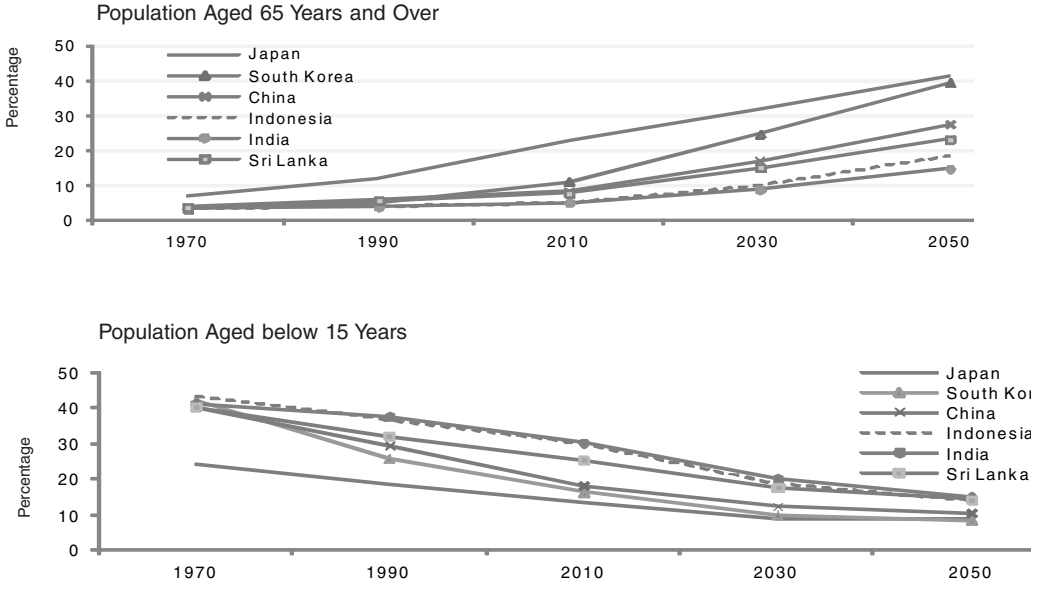
[4] *Ibid*.

Figure 5.1
Fertility Rates and Life Expectancy at Birth for Selected Countries



Notes: Fertility rate refers to children per woman.
Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). World Population Prospects: The 2012 Revision.

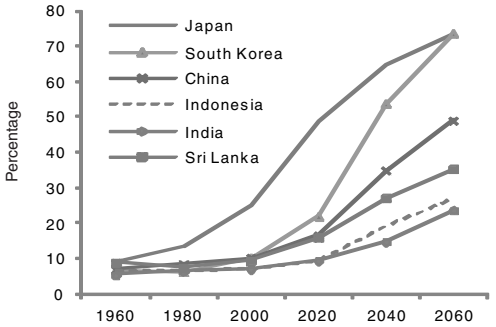
Figure 5.2
Population Aged 65 Years and Over and below 15 Years in Selected Countries, 1960-2050



Notes: Projections are based on UN low fertility estimates.
Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). World Population Prospects: The 2012 Revision.

With the percentage of older persons in the population rising, the old-age dependency ratios - i.e. the ratio of persons above the age of 65 years to the number of people in the 15-64 year working age group - are projected to increase in many Asian countries (Figure 5.3).

Figure 5.3
Old-age Dependency Ratios for Selected Countries



Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). World Population Prospects: The 2012 Revision.

The old-age dependency ratios will reach higher levels in East Asian countries like Japan and South Korea due to them being in a more advanced stage of the demographic transition. China will also experience a sharp rise in the old-age dependency ratio, partly due to the one-child policy introduced in the 1970s, causing fertility to peak early. The old-age dependency ratios will grow at a slower rate in countries like India and Indonesia with younger populations.

Based on current population projections, the demographics will be diverse in Asia. Ageing will be most advanced in East Asia while, with the exception of countries like Singapore and Sri Lanka, South and Southeast Asia will have a younger age profile. The economic implications of Asia's demographic transition will be explored in the next section.

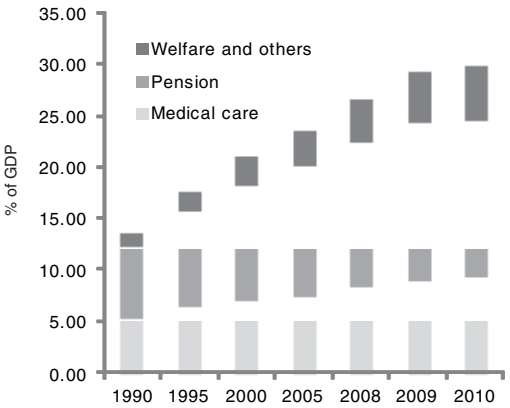
5.2.1 Implications of the Demographic Transition

As Asia advances through the demographic transition, an ageing population will have an impact on the economy. The impact would be transmitted mainly through public finance pressures (particularly related to social protection, health, etc.) and the implications ageing would have on the labour force.[5]

As the old-age dependency ratios rise in Asian countries, substantial increases in age-related public expenditures like pensions and healthcare are expected.[6] In Japan, total public expenditure has soared. The fastest rising expenditure item is social security (pensions, medical insurance, welfare programmes), with pension payments taking up the largest share in social security expenditure (Figure 5.4). In 2010, 68.1 per cent of total social security expenditure went towards those over 65 years of age.[7]

While Asia relies less on the public sector for old-age support compared to Europe and Latin America, public transfer programmes in East Asian countries like Japan, China and South Korea amount to a substantial proportion of old-age support (Figure

Figure 5.4
Social Security Expenditure in Japan, 1990- 2010



Source: NIPS (2014), "Public Expenditure Database", National Institute of Population and Social Security Research, Japan.

[5] McMorrow, K., and W. Roeger (2011), "The Economic Consequences of Ageing Populations", Directorate-General for Economic and Financial Affairs - European Commission, Brussels.

[6] *Ibid*.

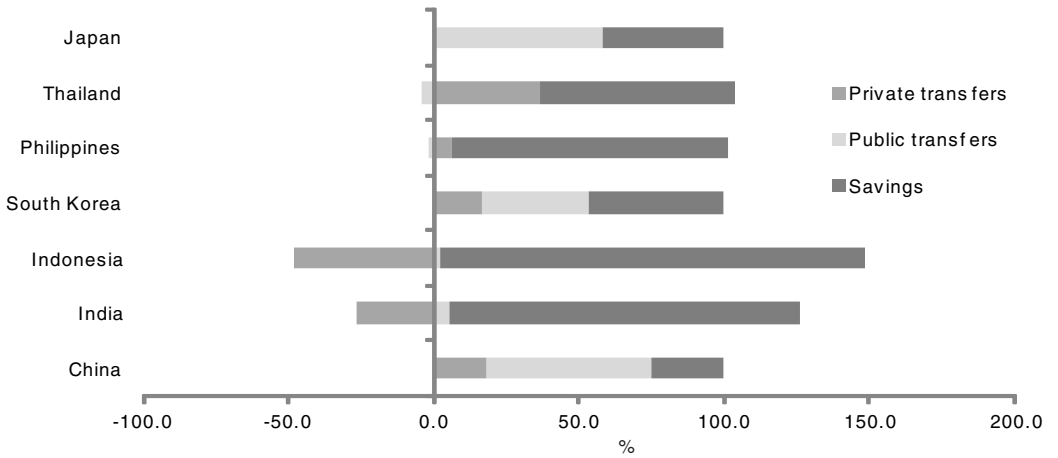
[7] NIPS (2014), "Public Expenditure Database", National Institute of Population and Social Security Research, Japan.

5.5).[8] Therefore, the continuing rise of old-age dependency would be a major fiscal burden. To ensure the sustainability of the public-pension system, Japan enacted reforms in 2004. The reforms introduced an automatic adjustment of benefit levels to changes in demographic structures. This macro indexing will cut benefit levels in accordance with population ageing, and contribution rates will be increased moderately until 2017, where it will be set at a constant rate of 18.3 per cent of income.[9]

An ageing population of a country would also have several implications on its labour force too. In 1995, Japan's working age population (15-64 years) peaked at 87 million, representing the height of its demographic divided. Since then, Japan's working-age population has been falling in both relative and absolute terms (proportion and number of the working-age population falling) as evident from Figure 5.6, where it is projected to drop to 73 million by 2020. In 2050, Japan's labour force will shrink to 50 million (50 per cent of the population).[10] In the next couple of decades, South Korea would also go through a reduction in the proportion of the working-age population, where in 2050 it is projected to drop to 52.3 per cent. By contrast, India's labour force population will continue to grow up to 2030, creating a favourable demographic environment.

A shrinking labour force may lead to lower output if productivity does not rise. The decline in the demographic dividend will start to weigh on the economy, and a country like Japan that is at an advanced stage of the demographic transition would have to achieve large productivity gains to remain competitive. In addition, a shrinking labour force will increase the burden upon each worker to support the growing elderly population in the form of

Figure 5.5
Support System for Elderly in Selected Countries



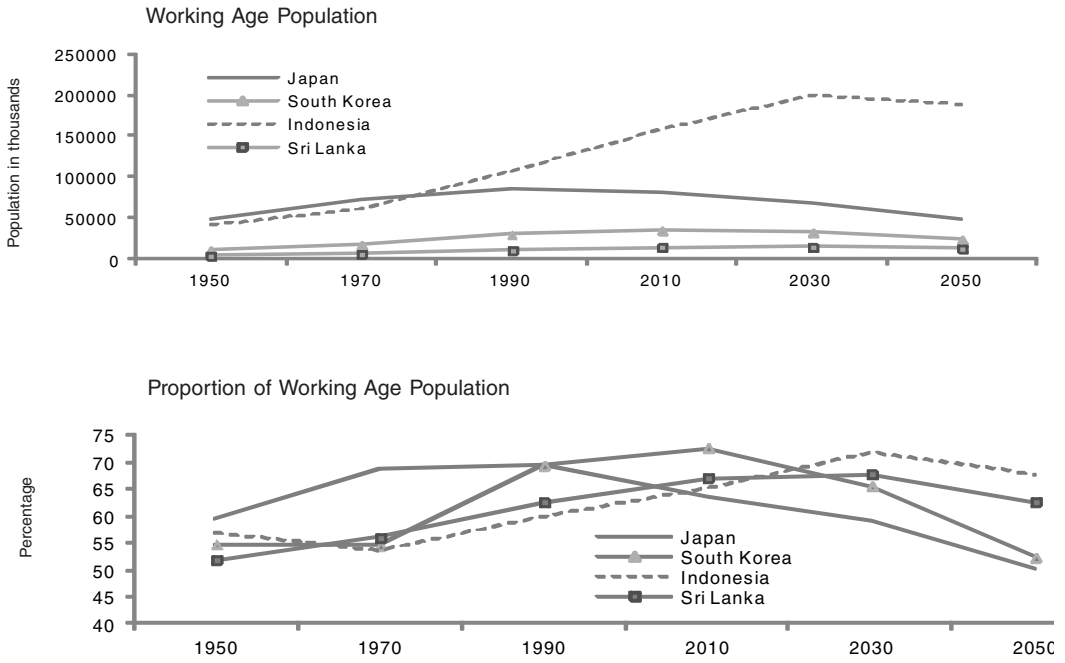
Notes: For those 65 years and above.
Source: ADB (2011), "Asian Development Outlook 2011 Update: Preparing for Demographic Transition", Asian Development Bank, Manila.

[8] ADB (2011), "Asian Development Outlook 2011 Update: Preparing for Demographic Transition", Asian Development Bank, Manila.

[9] IMF (2012), "Japan: Selected Issues", International Monetary Fund, Washington.

[10] NIPS (2014), "Japan Population Database", National Institute of Population and Social Security Research, Tokyo.

Figure 5.6
Working Age Population for Selected Countries, 1950-2050



Notes: Population in the 15-64 year age group. Projections based on UN low fertility estimates.
Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). World Population Prospects: The 2012 Revision.

increased taxes and social security contributions.[11] An ageing workforce would also reduce innovation, risk taking and mobility, which may influence the dynamism of the economy.[12] Further, it would create limitations in vertical mobility, putting younger workers at a disadvantage. Geographic mobility would also be hampered by an ageing workforce, which would limit the adaptability of the labour force to structural changes in the market.[13]

5.3 Sri Lanka: From Demographic Dividend to Demographic Tax?

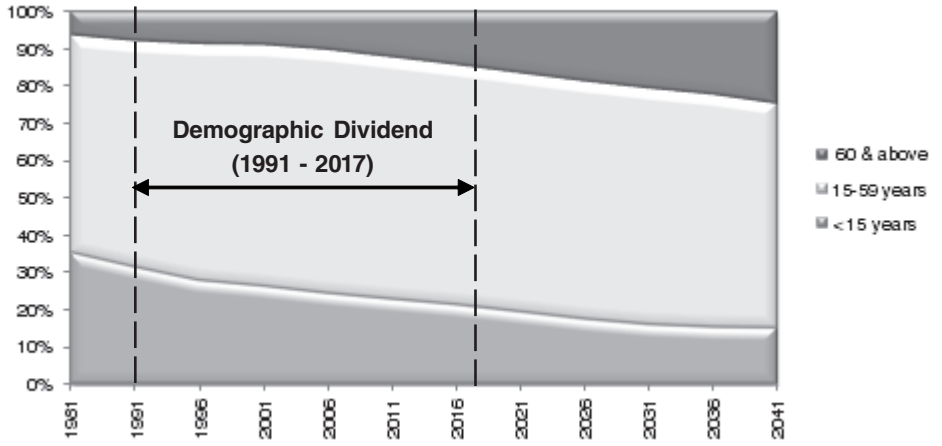
Similar to many East Asian countries, Sri Lanka is currently undergoing a rapid demographic transition. The child population that was over 35 per cent of the total population in 1981 declined sharply to 22.8 per cent in 2011 and is projected to decrease further to around 15 per cent by 2031 (Figure 5.7). The

[11] Lee, S., A. Mason, and D. Park (2011), "Why Does Population Aging Matter So Much for Asia? Population Aging, Economic Security and Economic Growth in Asia", ERIA Discussion Paper Series, Economic Research Institute for ASEAN and East Asia, Jakarta.

[12] Jackson, R. (2003), *Germany and the Challenge of Global Ageing*, Center for Strategic International Studies, Washington.

[13] Hagemann, R., and G. Nicoletti (1989), *Population Ageing: Economic Effects and some Policy Implications for Financing Public Pensions,* OECD, Paris.

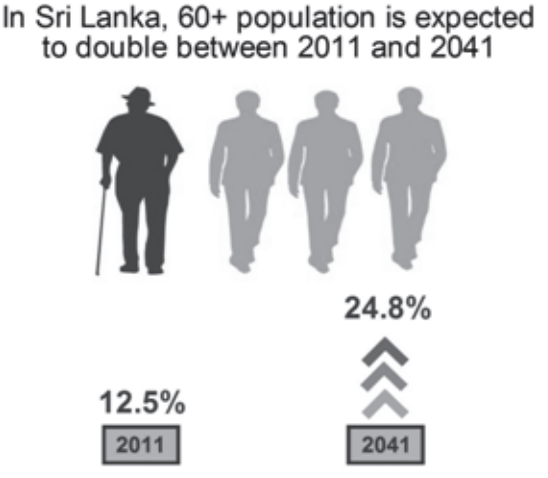
Figure 5.7
Age Structure Transition and Demographic Dividend in Sri Lanka



Source: De Silva,W.I (2012), "The Age Structure Transition and the Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka," *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No. 1.

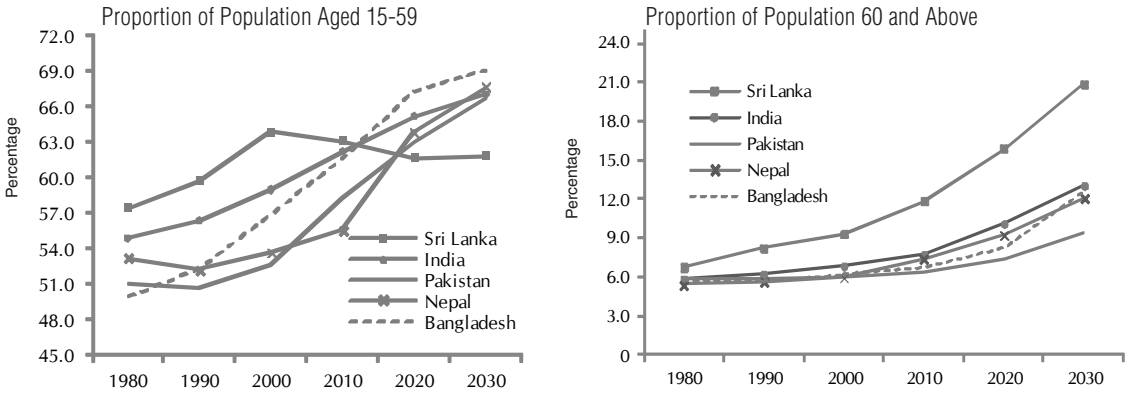
share of the elderly population (60 years and above) has almost doubled since 1981 reaching 12.5 per cent in 2011. The proportion of the working age population reached its peak in 2006 (65.1 per cent) and will continue to fall over the coming decades. Consequently, the total dependency ratio, defined as the ratio of the dependent population (those below 15 years, and 60 years and above) to the working age population (15-59 years), was at its lowest in 2006 at 53.6 per cent.

The above age-structure transition in Sri Lanka led to a demographic dividend (or demographic bonus) - where the proportion of the working age population is significantly larger than the dependent population - much earlier than the rest of South Asia. This demographic dividend that started around 1991 is projected to end within the next few years (by 2017).[14] With the end of the demographic dividend, the country will experience a rapid ageing of the population along with a shrinking working age population. The 60 years and above population is expected to double between 2011 and 2041, reaching nearly 5.4 million. The share of this age category will rise to 24.8 per cent by 2041 (from 12.5 per cent in 2011) indicating that one-in-every four people in the country will be an elderly person.



[14] In Sri Lanka, elders are defined as those of 60 years and above. This is particularly relevant because the retirement age for the state sector as well as for most in the private sector is 60 years. The UN defines the elderly as those 65 years and above. As per the UN definition of elderly population, the demographic dividend in Sri Lanka that started in 1991 will end by 2030 (De Silva, 2012).

Figure 5.8
Proportion of Population Aged 15-59 Years and 60 Years and Above

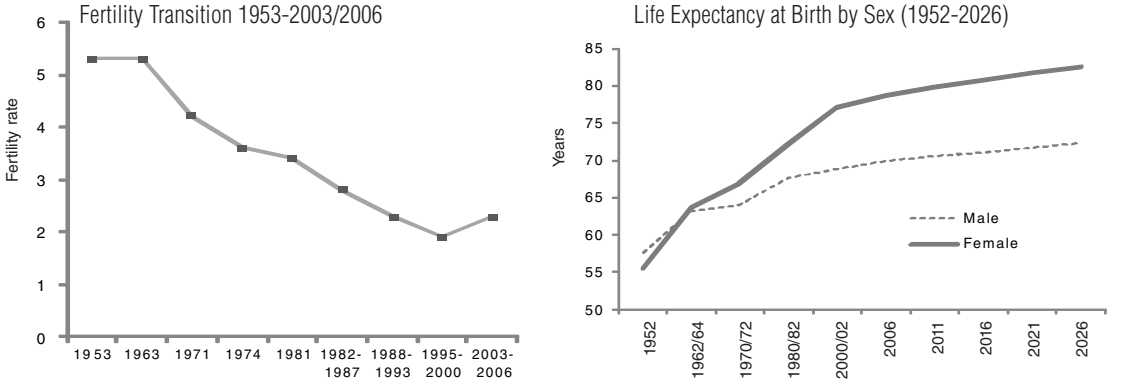


Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). World Population Prospects: The 2012 Revision.

As already mentioned, Sri Lanka experienced the demographic dividend much earlier than other South Asian countries. South Asian countries like India, Pakistan and Bangladesh are currently entering the demographic dividend while Sri Lanka is at the tail end of its demographic dividend. As shown in Figure 5.8, by 2020, Sri Lanka will have the lowest proportion of the population aged 15-59 in the region. Moreover, Sri Lanka has had the highest proportion of the elderly population in South Asia since 1980 - remarkably higher than the rest of the countries in the region.

Sri Lanka experienced the demographic dividend much earlier than the other South Asian countries.

Figure 5.9
Key Determinants of the Demographic Transition: Fertility and Life Expectancy



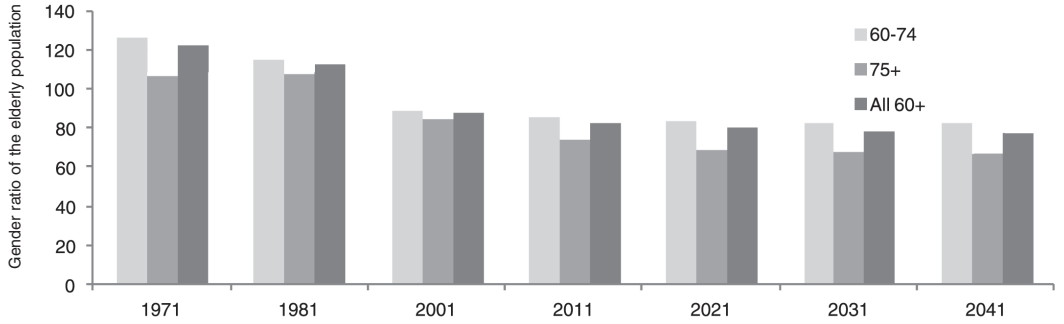
Source: Gunasekera, H.R., (2008), "Life Tables for Sri Lanka and Districts," Department of Census and Statistics, Colombo; De Silva, W.I (2012), "The age Structure Transition and Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No. 1.

Sri Lanka has had the highest proportion of the elderly population in South Asia since 1980 – remarkably higher than rest of the countries in the region.

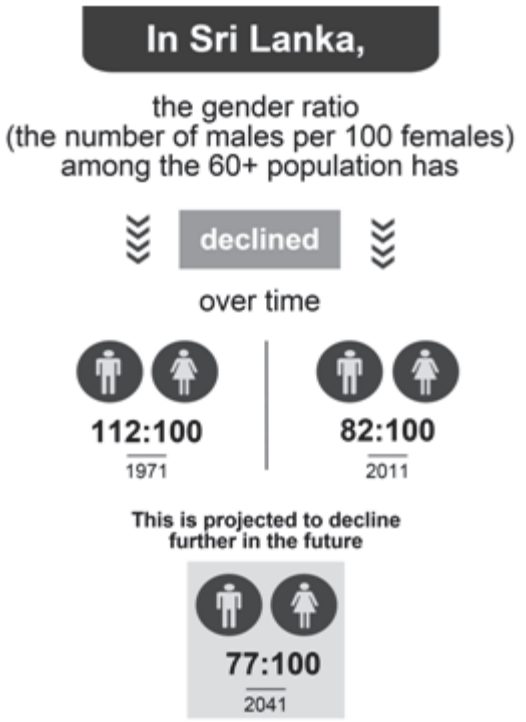
The demographic transition in Sri Lanka is primarily the outcome of a decline in fertility rates, rising life expectancy at birth, and increasing out-migration (particularly among the younger people) during the past several decades. As shown in Figure 5.9, fertility rates started to decline in the 1960s and have come down to around 2 per cent in 2000. Life expectancy at birth - for both males and females - has been on the rise since the 1950s, and is projected to rise further in the coming decades (Figure 5.19). However, life expectancy for females has been higher than that of males and the gap is projected to widen further in the next two decades.

The above patterns have also contributed to some structural changes among the elderly population. As shown in Figure 5.10, the gender ratio (the number of males per 100 females) among the elderly population (60 years and above) has declined over time, from 112 males for every 100 females in 1971 to 82 males for 100 females in 2011, indicating a rapid increase in the proportion of females in the elderly population in Sri Lanka. This gender ratio is projected to decline further to around 77 by 2041. The higher proportion of females compared to males is more significant among the elderly aged 75 years and above. The gender ratio for this age category declined sharply from around 106 in 1971 to around 74 in 2011, and is projected to decline further in the next three decades. This is primarily due to the higher life expectancy of females compared to men. This brings several challenges as many females are less likely to have adequate social protection, particularly old-age retirement benefits, due to the continuing low female labour force participation rate in the country. In addition, old-age retirement benefit schemes at present are largely confined to the formal sector, while only a smaller share of the informal sector workers have access to (contributory) pension schemes. The economic and social implications of the above demographic patterns will be discussed in detail in the next section.

Figure 5.10
Gender Ratio of the Elderly Population in Sri Lanka, 1971-2041



Note: Gender ratio = number of males per 100 females.
Source: De Silva, W. I. (2012), "The Age Structure Transition and Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No. 1.



5.4 Issues, Challenges and Policy Options

As Sri Lanka experiences a demographic transition, it will face the challenge of handling the social protection and health needs of a rising elderly population, and the potential constraint a shrinking workforce may impose on growth. This section examines key issues and challenges related to social protection, health, and the labour market and suggest policy options to better face the demographic changes in the coming decades.

5.4.1 Social Protection

The current social protection system in Sri Lanka is far from adequate to cater to the needs of the rising elderly population in the coming decades. The available programmes for the elderly are largely old-age retirement benefit schemes with a primary focus on the formal sector workers. These include the Public Servants' Pension Scheme (PSPS) - a non-contributory pension scheme covering all permanent public sector employees - the Widows, Widowers and Orphans Pension Scheme (W&OP) - a mandatory contributory scheme under the PSPS - and the Public Servants' Provident Fund (see Table 5.1). All formal workers in the private sector are mandated to contribute towards the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF). Moreover, a handful of contributory and voluntary pension and social security benefit schemes are available for the informal sector workers. Inactive membership, poor coverage, inadequacy and irregularity of benefits (inadequate level of replacement income), insufficient funding and concerns over the sustainability of these schemes are some of the drawbacks of the pension schemes for informal workers.[15]

In addition to the old-age retirement benefit programmes, an elderly assistance programme targeted towards elders from low-income groups is carried out by the Ministry of Social Services, under which a monthly cash transfer of Rs. 1,000 is given

The current social protection system in Sri Lanka is far from adequate to cater to the needs of the rising elderly population in the coming decades.

[15] Eriyagama, V. ,and R. Rannan-Eliya (2003), "Assessment of Pension and Social Security Benefit Scheme for the Self-Employed Persons in Sri Lanka", Demographic Transition and Pensions Series No.5, Institute of Policy Studies of Sri Lanka, Colombo; Eriyagama,V.,and R. Rannan-Eliya (2003), "Assessment of the Farmers' and Fishermen's Pension and Social Security Benefit Scheme in Sri Lanka", Demographic Transition and Pensions Series No.4, Institute of Policy Studies of Sri Lanka, Colombo.

to eligible elders aged 70 years and above. Poor and disadvantaged elders (aged 60 years and above) are also covered under the Samurdhi cash transfer programme and the Public Assistance Monthly Allowance (PAMA). However, inadequacy of monthly benefits, and benefits not being indexed to inflation, are key weaknesses across all existing social assistance programmes.

With a significant increase in the elderly population in the coming decades, reaching over 4.5 million by 2031, it is crucial to improve the coverage and the quality of the existing old-age benefit programmes while ensuring their long-term sustainability. Currently, only around 40-50 per cent of the elders are covered under some form of social protection/old-age benefit programme like pension schemes, provident funds or monthly cash transfers.[16] Moreover, the bulk of the government spending on old-age retirement benefits and social protection in general goes towards pensions for public sector workers, covering only around 25 per cent of the total elders in the country. The number of pensioners and expenditure on public sector pensions has increased in recent years and, at present expenditure on public sector pensions accounts for about 1.5 per cent of GDP. The non-contributory nature of the pensions would be a

Table 5.1
Social Protection Programmes for Elders

Programme	Description	Beneficiary Numbers 2012	Expenditure (Rs. mn.) 2012
Public Servants Pension Scheme (PSPS)	Non- contributory pension scheme for permanent public sector workers. The entitlement arises after 10 years of service.	379,927	90,500
W&OP	Mandatory contributory pension scheme under PSPS where dependents will be entitled to a pension following the death of the public servant.	130,416	20,117
Public Servants Provident Fund	Contributory fund for public servants not entitled to the pension. Benefits received in the form of a lump sum at retirement.	6,845	1,000
Employees' Provident Fund (EPF)	Mandatory contributory fund for formal private sector workers. Benefits received in the form of a lump sum at retirement.	115,654	48,700
Surekuma Pension Scheme of the Social Security Board (SSB)	Contributory, voluntary pension scheme for informal sector workers. In addition to pension, death and disablement gratuity is also covered.	12,252	9
Farmers' Pension and Social Security Benefit Scheme	Contributory voluntary pension scheme for farmers owning not more than 10 acres of farming land and not paying income tax.	124,192[a]	1,464[a]
Elderly Assistance Programme of the Ministry of Social Services	Monthly cash transfer of Rs. 1,000 is given to identified elders who are 70 years or above from low-income groups.	179,910[b]	179[b]

Notes: a. Data for 2011; b. Data for 2013.
Sources: Department of Pensions, National Secretariat for Elders of the Ministry of Social Services, Social Security Board and other relevant institutes.

[16] Calculations based on the beneficiary numbers.

substantial fiscal burden. Given the rapidly increasing elderly population, rising expenditure on pensions, and the need to expand old-age benefit schemes to cover a larger share of the elders (beyond the public sector/formal sector workers), pension reforms are necessary to ensure the sustainability of the programmes in the long run. Reforming the non-contributory system to a contributory or pay-as-you-go (PAYG) system would help reduce the fiscal burden and ensure financial sustainability of the pension programmes, while allowing the utilization of additional funds to cater to the needs of other elderly groups (e.g., those in the informal sector), and other sectors (e.g., health sector). This should be accompanied by other parametric reforms such as raising the official retirement age and indexing the benefit levels. Other Asian countries experiencing rapid population ageing like Vietnam have also undergone pension reforms in the mid-1990s from non-contributory to a PAYG system.[17]

Given that the overall coverage of social protection programmes for the elderly is low, and the available monthly cash assistance programmes are limited in coverage as is the size of the benefits, measures are required to improve coverage and benefits to address old-age income insecurity in Sri Lanka. The experience of other Asian countries like Thailand has shown that well-designed old-age assistance programmes or 'social pensions' can lead to significant reduction of poverty among the elderly. In Thailand, the old age allowance system (or 'B500 pension scheme') introduced in 1993 as a means-tested old-age income guarantee programme targeted at the elderly from low-income groups was extended to a universal programme in 2009. It covered all elderly aged 60 years and above who are not receiving a permanent income as a salary or a pension, or who are not living in public elderly homes. Currently, this programme covers over 5 million elderly, and the costs remain around 2 per cent of the government's total expenditure.[18]

5.4.2 Health

With the onset of rapid ageing, Sri Lanka will have to make adjustments to its health care system to accommodate the growing health care needs of the elderly. Population ageing has been projected to add 0.4 per cent of GDP to national health expenditure by 2050. Total health spending is expected to reach 6-8 per cent of GDP once the age structure of the population stabilizes, similar to Japan.[19] Many of the elderly in the population lack social security coverage as previously mentioned. Given dwindling traditional family support for old people, the burden of care will increasingly switch to the national health care system. In addition, the current health care system may not be adequately oriented towards meeting the health needs of the elderly.[20]

Expenditure on non-communicable diseases (NCDs) is presently a major component of health care expenditure in Sri Lanka. It is expected to rise further, as the prevalence of NCDs increase with population ageing. Expenditure for cardiovascular disease, chronic respiratory disease and diabetes mellitus are projected to increase in line with the health expenditure patterns of developed economies.[21] Sri Lanka offers free health care, but the level of public health financing is low compared to other countries with similar health indicators. In addition, out-of-pocket expenditure remains a major source of health care funding in the country, and health insurance is inadequately developed with low coverage. In 2011, household out-of-pocket expenditure accounted for 41.7 per cent of total health expenditure and 83.5 per cent of total private

[17] ADB (2012), *Social Protection for Older Persons: Social Pensions in Asia*, Asian Development Bank, Manila.
[18] *Ibid*.
[19] Rannan-eliya, R. (2008), "Population Ageing and Health Expenditure", Institute for Health Policy, Colombo.
[20] World Bank (2008), *Addressing the Needs of an Ageing Population*, World Bank,Washington, D.C.
[21] Rannan-eliya. R. (2008), "Population Ageing and Health Expenditure", Institute for Health Policy, Colombo.

health expenditure.[22] People in lower income categories use public health care facilities more than those in higher income categories. More importantly, the World Bank Sri Lanka Ageing Survey (2006) revealed that the elderly utilize public healthcare facilities more than the younger age groups.

While Sri Lanka has a prevention-based strategy to combat NCDs, cost-effective management of NCD patients is limited in the health care system. This is due to under-financing and having limited access to cost effective medication to manage NCD patients. Therefore, a prevention-based strategy will have to be combined with a sufficient increase in public funding with a focus on providing long term care to effectively manage NCDs. In addition, increasing health insurance coverage would be important to reduce the burden on state finances. For example, introducing a long-term care insurance scheme similar to Japan would help to minimize the financial risk arising from rising medical costs.

5.4.3 Labour Market

Sri Lanka's labour force increased from 4.5 million to 8.5 million between 1971 and 2012, while it is projected to increase to 9.3 million in 2021.[23] However, the absolute size of Sri Lanka's labour force will start to shrink after 2030.[24] Similarly, the working age population of the country too will continue to grow in absolute numbers until 2026, after which it will start to decline. However, as discussed in Section 5.3, Sri Lanka's working age population (15-59 years) as a percentage of the total population peaked in 2006 and has been gradually declining since then. The proportion of the working age population will decline to 63.8 per cent of the population in 2021 and 63.2 per cent of the population in 2031. This decline along with the projected increase in the old-age dependency ratio can have a negative impact on GDP growth.

A country with a large dependent population relative to its labour force will, on average, have lower productivity growth. Old-age dependency has been found to adversely affect per capita GDP growth in many Asian countries.[25] For example, in China from 2001-2020, the increase in the old-age dependency ratio is expected to reduce the total factor productivity (TFP) growth rate by 0.21 per cent. The effect is similar in ageing countries like Singapore and South Korea. Germany faces a similar situation with the decline in the working population expected to reduce long-term productivity by about one-third.[26]

Labour market reforms with strategies to boost the labour force participation rate, increase the mandatory and effective retirement age, as well as structural reforms to boost productivity through effective human capital development can help address the challenges arising from the rapid ageing of the population and a shrinking working-age population.[27]

Increasing female labour force participation (FLFP)

Increasing female labour force participation (FLFP)[28] is an important strategy to counter the effects of a shrinking working-age (and hence

[22] IPS (2014), "Sri Lanka National Health Accounts 2010-2011", Institute of Policy Studies of Sri Lanka, Colombo.

[23] DCS, "Sri Lanka Labour Force Surveys", Department of Census and Statistics, Colombo; Ministry of Labour and Labour Relations and Central Bank of Sri Lanka (2011)," Labour and Social Trends in Sri Lanka".

[24] Vodopivec, M., and N. Arunatilake (2008), "The Impact of Population Ageing on the Labour Market: The Case of Sri Lanka", Institute for the Study of Labour, Bonn.

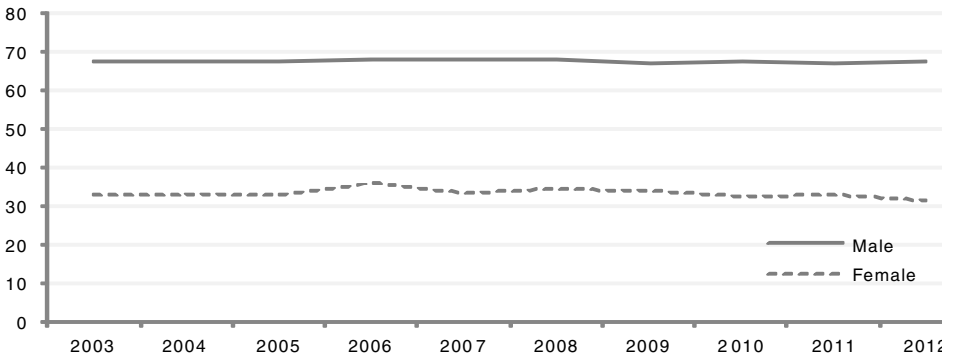
[25] Park, D., and K. Shin (2011), "Impact of Population Ageing on Asia 's Future Growth", ADB Economics Working Paper Series, Asian Development Bank, Manila.

[26] Börsch-Supan, A. (2002), "Labor Market Effects of Population Ageing", Mannhein Research Institute for the Economics of Ageing, Mannheim.

[27] McMorrow, K., and W. Roeger, (2011), "The Economic Consequences of Ageing Populations", Directorate-General for Economic and Financial Affairs (ECFIN), European Commission, Brussels.

[28] The labour force participation rate is defined as the percentage of the current economically active population (or labour force) to the total working age population. The current economically active population is defined as people who are employed or unemployed during the reference period of the Labour Force Survey. It does not take into account migrant workers, where female migrant workers constitute approximately 50 per cent of total migrant workers in Sri Lanka.

Figure 5.11
Labour Force Participation Rates in Sri Lanka 2003-2012



Source: DCS (2012) "Labour Force Survey 2012".

labour force) population. In Sri Lanka, the FLFP rate has remained stagnant in recent decades (Figure 5.11). The rate has been around 30-35 per cent of working age women, which is low considering the low fertility rate and high education attainment of the female population. Sri Lanka is behind South Asian countries like Nepal, Bhutan and Bangladesh in terms of FLFP.

The time constraint women face in playing the role of care-giver for children and the elderly is one of the barriers to greater participation in the labour force. This is a common phenomenon in many Asian countries. A survey conducted on married women in South Korea under the age of 45 revealed that 61 per cent of them quit their job after getting married.[29] Low FLFP rates amongst married women may reflect weak support systems for working mothers as well as workplace inflexibilities.[30]

Affordable childcare services have been found to increase FLFP rates.[31] Sweden has universal childcare access which has helped the country to have one of the highest FLFP rates in the world.[32] While Sri Lanka has traditionally relied upon the extended family culture for child support, the transition to a more nuclear family culture has increased the cost of childcare in Sri Lanka over the last decade.[33] Therefore, subsidizing childcare would encourage higher female labour force participation.

Labour market supply-side biases such as structural rigidities and wage discrimination may also be a contributing factor to the low FLFP rates. In Sri Lanka, on average, men earn more than women, irrespective of their productive capacity. In the private sector, the earnings gap was greater than 35 per cent in 2009, while there was gender parity in the public sector.[34] In addition, men have higher

[29] Jackson,R., N. How and K. Nakashima (2007), *The Ageing of Korea: Demographics and Retirement Policy*, Center for Strategic and International Studies, Washington, D.C.

[30] IMF (2012), "Japan: Selected Issues", International Monetary Fund, Washington, D.C.

[31] Jaumotte, F. (2004), *Labour Force Participation of Women: Empirical Evidence on the Role of Policy*, OECD, Paris.

[32] Garcia-Moran, E. M. (2010), "Childcare Costs , Female Labour Force Participation and Public Policy", mimeo..

[33] Premaratne, S. P. (2011), "Household Labour Supply in Sri Lanka for an Urban Young Couple with Pre-school Children", *South Asia Economic Journal*, Vol. 12, No. 2.

[34] Chowdhury, A. R. (2013), "Low Female Labour Force Participation in Sri Lanka: Contributory Factors, Challenges and Policy Implications", World Bank Discussion Paper Series, World Bank, Washington, D.C.

returns to education of 8 per cent compared to 3 per cent for women.[35] The unemployment rate among the educated group with G.C.E (A/L) and above was higher for women at 10.8 per cent compared to only 4.5 per cent for men in 2012.[36]

In order to increase the FLP rate, labour market institutions and practices should be designed in a way that reduces gender earnings disparities, while ensuring sufficient flexibility to attract women to the labour force. However, reducing the gender wage disparity is a particularly difficult issue to solve. South Korea introduced legislation in 2006 that required all firms with more than 1,000 employees to draw up an action plan to promote gender equality. The initiative was unsuccessful, with the programme failing to reduce the gender wage gap (females were only paid 60 per cent of what male workers earned). South Korea was more successful in encouraging flexible working schedules to accommodate parents with children. The Equal Employment Opportunity and Work-Family Balance Assistance Law allows parents with children under the age of six to request for shorter working hours, which has benefited firms by reducing the turnover of skilled workers.[37] In Sri Lanka, it is difficult to implement flexible work arrangements due to the highly protective labour laws in the country at present. The high severance costs restrict job flows, while discouraging employment growth in the formal sector.

Raising the retirement age

Parametric reforms such as increasing the effective and mandatory retirement age has the double benefit of reducing the number of retirees and

Table 5.2
Mandatory Minimum Retirement Ages for Selected Asian Countries

Country	Men (Year)	Women (Year)	Revisions
Japan	61	61	Retirement age was raised from 55 to 60 years in 1998. From 2013, retirement age will increase at a rate of 1 year every 3 years until 2025, when the minimum retirement age reaches 65 years.
China	60	50 or 55[a]	China's current retirement age has been the same since 1950. Currently planning on gradually raising the retirement age to 65 years by 2020.
South Korea	55[b]	55	The current contractual mandatory retirement age is typically set by firms at 55 years of age. In 2013, the government passed legislation that phased-in a minimum retirement age. By 2017, it will be set to 6 years.
Singapore	62	62	Statutory minimum age of 62 years set in 2012 through the Retirement Age Act (RAA). Retire and Re-employment Act now replaces the RAA, which require employers to offer re-employment to eligible employees who turn 62, up to the age of 65 years.

Notes: a. Fifty-five years for a white-collar job; b. There is no mandatory retirement age in South Korea. The mandatory retirement age set by firms is typically 55 years.

Sources: Japan - Ministry of Health, Labour and Welfare; China - Ministry of Human Resources and Social Security; South Korea - Center for Strategic and International Studies; Singapore - Ministry of Manpower.

[35] Sinha, N. (2012), "Demographic Transition and the Labour Market in Sri Lanka", World Bank Discussion Paper Series, World Bank, Washington, D.C.

[36] DCS, "Sri Lanka 2012", Department of Census and Statistics, Colombo.

[37] Jones, R. S., and S. Urasawa (2013), "Labour Market Policies to Promote Growth and Social Cohesion in Korea", OECD Economics Department Working Papers No. 1068, OECD, Paris.

increasing the labour force. Thus, it would help to reduce the fiscal burden of old-age support, while ensuring economic growth is maintained amidst a graying workforce. Many countries in Asia have initiated plans to raise their mandatory retirement ages (Table 5.2). Implementing measures to raise the retirement age in South Korea has been particularly challenging and brings out some pertinent issues that other countries should consider before raising the retirement age. In 2013, South Korea passed legislation to increase the minimum retirement age to 60 years in response to an ageing workforce and a comparatively low retirement age. The law will take effect from 2016 for large firms and 2017 for small firms.

The seniority-age system in South Korea incentivized employers to dismiss old-age employees, whom they deemed to be too costly. Reforming the compensation structure in order to extend the longevity of employment has become a policy focus for the government. Further, the South Korean government is considering drafting an Equal Employment Opportunity Act to monitor and penalize age discrimination in terms of employment and retirement, which would be needed to reinforce longer working lives in the long run.[38]

In Sri Lanka, the mandatory retirement age is 60 years. The World Bank's Sri Lanka Ageing Survey (2006) revealed that the mandatory retirement age was a significant push factor for retirement,[39] with around 40 per cent of respondents sighting it as a reason for their retirement. Workers in the public and private sector retire early, mostly due to mandatory retirement. However, casual and self-employed workers continue to work into very old ages. Moreover, similar to other countries in Asia,

To counter the effects of labour force reduction, Sri Lanka should design policies to increase participation rates, particularly among women and the elderly.

the Sri Lanka Ageing Survey (2006) identified labour market inflexibilities, such as the inability to adjust working hours, as one of the main obstacles to working at old-age. This discourages part-time employment, which is one of the most effective ways to encourage longer working lives.[40]

In addition, as mentioned previously, the highly protective labour laws in Sri Lanka would induce employers to stipulate mandatory retirement in employment contracts in order to reduce the cost of lay-offs. This has been an issue in Japan, Singapore and South Korea, which prompted their governments to introduce measures to reduce the cost of retaining old-age workers. In South Korea, the government set employment quotas for older workers and offered subsidies to firms that hire and retain them.[41] In Singapore, the Retire and Re-employment Act, introduced to re-employ workers between the ages of 62-65 years, offers

[38] Asian Productivity Organization (2011), *Population Ageing and Productivity in Asian Countries*, Asian Productivity Organization, Tokyo.

[39] Vodopivec, M., and N. Arunatilake (2008), "The Impact of Population Aging on the Labour Market: The Case of Sri Lanka", Institute for the Study of Labour, Bonn.

[40] Jones, R. S., and S. Urasawa (2013), "Labour Market Policies to Promote Growth and Social Cohesion in Korea", OECD Economics Department Working Papers No. 1068, OECD, Paris.

[41] Jackson, R., N. How and K. Nakashima (2007), "The Ageing of Korea: Demographics and Retirement Policy", Center for Strategic and International Studies, Washington, D.C.

considerable flexibility to employers to make adjustment to their employment contracts in terms of wages and benefits in order to reduce the cost of re-hiring.[42]

To counter the effects of labour force reduction, Sri Lanka should design policies to increase participation rates, particularly among women and the elderly. Many East Asian countries have already implemented policies to increase participation rates, recognizing the detrimental effects a shrinking workforce could have on economic growth. As a country that is facing a shrinking labour force, Sri Lanka would benefit by introducing measures to make labour markets more flexible, reduce the cost of labour protection, and incentivize employers to extend retirement ages.

5.5 Conclusion

Rapid demographic change is one of the key challenges faced by Asia in the coming decades. Many countries in the region, and East Asian countries in particular, are experiencing a rapid ageing of population alongside a decline in their working-age population, which would be an impediment to Asia's growth momentum. While the rapid ageing of population could raise the fiscal burden of social protection and health care services, a shrinking working-age population could lead to shortages of labour supply and have adverse impacts on productivity and GDP growth.

Similar to many East Asian countries, Sri Lanka is undergoing a rapid demographic transition. The 'demographic dividend' or the 'demographic bonus' that the country experienced over the past two decades is expected to end by 2017. Sri Lanka will then be faced with a rapid ageing of population, where by 2031, the elderly population will reach over 20 per cent of the total population. By 2041, one-in-every-four people in the country will be an elderly person, with a disproportionately higher share of females amongst them.

Along with the demographic transition, Sri Lanka will face several economic and social challenges, particularly in meeting the social protection and health care needs of the rising elderly population, and addressing the implications of a shrinking working-age population on the growth of the country.

Given the rising elderly population in Sri Lanka, it is vital to improve the current social protection programmes for elders - their coverage, quality of benefits, programme design, and sustainability. Less than a half of the elders are covered by existing old-age retirement benefit programmes at present like pensions, provident funds and cash transfer programmes, while the bulk of the social protection expenditure is on pensions for public servants that cover only one-fourth of the total elders in the country. Given the rising cost of pensions in Sri Lanka, reforming the current non-contributory system to a pay- as-you-go (PAYG) system along with some parametric reforms on retirement age are important to ensure its long-term sustainability. This would also allow utilizing the additional funds for other social protection programmes (e.g., cash transfers). In particular, it is important to improve the benefit amounts, and gradually extend the coverage of the existing cash transfer programmes to include all elders who are without a regular income (e.g., pension or salary), like in the case of the old-age allowance scheme in Thailand (or 'B500 pension scheme). These measures are crucial to ensure old age income security in Sri Lanka in the coming decades.

Improvements to Sri Lanka's health sector are also needed to accommodate the growing health care needs of the elderly. Given that the prevalence of NCDs is likely to increase with an ageing population, resources have to be allocated for NCDs. Moreover,

[42] Ministry of Manpower, Singapore.

expanding the health insurance sector (which has not been adequately developed) would be important to help minimize risks arising from increasing medical costs, and help reduce the burden on state finances.

Furthermore, labour market reforms with strategies to boost the labour force participation rate, in particular amongst females, raising the current retirement age (above 60 years), and measures to boost productivity through effective human capital development are important to address the challenges arising from the rapid ageing of population, and the shrinking working-age population in Sri Lanka.

6. Environmental Outcomes of Asia's Economic Rise

6.1 Introduction

The rapid economic growth experienced by certain East and Southeast Asian countries is widely viewed as a new phenomenon in global economic history. Comparatively, even the growth of many Western industrialized nations had taken place at a more gradual pace. Asia's impressive indicators of growth, other key economic variables and social parameters concerning education, health and life expectancy confirm this view. However, the experiences also raise some critical questions. Can the same opinion be expressed regarding environment conditions, ecosystems and overall sustainability of economies of these countries? Could the same path followed by these Asian 'wonders' act as a role model for imitation in an era of rising scarcity of ecosystem services and declining environmental quality? These are some essential questions that need to be raised when assessing the rise of Asia as a global economic power.

Asia's emergence as a significant player in the global economy takes place at a time when global ecosystems and the environment are undergoing a significant transition. The world is currently facing the greatest environmental externality ever to be experienced by humanity - i.e., global warming related climate change. It is not only confined to climate change; all types of ecosystems at global, regional, national and local levels have also come under severe stress. The unprecedented growth in Asian economies is partly responsible for this. The ever increasing number of scientific findings indicates that there is limited space to continue and maintain current economic progress unless more nature-friendly economic activities and lifestyles are adopted. In this context, what appears to be a 'grow now and clean later' approach adopted by some Asian countries could be counterproductive in the long run.[1] Hence, lessons from the experience of fast growing Asian economies should be viewed from a balanced perspective of sustainable development to understand its full implications.

This Chapter attempts to review the environmental outcomes of Asia's economic rise with the objective of identifying what lessons, both positive and negative, can be drawn in order to make appropriate adjustments to Sri Lanka's own path towards economic progress. It begins with a review of major concepts regarding ecosystem services, the role and functions they fulfil for human welfare, and the impact of the 'core' model adopted by Asian countries on ecosystem services. Following this, the current situation in key ecosystems and their services in East, Southeast and South Asian regions are briefly examined. This is followed by a brief overview of key challenges faced by ecosystem services in Sri Lanka. The final section discusses some solutions and policy options available for Sri Lanka in light of Asia's experience to overcome these challenges so that a sustainable path for economic progress can be achieved.

[1] In fact, their predecessors in Western industrial nations seem to have taken a similar path of growth, though in an era when scarcities of nature were much less visible.

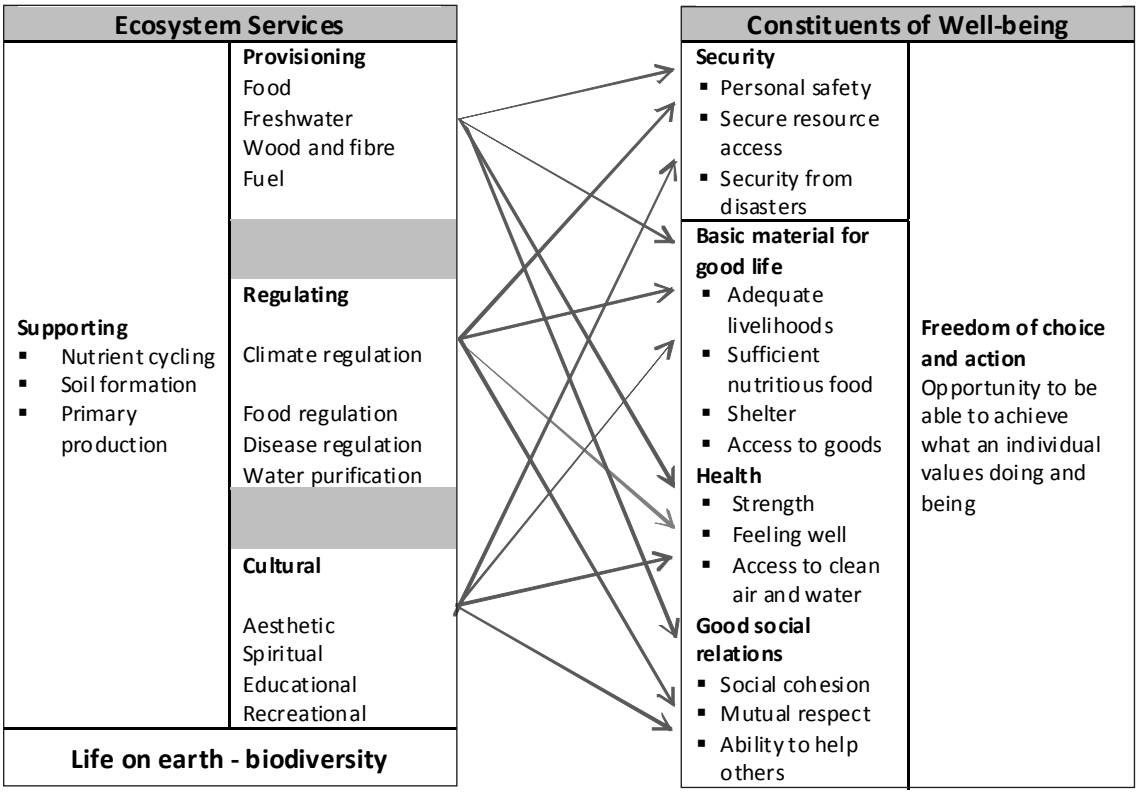
6.2 Conceptual Framework

A significant degree of scientific understanding has developed recently over the role that ecosystems play in ensuring welfare and sustainability of economic systems. In the first place, ecosystems offer numerous life support services that are essential to sustain the life of humans and other living beings without the mediation of any human devised system. Besides their life supporting role, ecosystems provide the basis for almost all economic activities even though the vital role they play is not acknowledged adequately. They are not wholly replaceable by man-made investments, and evidence indicates that even partial substitutions could be problematic.

The benefits arising from ecosystems are known as ecosystem services (ES). According to the UN Millennium Ecosystem Assessment, numerous ES can be classified under four major categories - provisioning, regulating, supporting and cultural services.[2] The ecosystem services directly contribute to various aspects of human wellbeing as illustrated in Figure 6.1.

Economists have made attempts to assess the economic value of ES around the world. These attempts include macro evaluations of ES at a global scale, and evaluations of specific types of ES at

Figure 6.1
Ecosystem Services and their Contributions to Social Welfare



Source: Millennium Ecosystem Assessment (2005), *Ecosystems and Human Well-being: Biodiversity Synthesis*, World Resources Institute, Washington D.C.

[2] Millennium Ecosystem Assessment (2005), *Ecosystems and Human Well-being: Biodiversity Synthesis*, World Resources Institute, Washington, D.C.

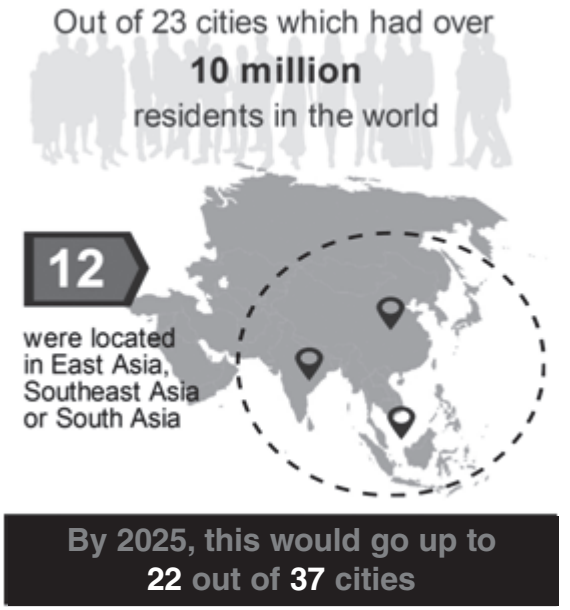
the micro level. According to one widely publicized study, the annual average value of ES from major ecosystems in the world could even surpass the annual production value of the global economy.[3]

An important feature of many ES is that unsustainable use of one type of service can lead to trade-offs in other types of ES. For instance, unplanned logging of forest trees - a way of using provisioning services - may reduce the forests' ability to provide regulatory services such as cleaning air and protecting water sources. The trade-offs among the ES can lead to conditions that make economic growth unsustainable. The precarious facet of this issue is that many environmental damages are not fully reversible. This explains the fundamental reason for growth-led environmental degradation which is taking place at different intensities and forms in different areas around the world.

Over the years, with the growth of economies and increasing populations, unmistakable signs of decline of ES have appeared locally, nationally and globally. There has been enough evidence to show that the economic development process has significantly affected the quantity and quality of ES. For instance, it is well established that global climate change has been an outcome of emissions of greenhouse gases (GHG) mostly by Western industrial nations in their path to economic growth.[4]

Not only economic progress in Western industrial countries, impressive growth performance reported by certain Asian countries also has come at a significant cost to local and global ecosystems. Despite certain country specific circumstances and the unique profiles of ecosystem/natural assets involved, all economic success stories in Asia followed a 'core' model of export-led economic growth based on expansion of industrial production and extensive investments on infrastructure. This model has led to large flows of internal migration from rural areas giving rise to mega-cities that serve as centres of industry as well as service sectors. According to UN population statistics, out of 23 cities which had over 10 million residents in the world, 12 were located in East Asia, Southeast Asia or South Asia. It has been predicted that this number would go up to 22 out of 37 in 2025.[5]

Urban economies are empowered largely by fossil fuel energy sources for domestic (electricity), industrial (coal and natural gas) and transportation sectors (petroleum). Food security needs of urban centres have been met through the so called 'industrial model' of agriculture in rural areas, supported by 'green revolution' technologies that helped overcome labour shortages created by migration to urban centres. Besides agriculture, urban centres have also placed heavy pressures on natural bio-diversity in all areas including marine, coastal and inland aquatic ecosystems for products such as industrial wood, non-wood raw materials, fisheries and plant products.



[3] Costanza, R., *et al*. (1997), "The Value of World's Ecosystem Services and Natural Capital", *Nature*, Vol. 387, pp.253-260.

[4] IPCC (2013), "Summary for Policy Makers", *Climate Change 2013*: *Physical Science Basis*, Cambridge University Press, UK.

[5] UN Population Division (2012), "World Population Prospects", Department of Economic and Social Affairs.

The growth of Asia has largely been complemented by 'offshoring' of manufacturing facilities by western multinational corporations (MNCs), a process motivated by the search for cheap labour in response to rising labour costs in the Western world. As a result, Asian economies have benefitted from large flows of FDI and technology transfers from Western industrial economies. This helped these economies to take-off within a relatively shorter period of time without involving long gestation periods required for technological innovations and capital accumulation as experienced by Western economies. Aside from investments and technology, at the take-off stage, the production of Asian industrial economies was mainly backed by import demand from Western industrial countries. Subsequently, growing demand from local middle classes and other regions of the world helped to sustain and expand the industrial production base. This model helped Asia - initially led by Japan and subsequently adopted by NICs and China - to become a global centre of industrial production and economic growth. Despite certain country specific variations, many other developing economies in Asia also appear to be following the same basic model with varying levels of success. Some exceptional cases are the city states of Singapore and Hong Kong that have become regional hubs for services, lacking core industrial centres or agricultural peripheries. While they share the mega-city model and urban infrastructure like large industrial economies, they depend more on imports for industrial and agricultural commodities.

Parallel processes of industrialization, urbanization and 'modernization' of traditional agriculture have given rise to unprecedented pressures on land, air and water resources in urban centres as well as in rural areas, leading to over-exploitation of provisioning services and the decline of protective/ supportive services of ecosystems in many Asian countries. The Asian growth model has been instrumental in shifting large scale pollution and other externalities into the region - a logical outcome associated with a scale of production aimed at catering to demand world over. As a result, besides fulfilling increasing demands from rapidly growing local populations, ecosystems in Asia - especially protection and supporting services - have to bear the pressure of externalities associated with a large population of consumers living outside Asia also. In a way, it helped Western industrial economies to pass on at least a part of the pressure, especially from local pollutants, on their own eco-systems through offshoring.[6] Evidence suggests that MNCs have benefited from not only cheaper labour, but also the poor environmental management standards in Asian countries to relocate relatively hazardous economic activities when Western countries began to impose stringent standards. The Bhopal disaster in India, the worst industrial disaster so far in world history, provides a prime example of

Parallel processes of industrialization, urbanization and 'modernization' of traditional agriculture have given rise to unprecedented pressures on land, air and water resources in urban centres as well as in rural areas, in many Asian countries.

[6] This does not apply to global externalities such as GHG emissions.

this. Recent years have witnessed an increasing number of trans-boundary externalities in Southeast Asia, severely affecting the quality of air and causing problems of visibility for air traffic. Overall, like the phenomenal growth of economic activities, the scale of pressure exerted by the processes of growth on local and global ecosystems also seems to be unprecedented in world history.

6.3 Environmental Challenges in Asia

In this section, an attempt is made to review the major environmental consequences of Asia's rapid growth. It is based on statistical evidence available from global/regional reports and evidence reported by studies conducted in countries in East, Southeast and South Asian regions. The review is focused on the following major areas: over-exploitation of provisioning services of ecosystems (e.g., land resources; energy resources; forestry and wild life resources; and fisheries, coastal and inland aquatic resources); decline of protective and supporting services (e.g., environmental pollution; degradation of watersheds and water resources; and degradation of bio-diversity). In addition, rising incidence of disaster incidents and climate change conditions are also reviewed briefly.

6.3.1 Over-exploitation of Provisioning Services (Productive Natural Assets)

Land resources

With increasing population and high economic growth, land has become a severely scarce asset in many Asian countries. As a result, the allocation of land among competing uses is fast becoming a challenge. Despite the fact that the share of agriculture in GDP has been declining in Asia, it still plays an important role in many economies for ensuring food security, reducing rural poverty and generating employment, especially in South Asia. Competition among agriculture, infrastructural developments and other economic activities for land has intensified, and many countries have begun to face various impacts of land degradation.[7] A number of 'hotspots' have been identified owing to impacts of land degradation. Among others, salinization is expected to be an issue for irrigation systems in the Indus, North-Eastern Thailand and China. The sloping lands of the Himalayan foothills, Southern China, and Southeast Asia are identified as areas of significant soil erosion. Though comprehensive estimates are rarely available on the economic cost of land degradation, site-specific studies show that various forms of land degradation have direct economic costs.[8] The importance of agriculture in the economies of the region suggests that land degradation might pose significant challenges to Asia, especially for developing nations in South and Southeast Asia with large rural masses still dependent on agriculture.

Energy resources

The energy situation represents a classic dilemma. Fulfilling the ever growing demand for energy to maintain the current momentum of growth is a major challenge faced by all economies in Asia. According to ADB (2013), the primary energy demand in Asia is expected to rise significantly during the period 2010 to 2035.[9] The sub-regional statistics show that the annual growth rate of primary energy demand is to increase in East Asia, South Asia and Southeast Asia by 1.9, 2.5 and 3.1 per cent, respectively. However, burning more and more fossil fuels - currently, the major alternative to meet this demand - poses the greatest threat to ecosystems around the world, potentially endangering all gains

[7] Scherr, S.J and S. Yadav (1997), "Land Degradation in the Developing World: Issues and Policy Options for 2020", International Food Policy Research Institute Brief 44, June 1997.

[8] UNCCD (2013), "The Economics of Desertification, Land Degradation and Drought: Methodologies and Analysis for Decision-Making", available at http://2sc.unccd.int/fileadmin/ unccd/upload/documents/Background_documents/Background_Document_ web3.pdf.

[9] ADB (2013), *Energy Outlook for Asia and the Pacific*, Asian Development Bank, Manila.

from economic growth in the long run. Even though converting to renewable, carbon neutral alternatives is the ideal solution to face the dilemma, it remains a somewhat far-fetched option given the cost of current technologies.

Competition for global energy resources by large Asian economies has become a decisive factor in global energy markets, with China and India increasingly dependent on imported coal and petroleum to meet growing energy demand. While environmental implications of coal as an energy source are well understood, these countries continue to increase the proportion of coal in their energy mix. According to the World Energy Council (2013), China and India together owns around 20 per cent of the world's coal resources and in 2011 contributed to more than 51 per cent of world coal production.[10] This would further increase India's and China's contribution to GHG emissions which cause global climate change.

Forestry and wild life resources

Forests are multi-purpose ecosystems that yield all forms of ES - provisioning, protecting, cultural and supporting services. In the drive towards rapid economic growth, many countries have given priority to provisioning services over other types, endangering the sustainability of forest ecosystems as a whole. Deforestation due to conversion and degradation due to over-exploitation are the major causes for the decline of ES from forests.

In Asia, China, Indonesia and Malaysia are the major countries involved in forestry in terms of resource ownership (over half of forest lands in Asia) and the scale of the wood product industry.[11] According to the Forest Resource Assessment 2010 of the Food and Agriculture Organization (FAO), China's forest cover is around 20 per cent of its land area.[12] Even though China has experienced a net gain in forest area due to the policy of increasing plantation areas, its primary forest cover amounts to only 5.6 per cent of the total forest cover in 2010. Although Indonesian forests cover around 50 per cent of the total land area, deforestation takes place at a rapid rate. In Thailand, the forest cover has reduced from 53 per cent in 1961 to 37 per cent in 2010. The situation appears much worse in South Asia where forest cover ranges around 10-30 per cent of the land area, except in Bhutan. In more modernized economies in East and Southeast Asia, large scale commercial forestry for pulp and timber, infrastructure development (e.g., urban centres, highways and dams) and competition from commercial crops such as oil palm rank high among the causes of deforestation/degradation of forests. In low income developing economies, especially in South Asia, slash-and-burn agriculture, irrigation and land settlement, illicit logging and encroachment appear to be the main agents of damage. In addition, population growth, poor governance and lack of political accountability are common factors that contribute to deforestation and degradation of forests in many Asian countries.

Fisheries, coastal and inland aquatic resources

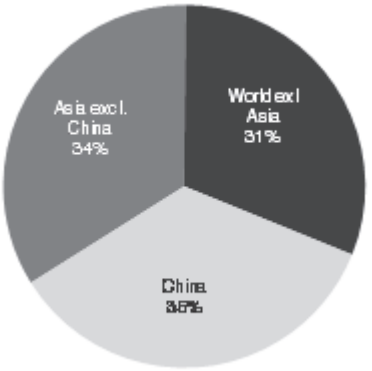
Asia has become a major player in fisheries and aquaculture in the world, recording 70 and 89 per cent of world capture fisheries and aquaculture production, respectively in 2010 (Figure 6.2). China is the single dominant nation in the world which contributes 17.5 and 62 per cent of the world production of capture fisheries and aquaculture, respectively. Other major producers include India, Vietnam, Indonesia, Bangladesh, Thailand, Myanmar, the Philippines and Japan. A high degree of modernization of fishing technologies, and significance of small scale operators in Asia both contributed to this. FAO (2012) also shows that many Asian countries have expanded their fishing fleet in the recent past. Between 2007 and 2009, the

[10] World Energy Council (2013), "World Energy Resources – 2013 Survey", World Energy Council.

[11] Cheng, B. and S.L. Clue (2010), "Forestry in Asia", Responsible Research Pte Limited.

[12] FAO (2010), *World Forest Resources Assessment 2010*, Food and Agriculture Organization, Rome.

Figure 6.2
Fish Production in Asia and the World



Source: FAO (2012), *The State of World Fisheries and Aquaculture 2012*, Food and Agriculture Organization, Rome.

motorized fishing fleet in Malaysia, Cambodia and Indonesia increased by 26, 19 and 11 per cent, respectively.

Rapid growth of the fishing fleet and adoption of modern technology, while increasing the fish output, are also responsible for a decline of the resource bases. Overfishing reduces the stock replenishment and indirectly affects food chains in oceans and freshwater bodies. Signs of depletion of stocks of certain fish species have been observed in some parts of Asia. Over-exploitation using modern technologies and application of harmful illicit methods that affect the breeding capacity of fishing stocks are responsible for this situation. Unless addressed through appropriate policies and management approaches, it can reduce the contribution of fisheries to the national economies and food security over the long-term.

6.3.2 Decline of Protective and Supportive Services

Water pollution

Ensuring a regular supply of clean water is a major service offered by healthy ecosystems. Rising demand with the growth of population and economic activities has over-burdened ecosystems in many parts of Asia, impairing their capacity to fulfill this vital ES. While the per capita availability of water is getting scarcer, a growing portion of available supply is also becoming unsuitable for human use due to deterioration of quality through various pollution agents. The problems of water pollution are extremely harmful and could result in deaths due to chronic or acute toxicity or outbreaks of epidemics such as diarrhoea, hepatitis, typhoid and cholera. Major river systems are the basic source of water for urban industrial centres as well as peripheral agricultural areas throughout Asia. Among others, the Yellow river in China, the Ganges in India, and the Amu and Syr Darya in Central Asia have been recorded as highly polluted water sources in the region. The groundwater in West Bengal, India, and Bangladesh is also contaminated with extremely high levels of arsenic. It is suspected that the major cause for chronic kidney disease in the Rajarata area of Sri Lanka is due to water polluted with cadmium and arsenic sourced through fertilizers or agro-chemicals. Rising loads of effluents from industry, inadequate sanitation facilities, poor management of sewerage and wastewater and overuse of agrochemicals are among the main sources of water pollution in Asia.[13] The lack of proper data on water pollution parameters hinders making a realistic assessment of the problem and addressing the issues in an effective manner.

Air pollution

In many Asian cities, the level of air pollution exceeds safe levels.[14] Rapid urbanization, increasing income and a growing middle class population have contributed to expanding the vehicle fleet, especially in the major cities, and thereby raising vehicular emissions. In addition, rapid industrial development has also been a contributor to the deterioration of air quality. China

[13] Evans, A. E., *et al.* (2012), "Water Pollution in Asia: The Urgent Need for Prevention and Monitoring", GWF Discussion Paper 1222, Global Water Forum, Canberra, Australia

[14] Howes, S. and P. Wyrwoll (2012), "Asia's Wicked Environmental Problems", ADBI Working Paper 348, Asian Development Bank Institute, Tokyo.

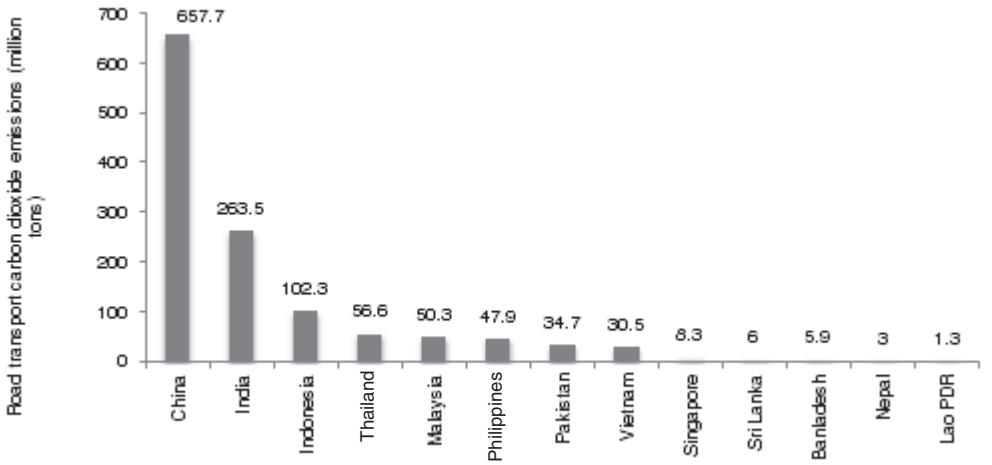
and India together contributes to more than two-thirds of the estimated emissions in Asia. However, Malaysia and Singapore have the highest per capita emissions in the region. At the regional level, air pollution has led to the formation of atmospheric brown clouds over certain parts of Asia. The situation would further deteriorate with the growing use of fossil fuel energy sources. Aside from pollutants of industries, smoke and ashes from burning of forests and peat has also contributed to air pollution in Asia, sometimes even creating trans-boundary externalities. Recent events of anthropogenic bush fires in Indonesia that caused significant economic impacts to surrounding countries such as Singapore and Malaysia is a good example.

The problem of emissions is now widely discussed in the context of climate change. However, in addition to the contribution they make to global warming, many pollutants are harmful to human health and proper functioning of ecosystems. The cost of air pollution consists of several aspects, where health costs are prominent. Concentrations of smog and brown clouds over Asian cities create many other costs including rising health costs. In addition, acid rains and consequent contaminations of water sources also affect economies in a negative manner. Problems of visibility caused by air pollution have even affected air traffic movements in certain parts of Asia, causing significant economic losses. Of all types of ecosystem damages, air pollution is the most itinerant that can easily lead to trans-boundary externalities, regionally and globally. A recent study conducted by the National Aeronautics and Space Administration (NASA) has confirmed that atmospheric pollutants from East Asia could travel as far as North America and cause disturbances to climate there.[15] It has been confirmed that brown clouds have regional effects on climate. This implies that a country cannot ensure a clean atmosphere by its own efforts alone, and regional and international cooperation is essential to overcome the problem of air pollution.

Solid waste

Generation of solid wastes in large amounts is another serious environmental problem faced by many countries in Asia. This is particularly problematic in urban centres (mega cities), where

Figure 6.3
Road Transport Carbon Dioxide Emissions in Asia



Source: Clean Air Asia (2012), "Accessing Asia: Air Pollution and Greenhouse Gas Emissions Indicators for Road Transport and Electricity" Pasig City, the Philippines.

[15] Wang, Y., *et al*. (2014), "Assessing the Effects of Anthropogenic Aerosols on Pacific Storm Track Using a Multiscale Global Climate Model", Proceedings of the National Academy of Sciences (PNAS).

industrial and household waste generation has concentrated. While the solid waste generation is growing worldwide, Asia shows the highest growth rate. A majority of wastes generated by Asian countries consist of organics and paper wastes. East Asian and Pacific region and the South Asian region respectively show the combined totals of 72 per cent and 54 per cent, respectively.[16]

While the generation of solid wastes is on the rise everywhere in Asia, country-specific conditions could exacerbate the environmental and social costs associated with solid wastes. For instance, problems of vulnerability are high in urban centres with large slum dwelling populations. More affluent countries have invested significantly to address them, even though their generation rates are also usually high. They have been adopting both social and technological approaches to finding solutions for waste problems. On the other hand, weak organizational structures and limited financial resources have led many countries to discharge wastes in landfill sites.[17] This can lead to a number of environmental and health problems.

Watersheds and water resources

The demand for water resources is increasing as a result of growing population pressure and growth of economic activities. Due to demand for multiple uses, water is fast becoming a scarce resource throughout Asia. As mentioned earlier, with the increasing problem of water pollution, the quality of even existing supplies is declining rapidly, aggravating the situation further. In addition, many Asian countries other than island nations like Sri Lanka, share common water resources, which has led to trans-boundary problems of scarcity and externalities. Though the Asian population as a whole is facing issues of water supply, the nature of issues varies across sub-regions and individual countries.

Water is made available to humans through an intricate system of protecting and supporting ES known as the water cycle. In this process, ecosystems that serve as watersheds fulfill an indispensable role to ensure quantity and quality of supply available for human use. In Sri Lanka, upper watersheds located in the central hill areas play an immensely important role to ensure regular supply of water throughout the country. Similarly, there are ecosystems in Asia that serve as critical watersheds, supplying water not only to one country but for vast sections of population living in many countries. For instance, the Himalayas and Qinghai-Tibetan Plateau provide water and other relevant ecosystem services for nearly one-third of the population in Asia from Pakistan in South Asia to China in East Asia.[18] This shows the importance of ES of watersheds for individual countries and regions. The ecosystems in the Qinghai-Tibetan Plateau have been degraded significantly due to impacts of industrialization and population growth in the respective regions. However, there has been little or minimal scientific assessments carried out regarding the conditions of this watershed area.

Degradation of important watersheds will lead to the deterioration of important ES provided by them, affecting many facets of human life. As a result, economic growth in many countries would be affected negatively. Agriculture being the main water consuming economic activity, would be severely affected due to lack of water resources thereby leading to food security issues at regional, national and local levels. In addition, it would affect supply of water for human use and industrial activities in urban centers too, since many cities are served by

[16] Hoornweg, D. and P. Bhada-Tata (2012), "What a Waste: A Global Review of Solid Waste Management", Urban Development Series Knowledge Papers March 2012, No. 15, World Bank, Washington D.C.

[17] Dhokhikah, Y. and Y. Trihadiningrum, (2012), "Solid Waste Management in Asian Developing Countries: Challenges and Opportunities", *Journal of Applied Environmental and Biological Sciences*, Vol. 2, No. 7, pp. 329-335.

[18] Earth Economics (2011), "Greater Asian Watershed Project, Ecosystem Services of the Himalayas, Qinghai-Tibetan Plateau and Associated Watersheds", April 2011.

river systems that originate from watershed areas. Cities can also be affected due to disasters such as floods as a result of clearing and destruction of vegetation in watersheds as demonstrated by many such incidents recently. Further, city dwellers may also face food security problems due to impacts of damaged watersheds on agriculture. Overall, degradation of ecosystems in watershed areas may continue to exert pressure on human activities in numerous ways.

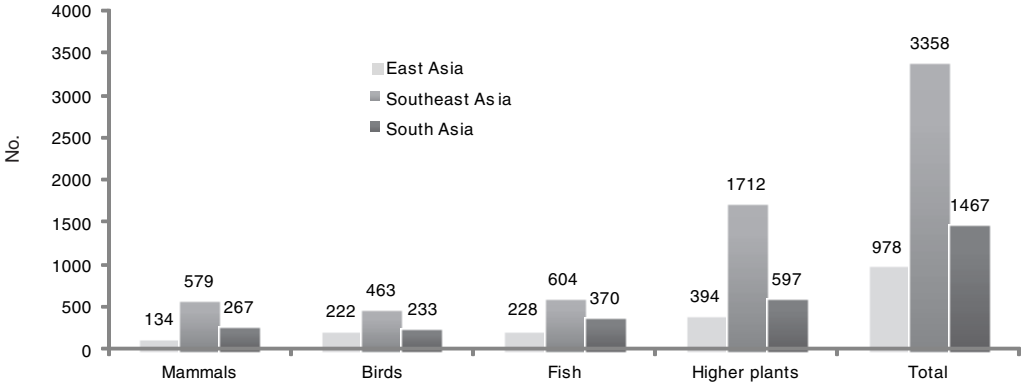
Biodiversity

The destruction of critical habitats and consequent losses of biodiversity leads to a decline of ES. Whereas economic estimates on losses of biodiversity are rare in Asia, certain indicators such as the number of threatened species provide clues about the ongoing degradation of biodiversity. Available estimates show that more than 5,800 mammals, birds and plant species are threatened in East Asia, Southeast Asia and South Asia (Figure 6.4). The number of threatened species under each category is highest in Southeast Asian countries. The level of threatened species reported from Asia is generally high compared to other regions of the world, and the situation in Southeast Asia is particularly distressing.



In addition to species losses, studies indicate that certain key habitats in Asia have become vulnerable. Examples include the Coral Triangle, the Greater Mekong Sub-region, and forests in Borneo and the Himalayas.[19] These habitats are threatened by expansion of human settlements and economic activities, fragmenting them into isolated patches, and subsequent exposure to externalities of human origin. Those habitats are fulfilling important ES and their loss can lead to economic costs and negative impacts on growth. For instance, the destruction of wetland ecosystems that offer flood retention services has exposed certain highly populated urban areas to the threat of flash floods.

Figure 6.4
Number of Threatened Species in Asian Countries (2010)



Source: FAO (2013), "Statistical Yearbook 2013", Food and Agricultural Organization, Rome.

[19] WWF and ADB (2012), "Ecological Foot Print and Investment in Natural Capital in Asia and Pacific", Gland, Switzerland.

The decline of coral ecosystems affect tourism activities associated with them, and local fishing operations.

6.3.3 Natural Hazards and Disasters

The frequency and the intensity of natural disasters are showing an increasing trend, posing more challenges to economic development in Asia.[20] Over 38 per cent of global economic losses due to natural disasters during 1980-2009 were reported from Asia. This indicates the significant economic cost imposed by natural disasters on the region. Like in other parts of the world, in Asia also, it is mostly the poor people that live in disaster prone areas. The vulnerable groups do not have enough risk management strategies to deal with negative economic and social outcomes of natural disasters. Increased weather related natural disasters such as droughts, floods and cyclones impact on the livelihoods of those communities directly. In addition to life and livelihood damages, vast destructions are caused to infrastructure and economic properties due to natural disasters. This has a direct bearing on the economic performance of countries that are affected (Box 6.1).

6.3.4 Global Environmental Threats

Aside from the pressure on local eco-systems, rapid growth powered by fossil fuels has exacerbated the threat of global climate change too. China and India are becoming major sources of GHG emissions along with Western industrial nations. According to the World Energy Council (2013), China and India together own around 20 per cent of global coal

Box 6.1
Causes and Economic Losses of 2011 Thailand Floods

Floods provide a good example for how declining ES can bounce back on economies, creating huge economic losses. The economic cost of floods across the world is alarming. According to US estimates, floods have led to the reduction of world industrial production by 2.5 per cent.[21] Thailand experienced a severe flood in 2011 which affected 65 out of 77 provinces, and also had significant impacts on the capital city of Bangkok. Around 884 people were killed due to the floods and thousands were displaced, causing enormous hardship for the country. The floods affected many sectors which are highly important for the Thai economy, including agriculture, manufacturing, tourism, etc. Also, notable disruptions were recorded in regard to global supply chains for major industries such as automobiles and electronics. According to World Bank estimates, the total economic losses of the floods are around US$ 45.7 billion.

The assessments on the causes of the floods show that it has been an outcome of both man-made and natural factors.[22] Thailand recorded the highest rainfall in the mid-rainy seasons. This caused water run-off from major rivers to exceed their capacities, leading to overflows in river banks and inundation in flood plains. The man-made factors worsened the floods to a greater extent. It is now clear that rapid and unplanned urbanization and unsustainable land use have had a significant impact in this case. Industrial and housing estates are located in the flood plains, and there has been no land use zoning except in Bangkok. The incident provides valuable lessons for other countries in the region as well as globally on the true costs of unsustainable rapid growth, with zero or minimal considerations on environmental aspects.

[20] World Energy Council (2013), "World Energy Resources – 2013 Survey", World Energy Council.

[21] UNISDR (2012), "Towards a Post-2015 Framework for Disaster Risk Reduction", available at http://www.unisdr.org/we/ inform/publications/25129.

[22] Poaponsakorn, N. and P. Meethom (2013), "Impact of the 2011 Floods, and Flood Management in Thailand", ERIA Discussion Paper Series, available at http://www.eria.org/ERIA-DP-2013-34.pdf.

resources, and in 2011 they contributed to more than 51 per cent of world coal production.[23] This would further increase India's and China's contribution to GHG emissions which cause global climate change. It has been estimated that carbon dioxide emissions will be increasing by 57 per cent in the world during 2005-2030, and China and India are estimated to account for a half of this growth.[24] Furthermore, rapid deforestation in Asia also releases GHG emissions, thereby increasing the share of Asia's contribution to global climate change. It has been estimated that around 20 per cent of GHG emissions are a result of deforestation and degradation of forests.

While Asia's contribution to global warming is set to rise, certain parts of Asia, especially countries located in the tropical region, are also among the most vulnerable to impacts of global climate change.[25] Surface air temperature in these countries is naturally high, and further increases even by small margins could affect the living comfort and health of the population significantly. Moreover, many parts of Asia are dependent on tropical monsoons, which have been projected to undergo changes from existing patterns of rainfall. This could lead to harmful impacts on farming systems, affecting agricultural production. Rising incidents of extreme events are increasingly identified as an impact of climate change, and crop failures and disasters have brought significant losses to many Asian economies already. It has also been projected that global warming related sea level rises would pose extremely high risks to small island nations (e.g., Sri Lanka), archipelagoes (e.g., the Maldives, Indonesia and the Philippines) and low lying coastal areas and deltas (e.g., Bangladesh).

Broadly, Asia's damage to ES can be classified under two categories: growth driven outcomes and poverty driven outcomes. Growth driven outcomes are connected to rapid growth in industrial and infrastructure development activities and are concentrated in, but not limited to, urban centres. While urban populations face distresses caused by air pollution, water and solid waste problems, rapid growth in metropolitan areas also create demand for food and raw materials, encouraging exploitation of resources in rural areas as well. Hence, growth in urban centres affects vital ecosystems throughout Asia. Asia's rising share of GHG emissions can mostly be identified as a growth driven outcome.

On the other hand, poverty driven outcomes on ES are more prevalent, but not limited to, in rural areas. In rural areas, the negative consequences on ES can be linked to demand from relatively more affluent urban populations, as well as to livelihood struggles by poor local agricultural populations. The spread of small scale agriculture is responsible for pollution of local water resources and a decline of biodiversity due to heavy use of chemical inputs. The rising scarcity of land resources with population growth has resulted in land degradation, soil erosion, deforestation and destruction of habitats causing damages to many ecosystems. These types of damages are driven more by poverty. Usually,

Broadly, Asia's damage to eco-system services can be classified under two categories: growth driven outcomes and poverty driven outcomes.

[23] World Energy Council (2013), "World Energy Resources – 2013 Survey", World Energy Council.

[24] Clean Air Asia (2012), "Accessing Asia: Air Pollution and Greenhouse Gas Emissions Indicators for Road Transport and Electricity", Pasig City, Philippines.

[25] IPCC (2014), "Asia", in *Climate Change 2014: Impacts, Adaptation and Vulnerability*, Cambridge University Press, U.K.

they are widespread in developing Asian nations, especially in South Asia. Besides damaging local ecosystems, poor farming communities contribute to global warming as well through deforestation and degradation. However, poverty related ecosystem losses are not limited to rural areas alone. There are large slum-dwelling urban masses in many Asian cities that aggravate pollution and other environmental problems. The uncomfortable truth is that very often, the poor - in rural as well as urban areas - are the ultimate victims of all types of ES losses whether, it being growth driven or poverty driven.

Overall, the evidence suggests that impressive growth in economic and social indicators in many Asian countries have come at a significant cost to local, national and global ecosystems. While economic growth has brought some affluence in terms of physical wealth, associated damages to ecosystems and a decline of ES have created conditions that prevent converting this wealth into true human welfare. Heavily congested cities and traffic jams, ever worsening quality of air and water, polluted rivers, rising incidence of diseases caused by poor quality environment (e.g., respiratory diseases), expanding slums among untreated garbage seem to be the norm in many urban centres around Asia. Urban centres of population are surrounded by agricultural peripheries stripped of natural vegetation, threatened habitats of fauna and flora, water ways polluted with toxic agro chemicals, water bodies silted with eroded soils, and air polluted with chemical sprays and emissions from agricultural machinery. Even relatively better preserved swathes of natural vegetation has come under pressure from agricultural encroachments, extraction of timber and other non-wood products and poaching. Marine, coastal and wetland ecosystems are among the most threatened habitats due to over-exploitation of resources, pollution, infrastructure and tourism.

Overall, the evidence suggests that impressive growth in economic and social indicators in many Asian countries have come at a significant cost to local, national and global ecosystems.

While more affluent countries have taken certain steps to improve conditions, in many parts of Asia, significant populations are suffering from a decline in the quality of urban and rural environments. Such conditions have been exacerbated by population growth and the rising threat of climate change. Hence, despite some improvements in a few centres of affluence, the quality of the environment experienced by a majority of the population in many countries in day-to-day life has gradually been declining. Even the centres of affluence are not entirely immune to this situation, as indicated by the recent Fukuhsima nuclear disaster in Japan that has the potential to become a threat to ecosystems around the world.

6.4 Environment and Ecosystems in Sri Lanka

Sri Lanka is viewed on one hand as a special case of Asian development, where significant levels of human development have been achieved at a relatively low level of national income. In spite of a comparatively high human development index (HDI), the country reached the economic milestone of becoming a lower-middle income economy only recently. On the other hand, Sri Lanka is also looked upon as a classic case of missed opportunities - a

nation that has been overtaken in development by many countries that were far behind not many years ago.

Sri Lanka was the first country in South Asia to take the lead from the East Asian model of growth in the late 1970s. A new government in power took steps to change the economic direction of the country from the hitherto followed inward looking import-substitution strategies to an outward looking export-led growth strategy. Infrastructure and institutional facilities were developed to attract FDI for industrial exports through export processing zones (EPZs), popularly known as free trade zones. Incentive packages, including tax holidays, were offered to potential investors. Like in other Asian countries, the key attraction was cheap labour; an initial success was seen in attracting investments to labour intensive ventures such as apparel production. Parallel to efforts to attract foreign capital to develop industries saw large-scale investments on irrigation and hydroelectricity infrastructure with donor support, targeting the goals of self-sufficiency in food production and energy supply.

However, the country lost its way due to political instability created by a long lasting armed conflict, eventually losing the competition for FDI to more attractive destinations in Southeast Asia and China. Instead of attracting investors in search of low wage labour in Sri Lanka, the country saw the outmigration of its workers in search of low-wage domestic and blue collar employment in the Middle East and other Asian growth centres. Over time, remittances from migrant workers became one of the main sources of foreign income to the country. Along with income from the export-oriented apparel industry, remittances have kept the economy afloat. This has spared the country from experiencing certain environmental consequences of a scale similar to that of East and Southeast Asian growth centres. No mega cities or large urban centres have developed, and congestion due to internal migration has also been low, except for a few areas around EPZs. The limited development of industrial facilities and infrastructure has not led to emission growth levels as high as East or Southeast Asian countries. As a result, Sri Lanka still records one of the lowest per capita emission levels in Asia. However, the gradual population concentration in the Western Province, expansion of the vehicle fleet, and industrial projects with poor environmental standards have contributed to increasing air and water pollution and solid waste problems in Colombo and the surrounding suburbs more recently.

In contrast, Sri Lanka shares many poverty related ecosystem problems in rural areas such as deforestation, land degradation, soil erosion, loss of biodiversity, destruction of critical habitats and ecosystems, agricultural pollution and degradation of watersheds, in more or less the same scale as in other Asian nations. Some issues have a long history extending back even to the colonial era. Large scale irrigation-cum-land settlement projects, spread of green revolution agricultural technologies, and clearing of upper watershed areas for plantation crops and commercial agriculture are responsible. Conditions have become extremely bad in certain areas as indicative by the growing number of fatalities due to chronic kidney disease in the Rajarata area.[26] Overall, many ecosystems in the country have faced serious issues of sustainability, and conditions are becoming progressively worse.

6.5 Ensuring Sustainability of Ecosystem Services: Solutions and Policy Options

For Sri Lanka, more favourable conditions for economic growth arose after the end of the three decades long armed conflict in 2009. Since then,

[26] Dayaratne, G.D and Y.A. Ellepola (2014) "An Epidemic of 'Unknown Etiology'- A Second Look at Chronic Kidney Disease in Sri Lanka", *The Island*, 11 June, 2014.

the country has worked towards recapturing lost opportunities in industry and services sectors. Sri Lanka is aspiring for rapid growth, positioning itself as a regional hub for services, complemented by large investments on infrastructure. With a fairly favourable outlook for take-off in economic activities, the country needs to plan carefully so that its ecosystems are safeguarded from further deterioration. Of the lessons to be learnt from Asia's growth centres in this regard, many appear to be negative with more "do not's than do's".

Sri Lanka faces two main challenges: avoiding all bad consequences on ES resulting from rapid growth as that experienced by economies in East and Southeast Asia; and recovering many ecosystem damages caused by poverty that it shares with South Asian neighbours. It is a dilemma that needs a careful balancing act if desired results are to be achieved. This section outlines some of the solutions and policy options available to the country for safeguarding ES and achieving sustainable development.

6.5.1 Planning, Policy and Institutions

The foundations of modern ecosystem management are integrated planning, setting up of right institutions, and implementation of scientific management practices with the participation of relevant stakeholders. Integrated plans need to address the issues of rationalizing resource use, balancing provisioning services against protective/cultural/supporting services, maximizing the resource use efficiency and protection of ecosystems. Once the plans are in place, necessary steps should be taken to adopt scientific management practices and prevent ad hoc, unplanned interventions. It needs the support of institutional mechanisms to ensure participation of relevant stakeholders. The whole process should be facilitated by suitable policies/laws designed to create the right incentives and penalize violators.

Even though Sri Lanka has introduced a number of legislations connected to ES (e.g., Soil Conservation Act, Fauna and Flora Act) many of them have become ineffective. As a result, the degradation of ecosystems has become widespread all over the country with little practical assistance from existing laws to combat it. The responsibility for implementing these laws is scattered among numerous agencies with little coordination. Similarly, many plans and policies such as the National Physical Planning Policy and Plan, the National Land Use Planning Policy, and sectoral plans such as the Forestry Sector Master Plan also had little effect in arresting the ongoing degradation of ES. It seems that the problem is not the absence of plans and policies, but having too many of them with overlapping, confusing and out-dated mandates with scattered responsibility among several agencies. The situation appears to have deteriorated further with regular reallocation of line agencies among different ministries.

Sri Lanka faces two main challenges: avoiding all bad consequences on ecosystem services resulting from rapid growth as that experienced by economies in East and Southeast Asia; and recovering many ecosystem damages caused by poverty that it shares with South Asian neighbours.

The lack of proper coordination among responsible agencies can be identified as a major reason for the above. It is necessary to rationalize this situation by bringing all existing legislative, policy and planning initiatives concerning the management of ecosystems within a coordinated framework of action. This framework should provide the guidelines for ecosystem management at all levels by different national agencies, sub-national agencies, local authorities, private sector and individual citizens. The required elements for such an overarching framework is already available in many existing plans and policies dealing with ecosystems. They should be reviewed and integrated into one framework of action under which all developments and ecosystem protection activities are streamlined.

6.5.2 Prevention of Critical Ecosystems from Further Degradation

Sri Lanka has certain critical ecosystems such as upper watersheds located in central highland areas, wetlands, coastal and marine ecosystems, rivers and tank catchments which need urgent attention. The protection of these ecosystems is critical not only for local areas where they are located, but for the entire country's benefit. For instance, considering the importance of central highland watershed areas, the National Physical Plan has identified them as 'Central Fragile Area', earmarked entirely for conservation purposes. Similarly, wetlands are now recognized as indispensable ecological assets. Until more recently, the tendency was to consider wetlands as waste lands. As a result, wetlands in both coastal and inland areas have faced severe threats. The level of danger faced by wetlands place them at a higher order of priority in the conservation of critical habitats. Besides wetlands, all types of coastal and marine ecosystems have faced increasing threats due to rapid economic growth experienced in the coastal belt. Among the major causes responsible for this situation are coral and sand mining, encroachments of mangroves, haphazard development of tourism facilities, coastal infrastructure, uncontrolled spread of enterprises such as shrimp farming, and increased coastal and marine pollution. These critical ecosystems have come under various harmful human interventions with country-wide negative consequences. Hence, urgent steps are necessary to overcome the harmful impacts on such critical ecosystems. Some of the options available are suggested below.

It seems that the problem in Sri Lanka is not the absence of plans and policies, but having too many of them with over-lapping, confusing and out-dated mandates with scattered responsibility among several agencies.

Adoption of best practices: Guidelines for best practices should be developed for land use and infrastructure development in areas of critical ecosystems that minimize the damage to local environments. Action should be taken to enforce such best practices in a strict manner.

Promotion of sustainable practices: Attention should be given to promote sustainable land uses and management practices such as agro forestry, conservation farming, organic farming, etc., in critical areas. Suitable incentive structures should be introduced to create a more conducive environment for the adoption of such practices.

Prevention of encroachment in critical areas: One of the major causes which contribute to degradation of ecosystems in Sri Lanka is encroachment for agriculture and settlement purposes. It has been responsible for significant damage to ecosystems throughout the country. Its contribution to deforestation and soil erosion can be considered as high. Actions necessary to prevent encroachments in critical areas should be implemented with the participation of relevant stakeholders.

Restoration and stabilizing degraded environments: There are various degraded ecosystems which are vulnerable to various on-site and off-site losses. They need to be restored and stabilized as a priority. An effective step in the stabilization process is to restore the vegetation cover. Tree planting programmes should be implemented to rehabilitate such environments as appropriate.

6.5.3 Environmental Profile of Industry

Growth of industrial activities and infrastructure has been a primary factor for the degradation of ES in Asia. Although Sri Lanka recorded comparatively limited success in industrial growth, the decline of ES due to externalities from industry has become a significant issue. The recent incidents of public unrest due to suspected cases of industrial pollution provide examples for this. Sri Lanka introduced an Environment Act in the early 1980s and established the Central Environment Authority (CEA) to deal with such issues. Environment Impact Assessment (EIA) procedures have been in operation ever since, and the CEA is vested with powers to monitor and implement environmental laws and standards concerning all types economic activities. In spite of this, significant damage to ES has taken place due to industry, infrastructure and other economic activities. Some are of the opinion that poor monitoring is the key problem. However, industry and technology are evolving and so are the ecosystem damages originating from them. Therefore, facing the challenge of ES losses due to industry and related activities is a continuing process of improvement. A few of the improvements that may help Sri Lanka is suggested below. It is acknowledged that some of the suggestions mentioned have already been initiated and progressing slowly.

New products/technologies and increasing efficiency: Rapid dwindling of natural ecosystems has encouraged a worldwide search for alternative products/ materials, energy efficient technologies, reuse/recycling of products and utilization of waste and substitute materials. Some interest is evident in Sri Lanka too on such alternatives, and certain pioneering efforts have already been undertaken in certain areas of production. Hence, necessary initiatives to promote such efforts through research and facilitation through incentives should be undertaken with the participation of relevant government agencies, research institutes, universities and the private sector.

Pollution control: Controlling pollution from industrial sources needs a multi-faceted approach that incorporates educational and participatory measures along with regulatory measures. Technical standards concerning pollution control should be continuously improved, and capacity for monitoring enhanced. The implementation of standards and regulations require community support and public awareness.

Relocation of high polluting economic ventures to dedicated areas: Among others, industrial effluents from high polluting industries could be the most hazardous for human life and ecosystems. Pollutants from such sources usually end

up in surface or ground water sources, dispersing them in larger areas. Even though certain environmental standards are now in place, there are high polluting industries that contribute to air and water pollution, causing significant damages to ecosystems. The best strategy for overcoming the damage from such sources is relocating high polluting industries in to dedicated zones located away from densely populated areas and critical ecosystems. While reducing the risk for health and ecosystem damages, it also allows for minimizing the damage by adopting common facilities for effluent treatment, testing environmental quality, and efficient monitoring in a cost effective manner.

Cleaner production technologies: Air pollution has gradually increased, and research studies indicate that it could cause health impacts unless suitable control measures are taken. While rising emissions from the transport sector is partly responsible for this, the industrial sector also has its share of blame. The government has already taken steps to promote Cleaner Production Technologies (CPT) and declared it as a policy strategy. In addition to policy/legislative support and standards, it needs development and adoption of technological innovations. Market Based Instruments (MBIs) also provide an avenue for promotion of CPT. The government should encourage adoption of CPT by industrialists through appropriately designed incentive schemes.

Monitoring facilities: Protection of ecosystems needs regular monitoring. Sri Lanka has limited air and water quality monitoring facilities which are not sufficient for effective implementation of a successful pollution control programme. Therefore, monitoring facilities of environmental quality should be established in strategic locations to keep track of changes. Data from these facilities should be analyzed regularly and practical measures for controlling pollution should be implemented.

Reuse, recycling and composting: The problem of solid waste happens due to accumulation, poor collection and improper disposal. It leaves limited scope for private solutions, and open dumping has become a serious problem. An integrated approach should be adopted to overcome this situation, beginning from the source by minimizing waste through reusing/ recycling/processing of waste into recycled products and compost. An integrated strategy needs the participation of all stakeholders and a high level of public awareness. Moreover, recycled products and use of waste materials in industry should be encouraged through suitable incentive schemes. Recently, a few pilot scale efforts were reported from certain local government bodies that need replication on a larger scale.

Disposal of hazardous waste: Clinical and toxic waste produced by hospitals and industrial establishments needs special precautions for disposal. The situation is further complicated by rapid accumulation of e-waste, a part of which is hazardous. This is an area that needs urgent attention. Necessary strategies should be initiated by introducing regulatory frameworks, standards and guidelines for safe disposal, identification of sources and types of waste, providing training on safe disposal and increasing public awareness on potential hazards. Strict enforcement should be observed against violations and non-compliance.

6.5.4 Enforcement and Monitoring

In spite of the fact that Sri Lanka has a large number of agencies dealing with environment and natural resources at national and provincial levels, the enforcement of many laws concerning ecosystem management is quite weak. Despite numerous rules and regulations against abuse of ecosystems for commercial purposes, an increasing number of cases have been reported on illicit practices such as smuggling of local bio-diversity resources, bio-piracy, illicit logging and poaching, importation and exportation of prohibited species and materials, violation of quarantine procedures, etc. More than weaknesses in existing laws and regulations, poor monitoring and enforcement are responsible for this situation.

There are a number of agencies vested with enforcement and monitoring of rules and regulations that affect different ecosystems in Sri Lanka. They include national regulating bodies such as the CEA, Forest Department, Department of Wildlife Conservation, Department of Agriculture and Coast Conservation Department, etc. There are scientific agencies such as National Aquatic Resources Agency (NARA) and National Building Research Organization (NBRO) that have to play a supporting role by undertaking research studies and monitoring the situation of ecosystems. Proper enforcement needs information, facilities and trained manpower. All these agencies face limitations in this context. In addition, proper coordination between these agencies and other legal enforcement bodies such as the judiciary and police also is essential for successful results. To overcome this situation, necessary capacity building measures such as facilities and equipment, modern scientific methods, training to improve manpower skills, information management systems, and scientific monitoring and networking among relevant agencies are necessary. Institutional mechanisms for inter-agency coordination at policy decision levels and implementation level should also be established. Overall, enforcement on abuses of ecosystem should be strengthened by introducing modern methods of detection and investigation, and by providing necessary facilities and manpower to relevant agencies.

6.5.5 Participatory Management

The participation of relevant stakeholders is an essential precondition for successful management of ecosystem services. From the design stage to implementation and monitoring stages, all activities have to be undertaken with community participation. Local institutions should be strengthened to obtain community participation in an effective manner. Participatory management can take different forms depending on the nature of ecosystems. Community management and co-management are widely practised models. In Sri Lanka, some attempts have already been made to ensure community participation in ecosystem management with varied levels of success. A few examples are the community forestry programme, participatory irrigation management, and co-management plans in selected lagoons and inland reservoirs. Some of the efforts are facilitated by NGOs and community organizations. Among others, there are a few areas where participatory approaches can be especially useful in ecosystem management.

Protected areas: The periphery of protected areas is often involved in human-resource conflicts. They include: controlled access to customary rights of communities living around; poaching and illegal harvesting of timber and forest products; encroachment for commercial agriculture or shifting cultivation; and human-wildlife conflicts (e.g., human-elephant conflict). These conflicts affect local communities while threatening the goals of conservation too. The only way to overcome this is consultation with local communities and ensuring their participation in ecosystem management.

Critical watersheds: The management of critical watersheds is another area where community support is indispensable. Suitably designed, area specific management plans

should be developed with the consultation of stakeholders and implemented with the participation of local communities.

Co-management of coastal and inland fisheries: The establishment of co-management systems has legally been sanctioned by the Fisheries Aquatic Resources Act of 1996. The essence of this strategy is to share responsibility for managing productive resources under a common pool or open access conditions between the community and the state agencies. The establishment of co-management systems is a necessary condition for ensuring the protection of aquatic ecosystems used for both coastal and inland fisheries.

6.5.6 Adaptation and Disaster Management

Being an island nation located in the tropical region, Sri Lanka is vulnerable to impacts of climate change. Even though the country's contribution to global warming is negligible, it is certain to face its consequences. In this context, Sri Lanka needs significant preparation in areas of adaptation and disaster management. Some areas that need special attention are discussed below.

Assessing the impacts: In order to take action against climate change, information to assess the likely impacts is required. To achieve this, suitable climate information products should be developed through extensive professional and scientific inputs. It is necessary to review locally conducted research as well as implications indicated by global models. In addition, climate forecasting and communication skills of relevant agencies should be enhanced.

Disaster management: The institutional set-up for disaster management is still evolving in Sri Lanka. Until recently, disaster management used to be a process of providing post-disaster relief. To face a disaster situation in a successful manner requires strengthening the coordination among several layers of the government, civil society and the public. Improvements are necessary in several areas relating to disaster management such as pre-disaster planning, collection of information on disaster prone areas and preparation of hazard maps, establishment of hazard monitoring and early warning systems, developing effective disaster mitigation measures and strategies for post-disaster recovery.

Adaptation: Long term impacts of climate change cannot be overcome by disaster mitigation measures alone. This needs development of a national adaptation action plan with suitable institutional mechanisms to implement it.

6.5.7 Public Awareness

The goals of ecosystem protection cannot be achieved unless there is public support from all layers of society. Without a conscious and responsible effort from the public, any measure taken to overcome the problem cannot be expected to yield the desired results. Therefore, increasing public awareness on ecosystems and ways to protect them is a prerequisite for any kind of solution. It is necessary to raise awareness among various sections of society by conducting appropriately designed education and awareness programmes. To achieve this, both formal and mass education means can be used. The most effective way to promote awareness is to cultivate the right attitudes from childhood at school level. Besides formal education, civil society organizations such NGOs and CBOs can also play a significant role in conveying the message effectively.

7. Urbanizing Asia

7.1 Introduction

Rapid industrialization in Asia has been accompanied by greater urbanization with the shift of surplus rural labour to centres of economic activity. In turn, countries that have managed the growth in urbanization successfully have also been able to harness opportunities for greater economic growth. While more newly industrialized countries in Asia such as China and India still do not have a majority urban population, the number of urban inhabitants continues to grow. By contrast, Asian 'tiger economies' such as Singapore, Taiwan and South Korea now have a majority of urban population. It is estimated that by 2015, approximately 47.6 per cent of the population in Asian countries will be urbanized, and this figure is set to increase up to 53.1 per cent by 2025.[1] Therefore, more than a half of the population in Asian countries will be living in urban areas by 2025.

As Sri Lanka aspires towards rapid economic growth in the transition up the middle incomes ladder, the country is also faced with the challenges of an increasing urban population. Managing urbanization has become an area of policy priority post-2009 with the easing of security-related measures allowing a greater flow of people into the main metropolitan regions of the country, namely Colombo and Kandy, and the opening up of the Northern and Eastern regions. As a result, rural to urban travel and migration has been greatly facilitated. In addition, increasing numbers of tourists, and the emergence of a health conscious urban population, is placing greater demand on urban cities that are clean, free of slums and shanties, and offering greater recreational opportunities. These trends demand more sophisticated urban infrastructure.

Urbanization holds both positive as well as adverse implications. The former include the prospects of better wages, greater productivity, etc. whilst the negative consequences can include congestions, housing issues, pollution, waste management, over-burdened infrastructure, etc. Good practices in dealing with urbanization are evident from the more urbanized Asian economies. For Sri Lanka, eliminating the negative impacts of urbanization while maximizing the positives will be a challenge

It is estimated that by 2015, approximately 47.6 per cent of the population in Asian countries will be urbanized, and this figure is set to increase up to 53.1 per cent by 2025.

[1] UN (2014), "Population Estimates and Projections: On-Line Data, Country Profiles", United Nations Department of Economic and Social Affairs, http://esa.un.org/unup/unup/index_panel3.html, visited online 25th April 2014.

in the years to come. This Chapter attempts to examine the issue of urbanization in the context of economic growth and development, the best practices to manage urbanization, and policy recommendations to ensure that there is adequate planning for the future.

7.2 Consequences of Urbanization

The level of urbanization refers to the proportion of the urban population out of the total population of a country. The rate of increase in the urban population is known as the urbanization rate and is calculated by the difference between the urban annual growth rate and the total annual growth rate. The precise demographic definition of urbanization is the increasing share of a nation's population living in urban areas (and thus a declining share living in rural areas). Most urbanization is the result of net rural to urban migration.[2]

In the past few decades, many parts of the world, including Asia, have been experiencing rapid urbanization. The expansion of existing cities and the formation of new ones can be directly accredited to high rates of economic growth and industrialization. Although urbanization is capable of bringing about positive consequences, it can also have some very adverse effects.

7.2.1 Positive Consequences of Urbanization

Urbanization can bring about higher productivity in economies through many positive externalities and economies of scale. For example, available evidence suggests that the productivity of urban areas of Asia is 5.5 times higher than that of rural areas.[3] Urbanization can encourage agglomeration, bringing resources together and allowing industries to produce goods and services at higher levels of productivity. At the same time, as more industries cluster together, it can generate higher wages for employees in urban centres of economic activity. Indeed, much of rural to urban migration hinges on better employment opportunities and higher wages.

Urbanization results in high population density that has its own advantages. When people live close-by with a well-developed transportation network, the commuter time from one place to another is reduced significantly, allowing people to allocate their time for more productive purposes. It also has other advantages. In an urbanized setting, with paved roadways and walking paths, people will be more inclined to walk or cycle, rather than driving. These elements are applicable for health conscious communities, hence to a certain degree, urbanization can also promote a more mobile and healthy lifestyle.

It is easy to provide essential facilities such as electricity, telecommunication, pipe-borne water, safe sanitation, and safe drinking water to an urban

Urbanization can bring about higher productivity in economies through many positive externalities and economies of scale.

[2] A nation's urban population can grow from natural increases (births minus deaths), net rural to urban migration, and reclassification (as what was previously a rural settlement becomes classified as urban, or as an urban settlement's boundaries are expanded, bringing into its population people who were previously classified as rural).

[3] Wan, G. (2012), "Urbanization Can be Good for the Environment", viewed at http://www.asiapathways-adbi.org/2012/12/ urbanization-can-be-good-for-the-environment/, visited online, 4th May 2014.

Urbanization can encourage agglomeration, bringing resources together and allowing industries to produce goods and services at higher levels of productivity.

area as compared to other areas. Since people live close by, the provision of these facilities will be cost effective as compared to a rural area. Also, urbanization is characterized by the provision of safe housing. Countries that manage urbanization successfully are committed to the removal of poor housing conditions such as slums from urban areas and providing safe and affordable houses for people. Therefore, urbanization holds the possibility of increasing the quality of life, and standard of living for people.

Urbanization can also generate revenues. With industries operating at a greater level of efficiency, and an educated and healthy workforce earning higher wages, urban areas are capable of generating required revenue for further expansions of urban infrastructure. Furthermore, urbanization can bring about innovation. Green infrastructure and green technologies - especially with regard to transportation, better and efficient ways of solid waste management, etc. - can result in the introduction, as well as development of many innovation opportunities.[4]

7.2.2 Negative Consequences of Urbanization

Urbanization comes about as a result of increased rural to urban migration. This type of migration is mainly for better employment opportunities, but with lack of education and skills, the migrants can be drawn into low quality jobs. In turn, this can result in such migrants living amongst poor housing conditions, leading to the problem of slums and shanties. The prevalence of slums with low standard houses and poor living conditions causes many other problems. Slums are located on land which the slum dwellers do not own. Most often, these lands are owned by the government, making it much harder to evict them as already marginalized populations. Slums do not have proper sanitation and drinking water facilities, and hence generate a whole web of health issues. Crime and drugs issues also tend to be associated with the existence of slums, making surrounding urban neighbourhoods unsafe.

Urbanization can also create environmental problems. A high population density, emissions from motor vehicles and industries, rising temperatures, water pollution, and loss of natural habitats are some of the significant environmental issues associated with rapid urbanization. While factories and automobiles are symbols of urbanization, they are also the sources of emission of Green House Gases (GHGs) that contribute to global warming. The temperature also tends to increase in urban settlements mainly due to factors such as paving over formerly vegetated land, and increasing number of residences and high-rise apartments and industries. Higher densities of suspended particulate matter in the air around urban areas contribute heavily to respiratory problems, creating health issues as a by-product of unplanned urbanization. If the drainage systems are not built properly, urban areas tend to accumulate more rain water than surrounding areas, resulting in floods.

[4] *Ibid*.

Industrial waste, solid waste, and hazardous waste from hospitals can easily get into water bodies, which can cause outbreaks of epidemics. Indeed, solid waste management is a serious issue in dealing with urbanization. An increased population leads to more waste, and if proper waste management is not in place, waste tends to get accumulated creating environmental and health issues. Furthermore, it will hinder efforts towards 'clean cities'.

Urbanization requires large amounts of land for houses and other urban infrastructure. This will result in damaging the forests cover and other natural habitats surrounding urban areas. It is possible that the destruction of these natural habitats will ultimately result in the extinction of fauna and flora. In a well-planned urbanization process, infrastructure is created in a practical way to accommodate the population and their rising needs, with most of the utilities including electric grids, sewer facilities, gas lines and roads. When the rural to urban migration increases rapidly, the urban infrastructure available might not be adequate enough, especially if the industrialization fails to generate sufficient employment opportunities. This will result in a poor cohort in urban areas, vulnerable to both social and economic shocks. As this proportion of people increases in a city, the government has to allocate separate funds for their social security and welfare, placing an additional burden on its urbanization efforts.

From a social science point of view, urbanization with its associated busy lifestyles can damage the social cohesion and family kinships that can be seen in a rural society, especially among the Asian countries. Most Asian families continue to be closely linked, with several generations living together. But urbanization and congested lifestyles can force families to move out from urban areas leaving their elders behind. This could create additional burdens on the welfare systems, especially to look after elders. On the other hand, in most Asian families, the elders take care of small children. When young families move into urban areas, the infrastructure needs to cater for the care of small children, especially day care centres when parents are away at work.

7.3 Sri Lanka's Urbanization Trends and Challenges

Sri Lanka's urbanization holds some unique characteristics mainly because it is an island,[5] primarily composed of urban settlements that are found along the coastal areas. The distinct feature of urbanization in Sri Lanka is that there is a low density urban sprawl and ribbon development along the main roads of coastal areas.[6] Approximately 25 per cent of the population lives less than one kilometre from the coast that accounts for only 5 per cent of the land mass of the country.[7] The emergence of urbanization along the coastal belt areas has allowed the preservation of forests and other greenery in the countryside, despite a gradual transition of the economy from a primarily agrarian-based one to manufacturing and services. However, over the years, urban centres along the coastal belt of the country have lost their greenery, including mangroves and other coastal vegetation - the results of which were prominently visible during the Asian Tsunami of December 2004.

Unlike most of the other countries, an 'urban area' in Sri Lanka is not based on any definite criterion

[5] Urban population refers to people living in urban areas as defined by national statistical offices. As such, urbanization is the process of the increase in the number of people that live in urban areas.

[6] The term 'urban sprawl' suggests that metropolitan growth is ugly, inefficient, and the cause of traffic congestion and harm the environment. 'Low density' suggests residential subdivisions. Low density development may take up space while increasing the travel time. Ribbon development exists when extensive commercial development occurs in a linear pattern along both sides of the major arterial roadways [Holcombe, G. R. (2014), "Urban Sprawl, Pros and Cons: In Defence of Urban Sprawl", Property and Environment Research Center, US].

[7] World Bank and UNHABITAT (2012), "Turning Sri Lanka's Urban Vision into Policy and Action", World Bank, Colombo.

as regards the size of population, population density, proportion of the male population in non-agricultural occupations or status of civil administration.[8] In Sri Lanka, 'urban status' is conferred on an area by the Minister in charge of Local Government purely for local administrative purposes. However, ministerial discretion seems to be based on the nature of the development of the locality or its amenities and urban character.[9] Hence, the defined urban areas are classified administratively. With administrative classification to demarcate urban areas, 89 urban settlements were classified as rural settlements after the 13th Amendment to the Constitution in 1987. These downgraded Town Councils included some of the most dynamic and densely populated suburbs of Colombo such as Maharagama and some fast growing small towns in the Dry Zone.[10]

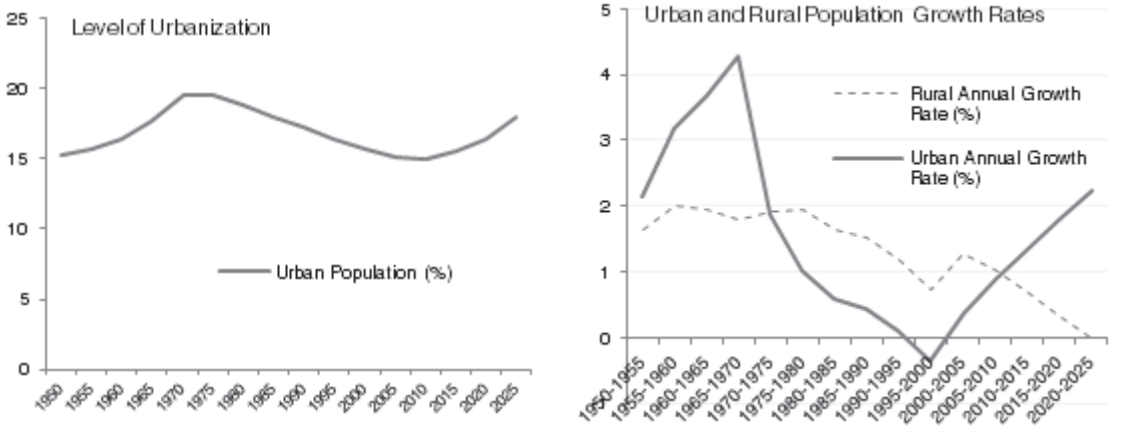
Sri Lanka had an average urban population growth rate of 0.3 per cent during 2005-2010 which was amongst the lowest in Asia. With the end of the North/East conflict, the rural to urban migration



increased, leading to a higher urban population growth rate. This is not expected to bring about rapid rates of urbanization although an increasing trend will be clearly evident with an urbanization level of 18 per cent expected by 2025 (Figure 7.1).

Even though the urban population is not increasing significantly for Sri Lanka, the annual urban population growth rate is currently on an increasing trend, while the rural annual population growth rate is decreasing, although it is still positive (Figure 7.1).

Figure 7.1
Sri Lanka's Urban Population Trends



Source: UN, Department of Economic and Social Affairs, Population Estimates and Projections Section.

[8] Panditharathne, B., L., (1996), "The Development of the Sri Lankan Settlement System" in Groves A. Paul (ed.) *Economic Development and Social Change in Sri Lanka: A Spatial and Policy Analysis*, Manohar Publishers, New Delhi.

[9] Mendis, M.W.J.G. (1982), "Urbanization and Urban Development in Sri Lanka", Office of Housing and Urban Programmes, Sri Lanka.

[10] R.J.M Udaporuwa., (2010), "An Analysis of Urban Growth and Urbanization in the Sabaragamuwa Province of Sri Lanka", *Sabaragamuwa University Journal*, Vol 9, No. 1, pp. 115-132.

Therefore, the total number of urban inhabitants will keep on increasing for Sri Lanka.

7.3.1 Major Metropolitan Regions of Sri Lanka

The Sri Lankan economy is primarily concentrated around the Colombo Metropolitan Region (CMR). The CMR has the largest urban population as well as the highest level of urban population in the country. As a result, it also records higher economic density as well as higher productivity. The CMR has had a population increase from 3.9 million in 1981 to 5.8 million in 2012. The region comprises only 6 per cent of the total land mass, but contains 28 per cent of the population, accounts for 45 per cent of GDP, and 73 per cent of the industrial production.[11] The Southern and Central Provinces are the second and third highest contributors to GDP, respectively.

Most of the foreign trade passes through the Colombo port. The CMR generates capital, technology, human resources, advanced services and human capital to increase economic growth and help create jobs for labour in other parts of the country. Although from a global or Asian perspective, Colombo is still minuscule, it is symptomatic nonetheless of other growth patterns across countries in Asia. Both the urban and economic density of the CMR is expected to increase as Sri Lanka moves into an upper middle income country.

Manufacturing activities which used to be heavily concentrated around the outskirts of the CMR, have now started to spread to other administrative boundaries. In 2001, the CMR accounted for 53 per cent of manufacturing employment but by 2009, the share had fallen to 43 per cent.[12] Manufacturing is becoming an integral part of the economies of Galle, Puttalam, Kegalle, Ratnapura and Matara districts. These districts are geographically adjacent to the



CMR, and are seeing increases in employment due to manufacturing sector activities. The expansion in the neighbouring districts is partly due to increased costs of inputs and land associated with urbanization of the CMR. The spread to outer regions is being supported by developments in the road network, including recently constructed highways. The end of the conflict also provided opportunities to develop urban centres in the Northern and Eastern Provinces. The infrastructure in those regions was damaged and destroyed, with Trincomalee and Ampara recording the lowest infrastructure competitiveness.[13] More investments on urban infrastructure in these newly revitalized districts, including Jaffna, hold out the potential to increase trade, fisheries, agriculture and tourism in Sri Lanka.

[11] World Bank and UNHABITAT (2012), "Turning Sri Lanka's Urban Vision into Policy and Action", World Bank, Colombo.

[12] *Ibid*.

[13] ADB (2006), *Urbanization and Sustainability in Asia: Good Practice Approaches in Urban Region Development*, Asian Development Bank, Manila.

Tourism has been a source of economic growth in urban locations in the South and Central Provinces. It is now extending to the Eastern Province as well. The urban centres of Kandy, Galle and Trincomalee are of tourist importance and contain World Heritage Sites. Galle and Trincomalee are the most popular beach tourism destinations in Sri Lanka. Agricultural industries are important sources of economic growth for the Central, Sabaragamuwa and Southern Provinces. Handicraft manufacturing is a developing industry particularly in the Central Province that can benefit from rising numbers of tourists as it develops into a major urban centre. Improvements in urban infrastructure will also help the Northern, Eastern and North Central Provinces to raise economic growth from agricultural activities.

Thus, an urbanization process centred on the CMR, tourism and world heritage areas, agro-process industry-based regions, and areas that are recovering from the conflict holds the potential to support economic growth and development. In order to cater to the urban infrastructure demands in these regions, Sri Lanka should have a clear policy direction and a plan. The rising urban population will demand not only more urban infrastructure, but better environment and socio-economic conditions. In this context, the importance of greenery in urban infrastructure needs to be given due recognition with special emphasis on developing Sri Lanka's urban vision with more green infrastructure. The next section elaborates on current efforts to develop the country's main metro regions.

7.3.2 Sri Lanka's Urbanization Vision

As Sri Lanka aims for rapid economic growth to move up the middle income ladder, it will be accompanied by some structural transformation of the economy, with increased diversification away from agriculture and towards the industrial and services sectors. As part of the efforts to support such developments, Sri Lanka aims to focus on five metro regions - Colombo, North-Central, Southern, Eastern, and Northern - and nine metro cities - Ampara, Anuradhapura, Batticaloa, Colombo, Dambulla, Hambantota, Jaffna, Polonnaruwa, and Trincomalee.[14] These regions will be connected and integrated to become a country-wide system of cities. Thus the regions may grow together, but perhaps with different areas of specialization and different sizes.

Sri Lanka aims to focus on five metro regions – Colombo, North-Central, Southern, Eastern, and Northern – and nine metro cities – Ampara, Anuradhapura, Batticaloa, Colombo, Dambulla, Hambantota, Jaffna, Polonnaruwa, and Trincomalee.

The plan also takes into account sustainability. Environmental and cultural assets are to be safeguarded to maintain and promote tourism in Sri Lanka. Greener cities are to be promoted to manage issues of climate change and increase the quality of life in urban areas. Another important aspect of the plans is to provide housing that is affordable and safe. The government plans to increase the housing supply by 100,000 houses per year, with special attention paid towards vulnerable groups to ensure equitable urban development.

[14] Department of National Planning (2010), *Mahinda Chinthana*: Vision for the Future, Ministry of Finance and Planning, Colombo.

There are several major challenges related to the above urban development activities. These include (1) ensuring a sustainable urban environment, urban security, and addressing capacity gaps at the local government level; (2) improving access to basic infrastructure such as water, sanitation, drainage, paved footpaths and electricity; (3) addressing bottlenecks in local investment climate, productivity and competitiveness; (4) reducing poverty and inequality among low income families in urban areas; and (5) creating enough jobs. Therefore, any urban development policy for Sri Lanka must take into consideration these factors and address them in a sustainable manner.

At present, government efforts to address urbanization is focused on three key areas: mega development projects, urban regeneration projects, and city beautification and town centre development projects. All these development efforts are handled by the Urban Development Authority (UDA) under the Ministry of Defense and Urban Development, which is the apex body that overlooks all urban infrastructures in Sri Lanka. Investments for these projects are from the government itself, but there are many public-private partnerships, as well as private investments. All three key areas of urban development are considered as equally important by the government.

There are more than 15 mega development projects associated with the town centres in Sri Lanka. Urban regeneration efforts include the construction of 30,000 low cost housing units within the next three years and another 40,000 units during the following three years. These are intended for relocation of households presently located in under-served settlements in the city of Colombo. In addition, urban housing requirements for middle income and high income groups are overseen by the National Housing Development Authority (NHDA). The NHDA recently made available its National Housing Policy for Sri Lanka, aiming to provide sustainable and adequate housing for all the citizens of the country.

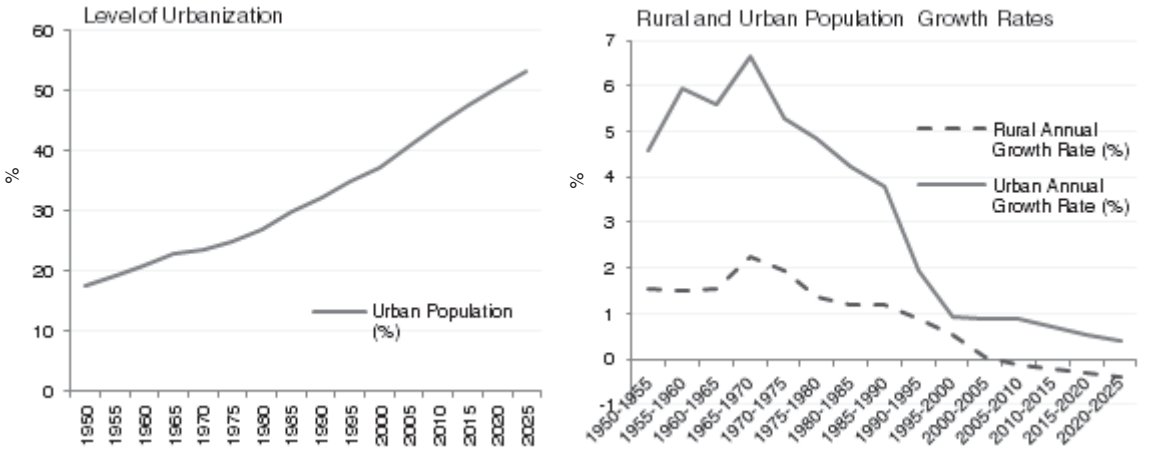
Thus, there are many development efforts under way according to the government's vision on a successful urbanization process for Sri Lanka. The government's goal is to develop a systematic network of settlements and cities in the country that are effectively linked with each other and with the rest of the world.[15] As a first step, it must aim to be an example in managing urbanization in the context of Asia. Therefore, in managing urbanization in Sri Lanka, it is important to reflect on the Asian context of urbanization.

Box 7.1
Colombo City Beautification

As a part of the Colombo City Beautification project, the former 17th Century Colombo Dutch Hospital was transformed and restored into an arcade for restaurants and shopping malls. This was opened to the public in December 2011, with the second phase completed and opened to the public in June 2014. The Old Race Course restoration project was finished in two stages and was opened to public in March 2014 with several restaurants and a shopping mall. The restoration of the Arcade Independence Square was completed and opened in July 2014. This too accommodates shops, restaurants and a state-of-the-art cinema hall. The Beira Lake Restoration project currently underway will comprise of a boat service, a floating market, a public park and a scenic driving area when completed. In addition, the Colombo City Beautification project has seen a 'greening' of the city, including parks for leisure activities.

[15] Department of National Planning (2010), *Mahinda Chinthana: Vision for the Future*, Ministry of Finance and Planning, Colombo.

Figure 7.2
Urban Population Trends in Asia



Source: UN, Department of Economic and Social Affairs, Population Estimates and Projections Section.

7.4 Urbanization: The Asian Context

The urbanization of Asia is a result of industrialization, and hold out the potential of greater economic growth for the countries that have managed urbanization successfully. As already mentioned, while the newly industrializing countries such as China and India still do not have a majority urban population as yet, the Asian tiger economies such as Singapore, Taiwan and South Korea have already reached this landmark. By 2025, over 53 per cent of Asia's population is expected to be urbanized (Figure 7.2).

At present, approximately 37 per cent of the urban dwellers in the world are to be found in the East Asian and South Central Asian countries, which constitute the largest urban population globally. In 1950, East Asia had the largest urban population of 121 million, but this amounted to an urbanization level of only 18 per cent. Whilst the absolute urban populations were much smaller in other parts of Asia, the levels of urbanization were similar, apart from a slightly higher level of 26.7 per cent in the case of Western Asia. Over the following decades, these figures clearly changed quite rapidly, with rising urban populations. In fact, by 2030, East Asia is expected to record an urban population of 1,065 million people, with an urbanization level of 62.7 per cent (Table 7.1).

During 1950-2000, West Asia and South Eastern Asia recorded an annual urban population growth rate of 4.4 per cent (ranked 4th) and 4 per cent (ranked 6th), respectively, among other regions in

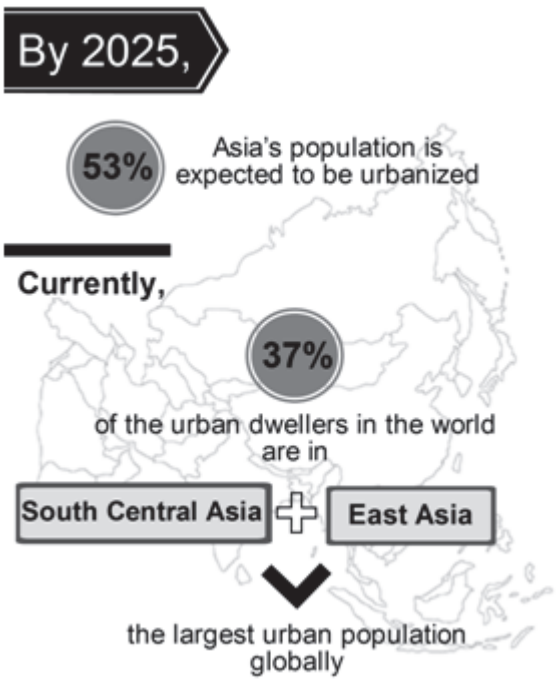


Table 7.1
Urban Population and Urbanization Level among Asian Regions

Asian Regions	Urban Population (millions)			Urban Percentage/Level of Urbanization (%)		
	1950	2000	2030	1950	2000	2030
Eastern Asia	121	617	1065	18.0	41.6	62.7
South Central Asia	83	441	969	16.6	29.8	44.0
South Eastern Asia	26	196	407	14.8	37.5	56.5
Western Asia	13	122	238	26.7	64.7	72.4

Notes: The level of urbanization is also known as the percentage of urban, which is the proportion of urban population out of the total population of a country/region. The rate of increase in the urban population is known as the urbanization rate and is calculated by the difference between urban annual growth rate and the total annual growth rate.

Source: UN (2001), "World Urbanization Prospects: 2001 Revisions", United Nations Population Division.

the world. By 2030, these growth rates are estimated to decline to 2.2 and 2.4 per cent, respectively. By 2030, among the Asian regions, South Central Asia will have the highest urban population growth rate of 2.6 per cent. At the same time, rural population growth rates will decline in the Asian region in the coming years. Between 1950 and 2000, East Asia recorded an annual rural population growth rate of 0.9 per cent, whereas South Central Asia recorded 1.8 per cent, South Eastern Asia 1.5 per cent and Western Asia 1.2 per cent. By 2030, these rates will decline to -1 per cent, 0.6 per cent, -0.1 per cent and 1 per cent, respectively. Figure 7.2 further illustrates the urban and rural population growth rates for Asia.[16]

There is an inverse relationship between the urbanization rate and the level of urbanization where the rate of urbanization decreases as the level of urbanization increases. By 2030, Western Asia will record an urbanization rate close to 0.4 per cent, while South Eastern Asia, South Western Asia and Eastern Asia will record an urbanization rate between 1.3 and 1.4 per cent. This is in line with the level of urbanization discussed in Table 7.1 as Western Asia has the highest level of urbanization among other regions of Asia.

By 2030, as indicated in Table 7.1, Eastern Asia will have a level of urbanization of 63 per cent and South Eastern Asia will have a level of urbanization of 57 per cent. However, these two regions will also have the second and third largest rural populations in the world by 2030. This implies that by 2030, the two most populous regions in the world with urbanization levels above 50 per cent will still have space for further improvements in urban population growth. However, these increase in urbanization present many challenges to Asia, ranging from economic, social to environment issues.

By 2020, two-thirds of the Association of South East Asian Nations (ASEAN) population will be residing within five Mega Urban Regions (MURs). These are Bangkok-centred MUR (30 million people), Kuala Lumpur MUR (6 million), Singapore Triangle (10 million), Java MUR (100 million) and Manila MUR (30 million). The key drivers of global economic growth in the coming years and decades is expected to originate in emerging economies across the world, including in Asia. To meet the requirements of urbanization and economic development, significant new investments in infrastructure is required, particularly in the Asian region.[17]

[16] UN (2001), "World Urbanization Prospects: 2001 Revisions", United Nations Population Division.

[17] Institute for Sustainable Communities (2014), "Urbanization, Infrastructure and Economic Growth in Southeast Asia", http://www.iscvt.org/news/urbanization-infrastructure-and-economic-growth-in-asia/, visited online, 30th April 2014.

One of the main requirements in addressing urbanization is the provision of infrastructure. For example, only 6 per cent of urban infrastructure requirements of the ASEAN region are met as of today.[18] More needs to be done in terms of developing airports, seaports, and roads. While some countries are still lagging behind, there are Asian countries that have been successful in meeting the challenges of urbanization.

Urbanization in Asia has had certain similar characteristics. Countries that were previously agrarian-based have now become industrialized and experienced higher rates of urbanization. But, mismanagement of urbanization also leads to complex issues that need to be dealt with across Asia.[19] There are issues with the informal sector in many countries, especially in slum and squatter areas. Issues of pollution and congestion are also prevalent across Asia. While outcomes can be unique to individual countries, there are certain aspects that are common to many countries.

7.4.1 Best Practices of Urbanization: Lessons from Other Asian Countries

Many Asian countries have had successes in handling urbanization during the last several years. Their success hinges on in reaping the benefits of urbanization while mitigating the economic, social and environmental issues. The experiences provide many best management practices that Sri Lanka could also reflect on. This section highlights the efforts of some Asian countries such as China, Japan, Malaysia, and South Korea. India is also a country that is in the process of addressing the issue of urbanization in a similar context to Sri Lanka.

China

China is probably one of the fastest urbanizing countries in the world. Until 1978, migration to cities was effectively checked by the centralized state planning system, the household registration system and the commune system in agriculture.[20] The centralized planning system was the most important mechanism for the allocation of resources. The primary goal of the household registration system, which divided the population into rural and urban residents, was to control migration, but it also led to differences in employment, welfare and insurance entitlements among urban and rural populations.[21] The commune system existed throughout the countryside and had a crucial impact on all aspects of rural life. The commune system was not only a means to organize production; it also represented the lowest level of central state administration.[22]

China's economic reforms from the late 1970s greatly reduced the significance of the state planning system and the commune system. Economic reforms brought about rural industrialization which required facilities such as health and education. These activities have strengthened the urban-rural relationships, helping to bring about a rapid urbanization process in China. However, there are several unique characteristics of China's urbanization which also reveals the problems associated with urbanization.[23] These characteristics include: (1) a high rate of urbanization; (2) a large and growing urban-rural income gap; (3) too many cities, too few people; (4) skewed economic structure of cities; and (5) an emerging urban hierarchy.

Thus, China's urbanization process highlights pitfalls to be avoided. Urbanization in China was

[18] *Ibid*.

[19] Asian Development Bank (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

[20] Reino, H. (1998), "Urbanization: Its Global Trends", *Economics and Governance*, Vol. 26.

[21] Henderson, V, J. (2009), "Urbanization in China: Policy Issues and Options", China Economic Research and Advisory Programme, Brown University and NBER, US.

[22] Kojima, R. (2007), "Urbanization in China", *The Developing Economies*, Vol. 33, No. 2, pp. 151-154.

[23] *Ibid*.

fuelled by rural industrialization and restrictive labour regulations in order to manage urban and rural labour movements. However, China's industrialization process attracted only a few industries to small and medium urban centres. The main cities with larger industries absorbed most financial and other resources, leading to skewed urban development. At the same time, it also led to urban areas with fewer people, limiting the productivity of urbanization in these regions.

Japan

Japan already has a high urban population, and it is expected to increase further. The urban population percentage of Japan stands at 95 per cent at present, rising from 53.4 per cent in 1950. Even though the urban population percentage appears to have plateaued, it is expected to increase to a level approaching 100 per cent. The urbanized population in Japan has had a positive impact on economic growth in Japan, with the industrialization process playing a major role. The growth of urban areas is associated with the increase in human capital, rents and wages per worker, and hence contributing positively to overall growth in the economy.[24]

The development of solid transportation systems and fast economic growth from the 1950s to the 1970s saw the net migration rates of Tokyo, Osaka, and Nagoya increase significantly, allowing them to emerge as the three main regions. Japan's economic development with a successful urbanization process is strongly attributed to the transport infrastructure system that was put in place. Tokyo developed its railway system when it had a smaller urban population percentage, whilst considering the requirements of future urban population growth. At present, the average distance from station to station is around 0.6 miles. Almost all areas inside the subway line can be easily accessed on foot. Therefore, urban citizens were given enough access, allowing their travel time to go down remarkably, and making each citizen's participation in economic activities that much easier.[25] Thus, a key message from Japan's successful urbanization is the importance of a well-planned transportation system to support productive economic activities in an urban setting.

Malaysia

Malaysia's urban population is primarily concentrated around six major centres of Kuala Lumpur, Georgetown, Kota Kinabalu, Johor Bahru, Kuantan, and Kuching. Future expansion is also expected to be centred around these main metropolitan regions.[26] In 1970, the government made significant policy changes encouraging the movement of bumiputras ('sons of the soil') towards urban centres, to be absorbed into urban-based employment in order to eliminate the economic differences between the Malays and the non-Malays. This changed the population structures of the major city areas, especially Kuala Lampur where 57 per cent of the population was migrants from rural areas. As Malaysia began to pursue export-oriented industrialization from the 1970s, it brought about significant changes on the economic front and urbanization. It led to an influx of FDI projects and export-orientation efforts which encouraged the development of FTZs and which saw the movement of people from rural to urban areas. Consequently, about two-thirds of all approved FDI projects were located in the three major urban nodes of Kuala Lumpur, Johor Bahru and Penang. Thus, an inevitable directional bias in the migration stream towards the major urban nodes marked the rapid industrialization in the country.[27]

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[24] Eaton, J., and Z. Eckstein, Z., (1997), "Cities and Growth: Theory and Evidence from France and Japan", *Regional Science and Urban Economics*, Vol. 27, No. 4, pp.443-474.

[25] *Ibid*.

[26] Thong, L. B. (2005), "Urban Development in Malaysia: The Case for a More Holistic and Strategic Approach to Urbanization", paper presented at a conference on "Urban and Peri-Urban Developments: Structures, Processes and Solutions", University of Cologne, Germany, 16-19 October, 2005.

[27] Yusoff, R. B. B. (2013), "Urban Development Challenge in the Malaysian Context", Economic Planning Unit, Prime Minister's Office, Government of Malaysia.

In 2013, Malaysia released its Tenth Malaysia Plan (MP10). With cities estimated to have three times the productivity of rural areas, the MP10 identifies 12 National Key Economic Areas (NKEAs), most of which are sectoral, but one of which is Malaysia's largest urban centre - i.e., Greater Kuala Lumpur.[28] Malaysia is concentrating its urban transition to the 12 NKEAs rather than developing urban centres all over the country. Another unique feature is Malaysia's commitment to providing adequate and sustainable houses for its urban citizens.

South Korea

While Tokyo started its urbanization with one million people, Seoul, one of the largest urban settlements in the world today, started its urbanization with only 190,000 people.[29] As an Asian tiger economy, South Korea had undergone significant industrialization as well as rapid economic growth.[30] By 1985, the largest cities in South Korea were Seoul (9.6 billion), Pusan (3.5 billion), Taegu (2 billion), Inch'on (1.4 billion), Kwangju (906 million), and Taejon (866 million). Urbanization in South Korea is highest in Seoul and the coastal cities of Pusan, Masan, Yosu, Chinhae, Ulsan, and P'ohang. The reason for urbanization in South Korea has been attributed to spatial polarization, dominance of large cities and urban restructuring.[31] The major reasons for urban migration have been identified as new employment or seeking a new job, job transfer and business opportunities, education opportunities, and convenience of living.

South Korea identified a few key regions for rapid urbanization through a master plan that was the cornerstone to their success in urbanization. To alleviate overcrowding in Seoul's downtown area, the city government drew up a master plan in the mid-1980s that envisioned the development of four 'core zones' by 2000. Satellite cities were built around the main urban areas with adequate transportation facilities, allowing people to commute to and from the satellite city. Another policy measure found in South Korea is building more high-rise apartment complexes as a means of dealing with land issues and keeping urban areas affordable to a larger part of the urban population.

India

With the second largest population in the world, India appears to be in the midst of an urban crisis with a rapid population increase and economic development.[32] India has under-invested in its cities in the past. To fulfill its urban vision, India will have to build 700 to 900 million square metres of floor space per year and 350 to 400 kilometres of metropolitan railways and subways per year.[33] If India can meet the challenges of urban development, there is enormous potential to benefit from an expected 250 million people in the working age population.

The issues associated with urbanization in India can be broadly categorized into those of inadequate infrastructure, growth mismanagement, and social divisions. One factor that ties in all of the elements is urban informality in India. In India, urban planners often underestimated the infrastructure requirements of the growing cities. To make things worse, the state gave authority to private contractors to build and manage urban infrastructure which at the end left the state with limited control.[34]

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[28] Government of Malaysia (2013), "Tenth Malaysia Plan", Economic Planning Unit, Prime Minister's Office.

[29] The dislocation caused by the Korean War accounted for the rapid increase in the urban population during the early 1950s. During the post-Korean war period, rural people left their ancestral villages in search of greater economic and educational opportunities in the cities.

[30] Korea's rapid urbanization was made possible mainly because of a drastic change in its economic structure from an agrarian economy to an industrial economy. Nearly 80 per cent of the labour force was employed in the agriculture sector in 1960, but by 1996 this figure had fallen to 12 per cent.

[31] Choe, S, C. (1998), "Globalization and Urbanization in Korea", abstract presented at the Tokyo Workshop organized by the World Bank, 31 November to 1 December 1998, Tokyo, Japan.

[32] Dobbs, R. and S. Sankhe (2010), "Comparing Urbanization in China and India", *McKinsey Quarterly*, pp. : 1-3.

[33] The Planning Commission of India (2013), "The Challenges of Urbanization in India: Approach to the 12th Plan", Government of India.

[34] Roy, A., (2009), "Why India Cannot Plan its Cities: Informality, Insurgence and the Idiom of Urbanization", *Planning Theory*, Vol. 8, No. 1, pp. 76-87.

Other issues of urbanization in India include those of the predicted increase in urbanization and likely consequences to the environment, ecology and sustainability. There are issues associated with increased water and air pollution. Urban ecosystems are vulnerable to invasive species of both flora and fauna. There are other challenges due to the scarcity of water. Coastal cities and cities near rivers will have issues of flooding. The most vulnerable urban residents tend to be the poor. Issues of solid waste management also plague Indian cities and affect various ecosystems of India.[35]

In managing issues of rising urbanization and unplanned city development, India initiated a sustainable cities programme. Under this, city governments were given a constitutional status and were separated from provincial governments; state governments could not suspend or override city governments; Wardens and Councillors were to be elected; there were constitutionally defined powers for civic bodies; and city governments would collect taxes, duties and tolls which will be levied and the state finance commission would decide the resources allocation. There was also the development of sustainable technology programmes such as low cost sanitation, low cost housing, and rain water harvesting to help further alleviate urbanization related issues.[36]

Public-private partnerships (PPPs) can be an important means of developing infrastructure required by urban areas. India plans to develop infrastructure and urban services through PPPs.[37] PPPs can promote sustainability of urbanization projects, while urban development and governance may also become easier. There are many PPP initiatives for achieving India's urban vision. However, there are some major concerns. Examples from the water sector in Maharashtra and Kerala states in India show that private companies when given authority can impose an additional burden on people by focusing only on profit making. In these cases, even though the government was supposed to be the 'guardian' of the project, private parties were allowed to increase tariffs, and impose many restrictions on the usage of water, limiting the accessibility to the utility services by urban people.[38] Official corruption is another main factor affecting PPP initiatives in India. Most of India's PPP attempts in the road development and power sector are prone to official corruption.[39] Therefore, India's experience also shows that the infrastructure management should be done very carefully. It is important to ensure control over projects and programmes so that people's welfare is always guaranteed and mismanagement of funds are minimized.

As the examples discussed above show, each country has its own strategy in dealing with urbanization. Their attempts are shaped by the socio-economic context of the country, economic resources and population growth rates. However, Sri Lanka can draw up on these experiences, especially in view of renewed policy attention on urbanization. The next section looks at Sri Lanka's current development efforts in urbanization and their relationship to the urbanization efforts across Asia.

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[35] Aggarwal, S. and C. Butsch, (2011), "Environmental and Ecological Threats in Indian Mega Cities", Applied Urban Ecology: A Global Framework, pp. 66-81; Narain, V. (2009), "Growing City, Shrinking Hinterland: Land Acquisition, Transition and Conflict in Peri-urban Gurgaon, India", *Environment and Urbanization*, Vol. 21, No. 2, pp. 501-512; Nagendra, H., et al., (2014). "Urbanization and its Impacts on Land Use, Biodiversity and Ecosystems in India", *INTERdisciplina*, Vol. 2, No. 2, pp. 305-313.

[36] Chakrabarti, P. D. (2001), "Urban Crisis in India: New Initiatives for Sustainable Cities", *Development in Practice*, Vol. 11, Nos. 2-3, pp. 260-272.

[37] Ministry of Urban Development (2013), "New Models of PPP to Improve Urbanization", Government of India, http://pib.nic.in/newsite/PrintRelease.aspx?relid=98678, visited online 4th May 2014.

[38] Dongol, Y. (2013), "Intensive Public-Private Partnership for Sustainable Urbanization of Cochin", Center for Public Policy Research, India.

[39] Xu, B. (2014), "Governance in India: Infrastructure", Council on Foreign Relations, US.

7.5 Sri Lanka's Urbanization Efforts: The Attempts and Lessons

Just like Malaysia, Sri Lanka is also investing in urban housing development. These housing efforts are targeted at vulnerable groups, middle income as well as high income groups of the metro cities. Housing for vulnerable groups is a joint effort by the UDA and the NHDA. People who live in slums and shanties are to be provided with 70,000 housing units. This is under way, and is expected to be completed in the next six years.

Housing requirements of all other income groups are being managed by the NHDA. Adequate and sustainable houses for one million families are to be provided through the 'Jana Sevana National Million Houses and Human Settlement Development Programme' and the 'Nagamu Purawara' housing development programme. This programme, while among many other areas, will also look into the housing needs of the poor and lower middle income groups in urban areas. The programme is geared in such a way that banks and other financial institutions are linked to provide financial assistance for poor and lower middle income groups to start building their homes, while making continuous government assistance available. Additionally, these housing efforts are focused on applying low cost and green technologies, which suit the environment and energy demands of the country.

Housing for upper middle income groups are mainly supported by their own savings, but here again, the NHDA is geared to provide necessary assistance for them to secure financial assistance from banks. Housing demand for a portion of the upper middle income and the high income groups are mostly met by private housing contractors. There are many housing development projects and condominiums in the urban areas of Sri Lanka, with many more planned and under construction. Sri Lanka has thus been successful to an extent so far in addressing urban housing needs. However, there is much to be done in the coming years. Despite the efforts by many government institutions to expedite housing for the urban poor and vulnerable, there are some concerns. Where the re-located housing involves a transition from 'horizontal housing' to 'vertical arrangements', there will be considerable adjustments to be made, both in terms of livelihoods, community living, etc. For many urban poor, livelihoods are very closely linked to the place they live. Furthermore, unless the aim is to provide adequate housing for all urban poor and vulnerable, the selection of beneficiaries is also going to be a tedious task with concerns over equity and transparency.[40]

Both Japan and South Korea were successful in managing urbanization with the investments they made on infrastructure development, especially the railways and road systems. Sri Lanka's situation is somewhat similar. As mentioned earlier, Sri Lanka is focusing on the development of five metro regions and nine metro cities. All these regions and cities are being connected through a well-developed road network and a railway system. The Ministry of Transport launched its flagship project recently - Urban Transport System Development Project for Colombo Metropolitan Region and Suburbs - that aims to meet the road and railway development needs in urban areas. Both the road and railway systems are focused on 'transit- oriented development' to minimize congestions and reduce the commuter time.

Under the National Road Master Plan for 2007-2017 released in 2007 by the Road Development Authority (RDA), highways are being built at a rapid pace, connecting all the metro regions of the country.[41] Therefore, just like Japan and South

[40] Rabenhorst, C, S. (2011),"Gender and Property Rights: A Critical Issue in Urban Economic Development", International Housing Coalition, US.

[41] RDA (2007), "National Road Master Plan 2007-2017", Road Development Authority, Ministry of Highways and Road Development, Colombo.

Korea, Sri Lanka has identified the urban area and cities to be built to achieve its urban vision, and is rapidly investing in and constructing the necessary road and railway networks.

Disaster preparedness and management is also a major component of urban development efforts. Managing heavy rains and floods and solid waste generation to avert socio-economic impacts of disasters is important. Under the UDAs 'Metro Colombo Urban Development Project', five key Municipal Council areas of the CMR are being developed as urban centres. Just as in India, PPPs are one of the main frameworks that the government of Sri Lanka is pursuing. Many of these partnerships are focused on building urban infrastructures such as buildings, houses and transportation systems. There are several PPP initiatives in the areas of water supply and sanitation facility developments that have proven to be successful. However, more effort is needed to build joint investment initiatives.[42]

China used industrialization to promote urbanization and economic growth. Sri Lanka's urban population is still at a low level, but increasing. In order to have a successful and sustainable urbanization process, industrialization in urban as well as rural areas is necessary to allow the movement of labour from lower productivity areas to higher productivity areas. Growing employment opportunities are not the only reason to boost industrial urbanization. Apart from financial income, transport facilities, close proximity from dwelling to working place, modern living styles, education services, housing and other facilities on offer to the new rural migrants are some of the other pull factors for industrial urbanization.

However, rising environment pollution, land degradation, increasing land and housing prices in urban areas, increasing slums in urban cities, etc., pose many challenges to the urbanization process. In order to overcome these challenges and have a successful urbanization process in Sri Lanka, some policy measures are proposed below.

Strengthen municipal authorities

Due to the centralized nature of municipal authorities, there are issues of inadequate funds, incentives and human resources.[43] Thus, issues of urbanization may not be completely dealt with, as roles and responsibilities overlap creating a degree of confusion. There is also lack of coordination between different authorities. Issues of finance and resource allocation also arise due to the mismanagement of roles and responsibilities. Human resources are another problem area as there may not enough technical knowledge and staff to provide the required services. The CMR produces the highest amount of solid waste per day at more than 100 Mt. However, neither the Colombo Municipal Council nor the Western Province solid waste management authorities have the necessary financial, human and technical capacity to handle this waste generation. As a result, solid waste management in the main urban city of Sri Lanka is a major problem. This situation is not limited to Colombo, and can be seen in all other satellite municipalities in Sri Lanka. If Sri Lanka were to achieve a successful urbanization, these municipalities have to be strengthened financially, technically and in terms of human resources.

Address economic and environmental costs

Sri Lanka must also adequately address increasing economic and environmental costs of urban development. There are problems associated with the low density sprawl and ribbon development that include economic inefficiency and environmental unsustainability. Urbanization demands

[42] Rajapakse, G. (2013), "Develop Clean Green People Friendly Cities", *Sunday Observer*, http://www.*Sunday observer*. lk/2012/10/07/fea01.asp, visited online 4th May 2014.

[43] World Bank and UNHABITAT (2012), "Turning on Sri Lanka's Urban Vision into Policy and Action", World Bank, Colombo.

transportation services.[44] Inadequate provision of such services and environmental unsustainability can place bottlenecks on urban infrastructure services. Poor land use is making urban areas more prone to natural disasters. Such exposure makes planning for urbanization more difficult, and at the same time erodes the competitiveness of cities. The origins of natural disasters such as landslides and heavy floods are most of the time associated with land usages. Inefficient and unauthorized housing and settlement projects can create more devastating results with natural disasters. Therefore, Sri Lanka needs to carefully consider the status of land usages, housing conditions and possible exposures to natural disasters such as floods and landslides in making urban development plans. The CMR was significantly affected by heavy rains in the recent past. Subsequent efforts saw many water canals being cleaned and reconstructed so that heavy rains can take water to the sea without creating floods. Many shanty houses in Colombo were removed and people were given safe housing. However, there is more to be done to ensure environment sustainability and better provision of services.

Develop railway systems and roads

Sri Lanka has a largely connected road network, but the railways are not as well developed. Many people commute to Colombo for employment, with vehicles entering the city on the rise. In order to address the resultant road congestion, a highway network for vehicles to bypass Colombo city when moving to other areas is under construction. Roads within the Colombo city as well as access roads are being widened. These efforts will reduce commuter time, while saving time and money. In an ideal situation, like in most of the countries that have successfully addressed urbanization, transportation systems play a major role with public transportation being the most frequently used medium of travel. In Sri Lanka, the use of private transportation is still high, mainly owing to poor public transportation services. The use of private vehicles is also a major source of environmental pollution. Hence, a strong public transportation system is needed to address these problems.

Green cities

Ensuring a greener environment is essential for urban development in several ways. This will help to minimize environmental degradation, limit adverse impacts of natural disasters and climate change, and will improve the aesthetic value of urban areas. Like in South Korea, it is important to establish green areas in Colombo and other metropolitan regions of Sri Lanka. The government has taken many steps to improve the greenery of the Colombo city through the 'Colombo City Beautification Project'. Similar efforts are to be expended on another 20 urban areas in Sri Lanka. The Ministry of Environment and Natural Resources is also planning to have more trees in all metropolitan areas in Sri Lanka as a means of improving the greenery, as well as reducing levels of air pollution. With GHG emissions on the increase, with metropolitan regions being the main sources, establishing steps to mitigate the future impacts are quite important for Sri Lanka. Since Sri Lanka is an island, establishing green areas around the coastal belt is also important so that the impacts of natural disasters can be mitigated in the future. In spite of efforts made to establish green belts after the 2004 Asian Tsunami, houses are once again being built close to the coastal line. Hence more investments and attention has to be given to ensure urban centres close to the coastal line have a proper green belt as a protection.

Provide safe and affordable housing, safe drinking water and sanitation

The percentage of Sri Lanka's population with safe housing, access to safe sanitation facilities and access to safe drinking water are above 90 per cent.[45] However, housing prices are much higher

[44] *Ibid*.

[45] CBSL (2013), "Economic and Social Statistics of Sri Lanka", Central Bank of Sri Lanka, Colombo.

in urban areas, limiting the ability of low income households to secure housing, sanitation and water facilities. The government, as well as many NGO/INGOs, is working to provide housing facilities for low income groups in urban areas. But, there needs to be better coordination between these groups. Sri Lanka has launched a 'Sustainable Housing Programme' to provide safe houses, water and sanitation for low income groups in urban areas, especially in Colombo, but more investments and coverage is needed. Banks are reluctant to provide loans for low income groups for housing facilities and request collateral and clear land titles which most low income households in urban areas are unable to provide.[46]

Encourage PPPs

Sri Lanka is already making large investments in improving urban infrastructure in the CMR as well as other urban areas. Urban infrastructure is expensive, making it difficult for the government alone to meet the demand. Hence, PPPs are useful. Sri Lanka is already engaged in PPP activities in providing housing, water and sanitation; managing solid waste; and building roads and other transportation systems.[47] However, there should be proper management and coordination among the state and private entities in order to make these efforts a success. Corruption and inefficient management can be two major things that can bring down PPP efforts. Therefore, while expanding the use of PPP, it is also important that a proper regulatory body is in place so that neither the private entity nor the public entity mismanages the PPP efforts in Sri Lanka.

Ensure an integrated and forward looking planning process

As India's experience shows, the lack of an integrated and forward looking urban planning process hampers a successful urbanization process. China also invested in too many urban cities with too little people. By contrast, Japan, South Korea and Malaysia did plan for the future, identifying the importance of transportation systems, housing, and especially the development of key urban areas and supporting satellite urban areas. Hence, learning from these experiences suggest that Sri Lanka must develop a comprehensive urban development plan that looks into all aspects of socio-economics of urban dwellers, environment, financing, and physical resources. For example, most often, urban development activities call for an Environment Impact Assessment (EIA). However, most developed countries now have moved on to Strategic Environment Assessments (SEAs) which integrates urban development efforts linking all the elements of socio-economic, environment, finance and physical resource issues.[48] These integrated planning tools will allow Sri Lanka to identify and carry-out its urban area development, considering future population increases, traffic congestions, demand for wider roads and railway systems, air pollution and land degradations and impacts of climate change in a more effective, efficient and sustainable manner.

[46] Kelegama, S., (2013), "Sri Lanka's Vision of Urban Development", *Financial Times*, http://www.ft.lk/2013/05/17/sri-lankas-vision-of-urban-development/, visited online 2nd May 2014.

[47] UNHABITAT (2014), "Sustainable Cities Programme in Sri Lanka: Sustainable Colombo Core Area Project", http://www.fukuoka. unhabitat.org/programmes/scp/sri_lanka/detail01_en.html, visited online 2nd May 2014.

[48] Rodrigo, P. C. J. and L.H.P. Gunaratne (2008), "Strategic Environment Assessment as a Subsumable Tool for Urban Solid Waste Management Problem", Proceeding of the International Conference on Business Management, Vol. 5

8. Learning from Asian Best Practices in School Education

8.1 Benchmarking Best Practices in School Education

The most recent Programme for International Student Assessments (PISA) results released in December 2013 revealed that most of the best performing school systems are situated in Asia. Shanghai-China was the best performer in Mathematics followed by six Asian countries including, Singapore, Hong Kong-China, Chinese Taipei, South Korea, Macao-China, and Japan. But this result was not limited to Mathematics. The release of PISA results has unleashed a plethora of articles that seek to understand the reasons behind the success of the Asian countries in teaching children.

Along with the drive for innovation-led growth across countries, the global competition for skilled workers has intensified. This is evident in the migration policy changes of advanced countries favouring skilled workers. A new survey conducted by the Organization for Economic Cooperation and Development (OECD) in assessing adult skills shows that, adults with poor Mathematics skills limit individuals' access to better paying, more rewarding jobs.[1] Further, unequal distribution of Mathematic skills has a negative influence on the wealth of nations. In this backdrop, countries have also turned greater attention to improving their own education systems to produce skilled graduates. Countries are increasingly looking beyond their borders to learn from best practices in education and to find solutions for their education system problems.

PISA, a tool for assessing students across countries, was conceptualized in the mid-1990s by the OECD, and the first PISA survey was conducted in 2000.[2] Since then, a PISA survey has been conducted every three years covering OECD member countries and other partner countries. The PISA was designed to assess 15 year old students across the globe for their competencies in reading, mathematics, science and problem solving. This assessment is different from normal exams, in that, it is not meant to examine how well students know what they have learnt, but it tries to assess how well they can use that knowledge to solve problems situated in unfamiliar settings.

PISA identifies several policies and practices that contribute to the success of school systems.[3] The results indicate that resources are important for improving educational outcomes. But, this is only up to a limit. After a certain point, injecting further resources will have marginal impacts on the educational outcomes. As much as the amounts that are invested in education, the way resources are allocated is also important. For example, the high performing school systems are more equitable

[1] OECD (2013), "PISA 2012 Results in Focus", Organization for Economic Cooperation and Development, Paris.
[2] OECD (2014), PISA FAQ, available at http://www.oecd.org/pisa/aboutpisa/pisafaq.htm [accessed 9 May 2014].
[3] OECD (2013), "PISA 2012 Results in Focus", Organization for Economic Cooperation and Development, Paris.

across schools coming from a variety of socio-economic backgrounds. The more successful school systems have schools that are better staffed and better equipped. Schools that have better autonomy over how they set the curriculum and how they assess students, perform better. Better schools tend to self-evaluate their performance and use student assessments to compare themselves to the performance of other schools in their districts or countries. Schools where students come to class late or are often absent tend to perform less well than other schools.

This Chapter compares the policies and practices of the education system in Sri Lanka with that of the best education systems in the world to assess differences and recommend changes. It raises several key questions: how are the education system practices different in Sri Lanka from that of the best performing school systems? What practices can improve teacher quality and distribution in the education systems? How can Sri Lanka improve equity in the education system? How are the best education systems financed and governed? How can education providers be made accountable to the performance of students? These are some of the questions that will be explored in this Chapter.

8.2 Teacher Quality Matters

One key feature that differentiates teachers in high performing school systems from the others is the quality of the teachers. High teacher quality results from a variety of policy measures taken by policy makers. The key measures identified from the review of literature on PISA results are summarized below.[4]

8.2.1 Better Compensation and Status Attracts the Best

In most of the successful school systems, teachers are highly respected, and teaching is a highly

One key feature that differentiates teachers in high performing school systems from the others is the quality of the teachers.

sought after occupation. This is partly due to relatively high compensation received by teachers. In South Korea teachers are paid well. The starting annual salary (US$ 30,401) of a new teacher in South Korea is close to the OECD average (US$ 31,687), while the highest paid teachers receive salaries that far exceed the average (US$ 51,317) for top scale paid by OECD countries. Although teachers are paid slightly lower salaries in Japan, and the starting salary of a Japanese teacher is lower than the OECD average, the salaries of Japanese teachers in their mid and top career levels exceed that of the OECD average. Teacher salaries in Singapore are comparable with salaries of other professionals. The highest paid teachers can earn as much as twice the GDP per capita income of the country. The Ministry of Education periodically compares the teacher salary scales with other salary scales and makes adjustments to keep teacher salaries competitive. Successful teachers can earn retention bonuses and performance bonuses, some of which can be as much as 30 per cent of their base salary. The selections for these bonuses are done after rigorous evaluations, which also serve as a basis for teacher development. In 2009, the modal average annual salary for teachers aged 25-29 was US$ 43,563, which was slightly

[4] This section draws mainly from Center on International Education Benchmarking (2014), "PISA 2012", available at http://www.ncee.org/pisa-2012/ [accessed 8 May 2014].

higher than the OECD average of US$ 41,701. Teacher compensation depends on their position in the career path. Movement along the career path is based on performance and potential.

High teacher salaries are used to attract the best students to the teaching profession in the best performing countries. However, the selection process for recruiting teachers and for promotions, as described below, is also very rigorous in these countries. Thus, only the best are able to get access to the teaching profession, and they have to show continuous performance for moving along the career ladder.

8.2.2 Stringent Teacher Recruitment

In most successful school systems, ensuring teacher quality starts with recruitment. The best performers in the post senior secondary level exams are chosen for a career in teaching. For example, in South Korea students for different teacher education programmes are selected based on performance at high school and their performance at the College Scholastic Ability Test - a test taken by all high school students aiming to do higher studies. All elementary school teachers in South Korea are graduates of dedicated teachers' colleges (of which there are 11 in the country), while secondary school teachers can qualify in teachers' colleges or courses taken at departments of education at colleges or universities or through non-degree teacher training programmes conducted by colleges and universities. The competition for secondary teacher positions is high with only 30 per cent of all qualifying candidates securing a place. As a result, many good secondary school candidates opt to qualify as an elementary school teacher as the probability of finding a placement is higher for elementary school teachers. This has resulted in improving the quality of elementary school teachers as well. Those selected as elementary school teachers fall within the top 5 per cent of their graduating class. Teachers are hired based on a competitive examination held at the provincial or metropolitan level.

In China, there were no standard mechanisms for teacher certification prior to the 1980s. Teachers usually served their home community in rural areas, although it was a competitive occupation in urban areas. However, since a policy shift in the 1980s, teachers need to get certified in order to become a teacher. Certification happens in several steps. First, all aspiring to be teachers need to get their general education certification. Individuals aspiring to be elementary teachers need to get a certificate from a special secondary school. While those aspiring to be junior and senior secondary school teachers attend a two and four year junior colleges, respectively, after completion of their secondary education. But, a general education certificate at the secondary or tertiary level is not sufficient to become a teacher. They must also pass the National Mandarin Language Test, plus qualify in four exams covering pedagogy, psychology, teaching methods, and teaching ability. Graduate teachers who have covered these areas of study in their degree programmes are sometimes exempt from these exams. These requirements are more stringent in Shanghai-China, where all school teachers need to have a general certification in education (the level of this certification varies with the grade level they wish to teach), plus be certified in teaching, as well as have practical training in teaching.

Teacher recruitment is extremely competitive in Singapore. Candidates for teacher training are in the top three percentiles of their graduating classes. Only one in eight applicants is accepted for teacher training. The selection process is rigorous and includes interviews to assess the personal qualities of the candidates, and review of school records to assess contributions to school and community. School leaders are also of good quality as they are chosen primarily from amongst school teachers.

8.2.3 Teacher Promotions as a Means to Improve Performance

In many of the better-performing Asian countries, having well defined career paths, compensations

and promotions based on performance, and special incentives to encourage teachers to teach in difficult areas and challenging schools have resulted in encouraging the best candidates to enter the teaching profession, and allocating them across the system to achieving best results.

In Singapore, teachers can get promoted along three different career tracks - teaching track, leadership track and specialist track. Teachers in the teaching track can be promoted along their chosen career paths to become principals or master teachers, while teachers in the leadership track can work their way up to becoming the Director-General of Education. In the specialist track, teachers are focused on research and teaching policy and can move up the ladder to become a chief-specialist. As teachers move along the career path, they receive salary increases and opportunities to train and develop themselves. Newly recruited teachers are observed for three years before recommendations are made for a suitable career path for them. In China, movement up the career ladder is based on professional evaluations, which include evaluations on teaching methods (based on mock teaching sessions), ability to mentor and orient new teachers, and publications related to education and teaching. Teachers in Japan can expect to move up the career ladder from teacher to head teacher to principal, along a 36 steps career ladder. Promotions are based on performance and experience. In South Korea too, teachers are evaluated based on experience as a teacher, evaluation results, and research publications.

Most successful school systems do not stop with recruiting the best candidates. They also invest in training and developing those chosen for teaching to do their best.

8.2.4 Teacher Training and Development

Most successful school systems do not stop with recruiting the best candidates. They also invest in training and developing those chosen for teaching to do their best. Throughout the teaching career, teachers are provided guidance and support for teacher training. Successful teachers can move up the career ladder and expect better salaries and promotions.

In Shanghai-China, teachers are given space and are expected to undergo continuous development. One means of encouraging teachers to develop themselves is by allocating a significant proportion of their time for lesson planning. Teachers are provided with multiple avenues for development. One means of development is through peer support. Teachers regularly meet in small groups, according to their subject area and grade, to discuss teaching methods, conduct mock teaching sessions, and to comment and learn from each other. Teachers are also provided with facilities for self-development. For example, recently a web platform was launched in China so teachers can discuss curriculum ideas, teaching methods, and their research publications.

In Japan, since 2009, teachers are expected to renew their certification every 10 years, after undergoing professional development. This policy change has encouraged teachers to participate in professional development. Also, schools are able to not renew appointments of teachers who fail to upgrade or renew their certificates.

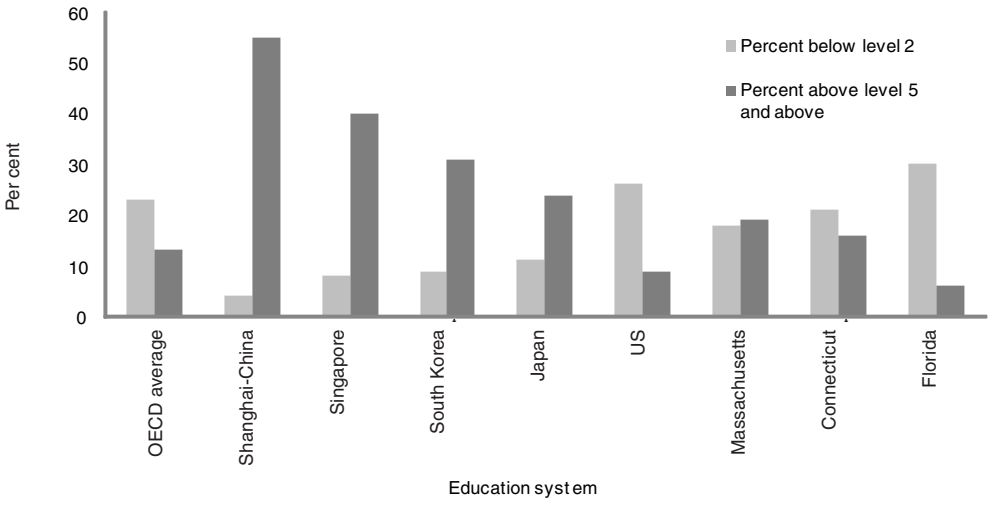
8.3 When All Benefit, the System Benefits

The best performing school systems did not succeed only because their systems produced more students that performed at a high level, but also because their systems had a very small proportion of students who performed at a low level (Figure 8.1). This is partly due to the strategic policies adopted by the best performing school systems 'to leave no one and no school behind'.

Over time, the best performing school systems have reformed to improve equity. The PISA results also show that the more unvarying school systems tend to perform better overall. The education system in Shanghai-China has changed in several ways to improve equity. In the past, Shanghai-China had a system of 'key schools', where selected schools received better resources than other schools. The students for key schools were selected based on exams. Given the privileges received by children in key schools, the competition to attend them was high. This resulted in children at very young ages spending more time preparing for exams than concentrate on learning. Shanghai-China has managed to overcome this problem by eliminating the special status enjoyed by key schools, and by requiring children to attend neighbourhood schools. This policy was not well received by parents. In order to overcome the parent concerns, now children are allowed to attend schools in other neighbourhoods, but for a fee. The policy of neighbourhood attendance for primary and lower secondary levels has lessened the attention given to exams. In order to alleviate inequity between schools, the government has invested in upgrading buildings and providing resources to underprivileged schools.

Some best performing school systems practice positive discrimination to improve equity. In South Korea, children from underprivileged families are more likely to be taught by better qualified teachers, than more privileged students. Teachers are also given various incentives to attend schools serving low income families. For example, schools with a higher proportion of children from low income families have smaller class sizes. The teachers

Figure 8.1
Proportion of Best and Worst Performing Students in Mathematics in Different Education Systems



Notes: PISA groups students into levels according to their capability in mathematics. The above figure shows the proportion of students performing at a very high level (level 5 and above) and a very low level (below level 2) in different countries and cities.

Source: Estimated based on OECD (2013), "PISA 2012 Results in Focus", Organization for Economic Cooperation and Development, Paris.

teaching them have higher salaries and lower instructional times, more credit towards future promotions, and a better choice in the location of their next school. Along with improving the quality of teaching children from low income families, South Korea also provides vouchers for children from low income families to attend extra curricular activities, and provides university scholarships. Singapore has started the Programme for Rebuilding and Improving Existing Schools (PRIME) initiative to renovate all schools built before 1997 to incorporate better science and computer labs and other facilities in the schools.

A challenge faced by most school systems is encouraging better teachers to move to rural areas and to teach in more challenging schools. The Shanghai government has taken steps to improve the quality of teachers and principals in underprivileged schools. In Shanghai-China, teachers are allocated to schools where they can make the most difference. Specific attention is given to ensure that the most disadvantaged schools have sufficient numbers of good quality teachers. On the one hand, these systems provide incentive programmes to attract better qualified teachers to the more disadvantaged schools. On the other hand, teachers in disadvantaged schools are sent for in-service training. In South Korea, teachers can earn bonus points for teaching in rural areas and teaching special education classes.

As with teachers, underprivileged schools are less likely to have better resources and better leaders. To overcome this problem, Shanghai-China has grouped schools. Each school cluster consists of a variety of schools with different performance levels. Each cluster is responsible for evaluating their resources and improving the performance of the whole cluster through resource sharing. For example, teachers and leaders from better performing schools within a cluster are sent to the less well performing schools, so that they can improve teaching and administrative capacity of the less well performing school.

A challenge faced by most school systems is encouraging better teachers to move to rural areas and to teach in more challenging schools.

Children learn not only at school. A major part of their learning takes place at home. Students from poorer socio-economic backgrounds are less likely to get support for their learning process for several reasons. Either, the parents of underprivileged children are more likely to be less educated than their counterparts. They are also more likely to have less time to invest in their children's education. Further, they are more likely to come from troubled home fronts, where the home environment is not suitable for learning. Some countries with best performing school systems have taken steps to support families to help children. Singapore has a unique programme to help families with special needs through community support. Local community councils are set up to identify and help families needing special help. In Shanghai-China, teachers meet with parents several times a term to brief them on what the children are learning. In some schools, parents are taught how to support children to learn.

8.4 Education Finance and Governance

There is no clear relationship between the amount of spending on education and the performance of the education systems. Some of the best performing education systems invest a lot on education. For example, South Korea spends 6-7 per cent of its GDP on education. This is far above the OECD average of 5-9 per cent of GDP on education. However, some countries spending below the OECD average level such as Hong Kong and China - spending 4.4 per cent and 3.3 per cent of GDP on education, respectively - are also amongst the best performers in education. Some of these low spenders on education, realizing the need for better funds in the sector, are reforming laws and regulations to improve investments in education. For example, in recent times, China has increased resources for education through the promotion of private schools. Traditionally, private schools in China were meant for internal migrants who were ineligible to attend public schools in their new location. As such, private schools catered to children from low socio-economic backgrounds. But, China is aiming to promote high-end private schools which can serve as role models for innovation in the fields of science, technology, and education.

In most successful school systems in Asia, children receive free education in their early years. In Hong Kong, the first 12 years of schooling is free for children. As recently as 2009, Hong Kong increased the number of years of free education from 9 to 12. In Singapore, all children are entitled to free education in state schools. In South Korea, children aged 5-15 years receive free education, although children in senior secondary schools have to pay a small fee. About 80 per cent of education in South Korea is funded by the central government, while schools also receive small amounts of funding from local government bodies, school assets, school fees, and other sources.

The governance of the successful school systems in Asia are mostly centralized systems, where the central Ministry of Education is responsible for setting goals, distributing resources and funds, and setting curriculums. But, there has been a recent trend in decentralizing different aspects of education. For example, China has moved from a highly centralized system of education financing to a more decentralized system. Initially, in China, all schools in the country were financed by the central government. But, in recent times local governments and municipalities have been given the authority to finance education. In some sense, this has created inequality, as less affluent local governments are less able to invest in education than the more affluent bodies. But, this policy change has also given opportunities for some local entities to change policies to improve equality across their jurisdiction. For example, Shanghai was able to remove an earlier system of 'key schools' where selected elite schools were given better funding and resources. Under the current system, all schools are treated equally. As the PISA results suggest, this has given more opportunities for the underprivileged students to flourish. The system has also allowed schools to receive funding from private sources in the form of donations and school fees, which has given schools more resources for development. Decentralization has also allowed Shanghai to reform policies and to take initiatives to help underprivileged schools. For example, the earlier discussed school clustering programme has helped schools to share resources and leaders so that underprivileged schools can benefit from resources available to better placed schools.

In South Korea too, education governance is centralized. All education offices must take general policy directions from the central Ministry for Education Science and Technology (MEST). But metropolitan, municipal/regional and provincial offices of education have authority over their budgets and hiring decisions. However, there has been an attempt to decentralize the decision making to the school level over some aspects.

8.5 Accountability to Ensure Performance

Another key aspect that is different in successful school systems is their willingness to assess, learn, and improve. In the PISA study, more than 90 per cent of the students were in schools that either self-evaluated themselves or evaluated their performance using external reviewers to improve quality. A smaller proportion of schools also used written feedback from students to evaluate their school. The PISA study results show that the schools that sought written feedback from students tended to perform better than those that did not.

Transparency in school performance is one means of ensuring accountability. In China, the public can easily obtain information on various parameters used for assessing school performance. As such, the public can easily determine performance of schools based on a variety of factors. In the past, school assessments were based on student assessments and, in turn, they influenced teacher salaries. However, recently attention was given more for rating schools rather than for ranking schools. Every three years, the Shanghai Education Commission inspects schools based on individual goals set by the schools, as well as a common set of criteria. These assessments are done based on research as well as feedback from parents and teachers. In Shanghai-China, teachers and principals are accountable to their peers and to the school administrators. Top performing teachers and school leaders are lauded and recognized. The operations of the poor performing schools are supported and assisted by the better performing schools through the cluster programme, where schools within a cluster share resources and support each other to develop.

In South Korea, schools are evaluated annually by external monitoring groups according to guidelines and standards set by the Ministry of Education. The evaluations examine the teaching and learning processes, as well as curriculum and student needs. Recently, the Ministry of Education has started awarding bonuses to best performing schools. Low performing schools are given support and guidance to improve. The results of these school evaluations are available publicly, and parents are able to examine the quality of the schools attended by their children. Teachers are evaluated by principals. Although principals do not have the authority to reward or punish teachers based on their evaluations, these evaluations are instrumental in promotions and opportunities for studying abroad.

In Japan, a Board of Education comprising five members are responsible for appointing teachers at the primary and lower secondary level, appointing superintendents of education, and operating senior secondary schools. Schools are inspected by supervisors at different levels. Typically, these inspectors are former teachers or administrators. These inspectors are expected to provide guidance on school management, curriculum, and teaching. Japan also has a national level student assessment, called the National Assessment of Academic Ability, undertaken by students in grades six and nine. The results of these assessments are also used for planning purposes.

8.6 The Sri Lankan Education System

Sri Lanka has long enjoyed the accolade for being one of the most literate countries, despite being a low income country. But, the country's education system has not been able to keep up with the global changes in education. Like most best performing school systems, Sri Lanka provides free education to children. But, unlike most best performing school systems, even undergraduates in public universities are educated free of charge. This section describes the education system in Sri Lanka and compares it with those of best performing education systems in the world. Comparisons are done along several dimensions, as detailed below in separate sub-sections.

8.6.1 Recruitment and Promotions of Education Sector Professionals

There are four different services in the education sector in Sri Lanka. These are the Sri Lanka Teachers' Service, Sri Lanka Principals' Service, Sri Lanka Teacher Educators' Service, and the Sri Lanka Education Administration Service. All these different services have experienced problems relating to recruitment, promotions, and deployment as evident in the following statement:

> "A perennial problem in Sri Lanka has been the recruitment and distribution of teachers to meet the needs of schools and the promotion of teachers without political bias…There appears to be considerable confusion regarding the status of the [principals'] service criteria for selection, qualification of principals, the service to which they belong, and their terms of service."[5]

Recruitments and promotions to different services in the education sector has deteriorated mainly due to deviation from established practices of recruitments and promotions due to political and other influences as described below.

In Sri Lanka, teachers are recruited to the teaching profession through a variety of ways. First, based on A-level results, some students are recruited to train as teachers to the National Colleges of Teacher Education and the departments of education in universities. Selection for teacher training under these schemes is highly competitive. Second, from time to time A-level qualified individuals and unemployed graduates have been recruited to the education sector through an exam. Both these types of candidates are selected to the teaching profession without any education and teaching related training. They have also not had any experience training students. The main reason for



choosing a career in teaching for these candidates is the lack of another suitable job. These teacher recruits obtain training on other aspects of teaching, such as teaching methods, pedagogy and child psychology, only after recruitment. Many of the graduates recruited under the unemployed-graduate scheme obtain teacher training through the Post Graduate Diploma of Education (PGDE). The A-level qualified individuals are recruited as apprentice teachers to the teacher service at the provincial level. These teachers are sent to National Colleges of Education to undergo training after completion of two years of on-the-job training. Lastly, in areas where there are severe teacher shortages, suitable teachers are recruited at the school level to the teacher service. These teachers, unlike teachers chosen under the earlier mentioned schemes, are not able to move to other schools for a period of time, usually five years.

The first method of recruiting teachers - i.e., teachers recruited from graduates of teacher colleges and departments of education in universities - to the education system mirror those practised by the best performing school systems. But recruitment of unemployed (both A-level qualified and graduates) is supply driven and has the danger of being

[5] NEC (2003), "Proposals for a National Policy Framework on General Education in Sri Lanka", National Education Commission, Colombo, p. 223 and p. 226.

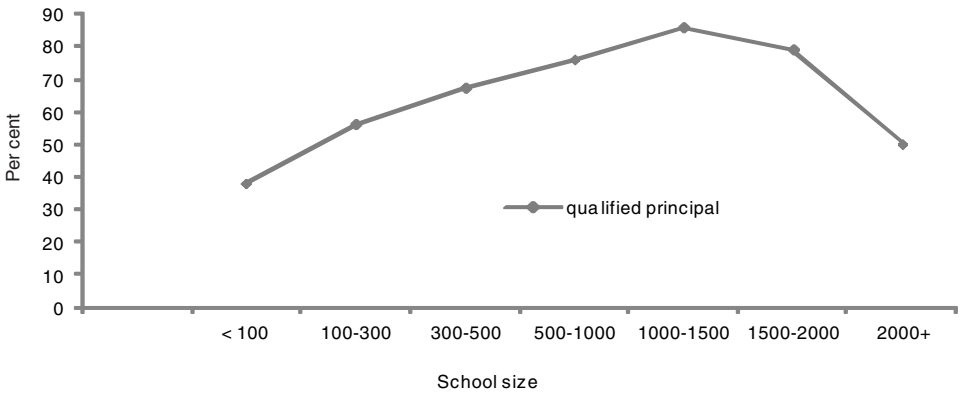
subjected to political influence. The third method of recruiting teachers - i.e., at the school level in areas with severe teacher shortages - is appropriate in the short-term until allocation of teachers across schools is made more efficient.

These issues relating to teacher recruitment in the Sri Lankan education system has been well identified in education sector related policy documents in the country. For example, they include recommendations such as "recruits to teachers' service should be only National Colleges of Education graduates or graduates who had followed a three month course in education. This should be valid for primary teachers as well. Under special circumstances, only if there are not enough teachers with these qualifications to be recruited should anyone below this level be given appointments".[6] This shows that Sri Lanka already has a system for recruiting best teachers to the profession. The only issue is the ad hoc recruitment of teachers outside this system from time to time. A first step towards improving the teacher quality in the country is avoiding deviations from the established system of teacher recruitment.

Teachers are able to move up several different types of career paths in Sri Lanka. Teachers can sit for exams to enter the Principals' Service, the Education Administrative Service, or the Teacher Development Service. On entry, successful candidates can move up the career path based on their experience, success in examinations and interviews. However, this process of recruitment and promotion is not entirely straightforward. On several occasions, individuals have been selected for these careers outside the formal system based on 'political victimization'. That is, when there is a change of government, some individuals who claim to have been victimized on political grounds have received appointments and promotions on political grounds. Although there may be genuine incidences of political victimization, individuals without proper qualifications have also used this as a loophole to enter the education sector at various positions. As a result, all those serving in different education sector services have not been recruited based on merit.

Again, these anomalies in the system have been well identified in policy documents, and there have

Figure 8.2
Proportion of Qualified Principals by School Size



Notes: Principals in the Sri Lanka Principals' Service (Class 1, 2 or 3) are considered to be qualified principals.
Source: Arunatilake, N. and P. Jayawardena (2013), "School Funding Formulas in Sri Lanka", UNESCO, Paris.

[6] Special Parliament Advisory Committee of Education (2013), "New Educational Policies and Proposals for General Education in Sri Lanka", Government of Sri Lanka, Colombo, p. 38.

been attempts to rectify this situation. For example, the Sri Lanka Principals' Service,[7] established in 1997, clearly details a cardre through the Sri Lanka Principals' Service Minutes, and the mechanism through which principals are to be recruited for different grades in the Sri Lanka Principals' Service. For example, the recruitment for the lowest level of the Principals' Service (Grade 3) is based on a limited competitive examination, which can be taken by trained teachers with at least five years of experience. Recruitments for subsequent levels of the Principals' Service is based on examinations relevant for each level, and through promotions based on merit and seniority. However, despite this policy to establish and streamline recruitments to the Principals' Service in Sri Lanka, by 2009 nearly one-third of the schools in the country were being managed by 'Acting Principals', most of whom were political appointees.[8] Although the Ministry of Education advertised for vacancies for principals in 2005, these vacancies were not filled until 2009. An examination was held in 2005 for the recruitments to the Principals' Service, but recruitments were delayed for various reasons till 2009. The delays were at least partly due to issues relating to 'Acting Principals'.

Again, policy documents on reforming the education services sector have correctly identified the main issues relating to recruitment, compensation, and promotion of principals. These policy documents call for recruitment based on the results of an examination and for those with relevant qualifications, as well as based on personal characteristics that are essential for performing well in their different positions.[9]

The irregularities in the recruitment of principals have affected the smaller rural schools more. As shown in Figure 8.2 smaller schools are less likely to have qualified principals, and the probability of having a qualified principal increases steadily with school size. However, the largest schools too were less likely to have qualified principals than the medium sized schools. The results also show that the proportion of schools without properly qualified principals is quite large. With the move towards decentralizing management to the school level, as discussed below, well trained and dedicated principals are essential for developing schools in the country. As such, it is especially important to adhere to established practices when recruiting and promoting principals.

8.6.2 Teacher Allocation

As mentioned earlier, the distribution of teachers according to need has been a problem facing the country over a long time. Teachers are often recruited only taking into account the availability of teacher vacancies. But, often these vacancies are for specific subjects at specific grades. Recruiting individuals who are unable or unqualified to teach the subjects for which there are vacancies have resulted in a wastage of resources. The ad hoc

Teachers are often recruited only taking into account the availability of teacher vacancies. But, often these vacancies are for specific subjects at specific grades.

[7] Government of Sri Lanka (1999), "Minutes of the Sri Lanka Principals' Service", Government of Sri Lanka, Colombo.

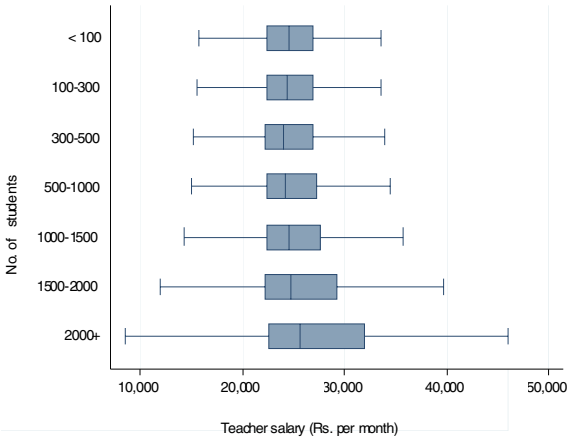
[8] Dissanayake, C. (2009), "4,000 New School Principals to Take up Duties in October", *Sunday Times*, 16 August, 2009.

[9] NEC (2003), "Proposals for a National Policy Framework on General Education in Sri Lanka", National Education Commission, Colombo; and Special Parliament Advisory Committee of Education Sri Lanka (2013), Government of Sri Lanka, Colombo.

recruitment of teachers has made it more difficult to plan the supply of teachers to match demand. On the one hand, certain schools have a surplus of teachers for some subjects, while there are deficits for other subjects. Some schools have taken measures to retrain teachers to teach subjects in which there are vacancies. But, this is also not an ideal solution. As seen in Figure 8.3, larger schools (with more than 2,000 students, and typically more privileged schools) tend to have higher paid teachers (who are more likely to be better qualified and more experienced), while smaller schools tend to have teachers who are paid less on average.

Ad hoc teacher transfers are creating other inefficiencies in the system. Teachers who are allocated to difficult areas spend a considerable amount of time trying to move to more convenient locations. This practice has also created administrative issues at the zonal level education offices. On days when teachers are allowed to visit the zonal offices to ask for transfers, long queues of teachers waiting to see the zonal directors of education are to be seen. Some zones have appointed deputy directors to especially look into the issues of teacher transfers. Decentralization of teacher appointments, and appointments based on school and subject based vacancies, can reduce such inefficiencies in the system for the most part.

Figure 8.3
Distribution of Teacher Salaries, by School Size



Source: Arunatilake, N. and P. Jayawardena (2013), "School Funding Formulas in Sri Lanka", UNESCO, Paris.

A part of the problem in allocating teachers is due to the fact that teachers are centrally appointed and allocated at the national and provincial levels. Recent policy related documents have called for several reforms to reduce disparities in appointment of teachers. These include: a) appointment of teachers based on subject and school level vacancies, so as to minimize issues of teacher surpluses and deficits; b) recruitment of teachers for a minimum period of six years; and, c) transferring of teachers only when new appointments are made to positions being made vacant.[10]

The problem of distributing teachers according to need is not a problem unique to Sri Lanka. This is an issue experienced by even the best performing school systems, partly because like in Sri Lanka, in many of the systems, teachers are recruited and deployed at the central level. Along with recommendations already made by some of the policy documents in Sri Lanka, practices of some of the best performing school systems, such as faster promotions, better compensation, and better recognition for teachers serving difficult areas could also encourage better teachers to move to less privileged schools. Also, like in Shanghai-China, clustering schools and encouraging school clusters to share teachers to overcome issues concerning teacher shortages and teacher competencies could solve problems of teacher distribution.

8.6.3 Opportunities for Self-Development

Teachers have limited opportunities for self-development in the Sri Lankan system. Teachers in urban schools have very large classes. As a

[10] Special Parliament Advisory Committee of Education (2013), "New Educational Policies and Proposals for General Education in Sri Lanka", Government of Sri Lanka, Colombo.

result, teachers have to spend a considerable amount of time correcting student assessments. Many rural schools experience teacher shortages, and as a result, the available teachers have to undertake an extra workload. Many successful teachers spend their free time providing private tuition to students. Even if there is time, teachers have little incentive for developing themselves as teacher appraisal is weak, and teachers are not recognized and rewarded for good performance. The National Education Commission (2003) calls for the implementation of the Teacher Performance Appraisal scheme developed by the Ministry of Education.[11] However, this has not taken place. There is no formal mechanism for evaluating teachers, other than by principals and inspectors. The resources available for self-development are also very limited. Although many schools have IT labs and access to Internet, these labs are not generally intended for teachers to use for conducting research, designing lessons, and improving teaching styles. Even in the best schools in Colombo, limited IT facilities available at schools are not sufficient to even give all students adequate exposure to computers.

There have been several attempts to bring in policy reforms to improve the professional development of teachers in the country. A recent guidebook recommends several ways in which to improve teacher development at the school level (Table 8.1). Although this is a good practice, the implementation will be difficult unless teachers are given a motivation to develop themselves, they are appraised through transparent methods, given space in their time tables, and provided with necessary facilities.

8.6.4 Governance

Sri Lanka has experienced various changes to the governance structure of the education system over the past several decades. The first change was with the passing of the Thirteenth Amendment to the Constitution in 1987. With this, education became a devolved subject and the structure of the education system in the country became more hierarchical with the provincial level education departments entering the structure. With this change, the main responsibility for supervising and managing schools was vested with the Provincial Councils through their ministries and departments of education. However, the centre kept the right to retain and supervise 'national schools' - i.e., schools that have been especially selected for development. However, as in the best performing countries, there has been a recent movement towards decentralization. The National Education Commission identified school level management as a means for improving the performance of schools in its 1996 Report on General Education.[12]

A first step towards this is the introduction of the Education Quality Inputs (EQI) scheme in 2000 to give greater authority to schools and teachers to make decisions to improving teaching and learning methods in schools. A main feature of the programme was to ensure the improvement of learning achievements of all children through decentralized decision making at the school level, to decide on teaching methods and to empower teachers and schools to procure required resources using funds directly provided to schools. In order to ensure equity, the amounts of funds to be allocated are determined through a formula that take into account the grades offered by the schools, and the size of the school. Further, schools with fewer facilities were given special provisions.

In the initial period of implementation of the EQI, although there were issues of utilization of funds given to schools due to various implementation problems, funds were distributed to schools equitably.[13] Since the formula used for distributing

[11] NEC (2003), "Proposals for a National Policy Framework on General Education in Sri Lanka", National Education Commission, Colombo.
[12] *Ibid*.
[13] Arunatilake, N. and P. Jayawardena (2013), "School Funding Formulas in Sri Lanka", UNESCO, Paris.

Table 8.1
School Based Teacher Development

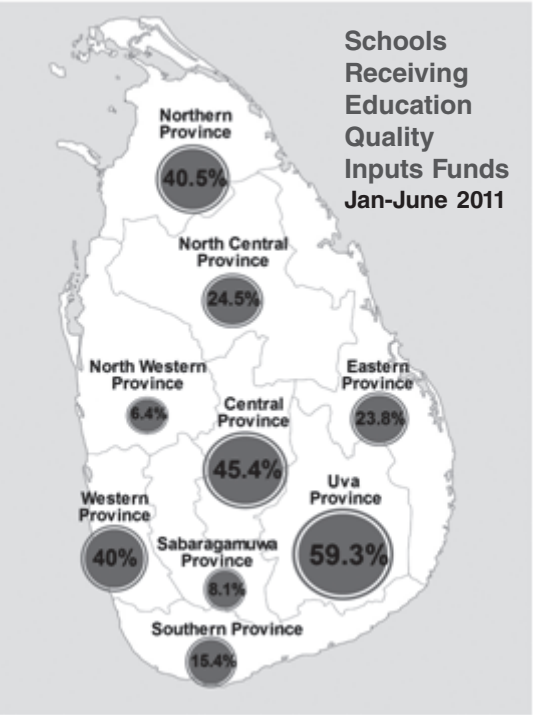
Activity	Participation	Location	Specific Feature/s
Case discussions	A group of teachers	School or a common centre (Teacher Centre)	Teacher writes a case, reflects, shares, enriches
Action research	Individual or a couple of teachers	Classroom/school	Teacher/s engage in reflective practice
Regular study groups	A group of teachers	School or a common centre (Teacher Centre)	Regular collaborative interactions on topics
Peer coaching	Two teachers	Classroom/school	Learning from each other, mutual development
School based mentoring	A teacher and a senior teacher or external facilitator (ISA)	Classroom/school	Less experienced teacher/ Learn from senior teacher
Partnerships with other	Teachers of two schools	In another school	Good practices schools observed and shared
Professional networks	In large schools within the school or school complexes in the case of small schools	School or a common centre (Teacher Centre)	Linking in person through electronic means with other teachers
Using technology for professional development	Individual or group	School or a common centre (Teacher Centre)	Use various technology to learn, i.e., computer, CDs
Examining student work	Individual or group	Classroom/school	Examining students' work to improve instruction
Demonstration lessons	In pairs or a couple of teachers	Classroom	Work in a live class followed with discussion
Teaching & learning material preparation	Individual or group, a demonstrator may help	School or a common	Developing teaching and learning materials
Academic facilitation	Teacher and experienced teacher or external expert	Classroom/school	Individual consultation guided by experts

Source: Ministry of Education (2012), "Guidebook on School Based Teacher Development", Colombo.

the funds favoured the smaller underprivileged schools, these schools received more funds than the bigger schools. However, over time the implementation of the EQI programme has come under threat. This is partly due to limited availability of funds. The funds for EQI are allocated to the schools through the Provincial Councils. When Provincial Councils are faced with financial difficulties, they restrict the amount of funds made available to the schools. In some years, no schools were given EQI funds, while in other years the amounts distributed to schools were less than the amounts stipulated by the formula. Also, there are delays in receiving the funds from the Treasury. In such instances, schools receive funds later in the year, compromising the effectiveness of the utilization of the funds. As seen in Table 8.2, in 2011, less than 30 per cent of the schools in the country have received EQI funds, and the proportion of schools receiving funds varies substantially across provinces.

Another initiative for decentralizing education management to the school level is the the Programme for School Improvement (PSI) launched in 2005 by the Ministry of Education. This programme is designed to bring together principals, teachers, parents, students, past pupils and well-wishers for the purpose of school improvement. Under this programme, each school is required to prepare a five year development plan for the school and yearly implementation plans, according to guidance provided by the Ministry of Education.[14] The school has the power to undertake projects and spend money on projects to improve teaching learning processes, and the learning environment in schools. The schools also have authority to raise funds from the school community for the implementation of these programmes.

Interviews with school principals and teachers in Sri Lanka show that greater autonomy can improve school development. But, school development under a decentralized system at the school level rests to a great extent on the competence of the principals. Also, not all schools and the communities served by them have the capacity or the ability to mobilize funds for school improvement.



Education practices in Shanghai-China shows that decentralized management of schools (at the local level) can improve quality, through promoting innovation and customized solutions to overcome problems. But, decentralized management and resource mobilization can also lead to inequality.

Table 8.2
Receipt of EQI Funds, by Province (First Six Months of 2011)

	Total No. of Schools	Schools Receiving EQI Funds by June 2011 (No.)	Schools Receiving Funds (%)
Western	1,291	516	40.0
Central	1,405	638	45.4
Southern	1,057	163	15.4
Northern	739	299	40.5
Eastern	880	209	23.8
North Western	1,164	74	6.4
North Central	747	183	24.5
Uva	808	479	59.3
Sabaragamuwa	1,058	86	8.1
Total	9,149	2,647	28.9

Source: Arunatilake, N. and P. Jayawardena (2013), "School Funding Formulas in Sri Lanka", UNESCO, Paris.

[14] World Bank (2013), "School-Based Education Improvement Initiatives - The Experience and Options for Sri Lanka", World Bank, Colombo.

School development under a decentralized system at the school level rests to a great extent on the competence of the principals.

To improve equity, Shanghai-China has taken measures to divert resources to underpriviledged schools, and to provide better support to those schools to uplift their performance. For example, Shanghai-China has taken measures to send their best school leaders and teachers to the most challenging schools so that their performance is improved. Also, Shanghai-China practises a system of school clustering so that under-performing schools have access to the human and physical resources of the more priviledged schools, as well as the support and guidance from more capable professionals to improve their performance. Hence, along with giving schools greater autonomy, measures are needed to improve equity and provide more assistance to underpriviledged schools.

8.6.5 Accountability at Different Levels of Education

In Sri Lanka, school performance tends to be measured on the basis of the performance of students at national exams at various stages. Often, the schools producing the most successful children are rewarded, without considering the performance of the school, based on its ability to teach all children. At the post-primary level, performance is based on grade-five scholarship exam pass rates, while at higher grades it is based on the performance at O-level and A-level exams. In Sri Lanka, although there is a system for appraising schools based on school visits made by zonal level officials, the results of these evaluations are not available publicly. Further, remote schools are visited rarely for inspections as it is costlier and takes longer to visit these schools. This is partly due the lack of time available to inspectors to visit these schools, as well as unavailability of adequate funds to visit all schools in a locality. Due to these reasons, school inspections are not taking place regularly. The public has very little information on the quality of teachers available in the school, and their ability to teach.

With the introduction of school based management and development, Sri Lanka now has the opportunity to introduce mechanisms for assessing school performance based on goals set by schools themselves, as well as based on some common benchmarks. In order to improve accountability of the schools, it is essential that such evaluations are made, and the results released for public scrutiny.

At the same time, teachers should also be evaluated for performance. Their performance should not be limited to the number of well performing students they produce. The evaluations should also look at the progress made by all students over a period, and their improvements.

8.6.6 Equity

Sri Lanka has a culture of giving some schools special treatment. This practice is akin to the 'key school' scheme previously practised in Shanghai-China. A good example of the key school scheme in Sri Lanka is the 'national schools'. The rationale behind the establishment of national schools was to allow bright students from rural areas the opportunity to enter good schools. However, many national schools are integrated schools (which have both primary and secondary sections). As such, some students enter national schools without having to sit the competitive entrance exam (the

grade five scholarship exam), simply because they attend the primary section of those schools. This has restricted the merit based places available for good students, and put undue pressure on the grade five scholarship exam. Although there have been attempts to separate the primary and secondary sections of national schools, this has not been possible due to influence by past pupils and parents who benefit from the current system. In recent times, there have been other initiatives to give schools special treatment.

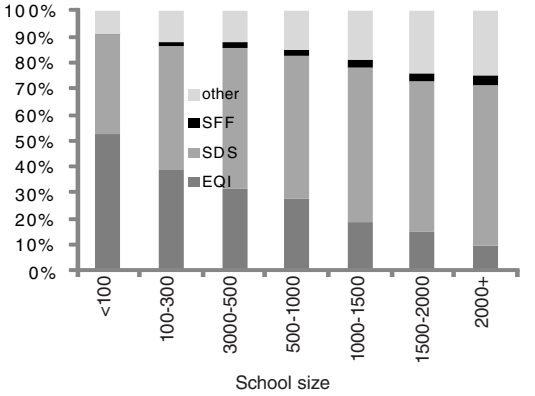
As experienced by some best performing countries, such special treatment of schools for funding and resources increases inequality in the system as the more privileged students are likely to obtain places at the better schools. A better approach is to treat all schools the same, and to invest funds according to needs. Education systems that managed to improve equity at the primary level were able to abolish the need for a post-primary exam, which has given space for children to concentrate on learning a variety of things, rather than cramming for an exam. For example, South Korea abolished the middle school entrance exam in 1969 and introduced a system of admitting children according to a lottery system in urban areas.[15]

The inadequacy of funding for the education sector has been a topic that has received much attention in recent times. According to official statistics, Sri Lanka spends 1.8 per cent of GDP on education.[16] There has been a call to increase this amount to 6 per cent by the Federation of University Teachers' Associations (FUTA). In general, the best performing schools in the world are receiving more than 1.8 per cent of GDP from public funds as discussed earlier. But, evidence suggests that simply increasing public funds for education alone is not sufficient to improve quality. Increasing public funds should go hand in hand with measures for improving effectiveness and efficiency of funds.

Realizing the need for better resources for the sector, the government has taken measures to improve the availability of funds to schools by allowing schools to source funds from well-wishers, fundraising projects and other means. However, too much reliance on other sources of funds could increase inequality in the system.

Figure 8.4 shows expenditure by schools, by size and source of funds. Of the sources listed, EQI funds are directly allocated to schools by the government according to a formula. School Development Society (SDS) funds and School Facility Fees (SFF) are funds mobilized by schools at the school level. As seen, smaller schools - which are more likely to be situated in rural remote areas - depend more on government funds (i.e., EQI funds). Their ability to raise funds through the community and students (that is SDS and SFF funds) is low compared to that of the bigger schools. Some small schools are unable to even collect SFFs, which are very small

Figure 8.4
Per Student Expenditure by Type of Funds and School Size (First Six Months of 2011)



Notes: SDS = School Development Society, SFF = School Facility Fees, EQI = Education Quality Inputs. Averaged over all schools (including those receiving zero funds). Other expenditure includes funds received for the higher order process (HOP), past pupil's associations, and other funds.

Source: Arunatilake, N. and P. Jayawardena (2013), "School Funding Formulas in Sri Lanka", UNESCO, Paris.

[15] Center on International Education Benchmarking (2014), "PISA 2012", available at http://www.ncee.org/pisa-2012/ [accessed 8 May 2014].
[16] CBSL (2013), *Annual Report 2013*, Central Bank of Sri Lanka, Colombo.

amounts of funds collected from students for maintaining facilities in schools. These inequalities are likely to further widen with irregular distribution of EQI funds to the schools, as this is the main source of funds for small schools.

8.7 Conclusion

With the global competition for skilled workers, countries are increasing looking at means of improving the performance of their school systems. The OECD has conducted the PISA surveys with the intention of identifying best performing school systems amongst surveyed countries, and learning from the experience of those countries. This Chapter compared the education system practices of the best performing school systems in Asia with those of Sri Lanka. These are summarized below.

Sri Lanka has already established some of the key features of the best performing school systems in Asia. For example, the system for recruiting teachers through National Colleges of Education and Departments of Education in universities are similar to the way teachers are recruited in the best performing countries. Although, the selection process for these programmes can be improved to match the personalities of selected individuals for teaching, the existing mechanism for teacher recruitment is competitive and encourages the best students to enter the teaching profession. However, the ad hoc recruitment of individuals to the profession through other means has reduced the quality of teachers available in the system. It has also made it difficult to plan the supply of teachers to match the demand according to need. The formally stipulated recruitment to the Principals' Service is also competitive and seeks to attract the best to the profession. However, again the irregular appointment of principals has diluted the effectiveness of the implemented mechanism.

The education system in Sri Lanka can learn from some of the best practices of the best performing school systems. For example, the system for developing, appraising and promoting teachers in Sri Lanka is not well developed. Maintaining the quality of teachers cannot be achieved only by recruiting the best. Once recruited, the system needs to support and encourage the development of the recruits so that they improve their performance and keep up with changes taking place globally. Although Sri Lanka has a system of teacher appraisal, it is not functioning effectively. This is partly due to financial and time constraints, and partly due to the limited emphasis given for teacher appraisal. The system should place more attention for encouraging and supporting teachers to develop themselves, and recognize and promote those who perform well.

Another area where Sri Lanka can improve is in accountability. The Sri Lankan education system lacks a proper mechanism for holding different stakeholders accountable for improving performance to assess performance in various dimensions of education provision, and help to identify inefficiencies in the system and improve performance. Here again, Sri Lanka can learn from the best practices of the best performing systems in Asia.

Lastly, Sri Lanka can do more to improve equity in the education system. The Sri Lankan education system already recognizes the need for positive discrimination of schools. For example, it gives special treatment to underprivileged schools when allocating EQI funds. The current system of giving special treatment to some schools, such as national schools, has created inequality. The movement towards decentralized management of schools is likely to increase this inequality. Sri Lanka should eliminate special treatment of schools, and intensify positive discrimination to underprivileged schools in order to improve equity.

POLICY BRIEFS

9. Asia's Emerging Donors

9.1 Introduction

The donor landscape has shifted considerably within the last decade with the emergence of new donors such as China and India - themselves, previous recipients of development assistance. Overseas Development Assistance (ODA) has long been a preserve of a handful of OECDs Development Assistance Committee (DAC) countries - i.e., the traditional top five donors. In 2012, of a total ODA disbursement of US$ 155 billion (up from US$ 38 billion in 1960), the largest share was by the US (US$ 30 billion), followed by Germany and the UK (US$ 14 billion each), France (US$ 13 billion), and Japan (US$ 11 billion).[1]

The two most popular sectors for ODA from DAC countries in 2012 were social infrastructure and services. They formed approximately US$ 45 billion (or 43 per cent of all DAC disbursements) and include areas such as education, health, water supply and sanitation, and government and civil society programmes. Economic infrastructure and services received US$ 19 billion (or 18 per cent of all DAC disbursements) and includes areas such as energy, transport and storage, communications, and banking services. The remaining 39 per cent of DAC disbursements were allocated to production sectors, humanitarian aid, or were cross-cutting across multiple sectors.

Modern development assistance programmes emerged in the post-Second World War environment of decolonization and Cold War competition dominated by Western/Northern interests. The current standards and norms to evaluate donor activity have emerged from this tradition, and is embedded in the official coordinating bodies and institutional arrangements of the DAC and international finance institutions, namely, the World Bank and the IMF, and regional development banks. Although these institutions are not homogenous in their views on development, they are instrumental in defining the terms of reference in development assistance, identifying best practices and providing a framework within which bilateral donors can interact with a higher degree of synergy.[2]

The past decade has seen an evolution in the international aid community, both in size and diversity. Research indicates that many traditional donors' motives differ for multiple rationales. The US, for example, provides aid for reasons of military collaboration, economic gains and to assist poorer countries in the developing world. By contrast, France provides aid as a means of spreading its own culture, lending aid to former colonies and to those countries of strategic importance to France. Correspondingly, Swedish aid was given predominantly to Portuguese colonies, followed by countries with a democratic socialist ideology.[3]

Given the silent revolution in the donor aid community, traditional donors have been compelled to change their donor aid practices. The implementation of the 2005 Paris Declaration on

[1] OECD (2014), "Query Wizard for International Development Statistics", available at https://stats.oecd.org/qwids/.

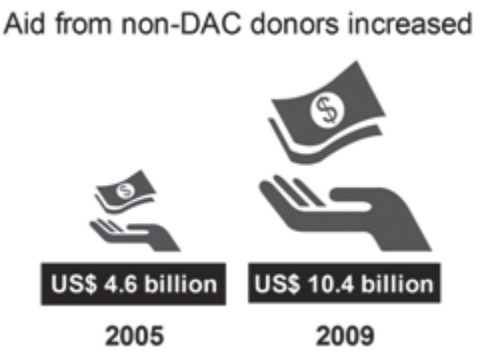
[2] Rowlands, D. (2008), "Emerging Donors in International Development Assistance: A Synthesis Report", Partnership and Business Development Division, IDRC, Canada.

[3] Fuller, S., (2002), "A Question of Motivations: Determining Why Donor Countries Give Aid", *Journal of Undergraduate Research,* Vol. 7.

Aid Effectiveness calls for changes in work practices including developing flexible rules and procedures, and delegating more authority to country offices and changing staff incentives. This includes less micromanagement of policies and processes with a more intensive engagement for dialogue; recognizing and managing trade-offs between minimising risk and helping to build a country's capacities; and acknowledging that simple, country-owned solutions are most effective.[4] It is in light of these developments that the emergence of non-traditional donors - typically offering less stringent conditionalities to aid - is examined in this Policy Brief.

9.2 Emerging Donors

The traditional top five donors have consistently provided the lion's share of ODA over the last few decades. However, this is now changing. Close to a half of all ODA disbursements in 2012 recorded by the OECD came from other sources. In fact, aid from non-DAC donors increased by more than two-fold from USS 4.6 billion in 2005 to US$ 10.4 billion in 2009.[5] The largest proportion of this is shared collectively by Saudi Arabia, Kuwait, and United Arab Emirates (UAE), which together accounted for

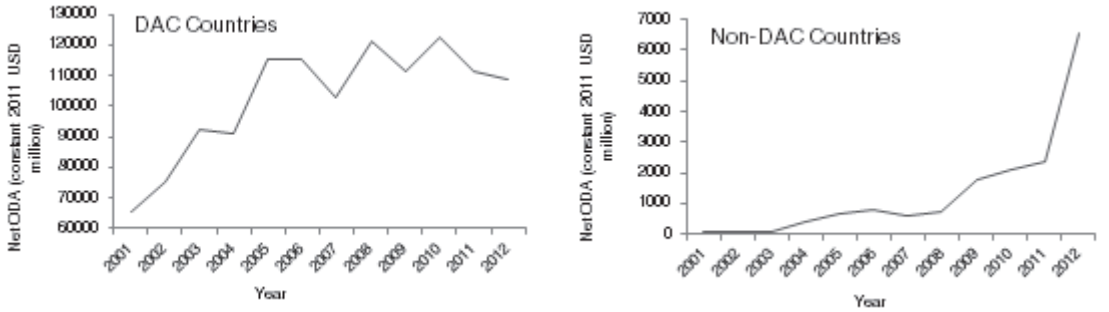


approximately 40 per cent of non-DAC ODA during this period. While net ODA from DAC countries has plateaued over the last eight years, assistance from non-DAC countries has been rising steadily, with a sharp upturn from 2011 (Figure 9.1).

At the outset, the difficulty in gauging the importance of these emerging donors to the development assistance landscape should be stated. This is because emerging donors do not have the reporting duties of the DAC donors and hence a difficulty may arise to derive clear and comparable data on the proportion of aid delivered.

Emerging donors provide more targeted aid than traditional and more advanced DAC members.

Figure 9.1
ODA Disbursed by DAC Countries vs. Non-DAC Countries, 2001-2012



Source: OECD (2014), "Query Wizard for International Development Statistics", available at https://stats.oecd.org/qwids/.

[4] Dreher, A., *et al*., (2010), "Are 'New ' Donors Different? Comparing the Allocation of Bilateral Aid between Non-DAC and DAC Donor Countries", Kiel Institute for World Economy, Germany.

[5] Smith, K., (2011), "Non-DAC Donors and Humanitarian Aid", Global Humanitarian Assistance, UK.

Given that many new donors have been receiving aid until recently, their own experiences may assist them to better understand the needs of recipient countries rather than adhering to conditions attached to DAC aid.[6] New donor countries are not simply providers of aid but also influential players in aid politics. For instance, it is argued that Chinese aid has strengthened trade links in Africa allowing improved growth, terms of trade and increased both export volumes and public revenues of recipient African countries.[7] Conversely, the emergence of new donors is also argued to introduce three risks: the accumulation of debt which may become unsustainable for poor recipient countries; postponement of governance reforms proposed by traditional donors; and over-ambitious capital projects due to the absence of careful investment appraisals.[8]

While practices differ from donor to donor, emerging donors are perceived as showing less regard for environment and labour standards imposing a moral hazard on recipients. Although the delivery of aid by emerging donors has been critiqued, they have provided an alternate interpretation of the effectiveness principles of ownership, managing for results and mutual accountability, while encouraging traditional donors to re-examine their approach.[9]

The BRICS countries - Brazil, Russia, India, China, and South Africa - have also shown increasing levels of assistance, accounting for approximately 32 per cent of non-DAC ODA during the five-year period.[10] Within the BRICS grouping, China disbursed the largest proportion, close to 60 per cent per annum on average during this period, with a reported increase from US$ 0.9 billion in 2005 to US$ 2 billion in 2009. With China overtaking Japan as the second largest economy in the world in 2010, it is expected that its levels of development assistance will also increase, particularly through its model of assistance known as 'commodities-for-infrastructure concessional financing,' in which the country provides financial assistance for the construction of infrastructure in return for resources.

In fact, China was the largest non-OECD donor in 2012, recording over US$ 2.6 billion in disbursements that year.[11] Saudi Arabia, UAE, India, and Brazil rounded off the top five non-OECD donors, with a combined total of US$ 6.1 billion in disbursements.

The existence of these non-traditional donors is not a new phenomenon. Since the 1950s, both China and India have had long-standing aid programmes. The recent prominence of emerging donors is linked to their growing role in trade, investment and global economic growth. While some emerging donors choose to follow in the footsteps of traditional donors, the intentions of others have been different.[12]

China in the 1960s had three initial motives for providing development assistance to other poor countries: fostering South-South solidarity; strengthening the Non-Aligned Movement; and politically and diplomatically manoeuvring the Taiwanese government. Clear ideological and political foundations underpinned these motives. As China's industrial growth accelerated and the Cold War tensions diminished, commercial motivations strengthened with the desire to secure access to

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6 *Ibid*.

7 Sato, J., *et al*., (2010), "How do Emerging Donors Differ from Traditional Donors?", JICA Research Institute, Japan.

8 *Ibid*.

9 Chandy, L., (2012), "New in Town: A Look at the Role of Emerging Donors in an Evolving Aid System", Brookings Institute, Washington, D.C.

10 *Ibid*.

11 OECD (2013), "Estimates of the Development Co-operation Programmes of Brazil, China, India, Indonesia and South Africa", available at http://www.oecd.org/dac/stats/non-dac-reporting.htm.

12 Chandy, L., (2012), "New in Town: A Look at the Role of Emerging Donors in an Evolving Aid System", Brookings Institute, Washington, D.C.

natural resources. Thus, as China's role in the global arena expanded, so did the magnitude of assistance.

India's development assistance activities grew at a slower pace and initial efforts were limited in scope. Indian development assistance was primarily directed towards India's immediate neighbours whose stability was important to India. As the Indian economy grew steadily and the country made the transition from an aid recipient, it envisioned itself as a self-reliant nation with global ambitions and influence. Hence, the importance as a donor in regional hegemony and growing political and commercial ambitions India could reap, have been driving forces.

9.2.1 China

The Chinese foreign aid system differs considerably from traditional donors. In a sense, the benefits work both ways; for example, China utilises Africa's natural resources in exchange for aid, thereby advancing development both in China as a donor and in its recipients.

A distinct feature is the engagement of domestic SOEs and tied assistance in the form of subsidies to Chinese firms to expand overseas. In the recent past, China has adopted a 'trinity-style' of cooperation. This form of cooperation combines aid with market mechanisms to promote trade and investment. This has allowed China to make inroads to resource rich countries by providing them with aid. Chinese firms have gained a competitive edge as financial support and concessional loans are provided by the Chinese government. Along with aid, workers (through service cooperation with the donor recipient country), plants (through contract projects), technologies (through overseas design and consultation services), capital (through FDI) and goods (through trade) are provided. The expense for and return on these market transactions

The model of Chinese aid embodies a win-win principle which is at the heart of Chinese donor aid.

are paid to Chinese firms and workers through taxes paid to the Chinese government. Natural resources in the donor recipient countries are imported to China through Chinese firms. In instances where debt is incurred through the provision of inter-governmental aid, it is repaid in the form of resources produced through development. The model of Chinese aid embodies a win-win principle which is at the heart of Chinese donor aid. A distinctive feature of Chinese donor aid is that aid provided is not exported since Chinese aid simultaneously supports the development of overseas businesses through the establishment of Chinese firms in aid recipient countries, thereby contributing towards Chinese development.[13]

China has engaged in bilateral foreign assistance in three key regions around the world - Africa, Latin America, and Southeast Asia. Despite difficulties in quantifying China's foreign aid - the government has released relatively little information on its aid statistics and the OECD's figures on ODA does not encompass the entirety of China's foreign assistance - there are reports that the country's bilateral financial assistance has increased significantly over the last decade. For instance, some studies suggest that financial assistance and investment projects supported by the Chinese government in Africa, Latin America, and Southeast

[13] Kondoh, H., *et al*., (2010), "Diversity and Transformation of Aid Patterns in Asia's Emerging Donors", JICA Research Institute, Japan.

Asia have increased from less than US$1 billion in 2002 to US$ 25 billion in 2007.[14] The projects and assistance funnelled into Africa and Latin America have gone primarily towards procuring and securing natural resources, while assistance offered to Southeast Asia have served a more diplomatic and strategic purpose.

In fact, China's strategic interests in the Indian Ocean have in the past been referred to as the 'String of Pearls' - a series of ports and maritime facilities in the region developed by Chinese firms, including the Hambantota Port in Sri Lanka, the Gwadar Port in Pakistan, the Chittagong container facility in Bangladesh, and the Kyaukphyu Port of Myanmar. Some have likened these maritime initiatives to a military strategy which would grant convenient access to China's navy in the region, but China has rejected this idea and has instead focused on the potential economic opportunities of a 'maritime silk road', involving port facilities throughout the Southeast Asian and South Asian region.[15]

On the other side of the Indian Ocean, China has provided aid to sub-Saharan Africa in the form of monetary and non-monetary aid, with an intention to increase aid further in the future through both technical expertise and financial assistance in the form of grants and loans for infrastructure, as well as plant equipment. For instance, railway projects, hydroelectric plants, and road building projects have

Box 9.1
China's Presence in Afghanistan

China has maintained positive relations with Afghanistan and its involvement in Afghanistan has rapidly risen in the recent past. Relations between the two countries have further strengthened since 2001 when China became the first nation to establish relations with President Karzai and the Afghan Transitional Authority by reopening its embassy in Kabul and providing emergency and humanitarian aid. Additional promises of reconstruction aid, steadfast diplomatic support, including China's participation in the Kabul Declaration on Good Neighbourly Relations, and support towards its peace process followed suit. In addition to the aid programme, China has been actively involved in Afghanistan's economic development through the promotion of trade and investment. These include the most notable contribution of financing the construction of the Pakistani Port at Gwadar. The construction of this port serves as a means of easily importing goods from Afghanistan and facilitates the export of Afghan agricultural and industrial products including natural resources.

Subsequently, China and Afghanistan signed multiple bilateral agreements to advance overall relations and facilitate closer and deeper economic and technical cooperation. These include the provision of US$1 billion in 2007 to win the rights to develop the US$ 3.5 billion Aynak copper mine, and to establish itself as Afghanistan's single largest foreign investor. The Anyak copper deposit is the second largest in the world and was sought by China to assist the growing need for raw materials and facilitate the growing expansion in infrastructure.

Source: Zyck, S.A. (2012), "The Role of China in Afghanistan's Economic Development and Reconstruction", Civil Military Fusion Centre, available at http://www.cimicweb.org/cmo/afg/Documents/Economic/Role_of_China_in_Afghanistan_Economy_Development.pdf.

[14] Lum, T., *et al*., (2009), "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia", Congressional Research Service, available at http://www.fas.org/sgp/crs/row/R40361.pdf.

[15] Tiezzi, S., (2014), "The Maritime Silk Road vs. The String of Pearls", The Diplomat, available at http://thediplomat.com/2014/02/the-maritime-silk-road-vs-the-string-of-pearls/. China's idea of a maritime silk road emerged during a visit by the Chinese President to Indonesia in October 2013, during which he proposed a greater degree of maritime cooperation between China and the ASEAN countries, involving infrastructure projects, particularly in ports, such as a US$ 2 billion proposal to improve the port of Kuantan in Malaysia.

been undertaken in Nigeria, Ghana, and Tanzania. Technical assistance in the form of consultancies and specific assistance in development activities have also been provided. For example, more than 6,000 teachers and 15,000 Chinese doctors are currently employed in Africa. Angola is a major beneficiary of this type of aid, and specialists in different medical fields were trained to assist Angolan staff in hospitals constructed by Chinese firms.[16]

A White Paper released in 2011 by the Chinese State Council's Information Office, which published official information on the management and distribution of the country's foreign assistance for the first time, indicated that the amount of finances budgeted for foreign assistance grew by almost 30 per cent annually from 2004 to 2009.[17] Accordingly, 46 per cent of all foreign aid was distributed in Africa, while 33 per cent went to Asia, and 13 per cent went to Latin America and the Caribbean.

With regard to the sectoral distribution of aid, 61 per cent of all concessional loans were diverted towards projects relating to the construction of economic infrastructure, while approximately 16 per cent was diverted towards projects relating to industrial development, and 9 per cent was diverted towards energy and resources development.

9.2.2 South Korea

Another significant non-traditional donor playing a key role in the development landscape is China's eastern neighbour, South Korea. The country has been engaged in the provision of aid since the mid-1960s. Over time, the purposes behind its ODA have evolved and changed. It was initially seen as an instrument to establish and maintain international relations between South Korea and the international community. From the late 1980s and 1990s, the provision of aid was closely related to economic interests, with a dependence on external trade. South Korea promoted exports to the developing world with the motive of expanding Korean businesses overseas through development aid activities.

While it has been an ODA donor for several decades now, data indicate that it has become much more actively involved over the last decade, with ODA levels rising from US$ 255 million 2001 to US$ 1.75 billion by 2012.[18] Although South Korean aid is shifting towards a DAC model, it carefully balances traditional economic interests, universal values and recipient humanitarian interests when considering its donor model. Therefore, the South Korean pattern of donor aid is transforming into a mixed form of commercialism and universalism. The government is adopting an ODA model which focuses on education and human resource development; health sector; poverty reduction; and governance.[19]

South Korean aid is also highly concentrated in economic sectors such as communications and transportation. A breakdown of the sectoral

South Korean pattern of donor aid is transforming into a mixed form of commercialism and universalism.

[16] McCormick, D. (2008), "China and India as Africa's New Donors: The Impact of Aid on Development", *Review of African Political Economy*, pp. 73-92.

[17] Provost, C., (2011), "China Publishes First Report on Foreign Aid Policy", *The Guardian*, available at http://www.theguardian.com/global-development/2011/apr/28/china-foreign-aid-policy-report.

[18] OECD (2014), "Query Wizard for International Development Statistics", available at https://stats.oecd.org/qwids/.

[19] Kondoh, H., *et al.*, (2010), "Diversity and Transformation of Aid Patterns in Asia's Emerging Donors", JICA Research Institute, Japan.

distribution of South Korea's ODA reveals that the largest portion in 2012 went towards developing transport and storage services (22 per cent), followed by agriculture, forestry, and fishing (18 per cent), government and civil society programmes (15 per cent), health (13 per cent), water supply and sanitation (12 per cent), and education (8 per cent).[20] The data also indicate that South Korea also has regional targets for aid allocation. The largest portion of development assistance is diverted towards Southeast Asia, including Vietnam, Laos, Cambodia, and the Philippines, drawing in 38 per cent of total ODA in 2012, followed by Africa, receiving 26 per cent, and South and Central Asia, receiving 23 per cent.

9.2.3 India

Another emerging donor in the Asian landscape is India. The country is striving for a more egalitarian demand-driven approach to development assistance, whereby recipient countries determine the overall nature of development assistance and specific assistance projects to their country. This is seen as different to more supply-driven approaches of most DAC countries, where lending is most often determined in the countries' capitals by donor countries in coordination with recipient countries. In fact, it is argued that India's approach can impact the DAC country framework in the future.[21]

India's transition from a recipient of aid to a provider of aid is noteworthy. Current trends suggest that India could become a net exporter of aid due to cumulative factors including India's self-conscious role as an emerging power, competition with China for political influence and energy resources; and a belief that providing assistance for political and economic reasons could be a highly effective means of improving relations. As such, India's ODA has rapidly risen by a compound growth rate of 6.9 per cent from 2004-2010.[22]

It is also noteworthy that India's donor aid-related activities do not follow the traditional definition of the DAC. There are three parts to India's donor aid related activities. Namely, grants and preferential bilateral loans to governments, contributions to international organizations and financial institutions, and subsidies for preferential bilateral loans provided through the Export Import (EXIM) Bank of India. While OECD countries promote the DAC's focus on developing the social sector, India's approach to aid is informed by its own experience of development within democracy and growth.[23]

The South-South cooperation principles continue to guide Indian aid, with the aim of making it more adaptive and more affordable to developing countries. As such, India places strategic importance on its neighbours. The bulk of India's ODA is directed to Bhutan, Afghanistan, and Nepal where approximately 60 per cent of Indian ODA is spent on training civil servants, engineers, and public sector managers. Thirty per cent of ODA is utilized for providing soft loans to governments to enable the purchase of Indian equipment, public health infrastructure or railway equipment, while a further 10 per cent is spent on project related costs abroad, namely, feasibility studies or technical expertise from India on government run institutions.[24]

Indian focus on smaller interventions allow recipient countries to define their own priorities and encourage mutual economic growth and long-term trade linkages as opposed to a purely

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[20] OECD (2014), "Query Wizard for International Development Statistics", available at https://stats.oecd.org/qwids/.

[21] Mullen, R. D., (2013), *India's Development Assistance: Will It Change the Global Development Finance Paradigm?*, New York University School of Law, US.

[22] Agarwal, S., (2010), "A Brave New World of 'Emerging', 'Non-DAC' Donors and their Differences from Traditional Donors", NN44 Policy Brief, Network for International Policies and Cooperation in Education and Training.

[23] Chanana, D., (2010), "India's Transition to Global Donor: Limitations and Prospects", Real Instituto Elcano, Spain.

[24] Agarwal, S. (2010), "A Brave New World of 'Emerging', 'Non-DAC' Donors and their Differences from Traditional Donors", NN44 Policy Brief, Network for International Policies and Cooperation in Education and Training.

development impact. India's aid through technical assistance or selectively financing of hard infrastructure is often unconditional and tied with a substantial proportion spent by India. Given that India cannot offer large grants and instead offers low impact long-term engagements, it generates goodwill by creating local capacity and soft infrastructure through consultation services.[25] One example of this is the Pan African e-network, which is a project funded by grants received from the Indian government to connect 47 African countries with renowned universities and speciality hospitals in India to build tele-education and tele-medicine with the motive of enhancing demand for doctors and university instructors.[26]

Another example is the Indian Technical and Economic Cooperation (ITEC) programme, which is conducted in India where the overall cost of training was a fraction of the costs in developed countries, and as such, Indian development assistance was able to train more in each country. More importantly, providing training for bureaucrats and technocrats from many developing economies has created generations of policy makers and policy influencers who hold positive views of India. This, therefore, helps India to forge closer ties with these countries.

India cannot offer large grants and instead offers low impact long-term engagements, it generates good-will by creating local capacity and soft infra-structure through consultation services.

For example, India has provided scholarships for Kenyan students to study in India and funded ITEC training for 50 Kenyan bureaucrats.[27] This has therefore helped India to cement close ties with the Kenyan government whose support was relied upon in relation to United Nations and other governing bodies. Similarly, Afghanistan has received over 500 short-term government official training programmes through ITEC in addition to 500 long-term university scholarship and other training programmes from the Indian government sponsored programmes.

As India's development assistance programme and partnerships have increased, there has been a regional re-focus of its assistance instruments and an underlying focus to development partnership efforts. This is being driven by changing ambitions on regional and global roles. Data from the Ministry of External Affairs through which official development assistance is channelled exhibit a reorientation in regional focus. A majority of India's aid is distributed among South Asian countries and this trend has increased due to an influx of Indian grants channelled to Afghanistan and Bhutan. Conversely, grants given to Africa have remained low at 4 per cent of overall grants lent during the period 2000-2013.[28]

Indian aid has also seen a strong focus on securing natural resources, particularly energy, which feeds into the booming Indian economy. As such, Bhutan has constantly remained the largest recipient of

[25] Chanana, D. (2010), "India's Transition to Global Donor: Limitations and Prospects", Real Instituto Elcano, Spain

[26] Mullen, R. D. (2013), *India's Development Assistance: Will It Change the Global Development Finance Paradigm?*, New York University School of Law, US.

[27] *Ibid*.

[28] Ministry of External Affairs (2012), Technical Cooperation Division, Government of India.

Indian development assistance accounting for 49 per cent of the total allocated to be spent between 2000/01 and 2013/14, mostly on hydroelectric projects with an agreement that electricity would be produced and sold in India.[29] Furthermore, India remains the fifth largest development assistance provider in Afghanistan with a commitment of US$ 2 billion with over US$ 1.2 billion already disbursed on projects including hydroelectricity in Herat Province and power transmission lines elsewhere in the country.[30] Afghanistan continues to play an important role in its strategic location as a key gateway for accessing Central Asia's oil and gas exploration opportunities.

Nonetheless, despite large foreign policy ambitions and continued decentralized structure of administering developmental assistance among different ministries and within ministries, deficiencies in institutional capacity to deliver large quantities of aid effectively are prevalent. Critics argue that India's aid programmes are limited due to insufficient availability of resources, a lack of transparency and long-term strategic planning. Furthermore, rising expectations of aid recipients and India's capacity to closely monitor the effectiveness of the aid have outpaced the necessary processes of institutional adaptation.[31]

9.3 The Role of Emerging Donors in Sri Lanka

With regard to the donor landscape in Sri Lanka, much has changed within the last decade. As a result of reaching a greater level of per capita income and subsequent classification as a lower middle income country, Sri Lanka no longer has access to certain forms of concessional financing from multilateral donors such as the ADB and the World Bank. In fact, a larger proportion of ADBs financial assistance to Sri Lanka now comes from the Ordinary Capital Resources mechanism, which utilizes the London Interbank Offered Rate (LIBOR) in addition to a small premium, while World Bank loans to Sri Lanka have a substantially shorter repayment period of approximately 20 years, compared to maturity periods of up to 40 years which the country enjoyed earlier.[32]

In addition to changes in financing among multilateral donors, Sri Lanka has also experienced a decline in financing from Western bilateral donors more recently as a result of the conflict and related allegations levelled by the West on human rights issues. Whilst the volume of aid from traditional donors like the US and the UK was fairly limited to begin with, it was further curtailed in the post-war period. Countries like China, less concerned with non-economic issues, have stepped in and the country has seen a significant change in its development finance landscape in recent years. In addition, Sri Lanka too has been more vocal in ensuring that external assistance is directed at national development priorities of the country.

Table 9.1 gives a summary of foreign financing commitments to Sri Lanka by way of both loans and grants from traditional and emerging bilateral donors over the period 2006-2012. The bulk of commitments (92 per cent) have come by way of loans during this period. Clearly, the predominance of China as a key development partner for Sri Lanka is evident. Of the total foreign financing commitments, China accounts for 42 per cent, followed by Japan (25 per cent) and India (14.5 per cent). Thus, more than 80 per cent of Sri Lanka's

[29] Mullen, R. D. (2013), *India's Development Assistance: Will It Change the Global Development Finance Paradigm?*, New York University School of Law, US.

[30] Ministry of External Affairs (2012), Technical Cooperation Division, Government of India.

[31] Chin, G., and F. Quadir (2013), "Development Aid and the Rise of New Donors", Asia Research Brief, York Centre for Asian Research, Canada.

[32] De Mel, D. and A. De Silva (2012), "Sri Lanka", in Kelegama, S. (ed.), *Foreign Aid in South Asia: The Emerging Scenario*, Institute of Policy Studies of Sri Lanka, Colombo.

Table 9.1
Foreign Financing Commitments by Bilateral Donor, 2006-2012 (US$ million)

	Loans	Grants	Country Total
China	4087.3	23.7	4111.0
Japan	2249.9	167.8	2417.7
India	1126.9	295.7	1422.6
Russia	300.0	0.0	300.0
Netherlands	151.6	83.9	235.5
South Korea	225.2	6.2	231.4
France	135.8	0.0	135.8
Australia	105.2	29	134.2
Iran	111.2	0.0	111.2
Saudi Arabia	106.1	0.0	106.1
Sweden	73.8	7.8	81.6
US	0.0	77.1	77.1
Hungary	70.2	0.0	70.2
Germany	42.4	26	68.4
Kuwait	45.0	0.0	45.0
UK	44.1	0.0	44.1
Spain	31.1	0.0	31.1
Other bilateral	140.6	28.8	138.6
Total	9046.4	746.0	9792.4

Source: External Resources Department, "Performance Report", Ministry of Finance and Planning, Colombo, various years.

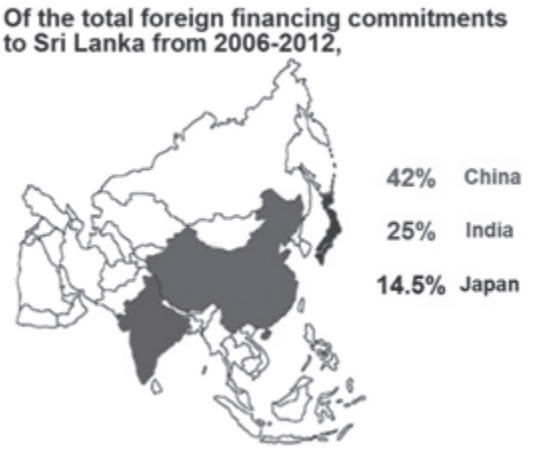
post-2006 external development finance has originated from Asia.

There are clear differences amongst the emerging bilateral donors as well. India has provided nearly 20 per cent of its commitments by way of grants. The shares for China (0.6 per cent) and South Korea (2.8 per cent) by comparison are miniscule. Thus, India's donor interests in Sri Lanka are clearly a little different from the other emerging donors. India has been providing outright grants, particularly for development of the former conflict-affected zones, arising from India's own socio-political interests in the South Asian region.

With forty years of formal development cooperation between India and Sri Lanka, Indian assistance to Sri Lanka saw a rapid increase from 2008. The EXIM Bank of India initiated increased funding in the areas of railways and water supply, while grant assistance is also provided for housing, human resource development and livelihood development.

Indian assistance during the period 2008 to 2013 amounted to US$ 966 million. The total commitments pledged during 2008-2012 were US$ 1,126 million as loans, and a further US$ 296 million as grants. The highest disbursement was made for railway development (US$ 590 million), with the second largest commitment for livelihood development (US$ 288 million) and a further US$ 60.7 million to water supply development.

A noteworthy observation regarding Indian ODA disbursements to Sri Lanka is the focus on financing projects located in the Northern and Eastern Provinces of the country, particularly in the years following the end of the conflict. In fact, during the



period 2011-2013, an average of 64 per cent of total loans and grants disbursed by India were spent on projects in these two provinces, including railway projects, vocational training centres, rehabilitation of the Kankasanthurai harbour, and housing units.[33] It has been pointed out that India attaches few conditions to grants given to Sri Lanka because a large proportion of the loan programmes are tied, and motivated by security priorities, electoral considerations, commercial opportunities and geopolitical concerns, including Sri Lanka's relations with China and Pakistan.[34]

China has played a substantial role in overseas development assistance to Sri Lanka, contributing approximately US$ 6 billion since 1971.[35] Close to 94 per cent of this amount was disbursed in the last decade alone, with annual commitments reaching up to US$1 billion between 2005 and 2013. The key areas in which these funds have been invested include roads and transportation, power and energy, and ports, which received 34 per cent, 30 per cent, and 26 per cent as of 2013, respectively. A key source of Chinese funding is the Export-Import (EXIM) Bank of China, which accounts for over 75 per cent of all Chinese lending, along with the China Development Bank (CDB), and the Industrial and Commercial Bank of China (ICBC), which together account for approximately 15 per cent of loans.

Thus, China has been a significant partner in Sri Lanka's post-conflict drive to improve its infrastructure services. China has underwritten key projects including in the road sector (e.g., Southern Expressway Extension, Katunayake Airport Expressway, Outer Circular Highway, rehabilitation of road networks around the country), ports (Colombo Port Expansion Project, Hambantota Port), airports (Mattala International Airport), energy (Norochcholai coal power plant), and in other areas such as railways, irrigation and water resource management, etc.

Another key player in the non-traditional development community in Sri Lanka is South Korea. Since 2005, South Korea has committed to providing loans for specific projects worth close to US$ 300 million over a period of nine years.[36] The primary source of these loans is the Economic Development Cooperation Fund (EDCF) of the Export-Import Bank of Korea, which has provided loan assistance in the form of three Framework Arrangements since 2008. These Framework Arrangements act as a ceiling for total loans financed under the EDCF during a stipulated period of time, and were recorded at US$ 140 million for 2008, US$ 200 million for the period 2009-12, and US$ 290 million for the period 2012-15.

Financial assistance from the government of South Korea has gone towards projects in a variety of sectors, ranging from education to water supply management. The construction of roads and bridges received the largest amount of assistance between 2005 and 2013 (33 per cent), followed by water

[33] External Resources Department (2013), "Global Partnership Towards Development", Ministry of Finance and Planning, Colombo.

[34] Amarasinghe, D., and J. Rebert (2013), "Dynamics and Trends of Foreign Aid in Sri Lanka: Exploring Space for Context-sensitive Aid Delivery", International Alert.

[35] External Resources Department (2013), "Global Partnership Towards Development", Ministry of Finance and Planning, Colombo.

[36] *Ibid*.

supply management (27 per cent), and environment-related projects (11 per cent).[37]

Another type of assistance received from South Korea is in the form of grants, disbursed by Korea International Cooperation Agency (KOICA). These grants are usually meant to fund small-scale projects in the form of feasibility studies for future projects that receive funding under the larger ECDF loan programme. The total received by Sri Lanka during 2005-2013 was US$ 38.6 million, with almost 80 per cent channelled towards the development of water and sanitation services.

In addition, South Korea's Ministry of Strategy and Finance introduced the Knowledge Sharing Programme (KSP) to Sri Lanka in 2010, which seeks to conduct policy research and consultation for the benefit of partner developing countries using the country's knowledge of its own development process. As of 2012, KSP was engaged in projects which sought to promote exports and FDI by enhancing the competitiveness of the SME sector in Sri Lanka.[38]

Overall, as Sri Lanka's relationships with traditional donors have become strained, there has been greater reliance on aid from non-traditional development partners, especially China. Whilst it can be argued that the priorities of non-traditional donors are not always the same as traditional donors, the former are also more apt to consider the ground realities in seeking greater influence and engagement through aid assistance. As such, the importance and relevance of China and India in Sri Lanka's development assistance process has also changed significantly in the recent past.

9.4 Conclusion

As the global economy begins to be reshaped by the new emerging powers, so too is the aid industry. Aid from traditional donors to Asia has been declining while the volume of development cooperation from non-OECD DAC members has been increasing. The presence of Asian aid providers such as India, China and South Korea is visible across the world, and these Asian giants have changed the nature of international cooperation relationships, referring to themselves as South-South cooperation partners rather than as 'donors'.

The underlying motives for Chinese and Indian donor aid are widely deliberated. Both countries compete to obtain the lion's share of the market. As such, this form of cooperation combines aid with market mechanisms such as trade and investment, thus embodying a win-win principle which is at the heart of these donor aid countries.

In the Sri Lankan context, it is observed that China is the largest provider of development assistance, followed closely by India and South Korea. Amidst the fastest growing competing Asian economies, Sri Lanka stands to benefit from the development aid obtained from these giants. Besides financing, available mechanisms for aid delivery can harness the possibilities of exchanging technological know-how to enhance skilled labour and links to modern technology. At the same time, Sri Lanka must ensure that ODA available for the country supports sustainable development efforts and protection of the country's economic and social structures. A balancing of power politics and a strong vision in foreign policy implementation will help ensure that the country stands to benefit from rising new donors in the Asian region.

[37] *Ibid*.

[38] Kim, Yulan and MoonJoong Tcha (2012), "Introduction to the Knowledge Sharing Program (KSP) of Korea", Center for International Development, Korea Development Institute.

10. Asia's Precarious Work: The Need for a New Policy Framework

10.1 Introduction

In the midst of the current global economic downturn following the financial crisis of 2008, job losses and spread of temporary forms of employment have become more prevalent in both developed and developing countries. According to the ILO, dramatic increases in unemployment, working poverty and vulnerable employment have been observed due to the economic crisis.[1] Heightened economic insecurity and market instability has seen the expansion of jobs of a more precarious nature as a result.

In general, precarious work is part of a global business strategy, practised by employers to shift risks and responsibilities on to workers.[2] Precarious workers are those who perform duties and tasks of permanent employees but are not protected with the rights of permanent employees.[3] These workers are employed on temporary contracts for various durations. Temporary contracts usually undermine employee benefits such as access to social protection and other benefits usually associated with permanent employment. The latter include substantial legal and practical obstacles to joining a trade union and bargaining collectively, protection against hazardous working conditions, etc.

Another core aspect of precarious work is that it disguises or provides an ambiguous employment relationship - i.e., a lack of clarity as to the identity of the employer. For example, various forms of agency-hired labour are utilized for core business, involving other entities such as sub-contractors, franchisers and manpower agencies. Such workers are hired by an agency or a sub-contractor, but perform their duties for a separate company. These workers are in precarious situation as it is unclear as to who is responsible and accountable for worker rights and benefits.

In recent years, most countries have experienced growing casualization and externalization of employment.[4] Some East Asian countries such as Japan and South Korea have experienced a substantial increase in temporary workers. The broad trend towards casualization and externalization can have significant adverse consequences. It creates instability and insecurity amongst workers and communities. Precarious workers themselves are found to suffer a higher rate of occupational unsafety and health issues.[5] Generally, these workers are subject to heightened insecurity as they are aware that they can be easily

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[1] ILO (2009), *Global Employment Trends*, International Labour Organization, Geneva.

[2] ILO (2012), "From Precarious Work to Decent Work: Outcome Document to the Workers' Symposium on Policies and Regulations to Combat Precarious Employment", International Labour Organization, Geneva.

[3] International Labour Rights Forum, available at http://www.laborrights.org/issues/precarious-work?qt-quicktabs_precarious_ work_=0#qt-quicktabs_precarious_work_[accessed May 8, 2014].

[4] ILO (2012), "From Precarious Work to Decent Work: Outcome Document to the Workers' Symposium on Policies and Regulations to Combat Precarious Employment", International Labour Organization, Geneva.

[5] *Ibid*.

replaced. The ILO recognizes this spread of precarious work as a "worldwide corporate attack on the right to organize and bargain collectively, by shifting to sub-contracting and individual contracts, attacking sectoral and national bargaining, and evading employer responsibilities by complicating what should in fact be a direct employment relationship with their workers".[6]

Given the above, understanding recent trends in precarious work internationally and at country level is important. The aim of this Policy Brief is to explore and shed light on current trends in precarious work in Sri Lanka, while discussing global development and drawing on country experiences in Asia. Given the breadth of possibilities in defining precarious work, the definition employed here limits the scope to two categories of contractual arrangements which cover a majority of precarious work.[7] The two types of contractual arrangements are:

- Limited duration of the contract (fixed-term, temporary, and casual labour)
- Nature of the employment relationship (triangular and disguised employment relationships, agency-hired labour)

Under the above, contract, temporary, casual, employees with disguised employment relationships and agency-hired workers have been considered as precarious workers in the discussion to follow.

10.2 Implications of Precarious Work on Decent Working Conditions

Precarious work systems can affect decent working conditions adversely. Temporary contracts tend to lead to unstable and insecure work conditions for workers - for example, as to whether their contracts will be extended, or whether they will face unjustified termination of employment, etc. It can also lead to low wages regardless of experience and education of workers. Income and employment insecurity limits long-term planning, especially amongst the young.

Further, precarious workers are more vulnerable to inferior working conditions. They can be more exposed to hazardous work environments, a high workload, long working hours, etc. Even as job insecurity increase on the one hand, social benefits decrease as most of these workers have limited access to social security benefits, workers compensation and health insurance. Sometimes these workers do not even have work contracts to claim social security benefits, leaving them at the risk of income and employment insecurity if they are injured or suffer from poor health.

Precarious work is also characterized by an insufficient or even a total absence of trade union rights. Legislative frameworks in some countries do not support the union rights of hired workers at the user enterprise, as these workers are employed through a third party, such as workers hired through agencies or through sub-contractors. Such workers are excluded from the bargaining unit and are thus denied the right to bargain collectively with the permanent employees of the user enterprise. Overall, this results in a decline in trade union membership, as well as a weakening of the collective power of trade unions.

10.3 Trends in Precarious Work

10.3.1 Global Context

Globally, a growing casualization and externalization of work is observed. Most countries have experienced a substantial increase in temporary forms of employment since the late

[6] *Ibid*, p.3.

[7] In defining precarious workers, only employees are considered. Employers, own account workers and unpaid workers are not considered. Most of these fall into the category of informal employment.

1980s. For example, while overall employment increased by 26 per cent in the EU during 1987-2007, temporary work has increased by 115 per cent. During the same period, in OECD countries, wage employment increased by 21 per cent, while temporary work increased by 55 per cent.[8]

The total number of jobless worldwide escalated to 202 million in 2013, with global unemployment increasing by 5 million people in 2013, and estimated to rise by a further 13 million people by 2018.[9] The global unemployment rate has risen from 5.6 per cent in 2007 to 6.0 per cent in 2013. Given the present labour market trends and conditions - increasing rate of unemployment, stagnant labour force participation rates and dominating share of vulnerable employment - a greater intensity in precarious work can be expected in the future.

10.3.2 Asian Context

It has been noted that changes in patterns of work and production in Asia are closely linked with the world patterns, including the expansion of precarious work in developed countries. Indeed, precarious work has become a critical challenge for governments and workers in the Asian region.[10] The spread of neo-liberalism as a political and economic ideology, the expansion of global competition and technological developments have been identified as the major contributory factors that generated precarious work in more industrialized countries in the Asian region.[11] These factors encouraged an environment that provided greater flexibility in the case of both governments and employers, which in turn led to more precarious work in both formal and informal sectors.

In China, the largest economy in the Asian region, the prevalence of precarious work was relatively low until the 1980s mainly because of the dominant presence of state enterprises. With the shift towards a more market-based economy, informal employment increased rapidly over the next two decades. Though employment in the private sector grew substantively, most of the employments created were precarious in character. Census data from 2005 on urban workers show that while 73 per cent of unofficial rural migrant workers were employees, 47 per cent had no contract, 25 per cent had short-term contracts and only one per cent had a long-term contract.[12] Problems associated with precarious work such as low pay, low skill, high work intensity, poor work conditions, and lack of employment protection were clearly evident in China's labour market. In 2008, the labour law was amended to better protect workers and allow for the conversion of fixed-term contracts into permanent ones.[13]

Precarious work has been identified as a source for many 'vexatious issues' in South Korea.[14] After the Asian financial crisis in 1997, South Korea experienced a drastic growth in precarious work and its immediate impact on the course of individuals' lives and family lives. Massive lay-offs and restructuring were done because of the bankruptcy of corporations, resulting in a sharp increase of non-regular workers such as temporary workers, sub-

[8] ILO (2012), "From Precarious Work to Decent Work: Outcome Document to the Workers' Symposium on Policies and Regulations to Combat Precarious Employment", International Labour Organization, Geneva.

[9] ILO (2014), "Global Employment Trends 2014: Risk of a Jobless Recovery?", International Labour Organization, Geneva.

[10] Kalleberg A. L. and K. Hewison (2013), "Precarious Work and the Challenge for Asia", *American Behavioral Scientist*, Vol. 57, No. 3, pp. 271-288.

[11] *Ibid*.

[12] ILO (2012), "From Precarious Work to Decent Work: Outcome Document to the Workers' Symposium on Policies and Regulations to Combat Precarious Employment", International Labour Organization, Geneva.

[13] *Ibid*.

[14] Shin Kwang-Yeong (2013), "Economic Crisis, Neoliberal Reforms, and the Rise of Precarious Work in South Korea", *American Behavioral Scientist*, Vol. 57, No. 3, pp. 335-353.

contract workers, and dispatched workers. It has been estimated that the proportion of precarious workers in the total working population increased from 27.4 per cent in 2002 to 37 per cent in 2004.[15] Further, the absolute number of workers in the precarious category has continuously increased from about 3.8 million in 2002 to about 6 million in 2011. The wage gap between precarious workers and regular or standard workers has widened from 33.9 per cent in 2002 to 44.6 per cent in 2011, creating social and political issues in South Korea. Non-regular workers were totally dependent on social movements or non-regular workers themselves in seeking solutions to their problems due to lack of will and support from the political parties, and lack of interest of the formal worker unions.[16]

10.3.3 Sri Lankan Context

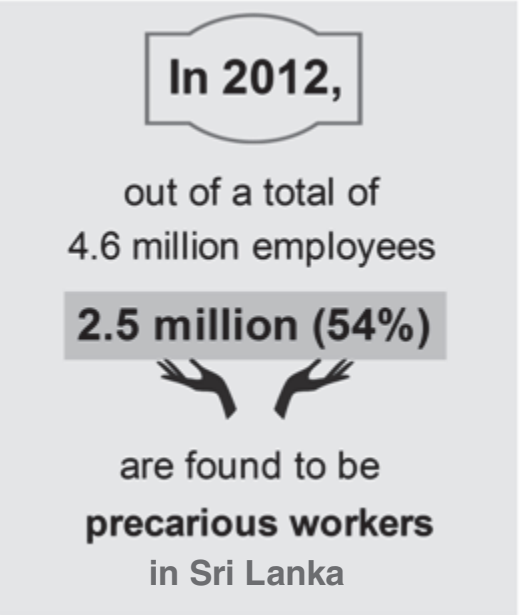
In the present analysis, temporary, casual workers who do not have a permanent employer and agency-hired workers have been considered as precarious workers in Sri Lanka. The data reveal an increasing prevalence of temporary/casual employment in Sri Lanka over recent years, similar to other Asian economies. In 2012, out of a total of 4.6 million employees, 2.5 million (54 per cent) are found to be precarious workers. Further, temporary and casual workers have increased at a faster pace than that of permanent employees during 2006-2012 (Table 10.1). It is also noteworthy that 16 per cent of total employees do not have a permanent employer. These workers and their families can be considered to be in unstable and insecure situations to take long-term decisions and plan their lives due to uncertainty of their jobs, and usually low wages.

Table 10.1
Employee Status

	2006	2012
Permanent	46.2	45.7
Temporary/casual	36.1	38.3
No permanent employer	17.7	16.0
Total	100.0	100.0

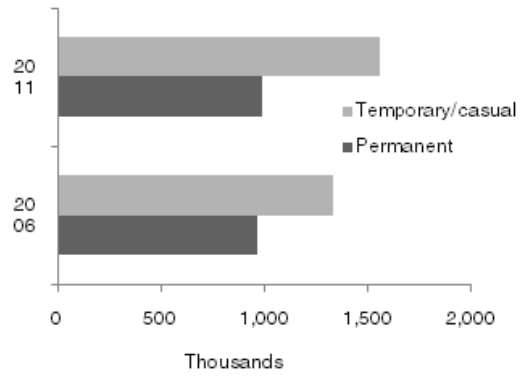
Source: Estimated based on DCS, Labour Force Survey 2006 and 2012 data.

Data reveal an increasing prevalence of temporary/casual employment in Sri Lanka over recent years, similar to other Asian economies.



[15] *Ibid*.
[16] *Ibid*.

Figure 10.1
Private Sector Employees by Status



Source: Estimated based on DCS, Labour Force Survey 2006 and 2012 data.

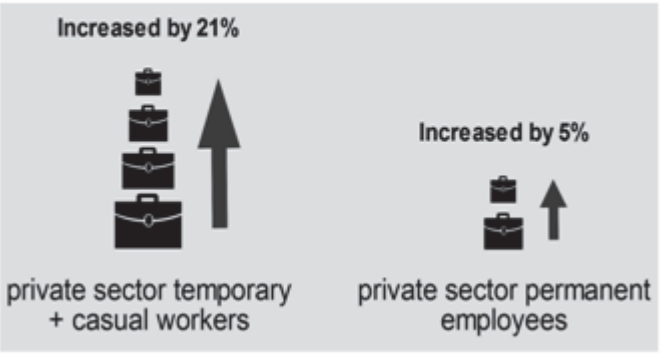
As expected, the expansion of temporary and casual jobs has been more prevalent in the private sector, with the permanent workforce limited to a minimum while increasing more contingent or non-standard workers. The data reveal that 92 per cent of temporary and casual workers are attached to the private sector. During 2006-2012, private sector temporary and casual workers have increased by 21 per cent, while private sector permanent employees have increased only by 5 per cent (Figure 10.1). This is a reflection of more precarious work being created by the private sector, while minimizing permanent employment expansion. The possible reasons behind the increasing prevalence of precarious work include high labour turnover to cater for seasonal demand, costs related to regular labour recruitment, and nature of services provided by businesses.

Although due to the data limitation it is difficult to figure out the agency-hired workers through manpower agencies, it is widely practised in Sri Lanka, especially in Export Processing Zones (EPZs). Formal manpower agencies supply workers for EPZ firms for their core business on temporary or even without written contracts,

In Sri Lanka, the expansion of temporary and casual jobs has been more prevalent in the private sector, with the permanent workforce limited to a minimum while increasing more contingent or non-standard workers.

leaving them more vulnerable to precarious work arrangements. Also, there are arrangements for daily hiring of workers where manpower brokers hang around the EPZs and supply the workers for firms to meet their labour requirements. Further, some firms form their own manpower agencies from which they can hire workers at a cheaper rate with

During 2006-12, in Sri Lanka



Box 10.1
Gender Dimension of Precarious Work: The Case of Women Migrant Workers of Sri Lanka

Globally, women are over-represented in precarious work situations and this trend is increasing. In Australia, the trend in women's employment is increasingly part-time, casual work with 58 per cent of part time jobs also of a casual nature. In the 15 years between 1991 and 2006, women employed in full time jobs had declined from 59 to 55 per cent. Altogether 30 per cent of employed women are casual employees as opposed to 22 per cent for men. In Japan, precarious work is highly gendered. Women account for about two-thirds of non-regular workers. Temporary work in Japan is gendered to an even greater degree than part-time work. Women make up more than 80 per cent of temporary staff according to estimates by the International Trade Union Confederation (2011).

Women are subjected to precarious work due to many reasons. Women are more likely to work in low quality job settings, characterized by less financial rewards, fewer benefits, union protection, and part-time work status. Further, they are disadvantaged by less human capital, overriding family obligations and other work-related criteria and discriminatory practices in the workplaces (Young, 2010).

Women Migrant Workers in Sri Lanka

Migrants are often the most precarious of workers and are exploited in relation to race, nationality, regulatory discrimination, wages, and through a lack of access to even basic protection (Hewison and Young, 2006). It is estimated that a total of 1.5 million Sri Lankans are working overseas as migrants and every year more than 200,000 people leave the country seeking foreign employment. The foreign employment market for Sri Lankan workers until recently was highly biased towards women and it has been dominated by women over several decades. This is mainly because of the high demand for housemaids in the Middle East region. Out of the female migrant workers, 88.2 per cent are employed as housemaids with 94 per cent of them working in Middle East countries (IPS, 2013).

Most of the migrant workers including housemaids migrate through recruitment agencies as 'hired labourers'. The execution of Rizana Nafeek, a Sri Lankan housemaid migrant to Saudi Arabia with an altered passport is an example that illustrates the extent of vulnerability that migrant women are exposed to. Sri Lanka has ratified the 1990 United Nations Convention on the Protection of the Rights of All Migrant Workers and Members of their Families and the Ministry of Foreign Employment Promotion and Welfare formulated the National Labour Migration Policy for Sri Lanka supported by the ILO in 2008 with the aim of promoting opportunities for all Sri Lankan men and women to engage in migration for decent and productive employment, under conditions of freedom, equality, security and human dignity. However, significant gaps exist in providing adequate protection, exposing migrants to a range of human rights abuses including labour exploitation, violence, trafficking and even killings (Human Rights Watch, 2010). Further, women migrants are exposed to a number of adverse psychosocial consequences due to migration with different degrees of intensity (IPS, 2013).

Sources: Young, M., (2010), "Gender Differences in Precarious Work Setting , *Industrial Relations*, Vol. 65, No. 1; International Trade Union Confederation (2011), "Living with Economic Insecurity: Women in Precarious Work, ITUC Belgium; Kalleberg A. L. and Hewison K. (2013), "Precarious Work and the Challenge for Asia:, *American Behavioral Scientist*, Vol. 57, pp. 271-288; IPS (2013), "Migration Profile Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo; Human Rights Watch (2010), "Rights on the Line: Human Rights Watch Works on Abuses Against Migrants", Human Rights Watch.

diluted worker rights.[17] However, dependence on hired workers can have negative implications for companies as well such as irresponsible workers, inexperienced workers, and long-term sustainability due to human resource gaps.

10.4 Policy Recommendations

As in the case of many other Asian economies, the broad trend towards growing casualization and externalization of work has become more prevalent in Sri Lanka. These workers are often subject to unstable employment, lower wages, and hazardous working conditions. They also lack access to social protection and face obstacles in joining a trade union and bargaining collectively. Given the nature of their employment, such workers also find it more difficult to plan their lives in the long-term. The need to promote more decent work in the country is therefore an important policy objective.

This calls for exploring ways of transforming precarious work to decent work of greater quality. One option is to pay attention towards creating more and better jobs. Implementing policies to promote decent work, and using tools that prevent further increases in precarious work is an option. Employers can be held accountable for creating good jobs through public procurements and labour inspections.[18] For example, Canada has introduced measures to discourage firms from hiring temporary agency workers, and established public or private sector 'benefit banks' for irregular workers otherwise denied access to benefits as policy measures. As discussed before, in China, labour laws were amended to better protect workers and allow for the conversion of fixed-term contracts into permanent ones.

Implementing policies to promote decent work, and using tools that prevent further increases in precarious work is one policy option.

The second option is regulating precarious work while safeguarding precarious worker rights. Under this, limiting the number of temporary workers, offering legal protection for agency-hired workers, regulating manpower agencies, and providing social protection for such workers are recommended.

The expansion of precarious work can have negative implications on labour rights, the conventional role of trade unions and collective bargaining powers. Therefore, the use of temporary workers and agency workers must be limited to legitimate needs - for example, to meet the seasonal demand of businesses, to provide supplementary services such as security, and janitorial services, etc. Through such measures, companies can be discouraged from increasing temporary or agency workers above a reasonable threshold.

As agency workers are not protected by law, it is important to have regulatory mechanisms to protect

[17] Ranasinghe, A., (2014), "Agency-Hired Labour in Katunayake and Biyagama EPZs", presentation of preliminary findings, Renuka Hotel, 30 April 2014.

[18] Evans, J. and E. Gibb (2009), "Moving from Precarious Employment to Decent Work", International Labour Organization, Global Union Research Network (GURN) Discussion Paper No.13, ILO, Geneva.

their rights, including equality of employment conditions, social protection, etc. As a first step, issuance of letters of employment to all temporary, hired employees should be made compulsory for companies that use such hired labour. Also, mandatory employee insurance is recommended for hired workers to cover all work place related accidents. Awareness campaigns on worker rights of the agency-hired workers will be helpful to protect the rights of such workers.

There is also a critical need to regulate all manpower agencies. As a first step, all the manpower agencies should be registered under the Department of Labour. In addition, legitimate measures should be taken to ensure that workers in triangular relationships can participate in meaningful collective bargaining. Working with trade unions to promote the above-mentioned standards is recommended.

Sri Lanka faces a pressing challenge on how to meet the social security needs of a large and growing informal sector within the current systemic capacity. In order to extend coverage to those not currently eligible for any existing scheme, the introduction of a universal scheme could be entertained. Concurrently, the government can take necessary steps to facilitate private pension plans for those who are able to contribute towards their retirement.

11. Changing Lifestyles in Asia: Food Habits and Health Risks

11.1 Introduction

Rapid changes in economies with greater globalization, urbanization, modernization and westernization, have resulted in many countries and regions seeing shifts in food habits and lifestyles. Indeed, the evidence suggests that the main determinants of the changes in food habits are income growth, population growth and urbanization.[1] Asia, as one of the fastest growing regions in the world, has seen significant changes across these variables, albeit with varying country experiences within the region. As a result, significant shifts in food demand, food supply and food habits are taking place. Increasingly, populations are thus shifting away from staple foods such as rice to a variety of modern/processed food.

In fact, available literature suggests that the demand for high-quality grains, meats, and processed foods will rise over time. This is already very evident in rapidly urbanizing countries in Asia such as China, where the urban sector demand for fragrant rice, high quality wheat for breads, etc., is on the rise.[2] Conversely, as urbanization levels rise, and rural populations grow at a slower pace, there will be reduced demand for food grains over time. Lifestyle changes that accompany urbanization and related external influences are expected to raise demand for not only foods such as meat, fish, and dairy products, but also for highly processed convenience foods. Consumers are more apt to experiment with more diversified diets, particularly with the influx of supermarkets and fast food outlets in urban centres.

Changing food habits and lifestyles are often accompanied by new disease patterns. They can arise as a result of changing food and nutritional security.[3] New threats to health can also arise from unhealthy lifestyles in more urbanized settings, as well as exposure to environmental pollution, etc. However, health-related risks from changing food habits are especially important as they lead to serious health problems. Unhealthy food consumption habits - an excessive consumption of

Consumers are more apt to experiment with more diversified diets, particularly with the influx of supermarkets and fast food outlets in urban centres.

[1] Delisle, H. (1990), "Patterns of Urban Food Consumption in Developing Countries: Perspective from the 1980s", Food and Agriculture Organization, Rome.

[2] Hsu, H.H., and W. Chen (2002), "How will Rising Income Affect the Structure of Food Demand?" in Gale, F. (ed.), *China's Food and Agriculture*: *Issues for the 21st Century*, Department of Agriculture, US.

[3] Food and Agriculture Organization (2010), "Changing Food System", available at http://www.fao.org/asiapacific/rap/home /issues/changing-food-systems/en/.

Changing food habits and lifestyles are often accompanied by new disease patterns.

sugar and fats for instance - cause obesity and poor overall health outcomes as evidenced by non-communicable diseases (NCDs). Nutritional well-being is threatened by vitamin and mineral deficiencies creating a simultaneous double burden of over-nutrition and under-nutrition.

11.2 Asia's Changing Food Habits

Food habits will change in both quantitative and qualitative terms with income and population growth, urbanization and lifestyle changes. With these developments, the composition of the diet tends to veer towards a higher energy density diet, with a greater proportion of fat and added sugars in foods (mostly from animal sources),and reduced intakes of complex carbohydrates and dietary fibre, as well as reduced intakes of fruit and vegetables.[4]

These trends are visible across the world. In Africa, there is increasingly a marked preference for maize and cassava as opposed to yams and millet. In Europe, there is less consumption of oats, barley and rye, in favour of wheat and potatoes.[5] Food products made from wheat, particularly bread, is gaining popularity across countries in Africa, Latin America and Asia, even though wheat is not the staple food of the population. These changing food habit patterns are not only the outcome of changing tastes, but also of other factors such as convenience.[6]

Across the world, per capita consumption of food has been on the increase with greater affordability and access (Table 11.1). The data indicate that the per capita food consumption in the world would have increased by 25 per cent when compared to the 1960s. It is noteworthy however, that per capita food consumption in East Asia- which had the lowest level in the 1960s - will outstrip this, with a growth rate of over 56 per cent. Thus, the region has experienced a relatively high rate of increase in food consumption over recent decades. Growth in per capita food consumption has also been fairly high in South Asia at 34 per cent over the same period. Asian countries as a whole have far outpaced other regions, although this is expected to slow considerably in the run-up to 2030. The rate of per capita food consumption in South Asia, however, will still be twice that of global growth rates.

The data in Table 11.2 indicate that most developed and emerging economies in Asia are seeing an increase in the share of fats in their total dietary consumption. The intake of fats as a percentage of dietary consumption was nearly 38 per cent in 2005-07 in countries such as the US and UK. However, rapidly growing economies in East Asia and Southeast Asia are catching up, with an average share of around 27 per cent. South Asian economies such as India and Sri Lanka still indicate lower shares of around 18 per cent, but the trend is on the rise. Thus, the consumption of fats in diets will continue into the future, indicating that there will be growing pressure on the livestock and fisheries sectors to meet rising demand for high-value animal protein across the world.

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[4] Food and Agriculture Organization (2002)," Diet, Nutrition and the Prevention of Chronic Diseases", available at http://www.fao.org/docrep/.

[5] C. Latham, M., (1997), "Human Nutrition in the Developing World", Food and Nutrition Series No. 29, Food and Agriculture Organization, Rome.

[6] *Ibid*.

Table 11.1
Changes in Global and Regional Per Capita Food Consumption (kcal per capita per day)

Region	1964-1966	1974-1976	1984-1986	1997-1999	2015	2030
World	2358	2435	2655	2803	2940	3050
Developing countries	2054	2152	2450	2681	2850	2980
Near East & North Africa	2290	2591	2953	3006	3090	3170
Sub-Saharan Africa	2058	2079	2057	2195	2360	2540
Latin America & the Caribbean	2393	2546	2689	2824	2980	3140
East Asia	1957	2105	2559	2921	3060	3190
South Asia	2017	1986	2205	2403	2700	2900
Industrialized countries	2947	3065	3206	3380	3440	3500
Transition countries	3222	3385	3379	2906	3060	3180

Source: FAO, "Diet, Nutrition and the Prevention of Chronic Diseases", available at http://www.fao.org/docrep/.

These changes are most apparent in Asia, with economies undergoing rapid economic transformation and urbanization, associated with changing tastes and lifestyles brought about by urban living. Such changes in turn lead to significant impacts on food demand. For instance, East Asian economies that underwent the earliest phases of economic transformation in Asia such as Japan, South Korea and Taiwan have seen a drop in the direct per capita consumption of cereals as a staple food over the past three decades. [7] The shift overall is away from staple foods to consumption of meat, fish, and dairy products, and this is expected to recur across Southeast Asian and South Asian economies as they too undergo similar transformation in their economies.

Table 11.2
Contribution of Fats in Total Dietary Consumption in Select Countries (%)

Country	1990-92	1995-97	2000-02	2005-07
Japan	26	27	28	29
China	20	23	25	27
Malaysia	29	26	27	26
Thailand	18	18	19	20
Sri Lanka	17	17	17	18
India	16	17	18	19
US	36	35	38	38
UK	39	39	37	38

Source: FAO (2010), Food Balance Sheets, Food and Agriculture Organization.

As evident from the data in Table 11.3, the consumption of livestock products has grown significantly over the years, and is expected to keep on increasing. The East Asian region has seen a sharp increase in meat consumption, whilst in South Asia the increase is more notable in milk. Meat consumption in East Asia is forecast to rise by more than 56 per cent by 2030 compared to consumption levels in the late 1990s.

With lifestyle changes, food purchasing habits will also change, facilitating the shift in consumption patterns. Those living in urban-metropolitan areas will tend to buy food products from Western-style supermarkets, shopping centres, and 'box stores' which sell food and other household items in bulk. These trends are already very evident in Southeast Asian cities such as Bangkok and Manila.[8] In addition, busy urban lifestyles and dual income earners will also tend to encourage shifting demand patterns. As more women join the labour force demand for convenience foods, 'take-aways', and

[7] Huang, J., and H, Bouis (1996), "Structural Changes in the Demand for Food in Asia", International Food Policy Research Institute, Washington, D.C.

[8] Food and Agriculture Organization (2001), "Food Supply and Distribution to Cities", proceedings of the FAO-City Net-AFMA Sub-regional seminar, available at http://www.fao.org/docrep/003/x6982e/x6982e05.htm.

Table 11.3
Per Capita Consumption of Livestock Products

Region	Meat (kg per year)			Milk (kg per year)		
	1964-1966	1997-1999	2030	1964-1966	1997-1999	2030
World	24.2	36.4	45.3	73.9	78.1	89.5
Developing countries	10.2	25.5	36.7	28.0	44.6	65.8
Near East & North Africa	11.9	21.2	35.0	68.6	72.3	89.9
Sub-Saharan Africa	9.9	9.4	13.4	28.5	29.1	33.8
Latin America & the Caribbean	31.7	53.8	76.6	80.1	110.2	139.8
East Asia	8.7	37.7	58.5	3.6	10.0	17.8
South Asia	3.9	5.3	11.7	37.0	67.5	106.9
Industrialized countries	61.5	88.2	100.1	185.5	212.2	221.0
Transition countries	42.5	46.2	60.7	156.6	159.1	178.7

Source: FAO, "Diet, Nutrition and the Prevention of Chronic Diseases", available at http://www.fao. org/docrep/.

eating out is likely to become more evident in urban settings.[9] As women continue to bear primary responsibility for food preparation at household level in most Asian societies, aside from convenience, the affordability of eating-out is also greater. In Southeast Asia, where most countries record a high level of female labour force participation, the demand for traditional fast foods such as take-away, catering enterprises and street food is increasing. Other influences include advertisements that promote fast/processed food, particularly targeted at children, creating supply-driven demand for fast/processed food. Some studies have shown that even a short food advertisement can exert considerable influence on food demand among pre-school children.[10]

11.3 Sri Lanka's Changing Food Habits

11.3.1 Shifting from Carbohydrates to Proteins

In Sri Lanka, the relative share of food expenditure in the total expenditure of households has reduced sharply over time (Table 11.4). This is of course to be expected as income levels rise, and other factors such as changing consumer preferences, relative price variations, supply condition variability, and changes in demographic conditions apply.[11]

Table 11.5 highlights food consumption pattern changes in Sri Lanka over the years. As in the case of other Asian economies discussed previously, Sri Lanka too has seen a decline in consumption of its staple food - i.e., rice. At the same time, the consumption of meat, fish and eggs has been increasing. This shows that the quantity of carbohydrate intake (including rice, wheat flour and bread) is reducing, while protein intake has slightly increased through consumption of fish, meat and eggs.

11.3.2 Eating Away from Home

Modern lifestyles and time scarcity have contributed to an increase in food consumption away from home in Sri Lanka as well. A growing number of women employed outside their homes, increased number of two-earner households, higher incomes, more affordable and convenient fast-food outlets,

[9] *Ibid*.

[10] Borzekowski D.L. and T. N. Robinson(2001), "The 30-Second Effect: An Experiment Revealing the Impact of Television Commercials on Food Preferences of a Preschooler",*Journal of the American Dietetic Association*, Vol. 101, No. 1.

[11] IPS (2013), "Changing Food Demand and Consumption Patterns" in *Sri Lanka: State of the Economy 2013*, Institute of Policy Studies of Sri Lanka, Colombo.

Table 11.4
Proportion of Household (HH) Expenditure on Food

Mean HH expenditure per month (Rs.)	1,232	2,079	3,905	6,525	13,147	22,952	31,331
Food ratio (%)	65.0	57.6	64.6	54.4	44.5	37.6	42.3

Sources: DCS, HIES data, various years.

increased advertising and promotion by large foodservice chains, etc.,tend to influence the way in which households' food habits change.

The above trends are also being facilitated by other developments, including a fast growing network of supermarkets in the country. The number is currently estimated at 516, categorized as supermarkets, hypermarkets and convenience stores.[12] Aside from the convenience factor, access to supermarkets can also change food and eating habits. For instance, it is suggested that people are also attracted to processed food items found in supermarkets which are much easier to prepare. Going forward, Sri Lanka's supermarket trade is expected to see an unprecedented growth within the next few years, backed by increasing per capita income, an increase in the workforce and the changing consumption patterns.[13]

These trends are also influenced by greater exposure to advertisements as more and more households have access to different media outlets. For example, some studies have found advertisement to be one of the determinants in creating demand for fast food, soft drinks, and sweet products.[14] Of 100 school children in the Galle district, 78 per cent of children's demand for food was found to be influenced by advertisements. A majority (44 per cent) believed that advertisements have a considerable influence on their demand for food, while the rest (34 per cent) considered advertisements to be highly influential.

Table 11.5
Average Monthly Household Expenditure and Consumption of Major Food Items

Selected food items	Monthly HH Expenditure (as a % of total expenditure)			Monthly HH Quantity Consumed (kgs.)		
	1980/81	1990/91	2009/10	1980/81	1990/91	2009/10
Rice	20.45	15.62	7.33	46.7	44.3	36.3
Wheat flour	1.54	0.90	0.60	3.6	2.6	2.7
Bread	3.00	2.74	1.36	7.8	9.9	5.1
Pulses	1.54	2.94	1.75	1.4	2.6	2.8
Meat	1.14	2.05	1.65	0.8	1.2	1.4
Fish	3.25	3.51	3.71	3.5	2.4	3.8
Dried fish	2.27	2.59	1.57	1.4	1.3	1.3
Milk & milk products	2.19	3.12	3.31	2.7	1.4	1.9
Eggs	0.49	0.67	0.43	7.0	11.0	10.0

Source: Adapted from IPS (2013), "Changing Food Demand and Consumption Patterns" in *Sri Lanka: State of the Economy 2013*, Institute of Policy Studies of Sri Lanka, Colombo.

[12] Equity Research Cargills (Ceylon) PLC (2012), Bartleet Religare Securities, Colombo, Sri Lanka.

[13] *Ibid*.

[14] Samaraweera, G.R.S.R.C. *et al*. (2010), "Television Advertising and Food Demand of Children in Sri Lanka: A Case Study from Galle District", Colombo, Sri Lanka.

According to DCS data, prepared food is categorized as 'food which is not being prepared at home', effectively meaning that it comprises of food that is considered to be a 'take-away' or eating out. Table 11.6 indicates Sri Lanka's monthly household expenditure on prepared food in 2002, 2006/07 and 2009/10. The trends on whether or not Sri Lankan households are increasingly 'eating away from home' is somewhat mixed.

The national figure on monthly prepared food expenditure as a percentage of total food expenditure of households increased only marginally from 2002 to 2006/07. However, there were significant shifts in spending habits on foods amongst urban, rural and estate sector households during the same period. Urban households are spending less on prepared food whilst rural and estate sectors appear to be spending more out of their total food expenditures. The latter does suggest a change in food consumption patterns in Sri Lanka is taking place, albeit at a fairly modest pace. The drop in the urban share of spending on prepared food could partly be explained by price variability, arising from a number of factors. For one thing, Sri Lanka saw a period of high food inflation, particularly in 2007/08,[15] that also meant an escalation in prices of prepared food. Price variability can also be reflected in changing food habits. Finally, price variability can arise from competitive pricing as more and more sources of prepared food become available.

11.4 Changing Food Habits and Health Impacts

As already discussed, a traditional healthy meal comprised of a high fibre, low-fat, and low-calorie diet, including whole grains, fruits, and vegetables, has been shifting towards calorie-dense foods.[16] The latter include high saturated fats, trans-fats, salt and sugar. In addition to changing diet patterns, urbanization and related lifestyles - consumption of processed and unhealthy foods, lack of opportunities for physical activity, increased exposure to environmental pollutants and stress, etc. - open high risk avenues for NCDs. As these trends become more pronounced in regions such as Asia, countries will face rising health risks associated with changing food habits.

11.4.1 Unhealthy Diet and NCDs

Changing food habits can lead to unhealthy diets and cause significant health problems. Indeed, the food intake is identified as a key determinant in ensuring a healthy life. As stated by the World Health Organization (WHO),an unhealthy diet is one of four

Table 11.6
Monthly Household Expenditure on Prepared Food

	2002		2006/07		2009/10	
	Prepared Food (Rs.)	Share in Total Food Expenditure (%)	Prepared Food (Rs.)	Share in Total Food Expenditure (%)	Prepared Food (Rs.)	Share in Total Food Expenditure (%)
Urban	1,277	21.8	1,894	17.2	2,419	15.2
Rural	572	9.8	919	11.1	1,278	9.9
Estate	198	3.4	479	6.4	692	5.7
Sri Lanka	640	10.9	1,032	11.9	1,409	10.6

Sources: DCS, HIES data, various years.

[15] IPS (2008), "Does 'Foodflation' Call for Agricultural Reforms?" in *Sri Lanka: State of the Economy 2013*, Institute of Policy Studies of Sri Lanka, Colombo.

[16] WHO/SEARO (2011), "Non-Communicable Diseases in the South-East Asia Region: Situation and Response", WHO, Geneva.

A traditional healthy meal comprised of a high fibre, low-fat, and low-calorie diet, including whole grains, fruits, and vegetables, has been shifting towards calorie-dense foods.

modifiable (behavioural) risk factors.[17] Unhealthy foods are defined as the foods that are high in saturated fats, trans-fats, free sugars or salt. Eating these types of food frequently increases obesity, which is a risk factor for chronic NCDs such as cardiovascular disease (CVD), diabetes, and cancers. It is also important to note that the consumption of an unhealthy diet is particularly high in lower resource settings, and increasingly lower middle-income countries are more prone to consuming fatty diets.[18] As already indicated in Table 11.2, dietary fat consumption has been increasing over time, especially in the Asian region.

Many countries across Asia are experiencing unhealthy diets, reflected by a low intake of fruits and vegetables, high consumption of salt, and extensive use of trans-fats by the food industries.[19] According to related WHO statistics, half a million deaths in the Southeast Asian region are attributed to low intake of fruits and vegetables.

In addition, approximately 80 per cent of the region's population does not eat sufficient quantities of fruits and vegetables. As indicated by Table 11.7, the average prevalence of inadequate consumption of quantity of fruits and vegetables a day is greater than 60 per cent in both males and females for many Asian countries. In particular, inadequate fruits and vegetable consumption is seen to be higher among females than males.

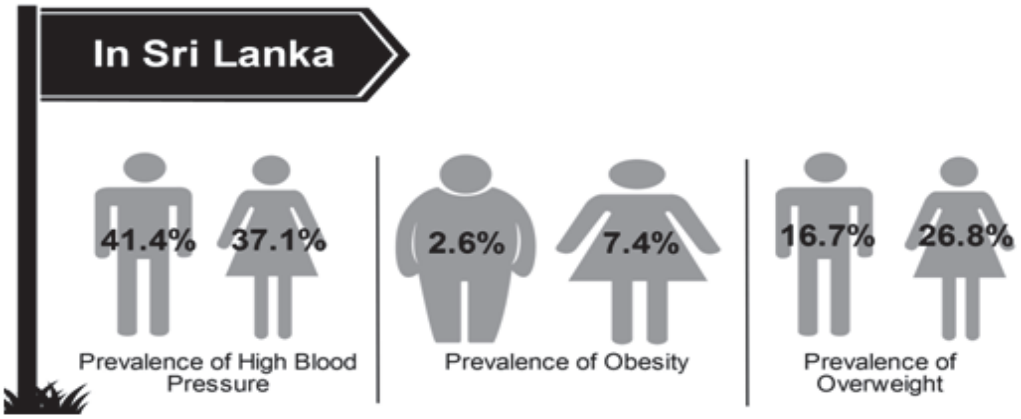
Table 11.7
Consumption of Fruits and Vegetable in Select Asian Countries (%)[a]

	Male	Female	Both Sexes
Bangladesh (2010)	94	93	93
Bhutan (2007)	65	69	67
India (2007/8)	NA	NA	86
Indonesia (2007)	94	94	94
Maldives (2004)	97	93	97
Myanmar (2009)	90	91	90
Nepal (2007)	61	64	62
Sri Lanka (2007)	81	83	82
Thailand (2005)	83	82	82

Notes: a. Percentage of male and female adults eating less than five servings of fruits and vegetables a day.
Source: "National NCD Risk-factor Surveys" in relevant countries.

Apart from a low intake of fruits and vegetables, high consumption of salt is associated with hypertension and cardiovascular issues on the other hand. The prevalence of hypertension is found to be significantly higher in the highest quintile of mean salt intake of 13.8 g per day, than the lowest quintile of mean salt intake of4.9 g per day.[20] In addition, another serious issue is that both body mass index (BMI) and waist circumference are higher among people with high salt intake. Further, when salt intake rises, the total calories and percentage of calories arising from fat diets also increase significantly. Some available data indicate that the average salt consumption per person per day is higher than the recommended limit by the WHO (5 g or less/day) in countries such as Malaysia and

[17] WHO/SEARO (2011), "Non-Communicable Diseases in the South-East Asia Region: Situation and Response", WHO, Geneva; WHO (2011), "Global Status Report on Non-Communicable Diseases 2010," WHO, Geneva.
[18] WHO (2011), "Global Status Report on Non-Communicable Diseases 2010," WHO, Geneva.
[19] WHO/SEARO (2011), "Non-Communicable Diseases in the South-East Asia Region: Situation and Response," WHO, Geneva.
[20] *Ibid*.

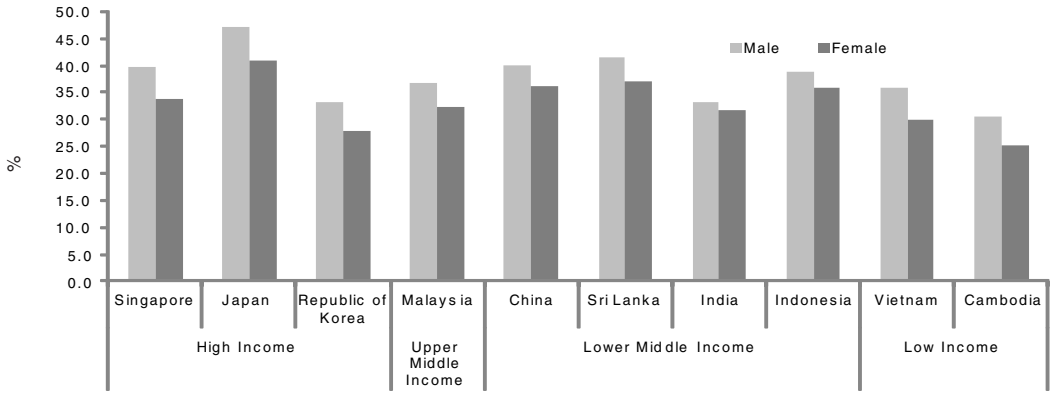


Sri Lanka. A Sri Lankan adult is estimated to consume over 12.5 g of salt per day, while a Thai adult is estimated to consume 10.8 g of salt per day.[21]

Worldwide, the population with high blood pressure/ hypertension increased to nearly one billion in 2008, from 600 million in 1980.[22] Of global annual deaths, 12.8 per cent of deaths (almost 7.5 million deaths) are estimated to occur due to raised blood pressure. Of the total adult population in the Asian region, 30 per cent of adults are estimated to have high blood pressure, and of total deaths, 9.4 per cent are attributed to hypertension.

The prevalence of high blood pressure among males is higher when compared to females (Figure 11.1). Cambodia, with a population of 13.4 million reports one of the lower percentages of adult population with high blood pressure - 30.5 per cent for males 25.1 per cent for females - among a sample of Asian countries. By contrast, Japan records a much higher percentage of the population with high blood pressure, 47.1 per cent for males and 41 per cent for females. This is partly explained by its population demographics of a high elderly and ageing population, given that high blood pressure is more prevalent among those 60 years and above.

Figure 11.1
Percentage of Adult Population with High Blood Pressure in Select Asian Countries, 2008



Source: WHO (2011), "Global Status Report on Non-Communicable Diseases 2010," WHO, Geneva.

[21] Wolfson Institute of Preventive Medicine (2012), "Consensus Action on Salt and Health (CASH)", Annual Report May 2012-April 2013, University of London, UK; WHO/SEARO (2011), "Non-Communicable Diseases in the South-East Asia Region: Situation and Response", WHO, Geneva.

[22] WHO (2011), "Global Status Report on Non-Communicable Diseases 2010," WHO, Geneva.

Obesity and overweight is another by product of an unhealthy diet. More than one billion people worldwide are said to be overweight while more than 300 million are obese.[23] In addition, due to overweight or obesity at least 2.8 million people die annually. These problems are also found to be more prevalent in higher socio-economic settings. For instance, obesity prevalence in lower middle-income countries at present is 7 per cent, and that in upper middle-income countries is 24 per cent.[24] Another important fact is that prevalence of overweight and obesity is higher in females than in males.

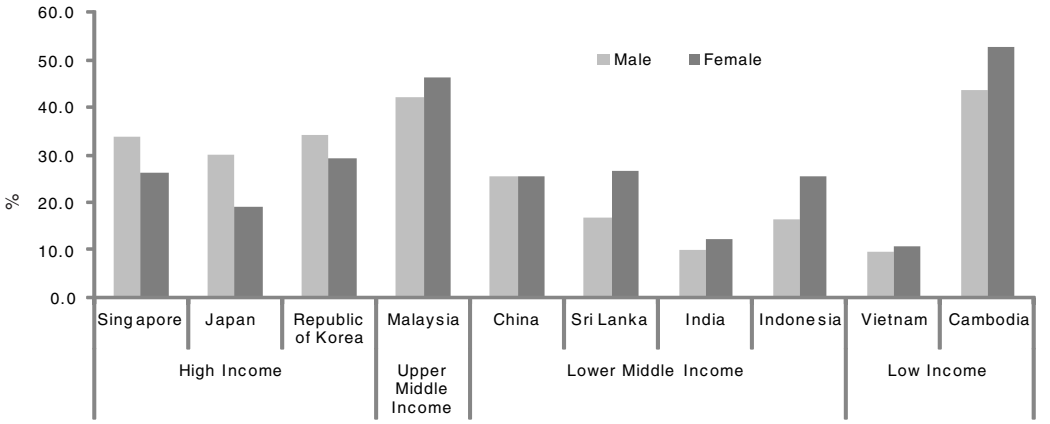
As illustrated in Figures 11.2 and 11.3, the prevalence of obesity and overweight is higher in females than in males in each Asian country considered. With regard to the lower middle- income countries, China and India show the highest prevalence for both obesity and overweight for both sexes. However, there is little to differentiate experiences by income levels. Even a high income economy such as South Korea has significant prevalence of an overweight population (34.3 per cent for males and 29.2 for females) while an LDC such as Cambodia also reports high prevalence of overweight (43.5 per cent for males and 52.7 for females).

The problems of obesity and overweight become even more acute in the case of children. Childhood obesity and overweight is one of the most serious public health issues in the world, particularly in urban settings. As children have greater accessibility to eat processed and fast foods, coupled with more sedentary modern lifestyles, they are more prone to increased weight problems. Children are also increasingly exposed to advertisements that promote fast/processed food which can have a detrimental impact on their diets.

11.5 NCD Prevalence in Sri Lanka

It is evident that NCDs are creating a considerable burden on Sri Lanka's health system over the years; in particular, Sri Lanka's NCD prevalence is substantial compared to countries in other parts of Asia. In terms of NCD mortality, Sri Lanka is placed third (66 per cent) in the ranking, behind the Maldives (79 per cent), and Thailand (71 per cent).

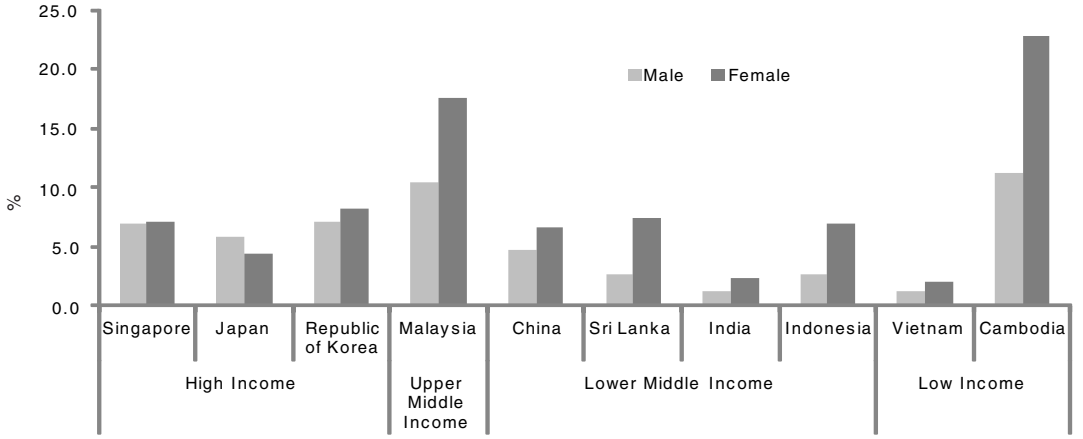
Figure 11.2
Prevalence of Overweight in Selected Asian Countries, 2008



Notes: Overweight and obesity are defined as Body Mass Index (BMI), a measure of weight relative to height, with overweight measured as BMI>=25Kg/m2.
Source: WHO (2011), "Global Status Report on Non-Communicable Diseases 2010," WHO, Geneva.

[23] WHO (2012), "Obesity: Key Facts", available at http://www.wpro.who.int/mediacentre/factsheets/obesity/en/.
[24] *Ibid*.

Figure 11.3
Prevalence of Obesity in Select Asian Countries, 2008



Notes: Overweight and obesity are defined as Body Mass Index (BMI), a measure of weight relative to height, with obesity measured as (BMI>=30Kg/m2).
Source: WHO (2011), "Global Status Report on Non-Communicable Diseases 2010," WHO, Geneva.

In addition, Sri Lanka's age standardized mortality rates for all NCDs are higher by 20-50 per cent, compared to developed countries.[25]

At present, Sri Lanka's disease morbidity pattern is heavily weighted towards NCDs (including injuries) accounting for 85 per cent of the country's disease burden. For instance, indoor morbidities due to cancers in 1990 at 142.1 cases per 100,000 population almost doubled to 329 cases per 100,000 population in 2007. During 1995 to 2008, hospitalization due to hypertension and Ischaemic Heart Disease (IHD) has increased by 62 per cent and 61 per cent, respectively. In addition, a significant increase of almost 277 per cent was reported from diabetes cases, on the basis of those admitted to hospitals.

On the other hand, 65 per cent of all deaths in Sri Lanka are due to NCDs. The rest comprise of 26 per cent due to injuries, and 9 per cent due to communicable diseases, maternal, perinatal, and nutrition conditions. In addition, NCD deaths for all causes by gender in 2008 were 66,765 for males, and 51,140 for females. Particularly, the prevalence of CVD, which is the leading cause of NCD deaths in Sri Lanka is higher for males (384.9 per 100, 000 population) than females (240.8 per 100, 000 population). In addition, the proportion of indoor morbidity due to IHD for males in 2008 was 52.9 per cent, while the same indicator for females was 44.3 per cent.[26]

11.6 Conclusion and Way Forward

Empirical evidence indicates that increasing income, urbanization and lifestyle changes are key determinants of changing food habits. These changes are most evident in the fast-growing Asian region, albeit with differences amongst countries across East Asia, Southeast Asia and South Asia. Sri Lanka too is seeing structural transformations, by way of rising incomes, higher levels of urbanization, changing lifestyles and food consumption habits.

Changing food habits leads to substantial health risks arising from increased obesity and overweight,

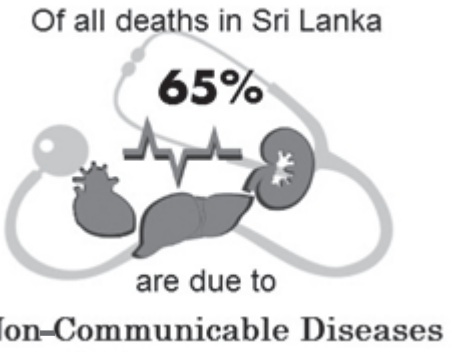
[25] IPS (2013), "The Emerging Challenge of Non-Communicable Diseases", in *Sri Lanka: State of the Economy 2013*, Institute of Policy Studies of Sri Lanka, Colombo.

[26] *Ibid*.

high blood pressure, and diabetes. These trends are evident across regions, including Asia. Studies reveal that 60 per cent of Sri Lankan consumers are unsatisfied about the quality of their food, with many foods available in the market considered to be not healthy as expected.[27] In particular, many food products are considered to have additives - such as artificial colours and preservatives - that exceed permitted levels. Even though Sri Lanka has comprehensive regulations on food safety - for instance on food preparation (coloring, sweetness, iodized edible salt content, etc.), food packaging and labeling - the extent to which these regulations are practiced is questionable. Consequently, it is important to strengthen the existing monitoring mechanisms with respective to the implementation of public policies and regulations.

Sri Lanka, already prone to a significant health burden from rising levels of NCDs, has initiated some important and useful programmes. These include a national policy initiative to tackle NCDs, promoting healthier lifestyles through concepts such as the 'Super 8' (see Box 11.1), conducting health screening campaigns and awareness building programmes, implementing nutritional programmes both at household and school levels, etc.

Nevertheless, there are unaddressed areas, which require further policy attention. Sri Lanka is seeing a rapid increase in fast food outlets as demand grows. For instance, the largest percentage (62 per cent) of regular users of fast food restaurants in Colombo and Kandy are reported from poorer socio-economic group.[28] Despite the Food Act, No.26 of 1980 to regulate and control the manufacture, importation, sale, and distribution of food, it is questionable that all small and medium food



manufactures/sellers meet the standards set out in the Act. There are regular media reports on expired food being sold in the market. Therefore, existing policies and regulation need to be strengthened to prevent such unethical practices.

Unregulated advertisements can also have adverse impacts on food choices. In fact, some studies have found advertisements to be one of the determinants of an obesogenic environment that promotes unhealthy food choices and minimizes opportunities for physical activities.[29] Many developed and developing countries, such as the US and Taiwan for instance, have established effective initiatives to prohibit unethical food advertisements in order to prevent obesity and other chronic diseases. Taiwan, which has the highest obesity rate in Asia - 19.2 percent in males and 16.6 percent in females- has drafted a Bill recently to prohibit advertising five kinds of junk food on children's television channels.[30] Sri Lanka at present does not have adequate regulation to ban unethical advertisements. However, enforcing stricter rules and regulations on unethical food advertisements is perhaps another area that will need policy attention, especially in regard to safeguarding the health of the country's young population.

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[27] Liyanage, U. (2009 and 2010), "The Sri Lankan Post-Modern Consumer", *Sri Lankan Journal of Management*, Vol. 14, No. 4, October-December 2009, and Vol. 15, No. 1, January-March, 2010.

[28] *Ibid*.

[29] De Silva, A. (2012), "Marketing Obesity and Chronic Disease: Unethical Food Advertising and the Role of Nutrition Professionals", *Nutrition Focus*, Issue 1, Nutrition Society of Sri Lanka, Department of Applied Nutrition, Wayamba University, Sri Lanka.

[30] *The China Post* (2014), "Ministry Aims to Ban Ads for Junk Food on TV Channels for Kids", http://www.chinapost.com.tw /taiwan/national/national- news/2014/04/10/404947/Ministry-aims.htm (accessed 10th April 2014).

Box 11.1
Current Policies and Action for Nutrition Security

Divi Neguma
This programme was implemented in 2012, with the aim of strengthening people economically, and minimizing their dependence on the market for food requirements. Further, it aims to improve nutritional levels of families and to reduce cost of living of households by way of consuming their own grown vegetables and fruits in their gardens by using organic fertilizer. It aims to increase vegetable and fruit production by 25 per cent and increase per capita consumption of vegetable from 134 grams to 175 grams per day.

Phase 1 of the Divi Neguma programme mainly focuses on 'home gardening', which encourages people to grow their own fruits and vegetables.

School Nutrition Programmes
School health promotion programme
In order to improve health, the School Health Promotion programme was commenced by the School Health and Nutrition Unit of the Ministry of Education in collaboration with the Ministry of Health. This programme covers school children, and teachers in each school across the country and conducts a variety of activities -i.e., identifying nutrition issues of the children; creating awareness to address such issues; improving the nutritional food habits; and evaluating the nutritional status of school children.

School canteen management programme
To promote healthy and hygienic food habits of children, a School Canteen Policy was introduced in 2007. Subsequently, a Circular (Running School Canteens-No. 2007/02) issued by the Ministry of Education requires school canteens to be responsible for providing a healthy meal (e.g., pulses, fruits and vegetable items, fresh milk, herbal porridge, king coconut, and clean water). The policy also requires that schools maintain a clean environment inside and outside the canteens, meeting the standards of the Food Act of 1980. This policy bans the sales of artificial foods in school canteens (i.e., fast food, sweets/fat food diets), and promotes indigenous food habits.

School mid-day meal programme
In order to improve the nutritional status of school children, particularly in disadvantaged areas, a mid-day meal programme was introduced with government assistance and other international development partners. A meal is provided to students in grades 1 to 5 in schools with less than 100 students, and other selected school across the country.

Glass of milk for students: Kiri Weeduruwa
With the aim of improving the nutritional levels in school children, a glass of milk is provided to the children in selected schools of the country.

Chronic Non-Communicable Disease (NCD) Policy
In 2010, the Ministry of Health launched the National Policy for Prevention and Control of NCDs, aimed at reducing premature mortality (less than 65 years) due to NCDs by 2 per cent annually over the next 10 years. In order to reduce the NCD burden, the Ministry of Health conducts programmes to promote healthy lifestyles in order to reduce the prevalence of common risk factors; provides integrated evidence-based treatment options for diagnosed NCDs; and promotes the integration of NCD policy into other policies across all government ministries, and private sector organizations.

Concept of 'Super 8'
The Ministry of Health has launched the concept of 'Super 8' to change lifestyles via eight good practices: (1) maintain a BMI between 18.5 to 24.9; (2) avoid excess salt in food; (3) avoid excess added sugar in food; (4) engage in at least 30 minutes of moderate physical activity; (5) consume 5 servings of fruits and vegetable per day; (6) avoid food with trans-fat; (7) avoid smoking and alcohol; and (8) check your blood pressure once a year.

Sources: Ministry of Economic Development/Ministry of Health (2010), "National Policy for Prevention and Control of Non-Communicable Diseases"; National Nutrition Secretariat-Presidential Secretariat, (2013), "A Nourished Nation Multi-sector Action Plan for Nutrition".

12. Poverty and Equity in Asia and the Post-2015 Development Agenda

12.1 Introduction

While most of the countries in the Asian region have made considerable progress in reducing poverty, income inequality has remained high or has risen in some of the countries. Even non-income inequalities remain high in some of the fast growing Asian economies. If the countries in the region are to continue their rapid path to development, improving the living conditions of the people, especially amongst the poorer groups, is critical. Indeed, inclusive growth requires an equitable sharing of the benefits of rapid economic growth. Most developing countries in Asia are moving towards meeting their MDGs by the year 2015 and are now examining issues related to the post-2015 development agenda.

For Sri Lanka too, issues of equity in pursuing rapid growth has been at the forefront of government policy discussions. The country has made enormous gains in alleviating poverty with a reported sharp drop in the national poverty headcount ratio from 15.7 per cent in 2006/07 to 8.9 per cent in 2009/10 and to an estimated 6.7 per cent in 2012/13. Reductions to poverty levels have been accompanied by a narrowing of poverty across sectors and regions in the country. With the significant progress made in poverty alleviation efforts, Sri Lanka is also well placed to meet its MDGs by 2015. The country has already achieved the targets for 17 important indicators even before reaching 2015, and most of the other socio-economic indicators that comprise the MDGs are on track to be achieved by 2015.

Sri Lanka has already achieved the targets for 17 important indicators even before reaching 2015, and most of the other socio-economic indicators that comprise the MDGs are on track to be achieved by 2015.

Some of these developments in Sri Lanka are even comparable with the developed countries. Free education for all, universal health care facilities and services - including public health services with access even in remote areas - and a range of welfare programmes implemented for more than six decades have made significant contributions. As such, Sri Lanka stands well placed for most indicators in education, health and living conditions. Nonetheless, there still remain a few gaps and regional disparities related to some of the indicators.

The achievement of MDGs is an unfinished agenda, not only in Sri Lanka, but across many low-middle income and less developed countries (LDCs) across Asia. This Policy Brief examines the current status of poverty and equity and the post-2015 development agenda for Sri Lanka, in the context of the wider Asian region.

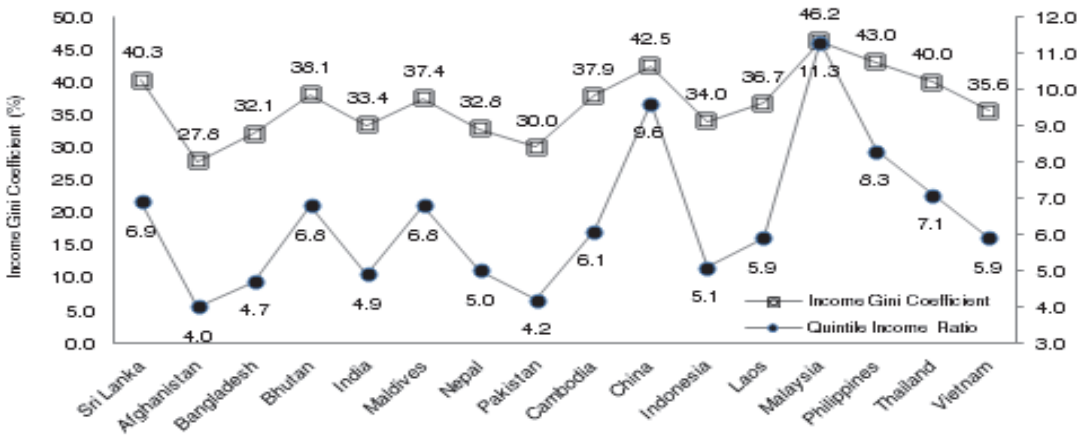
12.2 Income Inequality in Asia

Growth strategies cannot succeed in the long run without a commitment to equality of opportunities, giving everyone a fair chance to participate in the growth process and enjoy the fruits of growth that follow. Despite progress made in tackling poverty, Asia still remains the largest source of the world's poor. Estimates of poverty headcount ratios suggest that South Asia has the second highest percentage of poor (31 per cent) behind Sub-Saharan Africa (48.5 per cent) with East Asia and the Pacific at third place (12.5 per cent).[1]

Even as many countries of the region grapple with high poverty levels, inequality within countries is also a significant challenge for some of the richer Asian economies. The persistence of inequality can trigger social and political tensions and lead to conflicts, while rising inequality poses a risk to stability, which in turn affects economic progress.

The quintile income ratio and income Gini coefficient (or index) are two indicators used to measure income inequality in any country.[2] A cross-section of Asian economies captured in Figure 12.1 suggests that countries such as Malaysia (11.3), China (9.6) and the Philippines (8.3) have high income inequality compared to other Asian countries. Sri Lanka (6.9) is at an intermediate level, while Afghanistan (4.0) records the lowest income inequality. The Gini coefficients

Figure 12.1
Gini Coefficients and Quintile Income Ratios for Select Asian Countries

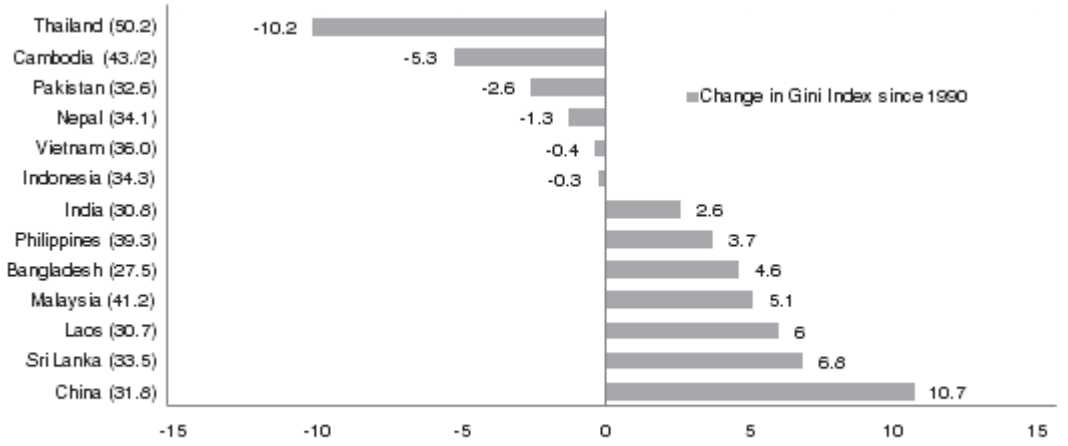


Notes: Latest available figures during 2000 to 2010. Japan, South Korea and Singapore were excluded as figures are not available in HDR 2013.
Source: Based on data from UNDP, *Human Development Report 2013*.

[1] At US$ 1.25 a day at purchasing power parity, available at http://data.worldbank.org/topic/poverty.

[2] The quintile income ratio is a measure of the average income of the richest 20 per cent of the population to the average income of the poorest 20 per cent; the income Gini coefficient is a measure of the deviation of the distribution of income (or expenditure) among individuals or households, within a country.

Figure 12.2
Change in Gini Index for Select Asian Countries



Notes: Latest available figures during 2000 to 2010. Japan, South Korea and Singapore, excluded as latest figures are not available in the HDR 2013; Afghanistan, Bhutan and Maldives are excluded as figures for 1990 are not available.

Source: Figures for 1990 (given within brackets) are from UNICEF (2011), "Global Inequalities: Beyond the Bottom Billion", Social and Economic Policy-Working Paper; the most recent figures are from UNDP, *Human Development Report 2013*.

also show a similar pattern with Malaysia at the high-end of 46.2 per cent and Afghanistan at the low end of 27.8 per cent.

Some Asian countries have shown significant increases in inequality over the last two decades, while others in Asia have succeeded in reducing inequality. However, most in the latter group had very high levels of inequality in the 1990s. For example, Thailand has seen a reduction of its Gini index by 10.2 percentage points during the last two decades, but from a very high level of 50.2 per cent in 1990 (Figure 12.2). Conversely, China records the highest increase (10.2 percentage points), followed by Sri Lanka (6.8 percentage points). Thus, despite progress made in MDGs and other indicators, income inequality remains an area for policy attention in Sri Lanka.

12.3 Sri Lanka's Poverty and Human Development vis-a-vis Asia

As Sri Lanka aims to be the 'Wonder of Asia', its success will be judged not only by hard economic numbers, but also by socio-economic development indicators on multiple fronts. As such, it is important to look at the achievements and progress that the country has made so far within an Asian context. Sri Lanka stands out regionally, significantly ahead of its South Asian neighbours in human development indicators. However, the country needs to look beyond to middle income economies in Asia such as Malaysia or even benchmark itself against high income Asian economies such as Japan, South Korea and Singapore. Indeed, in some MDGs and human development indicators, Sri

Despite progress made in MDGs and other indicators, income inequality remains an area for policy attention in Sri Lanka.

Lanka's achievements are closer to the latter three countries than its immediate neighbours in South Asia.

GDP per capita and HDI

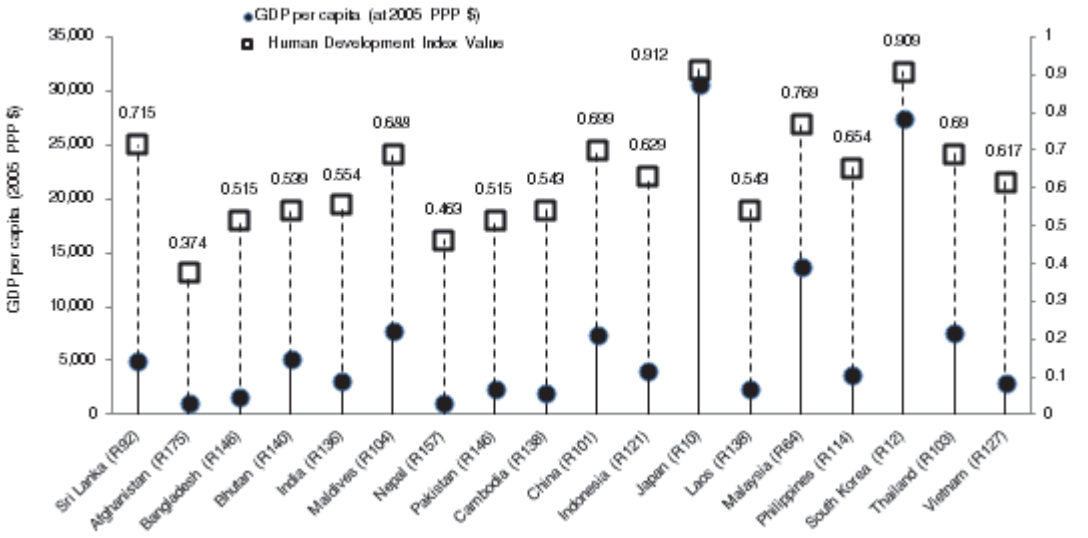
At a relatively low level of GDP per capita, Sri Lanka has historically had a high human development index (HDI). In fact, even at present, Thailand has a much higher per capita GDP than Sri Lanka but ranks lower on HDI (Figure 12.3). Sri Lanka's HDI value in 2012 stood at 0.715 with a rank of 92 out of 186 countries, well ahead of other South Asian countries. Sri Lanka's HDI value even in 1990 (0.608) was higher than the HDI values of all the countries in the SAARC region in 2012, except Maldives. Whilst Sri Lanka lags behind Japan (ranked 10), South Korea (ranked 12), Singapore (ranked 18) and Malaysia (ranked 64), it is noteworthy that the country is also ahead of the two fast developing countries - China (ranked 101) and India (ranked 136).

Sri Lanka's HDI value in 2012 stood at 0.715 with a rank of 92 out of 186 countries, well ahead of other South Asian countries.

Poverty

Poverty measured using the international poverty line of US$ 1.25 a day (PPP) shows that Sri Lanka had 4.1 per cent of the population below the poverty line in 2009 (Figure 12.4). The Maldives (1.5 per cent) and Bhutan (1.7 per cent) do better in South

Figure 12.3
GDP per Capita (at 2005 PPP $) and Human Development Index for Select Asian Countries



Note: GDP per capita is at 2005 PPP $ and HDI values are for 2012. Singapore is not included in the chart as GDP per capita is too high (PPP $ 53,353); the HDI rank of each country is given within brackets in the horizontal scale of the chart.

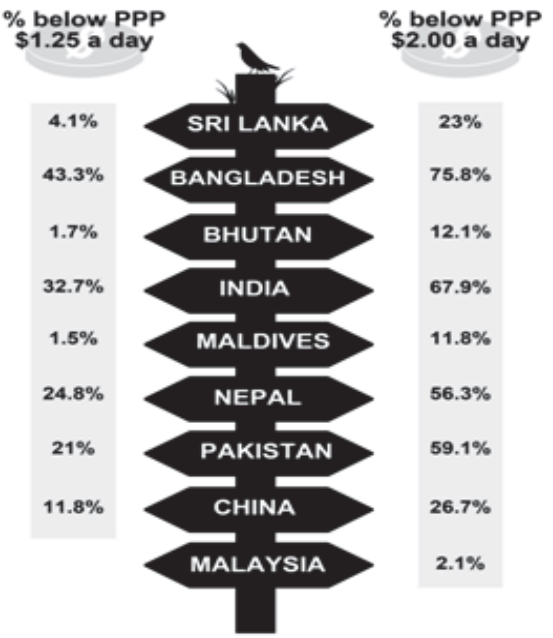
Source: Based on the data from UNDP, *Human Development Report 2013*.

Asia. By contrast, Thailand that has a poorer HDI value than Sri Lanka does better in poverty with only 0.4 per cent of its population considered to be poor. Malaysia is a good example of a country with a relatively high per capita GDP, high HDI and zero poverty. While China has a poverty incidence of 11.8 per cent, India fares much worse with a ratio of 32.4 per cent, closer to LDC economies such as Bangladesh (43.3 per cent) and Laos (33.9 per cent).

Poverty levels rise when US$ 2 a day poverty line is applied. However, the trends are very similar with Malaysia (2.1 per cent) showing the lowest percentage of persons below the line. Although Sri Lanka (23.0 per cent) is comparatively better than the rest of the countries considered in Asia, around 19 per cent (i.e., those between US$ 1.25 and US$ 2 a day per person) of the population in Sri Lanka is vulnerable, and at risk of slipping back to poverty due to any external or internal economic shock.

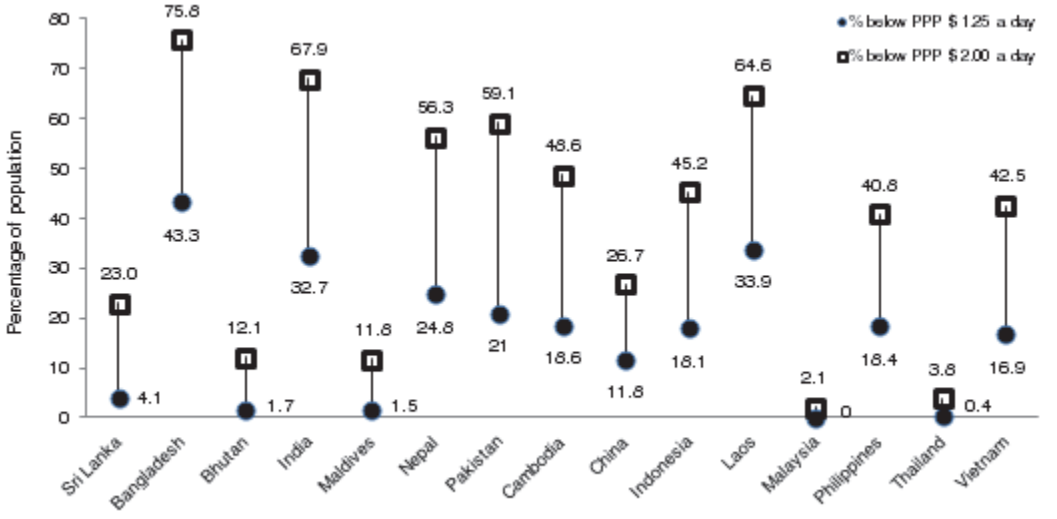
Education

Sri Lanka does well in education by generic measures. For example, the proportion of population



at 25 years and above who have at least secondary education records 75.5 per cent for males and 72.6 per cent for females (Figure 12.5). This is very much above all South Asian countries, and many other countries in Asia, including Malaysia (72.8 per cent for males and 66.0 per cent for females). Only South Korea (91.7 per cent for males and 79.4 per cent

Figure 12.4
Incidence of Poverty in Select Asian Countries



Notes: Based on international poverty lines (US$ 1.25 a day PPP and US$ 2 a day PPP) for 2009 or closest year.

Source: Computations based on World Bank, PovcalNet.

for females) and Japan (82.3 per cent for males and 80 per cent for females) show higher percentages for both males and females than in Sri Lanka. Other countries show significant gender disparities. For example, while China records a rate of 80.1 per cent for males, it is a low 54.8 per cent for females. Sri Lanka's ratio for women is even better than that for women in Singapore (71.3 per cent) despite the country outperforming Sri Lanka by huge margins in many other key indicators discussed previously.

As such, Sri Lanka is very much closer to the more developed countries in Asia in terms of education, with almost universal primary education, very high adult and youth literacy rates. Despite gender equity in education outcomes in Sri Lanka, the country however continues to record a low female labour force participation (FLFP) rate. In fact, Sri Lanka has one of the lowest rates, even below that of Bangladesh (Figure 12.6).

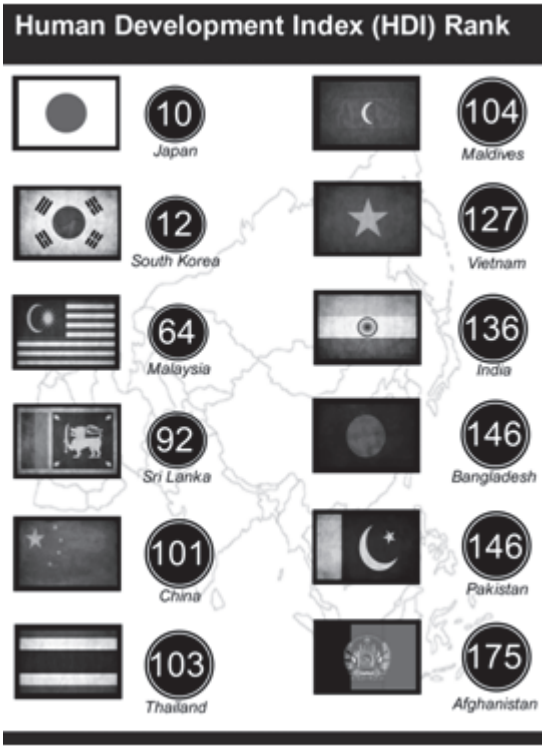
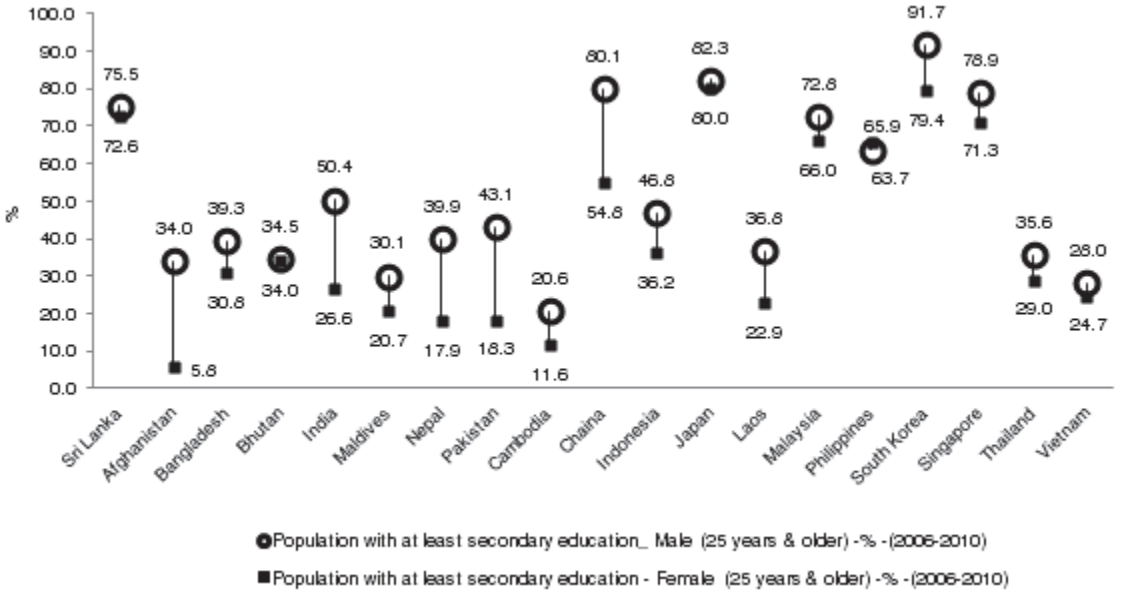
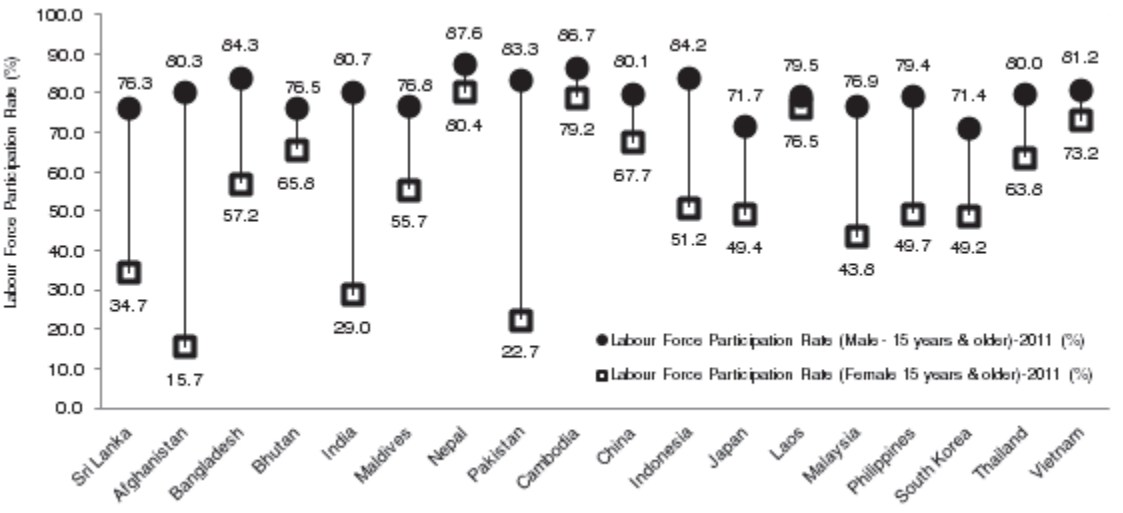


Figure 12.5
Population with at Least Secondary Education for Select Asian Countries



Source: Based on data from UNDP, *Human Development Report 2013*.

Figure 12.6
Labour Force Participation Rate by Sex for Select Asian Countries



Source: Based on data from UNDP, *Human Development Report 2013.*

12.4 MDGs: Way Forward for Sri Lanka

The following section examines a few priority areas that require further policy attention as the discussion at the global level moves to the priorities for a post-2015 development agenda.

12.4.1 Poverty Reduction

Sri Lanka achieved the MDG target of halving poverty at the national level, seven years before 2015. The incidence of poverty at the national level declined from 26.1 in 1990/91 to 8.9 per cent in 2009/10 (Table 12.1). It is estimated to have fallen further to 6.7 per cent in 2012/13. The urban and rural sectors have also achieved the target before 2015; while the urban sector achieved the target as early as 2000, the rural sector achieved it around 2008. The latest estimates based on Household Income and Expenditure Survey (HIES) 2012/13 suggest that even the estate sector is on track to achieve the target before 2015.

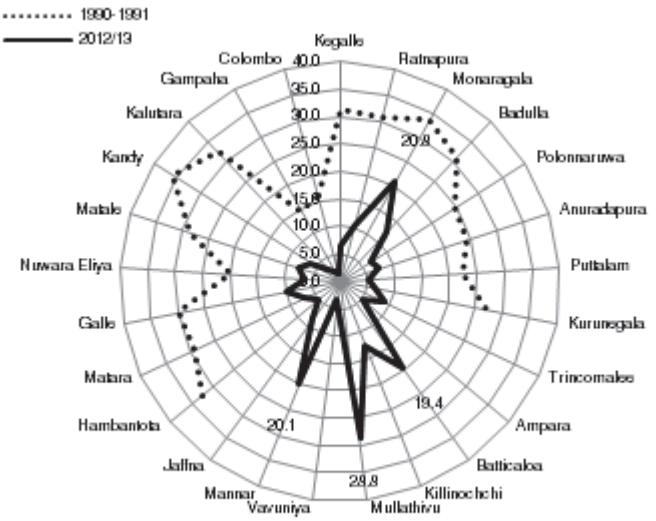
Table 12.1
Comparison of Poverty Incidence, 1990/91 to 2009/10

Poverty Line	Percentage of Population below Poverty Lines				
	1990/91	1995/96	2002	2006/07	2009/10
US$ 1.25 (2005 PPP) a day[a]	15.0	16.3	14.0	7.0	4.1
National Poverty line[b]	26.1	28.8	22.7	15.2	8.9
US$ 2 (2005 PPP) a day[a]	48.4	45.1	38.9	28.3	23.0
	Percentage of Population				
% between US$ 2 and US$ 1.25 a day[a]	33.3	28.8	24.9	21.3	18.9

Note: US$ 1.25 (2005 PPP) a day and national poverty line measure extreme poverty. The incidence of poverty estimated based on US$ 1.25 a day per person is around a half of the poverty incidence measured using the national poverty line, although some argue that it underestimates poverty in Sri Lanka.

Source: a. World Bank, PovcalNet; b. DCS, HIES, various years.

Figure 12.7
District-wise Poverty Incidence, 1990/91 and 2012/13



Source: DCS, "Household Income and Expenditure Survey", 1990/91 and 2012/13.

The most recent estimates of poverty based on HIES 2012/13 at national, urban, rural and estate sectors are 6.7, 2.1, 7.6, and 10.9 per cent, respectively. Sri Lanka's faster pace of economic growth in recent years that has delivered better infrastructure services to rural areas, increased agricultural activity in former conflict-affected regions, a steady growth in remittance earnings where a large majority of migrants originate from poorer households, higher tourist arrivals with related direct and indirect employment opportunities, etc., might explain the improvements in poverty levels.

Despite the considerable success in reducing poverty, there are regional disparities still which need to be addressed. For example, a comparison of poverty incidence between 1990/91 and 2012/13 indicates that certain districts are still lagging behind - e.g., Moneragala has seen an increase from 14.5 per cent in 2009/10 to 20.8 per cent in 2012/13. The other districts with relatively high levels of poverty in 2012/13 are Mullativu (28.8 per cent), Mannar (20.1 per cent) and Batticaloa (19.4 per cent). However, poverty in Jaffna has declined from 16.1 per cent in 2009/10, to 8.3 per cent in 2012/13.[3]

Persisting income inequality is also a cause for concern. The Gini coefficients for household expenditure have increased from 0.34 in 1990/91 to 0.40 in 2012, showing that inequality has increased (Table 12.2). One of the reasons for this is that the income levels of richer groups are increasing at a faster rate than those in the poorer groups, thus raising income/expenditure inequality gradually over time. The other reason for persisting inequality is the existing disparities across regions and across different socio-economic groups.

Table 12.2
Share of Household Income of Poorest and the Richest, 1990/91 to 2009/10

National Household Income Quintile Group	Share of Household Income (%)					
	2012/13	2009/10	2006/07	2002	1995/96	1990/91
Poorest 20%	4.5	4.5	4.5	4.8	4.8	4.2
Richest 20%	52.9	54.1	54.7	52.8	54.5	51.3
	Gini Coefficient					
Gini coefficient of household expenditure	0.40	0.39	0.41	0.41	0.36	0.34

Source: DCS, "Household Income and Expenditure Survey", 1990/91 to 2012/13.

[3] Poverty figures for districts in the Northern and Eastern Provinces are not available for 1990/91 as the surveys were not conducted in those provinces due to the on-going conflict.

As Sri Lanka aims to reduce poverty further to 2.3 per cent by 2016 and to 2 per cent by 2020,[4] it may be necessary to focus attention on targeted interventions through current welfare programmes, identifying the poorest and most vulnerable groups throughout the country, so that the most in need are helped out of poverty.

12.4.2 Employment-to-Population

The 'employment-to-population ratio' is a new MDG indicator, which captures the proportion of a country's working age population (15 years and above) that is employed. The ratio typically falls between 50 and 75 per cent. In the case of Sri Lanka, the ratio for males stood at 72.8 per cent in 2012 which indicates that a considerably large proportion of working age males in Sri Lanka are employed. However, the corresponding ratio for females is only 30.9 per cent, which is very low, obviously due to the low FLFP rate in the country.

The low FLFP is despite rapid enhancements in female education across the country, where it has remained unchanged over the past 2-3 decades. Higher education achievements of females relative to males may also be contributing to this. For instance, there are more girls continuing in secondary and tertiary education in Sri Lanka than boys. Some of the educated females may also not be looking for work owing to childcare responsibilities. Low FLFP, especially those with higher levels of education, is clearly a loss to the country's economy as well as a loss of income to their own households.[5]

With Sri Lanka's ageing demographics, suitable strategies to increase the FLFP is vital. The generation of productive and decent employment opportunities, policies to allow flexible working hours, opportunities to work from home, especially in IT and communication related fields, etc., may encourage more females to enter the labour force. In addition, the provision of suitable day care centres for children with qualified and experienced staff may also encourage more women to enter and remain in employment.

12.4.3 Under-Nutrition of Children under 5 Years

Sri Lanka's high proportion of underweight children is a vital concern. Although the country is 'on track' to achieve the target of halving the proportion by 2015, the proportion of underweight children in all three sectors (urban, rural and estates) is high. The Demographic and Health Survey 2006/07 carried out by the DCS, shows that more than 20 per cent of the children under five years of age at national level, and around 30 per cent in the estate sector are underweight. Studies indicate that the continuity of a life cycle of malnutrition and intergenerational transmission are the major causes of childhood malnutrition among poorer socio-economic groups.[6] This is rather puzzling as Sri Lanka has done well in most other health indicators.

At present, the government is carrying out a number of interventions to address this issue. The National Nutrition Policy of Sri Lanka (2010), which covers not only the underweight children but all aspects related the problems of nutrition, is expected to address most of the issues on malnutrition and under-nutrition in Sri Lanka. However, it would be necessary to have properly targeted interventions, to achieve the goal of halving the proportion of underweight children under 5 years by 2015, especially in regions where under-nutrition is high. Districts such as Batticaloa, Kandy, Moneragala, Nuwara Eliya, Polonnaruwa, Trincomalee and the estate sector where under-nutrition is high, may need special attention. Lack of information on this indicator after 2006/07 is also a major concern, as

[4] Department of National Planning (2013), *Mahinda Chinthana: Vision for the Future*, Ministry of Finance and Planning, Colombo.

[5] Discussed in detail in Chapter 5 on "Demographic Challenges of an Ageing Asia".

[6] Jayawardena, P., (2012), "Socio-economic Determinants and Inequalities in Childhood Malnutrition in Sri Lanka", *Well-being and Social Policy*, Vol. 8, No. 1.

it is not possible to monitor the progress and effectiveness of interventions since then.

12.5 Post-2015 Development Agenda

As previously noted, Sri Lanka has already met many of its MDG targets well before 2015 in key areas covering poverty, education, health, environment, etc. There is, however, an unfinished agenda which also holds lessons going beyond 2015. Some of the key lessons from Sri Lanka's experience when designing goals and targets for the post-2015 agenda are as follows:[7]

- build the post-2015 development agenda on the current MDGs and targets, considering progress made towards MDGs and completing 'unfinished business';
- take into account the initial conditions as well as the achievement in absolute terms, in order to assess progress made during the period specified;
- ensure that future goals are achieved not only at the national level, but also at the sub-national level, across regions and income groups;
- while ensuring access to services, the post-2015 agenda should look beyond 'access' to services (or coverage) and take into account the 'quality' of services as well;
- incorporate emerging issues of importance into the post-2015 agenda, such as climate change, demographic changes (e.g., ageing), governance, and emerging health issues such as non-communicable diseases that are pertinent to Sri Lanka.

There are many examples where some of the above suggestions apply. For example, while Sri Lanka has seen successful outcomes in achieving all three targets related to universal primary education, the quality of primary education needs to be further improved, as success in secondary education requires a strong foundation in the primary level. Besides better quality of education and education outcomes at primary level, attention must also focus on secondary and tertiary levels.

As Sri Lanka aims to develop a knowledge-based economy, ensuring adequate education in science and technology, with special emphasis on subject areas essential to meet the requirements of a knowledge economy, is vital. This will involve expediting the development of schools and facilities across the country. At present, only 27.2 per cent of the schools in Sri Lanka have grades up to 13. Moreover, only 7.6 per cent of the total number of schools in Sri Lanka has a science stream up to Grade 13. Under the 'Thousand Secondary School Development Project' of the Ministry of Education, at least three schools with all facilities are to be developed in each Divisional Secretary (DS) division in Sri Lanka, which is a welcome policy measure.

Besides improving facilities in less developed regions, qualified/skilled teachers must be made available. The latter is currently inadequate, especially to teach subjects such as languages, mathematics, science and information technology. In order to fulfil the above objectives, it is essential to minimize the unequal distribution of qualified and skilled teachers across regions and ensure that quality teachers are recruited at all times. Students must also be taught skills that will help them to get suitable jobs. Increasingly, some of the skills required are non-cognitive skills, such as team work, leadership, problem solving, etc. Having already achieved universal primary education, Sri Lanka has to adopt a policy of 'quality education for all'.[8]

Similarly, an ageing population is an area requiring policy attention on multiple fronts in the coming decades. Increasing longevity and falling fertility is leading to a rapidly ageing population in Sri Lanka.

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[7] Tilakaratna, G., (2014), "From MDGs to Post-MDGs: Some Lessons from Sri Lanka", available at http://post2015.org/2014/05/08/from-mdgs-to-post-mdgs-some-lessons-from-sri-lanka/

[8] Discussed in detail in Chapter 8 on "Learning from Asian Best Practices in School Education".

The expectation of life at birth (based on available estimates for the period 2000-2002) was 68.8 years for males and 77.2 years for females. The population aged 60 years and above increased from 7.9 per cent in 1991 to 12.3 per cent in 2012. Projections show that the percentage is expected to increase to 20.7 per cent in 2031 and to 24.8 per cent in 2041.[9]

To effectively manage population ageing, the national health care system has to be developed to deliver necessary health care services to the growing older population. In addition, owing to the geographical mobility of young people to urban areas or migration to other countries, the potential family support system to elderly which still prevails in Sri Lankan society will become seriously curtailed over time. This will impact elderly females more, as they will on average live around eight years more than males. The policies to handle an increasing ageing population may require labour market reforms to encourage greater participation of older persons in productive work. This will not only help labour market conditions, but also reduce the burden of the elderly on the working age population. Otherwise, the active population will have to carry the burden of financing the pensions and other social welfare payments to a rapidly increasing elderly population. It is also necessary for the people of all ages to maintain a healthy life throughout, so that they will be able to lead a healthy life when they grow old, so that the cost on health care for elderly could be minimized. This is pertinent in view of changing lifestyle and food habits that is also related to the rising incidence of NCDs in Sri Lanka.

Climate and environment related threats are also increasing and posing new development challenges as countries strive for higher economic growth. Sri Lanka has seen its total forest cover (excluding savannah forest cover), deplete from 33.8 per cent of the total land area in 1992 to 26.6 per cent in 2010.[10] Sri Lanka is also seeing an increase in its carbon dioxide emissions whether measured in total, per capita or GDP terms.

The environment is also impacted through growing energy demand. In Sri Lanka the demand for electricity is increasing rapidly, rising from 1,516 MWs in 2003 to 2,163 MW in 2012. It has been estimated that the demand will increase by 6.7 per cent annually in the next 20 years.[11] Sri Lanka is increasingly relying on thermal power plants to meet its energy requirements. At present, only around 6.2 per cent of energy is generated through renewable sources (excluding hydro). Although the initial investment cost is high for most renewable energy sources, the return on the investment will be high in terms of minimizing adverse impacts on the environment.

Sri Lanka is also experiencing greater environment hazards from water pollution. Water scarcity in the midst of climatic changes, growing population demands, etc., places additional stress on natural resources. The demand for water is rising to meet the requirements for safe drinking water, sanitation, energy, agriculture and other uses. At the same time, over-exploitation and pollution arising from domestic, industrial, and agriculture usage constrains supply, owing to industrial waste, use of chemicals in agriculture and other types of water contamination. These have serious health repercussions, as already evident from high incidences of chronic kidney disease in certain areas of Sri Lanka due to water polluted with cadmium and arsenic sourced through fertilizers or agro-chemicals. Thus, as these threats to human health, the environment and ecosystem gather pace,

[9] De Silva, W.I. (2012), "The Age Structure Transition and Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No. 1.

[10] http://www.forestdept.gov.lk/web/.

[11] Department of National Planning (2013), *Mahinda Chinthana: Vision for the Future*, Ministry of Finance and Planning, Colombo.

new policies and regulations will need to be developed, implemented and monitored.[12]

Thus, in defining the future global development framework, country-specific experiences implementing policies and monitoring progress of MDG targets, identifying better ways of setting indicators and goals, and exploring new issues critical for sustainable development outcomes must form the basis of a post-2015 agenda.

[12] Discussed in detail in Chapter 6 on "Environmental Outcomes of Asia Economic Rise".

PROSPECTS

13. Prospects

Over the past half-century, Asia has seen the most spectacular examples of economic development spanning from Japan to South Korea, Singapore and Hong Kong. In more recent decades, China and India have led the way as fast growing economies, spearheading Asia's seemingly relentless economic rise. While there seems little disagreement that Asia will continue to be a dynamic centre of global growth, the pace at which countries will grow to lay claim to a collective 'Asian Century' is debated. Indeed, some studies speculate on the possibility of two Asian futures: one that will see uninterrupted steady growth whereby Asia will account for a half of global GDP by 2050; the other, a less optimistic scenario where Asia will account for less than one-third of global GDP by 2050.[1]

The uncertainty relates to many factors: the pace of global economic recovery following the turmoil of the financial crisis of 2008, the appetite for reforms in Asian economies, the future of regionalism in Asia, and the risks from ever present political tensions amongst leading Asian countries.

Asia's fortunes are inextricably linked to that of advanced economies. This is because today's global economy is highly interdependent, with both broader and deeper linkages through trade, finance and production networks. Thus, despite growing intra-Asian trade volumes, the region still depends significantly on advanced economies to drive end-demand for its goods and services. A prolonged and weak recovery of the US and Euro Zone economies as they grapple with a relative economic decline post-2008, is not helpful to Asia's ambitions to see high and uninterrupted growth over the long-term.

External conditions are also closely aligned to country-specific reform agendas, necessary to sustain and drive growth in the face of ageing populations, rising wages and other costs. Indeed, the efficacy of such reform efforts will have a telling effect on whether today's aspiring Asian 'tigers' will emulate their predecessors in avoiding a middle-income trap. To avoid this pitfall, Asia has to navigate competition in export markets from other low-cost producers and yet catch up with advanced economies in higher value added goods and

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[1] ADB (2011), *Asia 2050: Realizing the Asian Century*, Asian Development Bank, Manila.

services. Asia's rising sense of regionalism - finding concrete expression in the proposed RCEP process, for example - may help the region to stay ahead of its competitors. It has, however, to address a litany of seemingly intractable disputes - the Koreas, Taiwan, Kashmir and the South China Sea are just a few - threatening to derail meaningful integration.

For Sri Lanka, the prospect of an invigourated Asia is clearly important as the country seeks new development partners, markets, and investors in its post-war economic expansion efforts. The most telling change in Sri Lanka's strategic political and economic relations over the last five years has been a strengthening of relations with China. On the economic sphere, a greater Chinese presence is immediately visible as the foremost source of external development finance behind many mega infrastructure projects in Sri Lanka. China is also increasingly becoming a key source of FDI through state-linked projects such as the Colombo port city expansion. A proposed FTA between Sri Lanka and China is expected to be signed before end 2014 as the next step forward in building a strong economic partnership.

Sri Lanka's growing economic relations with China has tended to overshadow the country's bilateral partnership with India. Whilst trade and investment volumes have strengthened, there has been no marked shift in economic cooperation since the aborted negotiations in 2008 to close a deal on a Comprehensive Economic Partnership Agreement (CEPA). India's economic star also waned in the interim as the aftershocks of the global economic crisis and domestic reform inertia took its toll on the country's growth prospects. However, with a new and confident 'pro-business' government in power, India's more recent dismal economic performance is expected to reverse. Regionally, the new government is also expected to provide stronger

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political and economic leadership to South Asia. This may bode well for any ambitions that smaller South Asian countries like Sri Lanka may have, to benefit from a larger Pan-Asian integration process.

In other ways too, Sri Lanka is increasingly looking East. The development experiences, policies and institutions of its neighbours in Southeast Asia - such as Malaysia and Singapore - are being examined more thoroughly than ever before. An integral part of this 'learning curve' is not only to emulate the successes, but also to avoid the failures. For a country like Sri Lanka, this means not only pursuing policies that temper growth with sustainable resource management, but importantly, instituting reforms that enhance productivity in driving economic growth.

Reforms to raise productive growth in Sri Lanka are a must. The ADB (2011) study on 'Asia 2050: Realizing the Asian Century' classifies 49 economies into high income developed economies (7), fast-growing, converging economies (11), and slow or modest growth, aspiring economies (31). From the latter group, Sri Lanka is identified as a country that "exhibits the classic signs of the middle income trap".[2] The determinants of falling into a

[2] *Ibid*, p. 30.

middle income trap are many: demography, infrastructure, institutions, macroeconomic environment and policies, and economic structure are perhaps some of the most important.

Of the above, the clearest progress for Sri Lanka is on the infrastructure front. Notwithstanding a 'mixed-bag' of infrastructure projects, economically beneficial improvements are to be seen in ports, roads and energy sectors. Over time, these investments will boost productivity by enabling swifter movement of goods, as well as people. More immediately, it is creating jobs and boosting economic activity.

Sri Lanka could also point to a better macroeconomic environment and policies; these include higher GDP growth, improvements in broad fiscal indicators, a moderate inflationary environment, to name a few. But here, the headline numbers mask some troubling developments that suggest the lack of a serious attempt at reform. The most telling is fiscal reform, not least to increase revenues sufficiently to reverse a low and weakening revenue ratio. Fiscal constraints have been overcome by resorting to foreign borrowing to finance Sri Lanka's public infrastructure investment programme, exposing the country to a hefty external debt repayment schedule in the medium to long-term.

Central government fiscal consolidation efforts have also largely by-passed attempts to reform the state sector. Loss making SOEs are haemorrhaging funds, with spillover effects on other state entities, such as banks, impinging on productivity across the economy. Reforming the state sector is by no means an easy task. But it is all the more important for Sri Lanka as government efforts to stimulate the economy through infrastructure investment bring elements of greater state activity in the economy. For instance, state-run banks are raising development finance from abroad, and facilitating government directed lending. If the absorption of resources by the state - be it in terms of workers or finance - is not matched by revenue mobilization, Sri Lanka will not have the fiscal manoeuverability to address other critical areas necessary for sustained rapid growth.

One of these relates to the country's unfavourable demographics going forward. Increasingly, the state will have to support a larger population of elderly and pensioners. Sri Lanka's welfare net, inadequate at best, will need a serious revamp. At the same time, the contraction of the country's working age population will require higher and better quality investments in education and training to make this group of people more productive. The Asian tigers made the most of their demographic dividend by creating some of the world's best schools. With past investments in education and health yielding high human development indicators, Sri Lanka has been worryingly complacent so far. But with less than 15 per cent of 20-24 year olds engaged in tertiary education, reforms to improve access to and the quality of education remain a high priority.

Skills upgrading is a necessary prerequisite if Sri Lanka is to see a transformational change in the structure of its economy. Growth boosting infrastructure spending is skewing economic activity towards non-tradable sectors such as construction, mining, utilities and in services sectors such as tourism and retail trade. The related employment opportunities tend to be in low skilled services sectors with limited productivity gains for the economy at large. These employment opportunities may assist a country's structural transformation in the early stages, moving surplus agriculture labour to more productive jobs in services and labour-intensive manufacturing. In Sri Lanka's case, non-agriculture job creation has not been sufficient to decrease its overall share of employment in the economy which still stands at over 30 per cent. More such workers will have to be moved into more productive jobs over time, especially as the country's labour force growth slows.

Skills upgrading has to be matched by efforts to diversify, upgrade, and deepen Sri Lanka's production and export base. So far, the country has not seen any notable successes in drawing investments into manufacturing or high value services for export, with much of the FDI coming into leisure and mixed-development projects that bring little skills upgrading or technology transfer. Indeed, Sri Lanka's declining share of exports in GDP is a reflection of the fact that growth has depended much less on trade than on domestic consumption. This is to squander the country's post-war comparative advantages - a relatively stable political outlook for the country, improved infrastructure services, and a labour force that is still young and highly literate.

To sustain continued economic prosperity, Sri Lanka must institute reforms that will reallocate factors of production across sectors of different productivity. Here, the quality of a country's institutions matter. Incentives built into institutional structures determine whether they act more as rent seeking entities, influencing the allocation of resources, including physical and human capital. Weak institutional structures also lead to administrative confusion and entrench privileges of the political elite over time. In contrast, institutions, based on transparent rules and governance structures will help instill confidence in investors and businesses to undertake productive investments rather than in rent-seeking.

For Sri Lanka, stability tempered with modest reform has yielded some early gains. The prognosis for the near term outlook also looks positive. GDP growth remains robust at 7.6 per cent in the first quarter of 2014, with a moderate inflationary outlook, fiscal targets on track, an improving external current account position and a steady exchange rate. The slow pick-up in credit growth to the private sector - estimated at a low 2 per cent in June 2014 year-on-year - is the most pressing challenge in macroeconomic policy management.

To sustain continued economic prosperity, Sri Lanka must institute reforms that will reallocate factors of production across sectors of different productivity.

Further policy rate cuts could fuel a consumption-led credit spiral and/or encourage investments with low returns. As interest rates fall, so too might future inflows by foreign investors into Treasury bills and bonds.

Assuming that a prudent mix of monetary, fiscal and exchange rate policy will be used to manage and maintain macroeconomic stability, the other most obvious threat to the Sri Lankan economy in the near term is a potential external shock that holds ramifications for its exchange rate. Greater dependence on foreign sources of finance to bridge current and fiscal account deficits and a growing external debt portfolio on non-concessionary terms have weakened the country's ability to withstand and ride-out a significant external shock to the economy. A seemingly solid official reserves position - estimated at US$ 9 billion in mid-2014 - that would normally act as a bulwark against external shocks is another source of potential stress in view of its composition, made up almost entirely of borrowed funds.

Notwithstanding any unforeseen shocks to the economy, the short to medium term outlook thus far appears more assured than the long-term

With productivity-enhancing reforms, Sri Lanka stands a better chance of harnessing gains already made in infrastructure and socio-economic conditions to meet its interlinked goals of sustained economic prosperity and social harmony in the years to come.

prognosis for the economy. Beyond the immediate headline macroeconomic numbers, the Sri Lankan economy continues to show skewed growth, high levels of external indebtedness, modest export earnings growth and limited private investor appetite to expand production capacity. These are reflective of underlying risks that can stymie Sri Lanka's ambitions to swiftly progress along a middle income transition - with plans already afoot to position the country towards a US$ 7,000 per capita income level by 2020. Lack of innovation and skills, low level of investments in technology, declining standards in education, rising labour costs and sluggish productivity growth are some of the weaknesses that threaten high and stable long-term growth. If these can be addressed through productivity-enhancing reforms, Sri Lanka stands a better chance of harnessing gains already made in infrastructure and socio-economic conditions to meet its interlinked goals of sustained economic prosperity and social harmony in the years to come.

APPENDICES

Appendix A: Macroeconomic Indicators (Statistical Base)

Table A1: Socio-Economic Indicators

1.	**Basic indicator**	**Unit**					
	Area:	Sq. km.	65,610				
	Mid year population (2013)	('000)	20,483				
	Population growth rate (2013)	%	n. a.				
	Life expectancy at birth (2012)	years	75.1				
	Infant mortality rate (2009)	per 1000 live births	9.4				
	Gross school enrolment ratio (2005)(a)	%	62.7				
	Adult literacy rate (2012)	%	95.6				
	Human development index (HDI) (2012)	Value	0.715				
	Human poverty index (HPI) (2005)	Value	17.8				
2.	**Output, labour force and employment**		**2009**	**2010**	**2011**	**2012**	**2013(e)**
	GNP at current market prices	Rs. bn.	4,779.0	5,534.0	6,471.0	7,424.0	8,439.0
	GDP at current market prices	Rs. bn.	4,835.0	5,604.0	6,543.0	7,579.0	8,674.0
	GDP at current factor cost prices (k)	Rs. bn.	4,835.3	5,604.1	6,544.0	7,578.6	8,673.9
	GDP per capita at current market prices	US$	2,057.0	2,400.0	2,836.0	2,922.0	3,280.0
	Labour force	mn.	8.1(h)	8.1 (h)	8.6 (l)	8.5 (l)	8.8 (l)
	Labour force participation	%	48.7 (h)	48.1 (h)	47.8 (l)	52.6 (l)	53.8 (l)
	Unemployment	%	5.8 (h)	4.9 (h)	4.2 (l)	4.0 (l)	4.4 (l)
3.	**Real output growth**						
	GDP (g)	%	3.5	8.0	8.2	6.3	7.3
	Agriculture, forestry, and fishing	%	3.2	7.0	1.4	5.2	4.7
	Mining and quarrying	%	8.2	15.5	18.5	18.9	11.5
	Manufacturing	%	3.3	7.3	7.9	5.2	7.5
	Construction	%	5.6	9.3	14.2	21.6	14.4
	Services	%	3.3	8.0	8.6	4.6	6.4
4.	**Prices & wages**						
	CCPI (2002 = 100) - annual average	% change	3.4	5.9	-	-	-
	CCPI (2006/07 = 100) - annual average (n)	% change	3.5	6.2	6.7	7.6	6.9
	WPI - annual average	% change	-4.2	11.2	10.6	3.5	9.2
	Implicit GNP deflator (g)	% change	5.9	7.3	7.9	8.9	6.7
	Real wage rates						
	Workers in wages boards trades	% change	1.5	24.3	-2.0	13.8	-1.2
	Government employees	% change	5.7	-2.7	0.0	-0.6	-1.9
5.	**Consumption, investment, and savings (g)**						
	Consumption	% of GDP	82.1	80.7	84.6	83.1	80.0
	Gross domestic capital formation	% of GDP	24.4	27.6	30.0	30.6	29.6
	Gross domestic savings	% of GDP	17.9	19.3	15.4	16.9	20.0
	Gross national savings	% of GDP	23.7	25.3	22.1	24.0	25.7
	Net imports of goods and services	% of GDP	6.5	8.3	14.6	13.7	9.5
6.	**Government finance (g)**						
	Revenue	% of GDP	14.5	14.6	14.8	13.9	13.1
	Expenditure & net lending	% of GDP	24.9	22.9	21.9	20.5	19.2
	Current expenditure	% of GDP	18.2	16.7	15.7	14.9	13.9
	Capital expenditure & net lending	% of GDP	6.7	6.1	6.2	5.6	5.4
	Current a/c balance	% of GDP	-3.7	-2.1	-0.9	-1.0	-0.8
	Budget deficit						
	Primary deficit	% of GDP	-3.5	-1.7	-1.4	-1.1	-0.8
	Overall deficit (before grants)	% of GDP	-9.9	-8.0	-6.9	-6.5	-5.9
	Public debt						
	External	% of GDP	36.5	36.1	35.6	36.5	34.1
	Domestic	% of GDP	49.7	45.8	42.9	42.7	44.2

	Unit	2009	2010	2011	2012	2013(e)
7. External trade						
Terms of trade	% change	-2.7 (j)	27.4 (j)	-8.9 (j)	-1.5(j)	6.7(j)
Import price index	% change	5.2 (j)	10.2 (j)	22.0 (j)	-5.8(j)	-5.9(j)
Export price index	% change	2.4 (j)	40.4 (j)	11.1 (j)	-7.3(j)	0.4(j)
Import volume index	% change	-31.2 (j)	19.6 (j)	23.6 (j)	0.5 (j)	-0.3(j)
Export volume index	% change	-14.7 (j)	-13.3 (j)	10.2 (j)	-0.2 (j)	5.9(j)
8. External finance (g)						
Trade balance	% of GDP	-7.4	-9.7	-16.4	-15.8	-11.3
Current account balance	% of GDP	-0.5	-2.2	-7.8	-6.6	-3.8
Capital & financial account balance	% of GDP	6.2	5.7	7.0	7.2	4.7
Foreign direct investments	% of GDP	0.9	0.9	1.5	1.5	1.3
Foreign portfolio investments	% of GDP	0.0	-0.5	-0.3	0.5	0.4
Import capacity	Months of imports (d)	8.3	7.7	4.7	5.4	5.7
External debt	% of GDP	49.7	50.1	55.3	62.5	59.2
Debt-service ratio (m)	% of exports	22.4	16.7	12.7	19.7	25.3
9. Exchange rates (year end)						
U.S.A.	Rs./US$	114.4	111.0	113.9	127.2	130.8
U.K.	Rs./UK Pound	181.7	171.4	175.4	205.5	215.6
Japan	Rs./Yen	1.2	1.4	1.5	1.5	1.2
European Union	Rs./Euro	163.7	147.6	147.4	168.1	180.5
India	Rs./Rs. Indian	2.5	2.5	2.2	2.3	2.1
SDR	Rs./SDR	178.7	170.8	174.9	195.3	201.4
10. Money supply						
Narrow money supply (M1)	% change	21.4	20.9	7.7	2.6	7.7
Broad money supply (M2)	% change	18.6	15.8	19.1	17.6	16.7
Domestic credit	% change	0.5	18.6	34.3	21.7	13.7
External banking assets	% change	417.2	-6.1	-74.0	-126.3	-195.5
11. Interest rates						
Treasury bill yield rates						
3 month	% per annum	7.7	7.2	8.7	10.0	7.5
12 months	% per annum	9.3	7.6	9.3	11.7	8.3
Call money rates	% per annum	9.0	8.0	9.0	9.8	7.7
Average prime lending rate	% per annum	10.9	9.3	10.8	14.4	10.1
Commercial banks saving	% per annum	10.5	9.5	8.5	10.5	9.1
NSB saving	% per annum	5.0	5.0	5.0	5.0	5.0
Commercial banks fixed deposits	% per annum	19.0	17.0	11.0	17.0	11.8
NSB fixed deposits	% per annum	9.5	8.5	8.5	12.5	9.5
12. Share market indicators						
Annual turnover	Rs. bn.	142.5	570.3	546.3	213.8	200.5
Companies listed	No.	232	242	272	287	289
Market capitalisation	Rs. bn.	1092.1	2210.5	2213.9	2167.6	2459.9
Net purchases by non-nationals	Rs. mn.	-789	-26335	-19039	38661	22783
Share price indices						
CSE share	(Index, 1985 = 100)	3385.6	6,635.9	6,074.4	5,643.0	5,912.8
CSE sensitive(f)	(Index, 1998 Dec = 1000)	3849.4	7,061.5	5,229.2	5,119.1	-

Notes:
(a): Combined first, second, and third level gross enrolment ratio.
(b): Excluding Northern and Eastern Provinces.
(c): Average of four quarters.
(d): Months of same year imports.
(e): Provisional.
(f): The Milanka Price Index (MPI) was introduced in January 1999, (1998 December = 1000) to replace the Sensitive Price Index.
(g): From 2003, data are based on GDP estimates compiled by the Dept. of Census and Statistics.
(h): Excluding Northern Province.
(i): Excluding Mullaitivu and Killinochchi districts.
(j): From 2007 onwards, trade indices have been calculated with a wider coverage using 2010 as the base year.
(k): Estimates from 2006 onwards are based on National Accounts data of the Dept. of Census and Statistics.
(l): Data covers the entire island.
(m): The rebased CCPI (2006/07 = 100) has replaced CCPI (2002 = 100).
(n): Overall debt service ratios were reclassified to capture debt servicing"of government, short-term debt in accordance with the External Debt Statistics Manual (2003)"of the IMF."

Sources: IPS database.
Central Bank of Sri Lanka, *Annual Report,* various issues.
Colombo Stock Exchange, *Annual Report,* various issues.
UNDP, *Human Development Report,* various issues.
Dept. of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force Survey*, various issues.

Table A2: Gross Domestic Product (GDP), Mid-year Population (POP), Per Capita GDP (PGDP), and their Growth Rates, 1991-2013

	Constant Prices (c)			Growth Rates		
	GDP	PGDP	POP(b)	GDP	PGDP	POP
	Rs. mn.	Rs.mn.	('000)			
1991	539,954.8	31270.9	17,267	4.6	3.1	1.5
1992	563,061.9	32311.6	17,426	4.3	3.3	0.9
1993	602,171.5	34125.1	17,646	6.9	5.6	1.3
1994	636,061.5	35552.0	17,891	5.6	4.2	1.4
1995	670,742.2	36984.0	18,136	5.5	4.0	1.4
1996	695,934.0	37954.5	18,336	3.8	2.6	1.1
1997	739,763.0	39840.7	18,568	6.3	5.0	1.3
1998	774,796.0	41247.7	18,784	4.7	3.5	1.2
1999	808,340.0	42419.2	19,056	4.3	2.8	1.4
2000	857,035.0	44866.2	19,102	6.0	5.8	0.2
2001	843,794.0	44889.8	18,797	-1.5	0.1	1.6
2002	877,284.0	46365.6	18,921	4.0	3.3	0.7
2003(d)	1,733,222.0	90399.1	19,173	5.9	4.6	1.3
2004	1,827,597.0	94036.4	19,435	5.4	4.0	1.4
2005	1,941,671.0	98843.0	19,644	6.2	5.1	1.1
2006	2,090,548.0	105274.9	19,858	7.7	6.5	1.1
2007	2,232,656.0	111415.5	20,039	6.8	5.8	0.9
2008	2,365,501.0	117005.5	20,217	6.0	5.0	0.9
2009	2,449,214.0	119766.0	20,450	3.5	2.4	1.2
2010	2,645,542.0	128094.8	20,653	8.0	7.0	1.0
2011	2,863,715.0	137223.4	20,869	8.2	7.1	1.0
2012	3,045,288.0	149807.6	20,328	6.3	9.2	-2.6
2013(a)	3,266,099.0	159454.1	20,483	7.3	6.4	0.8

Notes: (a): Provisional.

(b): From 1997 the figures are based on "Statistics on Vital Events 2000-2010" published by Registrar General's Department in January 2011. 2001 figure is based on Census of Population and Housing-2001. From 2008 the figures are provisional.

(c): Up to 2002 data are based on 1996 prices and 2003 onwards data are based on 2002 prices.

(d): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A3: Structure and Growth of Output, 2004-2013

	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)	2004-2013 (b)
1. Structure of output												
Agriculture, forestry, and fishing	% of total output	13.0	12.5	12.3	11.9	12.1	12.0	11.9	11.2	11.1	10.8	11.9
Agriculture	% of total output	11.7	11.7	11.3	10.8	10.9	10.9	10.7	9.9	9.7	9.5	10.7
Tea	% of agriculture	12.5	12.1	11.4	11.0	10.7	9.5	10.2	10.1	9.6	9.6	10.7
Rubber	% of agriculture	2.0	2.1	2.1	2.2	2.2	2.3	2.5	2.5	2.3	2.0	2.2
Coconut	% of agriculture	13.1	11.9	12.3	12.6	12.4	12.7	10.2	10.5	10.6	8.6	11.5
Paddy	% of agriculture	13.9	16.0	15.9	14.6	16.8	15.5	17.1	15.7	14.7	16.8	15.7
Mining and quarrying	% of total output	1.3	1.5	1.7	1.9	2.0	2.1	2.3	2.5	2.8	2.9	2.1
Manufacturing	% of total output	18.1	18.1	17.7	17.7	17.5	17.4	17.3	17.3	17.1	17.1	17.5
Export processing	% of manufacturing	4.1	3.9	3.7	3.6	3.6	3.5	3.5	3.2	3.3	3.1	3.5
Factory industry	% of manufacturing	89.7	89.9	90.0	90.2	90.2	90.3	90.5	90.7	90.7	91.1	90.3
Small industry	% of manufacturing	6.2	6.2	6.3	6.2	6.2	6.2	6.1	6.0	6.0	5.9	6.1
Construction	% of total output	6.0	6.2	6.3	6.4	6.5	6.6	6.7	7.1	8.1	8.7	6.9
Services	% of total output	59.3	59.4	59.5	59.6	59.5	59.3	59.3	59.5	58.6	58.1	59.2

	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)	2004-2013(b)
2. Real output growth												
Agriculture, forestry, and fishing	% growth	0.0	1.8	6.3	3.4	7.5	3.2	7.0	1.4	5.2	4.7	4.1
Agriculture	% growth	-0.1	6.9	3.5	2.3	7.3	2.8	6.4	-0.2	4.7	4.5	3.8
Tea	% growth	1.6	3.0	-2.0	-1.8	4.2	-8.4	13.8	-1.2	0.3	3.6	1.3
Rubber	% growth	2.9	10.2	4.6	4.2	10.3	7.9	12.7	1.9	-6.0	-9.1	4.0
Coconut	% growth	3.7	-2.9	6.4	5.1	5.2	5.3	-14.3	3.0	6.0	-16.1	0.1
Paddy	% growth	-14.5	23.6	2.9	-6.2	23.1	-5.1	17.5	-8.4	-1.6	19.5	5.1
Mining and quarrying	% growth	5.5	17.8	24.2	19.2	12.8	8.2	15.5	18.5	18.9	11.5	15.2
Manufacturing	% growth	5.2	6.2	5.5	6.4	4.9	3.3	7.3	7.9	5.2	7.5	6.0
Export processing	% growth	4.5	1.4	0.8	2.4	5.3	0.7	5.8	0.9	6.5	0.6	2.9
Factory industry	% growth	5.2	6.4	5.7	6.7	5.0	3.4	7.5	8.3	5.2	7.9	6.1
Small industry	% growth	5.7	6.3	5.7	5.6	4.5	3.3	5.5	7.0	4.6	5.1	5.3
Construction	% growth	5.9	9.0	9.2	9.0	7.8	5.6	9.3	14.2	21.6	14.4	10.6
Services	% growth	6.7	6.4	7.7	7.1	5.6	3.3	8.0	8.6	4.6	6.4	6.5
GDP	% growth	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.2	6.3	7.3	6.5

Notes: Data are based on constant (2002) prices.
(a): Provisional.
(b): Average annual growth rate.
(c): Data are based on GDP estimates compiled by the Dept. of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A4: Value Added in Industry and Industrial Production, 2001-2013

	2001	2002	2003 (b)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 (a)
1. Value added, current prices (Rs. mn.)													
Food, beverages and tobacco	54,282	61,550	136,058	158,229	202,785	241,854	282,843	348,358	397,244	458,151	537,691	610,891	697,903
Textile, wearing apparel and leather products	71,263	77,028	76,511	85,179	103,198	113,956	131,522	147,822	155,409	172,726	207,578	239,351	268,431
Wood and wood products (including furniture)	1,639	1,736	1,085	1,121	1,143	1,245	1,353	1,447	1,585	1,786	2,580	2,908	3,253
Paper and paper products	3,103	3,124	1,669	2,079	2,963	3,998	4,883	5,798	6,631	7,653	8,466	9,372	10,235
Chemicals, petroleum, coal, rubber and plastic products	19,245	22,653	46,133	58,912	72,089	95,346	112,915	135,447	142,935	170,000	207,654	235,515	263,842
Nonmetallic mineral products (except petroleum and coal)	16,010	17,273	11,388	13,432	15,805	17,930	20,352	22,776	24,653	27,865	32,167	35,991	38,920
Basic metal products	1,131	1,306	970	998	1,061	1,292	1,521	1,638	1,659	1,826	2,119	2,399	3,017
Fabricated metal products, machinery and transport equipment	8,731	9,698	28,339	30,217	34,480	38,872	47,947	55,185	62,013	72,990	82,852	93,261	112,202
Manufactured products n.e.s.	4,154	4,695	1,307	1,350	1,446	1,879	2,208	2,508	2,903	3,410	3,149	3,546	4,550
Total	179,558	199,063	303,460	351,517	434,970	516,372	605,544	720,979	795,032	916,407	1,084,256	1,233,234	1,402,353
2. Composition of industrial production (%)													
Food, beverages and tobacco	30.2	30.9	44.8	45.0	46.6	46.8	46.7	48.3	50.0	50.0	49.6	49.5	49.8
Textile, wearing apparel and leather products	39.7	38.7	25.2	24.2	23.7	22.1	21.7	20.5	19.5	18.8	19.1	19.4	19.1
Wood and wood products (including furniture)	0.9	0.9	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Paper and paper products	1.7	1.6	0.5	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Chemicals, petroleum, coal, rubber and plastic products	10.7	11.4	15.2	16.8	16.6	18.5	18.6	18.8	18.0	18.6	19.2	19.1	18.8
Nonmetallic mineral products (except petroleum and coal)	8.9	8.7	3.8	3.8	3.6	3.5	3.4	3.2	3.1	3.0	3.0	2.9	2.8
Basic metal products	0.6	0.7	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Fabricated metal products, machinery and transport equipment	4.9	4.9	9.3	8.6	7.9	7.5	7.9	7.7	7.8	8.0	7.6	7.6	8.0
Manufactured products n.e.s.	2.3	2.4	0.4	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: (a): Provisional.
(b): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A5: Major Agricultural Crops, Production and Prices, 1991-2013

	Tea			Rubber			Coconut		Paddy	
	Production	Price		Production	Price		Production	Price(a)	Production	Price(b)
	Mn. kg.	Colombo (net) Rs/kg.	Export (f.o.b.) Rs/kg.	Mn. kg.	Colombo (RSS 1) Rs/kg.	Export (f.o.b.) Rs/kg.	Mn.nut	Rs./nut	'000 Mt	Rs./bushel(c)
1991	240.7	57.13	84.12	103.9	23.59	34.55	2,184	4.82	2,389	136.00
1992	179.0	60.51	81.98	106.1	29.28	37.65	2,296	6.47	2,340	136.00
1993	231.9	68.88	91.16	104.2	35.48	44.34	2,164	6.31	2,570	155.00
1994	242.2	65.12	91.32	105.3	50.36	51.81	2,622	5.67	2,684	155.00
1995	245.9	72.21	102.31	105.7	72.04	83.69	2,755	6.08	2,810	155.00
1996	259.0	103.88	139.56	112.5	67.88	79.73	2,546	9.42	2,061	155.00
1997	277.4	119.40	158.39	105.8	56.71	75.42	2,631	9.63	2,239	155.00
1998	280.7	134.35	184.94	95.7	49.83	67.72	2,504	8.31	2,692	155.00
1999	284.2	115.31	162.39	96.6	45.35	53.73	2,828	9.95	2,857	155.00
2000	306.8	135.53	184.73	87.6	54.91	66.87	3,096	7.35	2,860	155.00
2001	296.3	143.96	208.89	86.2	54.77	66.17	2,796	7.05	2,695	-
2002	310.6	149.30	216.26	90.5	68.76	69.53	2,392	12.06	2,859	-
2003	304.8	149.05	221.01	92.0	93.60	105.25	2,562	9.98	3,071	-
2004	309.4	180.74	248.38	94.7	127.20	127.26	2,591	11.03	2,628	-
2005(d)	317.2	185.84	263.81	104.4	140.99	147.98	2,515	13.04	3,246	-
2006	310.8	198.87	279.97	109.2	202.23	204.70	2,785	12.08	3,342	-
2007	305.2	279.10	364.28	117.6	234.22	234.48	2,869	16.26	3,131	-
2008	318.7	301.63	430.55	129.2	269.51	278.39	2,909	23.46	3,875	-
2009	291.0	360.85	470.11	136.9	211.65	202.30	2,853	18.23	3,652	-
2010	331.4	371.54	496.27	152.9	403.02	377.54	2,584	24.64	4,301	-
2011	327.5	360.68	510.41	158.2	508.80	535.40	2,808	39.15	3,894	-
2012	328.4	392.40	563.94	152.0	416.61	420.74	2,940	28.80	3,846	
2013(e)	340.2	445.83	623.91	130.4	376.90	389.81	2,513	29.36	4,621	

Notes: (a): Average export price of the three major coconut products only.
(b): Guaranteed price.
(c): 20.9 kg. of paddy = 1 bushel of paddy.
(d): Revised.
(e): Provisional.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A6: Labour Force Participation of the Household Population All Island, 2001-2013

	Household population (10 yrs. & over)	Labour force	Labour force participation	Labour force			
				Employed		Unemployed	
	No. mn.	No. mn.	rate (%)	No. mn.	Rate	No. mn.	Rate
2001							
q1	13.7	6.7	49.2	6.2	92.3	0.5	7.7
q2	14.0	6.9	49.0	6.3	91.7	0.6	8.3
q3	13.9	6.7	48.3	6.2	92.2	0.5	7.8
q4	14.1	6.8	48.9	6.2	91.7	0.5	8.3
2002							
q1	14.1	7.3	51.7	6.7	91.3	0.6	8.7
q2	14.2	7.0	49.5	6.3	90.2	0.7	9.8
q3	14.3	7.0	49.4	6.4	90.9	0.6	9.1
q4	14.3	7.2	50.6	6.7	92.5	0.5	7.5
2003 (a)							
q1	15.6	7.6	49.1	6.9	90.8	0.7	9.2
q2	15.6	7.5	48.3	6.9	91.9	0.6	8.1
q3	15.7	7.6	48.6	7.0	91.6	0.6	8.4
q4	15.8	7.8	49.6	7.2	92.1	0.6	7.9
2004							
q1 (b)	16.3	8.0	49.0	7.3	91.9	0.7	8.1
q2 (e)	16.5	8.0	48.6	7.3	91.0	0.7	9.0
q3 (e)	16.7	8.0	47.8	7.3	91.5	0.7	8.5
q4 (e)	16.7	8.2	48.8	7.5	91.8	0.7	8.2
2005 (c)	16.9	8.1	48.3	7.5	92.3	0.6	7.7
2006 (d)							
q1	14.8	7.6	51.7	7.1	92.8	0.5	7.2
q2	14.8	7.5	51.1	7.1	93.7	0.5	6.3
q3	15.0	7.6	50.7	7.1	93.6	0.5	6.4
q4	15.0	7.6	51.0	7.1	93.7	0.5	6.3
2007(d)							
q1	15.0	7.5	49.8	7.0	93.8	0.5	6.2
q2	15.0	7.4	49.0	6.9	93.5	0.5	6.5
q3	15.0	7.5	50.2	7.1	94.4	0.4	5.6
q4	15.1	7.6	50.1	7.2	94.5	0.4	5.5
2008 (a)							
q1	16.3	8.0	49.1	7.6	94.9	0.4	5.1
q2	16.3	8.0	49.0	7.6	94.5	0.4	5.5
q3	16.3	8.2	50.3	7.7	94.5	0.4	5.5
q4	16.4	8.2	49.7	7.7	94.6	0.4	5.4
2009 (a)							
q1	16.6	8.2	49.2	7.7	94.5	0.5	5.5
q2	16.5	8.0	48.3	7.5	93.8	0.5	6.2
q3	16.7	8.1	48.7	7.6	94.1	0.5	5.9
q4	16.6	8.1	48.5	7.6	94.3	0.5	5.7
2010 (a)							
q1	16.9	8.1	48.2	7.7	95.0	0.4	5.0
q2	16.8	8.1	47.9	7.6	94.6	0.4	5.4
q3	16.8	8.0	47.4	7.6	95.1	0.4	4.9
q4	17.0	8.3	48.8	7.9	95.5	0.4	4.5
2011 (a)							
q1	16.9	8.1	48.0	7.8	95.7	0.3	4.3
q2	17.2	8.3	48.3	8.0	95.8	0.4	4.2
q3	17.1	8.3	48.3	7.9	96.1	0.3	3.9
q4 (f)	-	-	-	-	-	-	-
2012 (e)							
q1 (f)	-	-	-	-	-	-	-
q2	17.8	8.3	46.4	7.9	96.1	0.3	3.9
q3	17.8	8.4	47.2	8.1	95.9	0.3	4.1
q4	18.1	8.7	48.1	8.4	96.1	0.3	3.9
2013 (e)(g)							
q1	16.4	8.9	54.2	8.5	95.4	0.4	4.6
q2	16.4	8.9	54.2	8.5	95.6	0.4	4.4
q3	16.4	8.8	53.8	8.4	95.6	0.4	4.4
q4	16.4	8.7	53.0	8.3	95.9	0.4	4.1

Notes: Up to 4th quarter 2002, data excludes both Northern and Eastern provinces.

(a) Including Eastern province but excluding Northern province.

(b) Excluding Vavunia,Mullaitivu ,Kilinochchi districts.

(c) Quarterly labour force survey was conducted as a one off survey in August 2005.

(d) Excluding Northern & Eastern provinces.

(e) All the districts are included.

(f) Labour Force Survey was not conducted for this quarter.

(g) All persons of age 10 years and over are considered to be in the working age (Labour Force) , before 2013. However, this was changed as age 15 and over from 2013 onward.

Source: Department of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force*.

Table A7: Gross Domestic Fixed Capital Formation, 1991-2013

	Private(a)	Public(b)	Private(a)	Public(b)	Private(a)	Public(b)	Private(a)	Public(b)
	(Rs. mn., current market prices)		(As % of GDP)		(At constant prices(c)(e))		(Growth in real terms)	
1991	68,368	15,838	18.4	4.3	6215.3	1439.8	114.7	130.2
1992	86,407	13,632	20.3	3.2	8640.7	1363.2	39.0	-5.3
1993	105,305	20,570	21.1	4.1	11084.7	2165.3	28.3	58.8
1994	136,649	17,611	23.6	3.0	14693.4	1893.7	32.6	-12.5
1995	147,280	23,595	22.1	3.5	17533.3	2808.9	19.3	48.3
1996	160,181	23,328	20.9	3.0	13238.1	1927.9	-24.5	-31.4
1997	186,950	29,923	21.0	3.4	21738.4	3479.4	64.2	80.5
1998	221,754	33,960	21.8	3.3	26399.3	4042.9	21.4	16.2
1999	266,518	35,210	24.1	3.2	60572.3	8002.3	129.4	97.9
2000	311,460	41,132	24.8	3.3	46486.6	6139.1	-23.3	-23.3
2001	267,298	42,346	19.0	3.0	21556.3	3415.0	-53.6	-44.4
2002	298,731	31,812	18.9	2.0	35563.2	3787.1	65.0	10.9
2003(f)	318,909	46,285	17.5	2.5	62,531.2	9,075.5	75.8	139.6
2004	422,060	51,262	20.2	2.5	47,961.4	5,825.2	-23.3	-35.8
2005	478,917	94,347	19.5	3.8	46,049.7	9,071.8	-4.0	55.7
2006	624,972	105,938	21.3	3.6	55,307.3	9,375.0	20.1	3.3
2007	714,084	170,604	20.0	4.8	51,006.0	12,186.0	-7.8	30.0
2008	852,708	262,602	19.3	6.0	52,313.4	16,110.6	2.6	32.2
2009	838,629	308,811	17.3	6.4	142,140.5	52,340.8	171.7	224.9
2010	1,128,151	323,851	20.1	5.8	154,541.2	44,363.2	8.7	-15.2
2011	1,402,217	370,298	21.4	5.7	177,495.8	46,873.2	14.9	5.7
2012	1,695,184	494,621	22.4	6.5	190,470.1	55,575.4	23.2	25.3
2013(d)	1,946,925	589,723	22.4	6.8	290,585.8	88,018.4	63.7	87.8

Notes: (a): Private sector and public corporations.
(b): Government and public enterprises.
(c): Current series deflated by GDP deflator.
(d): Provisional.
(e): Up to 1995 data are based on 1982 prices. From 1996-2002 data are based on 1996 prices. 2003 onwards data are based on 2002 prices.
(f): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A8: Saving and Investment, 1999-2013

	1999	2000	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)
(As % of GDP)															
Gross domestic capital formation	27.3	28.0	22.0	21.2	22.0	25.3	26.8	28.0	28.0	27.6	24.4	27.6	29.9	30.6	29.6
Gross domestic savings	19.5	17.4	15.8	14.4	16.0	16.4	17.9	17.0	17.6	13.9	17.9	19.3	15.4	16.9	20
Net imports of goods and non-factor services (b)	7.8	10.6	6.2	6.7	6.0	8.8	8.9	11.0	10.4	13.7	6.5	8.3	14.6	13.7	9.5
Net factor income from abroad	-1.6	-1.8	-1.7	-1.5	-0.9	-1.0	-1.2	-1.4	-1.1	-2.4	-1.2	-1.2	-1.1	-2.0	-2.7
Net private transfers	5.6	5.9	6.2	6.6	6.4	6.5	7.1	6.7	6.8	6.3	7.0	7.3	7.8	9.1	8.4
Gross national savings	23.5	21.5	20.3	19.5	21.5	22.0	23.8	22.3	23.3	17.8	23.7	25.3	22.1	24	25.7
Foreign savings	4.0	4.1	4.5	5.1	5.5	5.6	5.9	5.3	5.7	3.9	5.8	6.0	6.7	7.1	5.7

Notes: (a): Provisional.
(b): Also referred to as external inflow or the resources gap.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Sources: IPS database; Central Bank of Sri Lanka, *Annual Report,* various issues.

Table A9: Summary of Government Fiscal Operations, 2001-2013

(As % of GDP)	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(b)
Revenue	16.7	16.5	15.7	15.4	16.1	16.3	15.8	14.9	14.5	14.6	14.3	13.9	13.1
Grants	0.4	0.4	0.5	0.4	1.4	1.0	0.9	0.7	0.5	0.3	0.2	0.2	0.2
Expenditure													
Current expenditure	21.6	20.9	19.0	19.2	18.7	18.6	17.4	16.9	18.2	16.7	15.4	14.9	13.9
Capital & net lending	5.9	4.6	4.7	4.3	6.0	5.6	6.1	5.7	6.7	6.1	6	5.6	5.4
Current account balance	-4.9	-4.4	-3.3	-3.9	-2.7	-2.4	-1.6	-2.0	-3.7	-2.1	-1.1	-1	-0.8
Primary deficit	-4.1	-1.6	-0.9	-2.2	-3.6	-2.9	-2.6	-2.2	-3.5	-1.7	-1.4	-1.1	-0.8
Overall deficit (before grants)	-10.8	-8.9	-8.0	-8.2	-8.7	-8.0	-7.7	-7.7	-9.9	-8.0	-6.9	-6.5	-5.9
Financing budget deficit													
Foreign financing	1.0	0.1	2.4	1.8	2.0	1.4	2.8	-0.1	4.8	4.4	3.4	3.8	1.4
Domestic financing	8.8	8.0	4.5	5.8	5.2	5.6	3.6	7.1	5.1	3.6	3.5	2.7	4.5
Market borrowings	8.7	8.0	4.5	5.5	5.0	5.6	3.6	7.0	4.9	3.4	3.6	2.7	4.4
Bank	3.5	-0.3	-1.2	2.1	1.1	2.7	0.4	4.4	1.0	-	2.9	1.7	3.4
Non-bank	5.3	8.3	5.7	3.4	3.9	2.9	3.1	2.6	3.8	3.5	0.7	0.9	1.0
Other borrowings	0.1	-0.1	-	0.2	0.2	-	-	0.1	0.2	0.2	-0.1	-	0.1
Privatisation proceeds(a)	0.6	0.4	0.6	0.1	-	-	-	-	-	-	-	-	-

Notes: (a): Since 1994, privatization proceeds have been shifted from the capital expenditure and net lending category to the financing section.
(b): Provisional.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report,* various issues.

Table A10: Money Supply and Underlying Factors, 1994-2013

	Unit	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003(b)
1. Financial depth											
Narrow money supply	M1/GDP	12.2	11.3	10.2	9.6	9.5	9.8	9.4	8.7	8.8	8.9
broad money supply	M2/GDP	33.1	34.2	33.0	32.4	31.1	32.4	32.2	32.0	32.3	31.9
2. Monetary expansion/contraction											
narrow money supply	% growth	18.7	6.7	4.0	9.8	12.1	12.8	9.1	3.2	14.0	16.0
broad money supply	% growth	19.7	19.2	10.8	13.8	9.7	13.3	13.0	11.4	13.2	13.8
3. Causal factors											
3.1 External banking assets	Rs. mn.	64,467.0	66,532.0	61,861.0	89,292.0	93,724.0	83,892.0	59,448.0	80,019.0	101,717.0	129,487.0
	% growth	34.0	3.2	-7.0	44.3	5.0	-10.5	-29.1	34.6	27.1	27.3
3.2 Domestic credit	Rs. mn.	206,047.0	262,670.0	292,395.0	323,046.0	369,517.0	432,888.0	549,927.0	638,876.0	680,396.0	731,872.0
	% growth	14.9	27.5	11.3	10.5	14.4	17.1	27.0	16.2	6.5	7.6
3.2.1 to government	Rs. mn.	31,362.0	38,662.0	47,131.0	45,250.0	64,618.0	93,915.0	147,304.0	201,311.0	192,994.0	176,236.0
	% growth	5.4	23.3	21.9	-4.0	42.8	45.3	56.8	36.7	-4.1	-8.7
3.2.2 to private sector	Rs. mn.	163,278.0	210,703.0	229,773.0	263,198.0	294,868.0	325,927.0	364,369.0	396,754.0	444,371.0	519,444.0
	% growth	21.7	29.0	9.1	14.5	12.0	10.5	11.8	8.9	12.0	16.9
3.3 Other liabilities	Rs. mn.	-50,501.0	-67,974.0	-66,813.0	-79,874.0	-97,425.0	-106,660.0	-136,035.0	-163,867.0	-168,544.0	-181,111.0
	% growth	-24.0	-34.6	1.7	-19.5	-22.0	-9.5	-27.5	-20.5	-2.9	-7.5

Contd..

	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Financial depth											
Narrow money supply	M1/GDP	9.0	9.4	8.8	7.4	6.3	7.0	7.3	6.7	5.9	5.6
broad moneysupply	M2/GDP	32.9	33.6	33.8	32.1	29.1	31.8	32.4	33.5	34.2	35.3
2. Monetary expansion/contraction											
narrow money supply	% growth	16.6	22.4	12.6	2.7	4.0	21.4	20.9	7.7	2.6	7.7
broad money supply	% growth	18.5	19.6	20.7	15.6	11.7	19.9	18.0	20.9	18.3	18.0
3. Causal factors											
3.1 External banking assets	Rs. mn.	129,152.0	167,147.0	185,005.0	225,989.0	88,760.0	358,554.0	390,284	150,916	112,395	133,808
	% growth	-0.3	29.4	10.7	22.2	-60.7	304.0	8.8	-61.3	-25.5	19.1
3.2 Domestic credit	Rs. mn.	895,942.0	1,067,385.0	1,382,004.0	1,607,786.0	1,897,500.0	1,907,748.0	2,262,861.0	3,037,970	3,696,131	4,200,783
	% growth	22.4	19.1	29.5	16.3	18.0	0.5	18.6	34.3	21.7	13.7
3.2.1 to government	Rs. mn.	220,462.0	249,565.0	357,289.0	374,100.0	582,907.0	640,326.0	627,185.0	833,610	1,045,232	1,301,342
	% growth	25.1	13.2	43.2	4.7	55.8	9.9	-2.1	32.9	25.4	24.5
3.2.2 to private sector	Rs. mn.	634,310.0	801,149.0	993,159.0	1,184,519.0	1,267,601.0	1,194,189.0	1,491,099.0	2,005,860	2,358,421	2,534,343
	% growth	22.1	26.3	24.0	19.3	7.0	-5.8	24.9	34.5	17.6	7.5
3.3 Other liabilities	Rs. mn.	-207,515.0	-246,438.0	-348,644.0	-431,759.0	-452,423.0	-503,460.0	-548,895	-644,287	-741,230	-706,605
	% growth	-14.6	-18.8	-41.5	-23.8	-4.8	-11.3	-9.0	-17.4	-15.0	4.7

Notes: Data have been reclassified starting from 1990. For more information, see *Annual Report 1995*, Central Bank of Sri Lanka.
(b) From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A11: Interest Rates, 2000-2013

(%, end of period)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bank rate	25.0	18.0	18.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Treasury bills, yield rates														
3 Month	17.8	12.9	9.9	7.4	7.3	10.1	12.8	21.3	17.3	7.7	7.2	8.7	10.0	7.5
12 Month	18.2	13.7	9.9	7.2	7.7	10.4	13.0	20.0	19.1	9.3	7.6	9.3	11.7	8.3
Repurchase rate	17.0	12.0	9.8	7.0	7.5	8.8	10.0	10.5	10.5	7.5	7.3	7.0	7.5	6.5
Call money rate														
Maximum	32.0	13.0	10.9	8.3	10.6	11.0	15.1	40.0	20.0	9.1	8.4	9.1	9.9	7.8
Minimum	20.3	12.5	10.3	7.4	9.5	10.5	12.8	16.0	13.3	8.0	7.8	8.8	9.5	7.5
Weighted average prime lending rate	21.5	14.3	12.2	9.0	10.2	12.1	14.7	17.0	19.2	11.1	9.3	10.5	14.3	10.0
Commercial bank saving														
Maximum	11.0	12.0	11.0	7.3	7.8	10.3	10.5	16.5	16.5	10.5	9.5	8.5	10.5	9.1
Minimum	2.0	4.0	3.5	2.1	3.0	3.0	3.0	3.0	3.0	1.5	1.5	1.0	0.8	0.8
NSB saving	8.4	8.4	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Commercial bank fixed deposit (one year)														
Maximum	15.0	14.5	11.0	7.8	9.8	11.5	14.0	20.0	20.3	19.0	17.0	11.0	17.0	16.0
Minimum	9.0	9.5	7.5	5.0	5.0	5.5	5.5	8.5	8.5	7.3	5.1	5.6	5.0	6.0
NSB fixed deposit (one year, paid on maturity)	15.0	13.0	10.0	7.0	8.0	9.0	11.0	15.0	15.0	9.5	8.5	8.5	12.5	9.5

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues.
Central Bank of Sri Lanka, *Bulletin*, various issues.

Table A12: Basic Indicators of the General Price Level, 1993-2013

	CCPI (1952 = 100)	% change	CCPI (2002 = 100)	% change	CCPI (2006/07 = 100)	% change	WPI (1974 = 100)	% change	GDPD (1996 = 100)	% change
1993	1,408.4	11.7					831.8	7.6	75.3	9.5
1994	1,527.4	8.4					873.4	5.0	82.3	9.3
1995	1,644.6	7.7					950.3	8.8	89.2	8.4
1996	1,906.7	15.9					1,145.1	20.5	100.0	12.1
1997	2,089.1	9.6					1,224.3	6.9	108.6	8.6
1998	2,284.9	9.4					1,298.7	6.1	117.8	8.4
1999	2,392.1	4.7					1,295.3	-0.3	123.1	4.4
2000	2,539.8	6.2					1,317.2	1.7	131.3	6.7
2001	2,899.4	14.2					1,471.2	11.7	147.6	12.4
2002	3,176.4	9.6	100.0				1,628.9	10.7	160.0	8.4
2003	3,377.0	6.3	105.8				1,679.1	3.1	168.2	5.1
2004	3,632.8	7.6	115.3	9.0			1,889.0	12.5	183.0	8.8
2005	4,055.5	11.6	128.0	11.0			2,105.9	11.5	202.1	10.4
2006	4,610.8	13.7	140.8	10.0			2,351.6	11.7	224.9	11.3
2007	5,416.1	17.5	163.1	15.8			2,924.4	24.4	256.4	14.0
2008			199.9	22.6	129.2		3,653.6	24.9	298.3	16.3
2009			206.8	3.4	133.6	3.5	3,500.9	-4.2	315.8	5.9
2010			219.1	5.9	141.9	6.2	3,893.0	11.2	338.9	7.3
2011			226.5	6.9	151.5	6.7	4,306.5	10.6	365.5	7.9
2012			-	-	162.9	7.6	4,457.3	3.5	398.1	8.9
2013(a)			-	-	174.2	6.9	4,867.9	9.2	424.8	6.7

Notes: (a): Provisional.
(b): CCPI (2002 = 100) has been replaced since June 2011.
CCPI: Colombo Consumers Price Index
WPI: Wholesale Price Index
GDPD: GDP Deflator

Sources: Department of Census and Statistics.
Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A13: Wage Rate Indices, 1992-2013 (December 1978 = 100)

	Workers in wages boards trades(a)		Government employees(b)	
	Nominal	Real	Nominal	Real
1992	590.0	112.0	557.6	106.0
1993	685.8	116.6	675.5	114.8
1994	712.4	111.7	735.5	115.4
1995	740.3	107.7	792.5	115.4
1996	801.7	100.7	818.2	103.0
1997	849.1	97.3	906.5	104.0
1998	953.3	99.9	1,001.4	104.9
1999	977.6	97.8	1,001.4	100.2
2000	1,000.4	94.3	1,084.7	102.1
2001	1,049.3	86.6	1,310.8	108.1
2002	1,126.5	84.9	1,525.3	115.0
2003	1,205.2	85.4	1,525.0	108.1
2004	1,233.0	81.3	1,872.1	123.3
2005	1,329.7	78.5	2,417.5	142.7
2006	1,358.2	70.5	3,150.8	163.5
2007	1,648.8	73.6	3,828.4	171.6
2008	2070.4	75.5	4116.1	150.4
2009	2171.4	76.7	4502.8	159.0
2010	2865.3	95.3	4651.6	154.7
2011	2996.1	93.3	4964.5	154.7
2012	3662.0	106.2	5304.7	153.8
2013(c)	3869.2	104.9	5568.3	150.9

Notes: The wage rates used in the calculation of index numbers are minimum wages.
(a): Combined index for workers in agriculture, industry and commerce, and services.
(b): Combined index for non-executive officers and minor employees.
(c): Provisional.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A14: Sri Lanka's Direction of Foreign Trade, 1996-2013

	Unit	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Exports to selected countries and groupings										
U.S.A	US$mn.	1396	1666	1890	1792	2193	1926	1764	1777	1869
U.K.	US$mn.	389	525	530	604	737	576	590	640	779
Germany	US$mn.	239	230	232	216	230	199	199	232	274
Japan	US$mn.	256	234	196	159	230	186	140	162	158
EC	% of total exports	29.4	35	33.6	35.3	33.4	26.1	29.0	30.0	32.5
Germany	% of exports to EC	19.8	17.1	17.9	16.2	15.2	15.8	14.6	15.1	14.6
UK	% of exports to EC	32.2	39	41	45	48.5	45.8	43.3	41.6	41.6
ASEAN	% of total exports	2.8	3.4	3	3.1	3.5	2.9	2.6	2.5	2.6
Singapore	% of exports to ASEAN	52	43.7	38.1	37.9	38.7	51.4	63.6	61.8	67.9
Malaysia	% of exports to ASEAN	23.5	16.6	10.1	6	5	5.9	8.4	11.7	7.1
SAARC	% of total exports	2.6	3.1	3	3.8	4.2	3.3	5.5	6.8	8.8
India	% of exports to SAARC	39.6	37	33.2	33.7	30.6	45.6	66.5	70.0	77.3
NAFTA	% of total exports	35.6	45.5	51.5	49.8	50.5	42.1	39.6	36.6	34.4
USA	% of exports to NAFTA	95.6	95.3	95.4	95.1	95.4	95.1	94.6	94.6	94.5
Canada	% of exports to NAFTA	3.1	3.2	3.1	3.1	3.1	3.4	3.3	3.4	3.6
APEC	% of total exports	48.7	59.8	58.9	56.3	57.8	59.5	54.6	52.2	47.8
USA	% of exports to APEC	69.8	72.4	83.4	84.1	83.5	83.1	82.5	80.6	81.4
Japan	% of exports to APEC	12.8	10.2	8.6	7.5	8.7	8.0	6.6	7.4	6.9
Singapore	% of exports to APEC	0.1	0.1	1.9	2.1	2.3	2.5	3.1	3.0	3.8
2. Imports from selected countries and groupings										
Japan	US$mn.	497	479	556	561	646	337	355	448	412
India	US$mn.	562	560	539	512	600	709	853	1073	1439
Hong Kong	US$mn.	354	411	411	459	516	500	491	560	619
U.S.A	US$mn.	198	187	230	216	255	266	219	198	240
U.K.	US$mn.	252	282	305	251	311	221	263	273	312
Taiwan	US$mn.	288	372	379	347	390	323	288	276	291
EC	% of total imports	15.4	17.6	23.3	19.4	18.8	14.2	14.6	16.5	15.7
Germany	% of imports from EC	18.4	20.5	20.2	15.8	16.5	16.3	13.6	13.0	15.4
UK	% of imports from EC	30.1	31.6	30.3	29.1	32.8	26.0	29.5	24.8	24.8
ASEAN	% of total imports	12.6	14.7	19.6	21.1	21	19.4	19.1	19.8	20.0
Singapore	% of imports from ASEAN	37.7	38.3	36.8	48.2	46.7	44.8	46.0	46.2	51.2
Malaysia	% of imports from ASEAN	26.7	22.3	22.8	18	20.5	22.7	21.7	25.6	24.1
SAARC	% of total imports	11.9	13.1	15.1	14.2	14	11.9	15.6	17.6	19.7
India	% of imports from SAARC	86.9	83.9	83.3	81.4	84.8	84.4	89.4	91.5	91.4
NAFTA	% of total imports	4.3	5.7	7.1	5.5	6	4.9	3.8	3.5	3.6
USA	% of imports from NAFTA	84.6	64.7	75.0	89	84.1	91.5	93.8	85.4	84.4
Canada	% of imports from NAFTA	10	19	13.6	9.3	15.6	8.2	5.8	14.3	15.3
APEC	% of total imports	50.4	61.9	45.9	53.4	54.9	55.6	52.1	49.2	46.4
USA	% of imports from APEC	7.3	5.9	11.6	9.1	9.2	10.1	8.5	7.1	7.6
Japan	% of imports from APEC	9.2	9.4	28.1	23.6	23.2	12.8	13.8	16.0	13
Singapore	% of imports from APEC	9.5	9.1	15.7	19	17.8	15.6	16.8	18.7	20.5

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	Unit	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)
1. Exports to selected countries and groupings										
U.S.A	US$mn.	1988	2006	1970	1869	1576	1701	2145	2126	2494
U.K.	US$mn.	576	880	1018	1090	1024	990	1112	1059	1078
Germany	US$mn.	272	329	438	405	347	400	510	455	468
Japan	US$mn.	186	164	160	159	139	171	223	217	224
EU	% of total exports	30.9	33.7	37.6	37.4	38.5	33.3	33.9	33.0	31.5
Germany	% of exports to EU	13.9	14.2	15.2	13.4	12.7	13.9	14.3	14.1	14.3
UK	% of exports to EU	39.6	37.9	35.4	35.9	37.6	34.4	31.1	32.8	32.9
ASEAN	% of total exports	2.9	3.4	3.0	3.2	4.8	9.1	7.7	3.9	3.0
Singapore	% of exports to ASEAN	52.2	39.0	34.8	29.7	25.8	65.1	50.1	26.1	33.7
Malaysia	% of exports to ASEAN	9.5	12.9	15.7	17.2	13.9	9.3	12.0	18.0	15.1
SAARC	% of total exports	10.3	8.7	8.5	6.9	6.2	7.2	6.6	7.8	7.4
India	% of exports to SAARC	86.7	81.6	79.8	74.5	73.0	76.8	74.1	74.4	70.4
NAFTA	% of total exports	33.3	30.9	27.6	24.9	24.1	21.6	22.4	24.3	26.4
USA	% of exports to NAFTA	94.1	94.2	93.3	92.4	92.2	91.5	90.5	89.6	90.8
Canada	% of exports to NAFTA	3.7	3.6	3.7	4.4	4.3	5.0	5.4	6.1	5.5
APEC	% of total exports	46.2	44.0	38.8	37.0	37.9	39.9	39.4	38.1	40.1
USA	% of exports to APEC	82.3	81.5	66.4	62.3	58.7	49.4	51.5	57.1	59.8
Japan	% of exports to APEC	5.9	6.6	5.4	5.3	5.2	5.0	5.4	5.8	5.4
Singapore	% of exports to APEC	3.3	3.0	2.7	2.5	3.2	14.8	9.8	2.7	2.5
2. Imports from selected countries and groupings										
Japan	US$mn.	337	450	413	426	224	584	1025	552	668
India	US$mn.	709	2173	2610	3447	1820	2570	4431	3640	3171
Hong Kong	US$mn.	648	659	725	695	517	580	632	605	430
U.S.A	US$mn.	205	201	412	279	259	168	266	234	416
U.K.	US$mn.	221	303	230	250	254	267	304	297	281
Taiwan	US$mn.	279	275	264	251	201	264	352	365	435
EU	% of total imports	14.5	13.7	12.4	12.5	12.6	10.9	9.2	9.3	9.2
Germany	% of imports from EU	13.9	15.8	16.4	16.0	19.3	17.2	18.3	17.9	23.1
UK	% of imports from EU	21.6	21.5	16.5	14.2	19.8	18.2	16.4	16.7	16.9
ASEAN	% of total imports	20.5	21.7	16.9	15.8	18.7	18.8	18.6	18.2	18.6
Singapore	% of imports from ASEAN	48.2	52.9	58.4	55.8	55.8	61.8	56.4	48.2	50.2
Malaysia	% of imports from ASEAN	25.7	23.7	14.8	16.1	15.1	15.2	18.2	23.2	17.0
SAARC	% of total imports	22.4	22.9	24.9	26.0	20.1	21.4	23.7	21.0	19.9
India	% of imports from SAARC	92.6	92.4	92.7	94.0	88.6	89.3	92.1	90.2	88.4
NAFTA	% of total imports	3.2	4.1	4.4	4.7	5.2	3.3	3.2	3.0	3.6
USA	% of imports from NAFTA	71.2	48.0	83.5	42.4	48.4	37.6	41.3	41.2	64.0
Canada	% of imports from NAFTA	28.0	51.5	16.1	57.6	51.6	62.4	58.7	58.1	35.2
APEC	% of total imports	44.0	43.8	46.1	43.0	47.8	46.3	46.6	48.7	52.0
USA	% of imports from APEC	6.2	5.3	7.9	4.6	5.3	2.7	2.8	2.5	4.4
Japan	% of imports from APEC	11.6	11.9	7.9	7.0	4.6	9.4	10.9	5.9	7.1
Singapore	% of imports from APEC	22.4	26.2	21.5	20.6	21.9	25.2	22.5	18.0	18.0

Note: (a): Provisional.
Sources: International Monetary Fund, *Direction of Trade Statistics*, various issues; Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A15: Structure of Commodity Imports, 1994-2013

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. **Consumer goods**										
Value (US$ mn.)	930.6	982.0	1,030.0	1,084.0	1,128.0	1,131.0	1,261.0	1,126.0	1,189.0	1,344.0
Growth	20.1	5.5	4.9	5.2	4.1	0.3	11.5	-10.7	5.6	13.0
% of total imports	19.5	18.5	18.9	18.5	19.2	18.9	17.2	18.8	19.5	20.1
1.1 Food										
Value (US$ mn.)	483.9	522.0	597.0	642.0	596.0	551.0	566.0	545.0	566.0	564.0
Growth	16.4	7.9	14.4	7.5	-7.2	-7.6	2.7	-3.7	3.9	-0.4
% of total imports	10.2	9.8	11.0	10.9	10.1	9.2	7.7	9.1	9.3	8.5
1.2 Other										
Value (US$ mn.)	446.6	461.0	433.0	442.0	532.0	581.0	696.0	581.0	623.0	780.0
Growth	24.5	3.2	-6.1	2.1	20.4	9.2	19.8	-16.5	7.2	25.2
% of total imports	9.4	8.7	8.0	7.5	9.0	9.7	9.5	9.7	10.2	11.7
2. **Intermediate goods**										
Value (US$ mn.)	2,425.0	2,900.0	2,971.0	3,235.7	3,108.0	3,168.0	3,916.0	3,430.0	3,622.0	3,948.0
Growth	12.6	19.6	2.4	8.9	-3.9	1.9	23.6	-12.4	5.6	9.0
% of total imports	50.9	54.6	54.6	55.2	52.8	53.0	53.5	57.4	59.3	59.2
2.1 Petroleum										
Value (US$ mn.)	296.3	386.9	479.9	539.5	345.0	500.0	901.0	731.0	789.0	838.0
Growth	-4.2	30.6	24.1	12.4	-36.1	44.9	80.2	-18.9	7.9	6.2
% of total imports	6.2	7.3	8.8	9.2	5.9	8.4	12.3	12.2	12.9	12.6
2.2 Textiles										
Value (US$ mn.)	1,038.1	1,158.5	1,168.8	1,386.9	1,397.0	1,320.0	1,471.0	1,320.0	1,321.0	1,372.0
Growth	20.0	11.6	0.9	18.7	0.7	-5.5	11.4	-10.3	0.1	3.9
% of total imports	21.8	21.8	21.5	23.7	23.7	22.1	20.1	22.1	21.6	20.6
3. **Investment goods**										
Value (US$ mn.)	1,366.5	1,189.0	1,203.0	1,324.0	1,477.0	1,565.0	1,737.0	1,081.0	1,169.0	1,320.0
Growth	30.5	-13.0	1.2	10.1	11.6	6.0	11.0	-37.8	8.1	12.9
% of total imports	28.7	22.4	22.1	22.6	25.1	26.2	23.7	18.1	19.1	19.8
4. **Total imports**										
Value (US$ mn.)	4,767.3	5,311.1	5,439.0	5,864.0	5,889.0	5,979.0	7,320.0	5,974.0	6,105.0	6,672.0
Growth	18.8	11.4	2.4	7.8	0.4	1.5	22.4	-18.4	2.2	9.3

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	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)
1. **Consumer goods**										
Value (US$ mn.)	1,440.0	1,503.0	1,782.0	1,665.0	2,006.0	1,565.0	2,476.0	3,654.0	2,995.0	3,182.0
Growth	13.0	4.4	18.6	-6.6	20.5	-22.0	58.2	47.6	-18.0	6.2
% of total imports	18.0	17.0	17.4	14.7	14.2	15.3	18.4	18.0	15.6	17.7
1.1 Food										
Value (US$ mn.)	596.0	611.0	757.0	803.0	1,089.0	933.0	1,322.0	1,567.0	1,304.0	1,368.0
Growth	-0.4	2.5	23.9	6.1	35.6	-14.3	41.7	18.5	-16.8	4.9
% of total imports	7.5	6.9	7.4	7.1	7.7	9.1	9.8	7.7	6.8	7.6
1.2 Other										
Value (US$ mn.)	844.0	891.0	1,024.0	862.0	918.0	632.0	1,155.0	2,087.0	1,691.0	1,814.0
Growth	25.2	5.6	14.9	-15.8	6.5	-31.2	82.8	80.7	-19.0	7.3
% of total imports	10.6	10.1	10.0	7.6	6.5	6.2	8.6	10.3	8.8	10.1
2. **Intermediate goods**										
Value (US$ mn.)	4,828.0	5,458.0	6,161.0	6,983.0	9,019.0	6,158.0	8,054.0	12,275.0	11,578.0	10,554.0
Growth	9.0	13.0	12.9	13.3	29.2	-31.7	30.8	52.4	-5.7	-8.8
% of total imports	60.4	61.6	60.1	61.8	64.0	60.3	59.9	60.6	60.3	58.6
2.1 Petroleum										
Value (US$ mn.)	1,209.0	1,655.0	2,070.0	2,516.0	3,392.0	2,184.0	3,041.0	4,795.0	5,045.0	4,308.0
Growth	44.3	36.9	25.1	21.5	34.8	-35.6	39.2	57.7	5.2	-14.6
% of total imports	15.1	18.7	20.2	22.3	24.1	21.4	22.6	23.7	26.3	23.9
2.2 Textiles										
Value (US$ mn.)	1,514.0	1,531.0	1,546.0	1,724.0	1,788.0	1,529.0	1,812.0	2,321.0	2,266.0	2,046.0
Growth	10.3	1.1	1.0	11.5	3.7	-14.5	18.5	28.1	-2.4	-9.7
% of total imports	18.9	17.3	15.1	15.3	12.7	15.0	13.5	11.5	11.8	11.4
3. **Investment goods**										
Value (US$ mn.)	1,670.0	1,869.0	2,246.0	2,597.0	2,852.0	2,093.0	2,758.0	4,286.0	4,590.0	4,253.0
Growth	26.5	11.9	20.2	15.6	9.8	-26.6	31.8	55.4	7.1	-7.3
% of total imports	20.9	21.1	21.9	23.0	20.2	20.5	20.5	21.1	23.9	23.6
4. **Total imports**										
Value (US$ mn.)	8,000.0	8,863.0	10,254.0	11,296.0	14,091.0	10,207.0	13,451.0	20,269.0	19,190.0	18,003.0
Growth	19.9	10.8	15.7	10.2	24.7	-27.6	31.8	50.7	-5.3	-6.2

Notes : (a): Provisional.
Categories are reclassified from 2007 based on National Import Tariff Guide - 2010

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues; IPS database.

Table A16: Structure of Commodity Exports, 1994-2013

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Agricultural exports										
Value (US$ mn.)	702.1	829.0	961.0	1060.0	1088.0	947.0	1005.0	932.0	938.0	965.0
Growth	7.1	18.1	15.9	10.3	2.6	-13.0	6.1	-7.3	0.6	2.9
% of total exports	21.9	21.8	23.5	22.8	22.7	20.5	18.2	19.3	20.0	18.8
1.1 Plantation crops										
Value (US$ mn.)	572.73	695.00	829.00	916.00	918.00	783.00	850.00	796.00	771.00	815.00
Growth	7.1	21.3	19.3	10.5	0.2	-14.7	8.6	-6.4	-3.1	5.7
% of total exports	17.8	18.3	20.2	19.7	19.1	17.0	15.4	16.5	16.4	15.9
1.1.1 Tea										
Value (US$ mn.)	424.2	481.0	615.0	719.0	780.0	621.0	700.0	690.0	660.0	683.0
Growth	2.8	13.4	27.9	16.9	8.5	-20.4	12.7	-1.4	-4.3	3.5
% of total exports	13.2	12.6	15.0	15.5	16.3	13.5	12.7	14.3	14.0	13.3
1.1.2 Rubber										
Value (US$ mn.)	72.5	111.0	104.0	79.0	44.0	33.0	29.0	24.0	27.0	39.0
Growth	13.3	53.1	-6.3	-24.0	-44.3	-25.0	-12.1	-17.2	12.5	44.4
% of total exports	2.3	2.9	2.5	1.7	0.9	0.7	0.5	0.5	0.6	0.8
1.1.3 Coconut kernel products										
Value (US$ mn.)	50.1	69.0	81.0	82.0	56.0	84.0	77.0	41.0	41.0	48.0
Growth	30.9	37.7	17.4	1.2	-31.7	50.0	-8.3	-46.8	0.0	17.1
% of total exports	1.6	1.8	2.0	1.8	1.2	1.8	1.4	0.9	0.9	0.9
1.2. Minor agricultural crops										
Value (US$ mn.)	129.2	134.0	132.0	145.0	170.0	165.0	155.0	136.0	168.0	150.0
Growth	7.0	3.7	-1.5	9.9	17.2	-2.9	-6.1	-12.3	23.5	-10.7
% of total exports	4.0	3.5	3.2	3.1	3.5	3.6	2.8	2.8	3.6	2.9
2. Mineral exports										
Value (US$ mn.)	86.9	87.0	96.0	90.0	60.0	64.0	97.0	86.0	90.0	84.0
Growth	14.7	0.2	10.3	-6.3	-33.3	6.7	51.6	-11.3	4.7	-6.7
% of total exports	2.7	2.3	2.3	1.9	1.3	1.4	1.8	1.8	1.9	1.6
3. Industrial exports										
Value (US$ mn.)	2,398.9	2,870.0	3,006.0	3,436.0	3,607.0	3,551.0	4,283.0	3,710.0	3,631.0	3,977.0
Growth	14.1	19.6	4.7	14.3	5.0	-1.6	20.6	-13.4	-2.1	9.5
% of total exports	74.8	75.4	73.4	74.1	75.2	77.0	77.6	77.0	77.3	77.5
3.1 Textile & garments										
Value (US$ mn.)	1,551.9	1,853.0	1,902.0	2,274.0	2,460.0	2,425.0	2,982.0	2,543.0	2,424.0	2,575.0
Growth	9.9	19.4	2.6	19.6	8.2	-1.4	23.0	-14.7	-4.7	6.2
% of total exports	48.4	48.7	46.4	49.0	51.3	52.6	54.0	52.8	51.6	50.2
3.2 Petroleum products										
Value (US$ mn.)	80.1	85.0	104.0	97.0	73.0	74.0	98.0	68.0	73.0	65.0
Growth	1.7	6.1	22.4	-6.7	-24.7	1.4	32.4	-30.6	7.4	-11.0
% of total exports	2.5	2.2	2.5	2.1	1.5	1.6	1.8	1.4	1.6	1.3
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	3,208.6	3,806.6	4,095.0	4,639.0	4,798.0	4,610.0	5,522.0	4,817.0	4,699.0	5,133.0
Growth	12.0	18.6	7.6	13.3	3.4	-3.9	19.8	-12.8	-2.4	9.2
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	3,128.5	3,721.6	3,991.0	4,542.0	4,725.0	4,536.0	5,424.0	4,749.0	4,626.0	5,068.0
Growth	12.3	19.0	7.2	13.8	4.0	-4.0	19.6	-12.4	-2.6	9.6

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)
1. Agriculture exports										
Value (US$ mn.)	1065.2	1,153.8	1,292.7	1,507.2	1,854.8	1,690.3	2,306.4	2,527.80	2,331.50	2,581.10
Growth	10.4	8.3	12.0	16.6	23.1	-8.9	36.4	9.6	-7.8	10.7
% of total exports	18.5	18.2	18.8	19.7	22.9	23.9	26.7	23.9	23.9	24.8
1.1 Plantation crops										
Value (US$ mn.)	903.30	970.40	1,098.20	1,275.80	1,567.60	1,449.90	1,779.60	1,963.30	1,745.90	1,818.10
Growth	10.8	7.4	13.2	16.2	22.9	-7.5	22.7	10.3	-11.1	4.1
% of total exports	15.7	15.3	16.0	16.7	19.3	20.5	20.6	18.6	17.9	17.5
1.1.1 Tea										
Value (US$ mn.)	738.9	810.2	881.2	1,025.2	1,271.5	1,185.1	1,440.6	1,490.90	1,411.90	1,542.20
Growth	8.2	9.6	8.8	16.3	24.0	-6.8	21.6	3.5	-5.3	9.2
% of total exports	12.8	12.8	12.8	13.4	15.7	16.7	16.7	14.1	14.4	14.8
1.1.2 Rubber										
Value (US$ mn.)	51.3	46.9	93.1	109.4	125.1	98.6	173.2	206.4	125.1	71.3
Growth	31.5	-8.6	98.5	17.5	14.4	-21.2	75.7	19.2	-39.4	-43.0
% of total exports	0.9	0.7	1.4	1.4	1.5	1.4	2.0	2.0	1.3	0.7
1.1.3 Coconut kernel products										
Value (US$ mn.)	58.6	48.8	52.8	60.3	82.4	58.2	55.4	-	-	-
Growth	22.1	-16.7	8.2	14.2	36.7	-29.4	-4.8	-	-	-
% of total exports	1.0	0.8	0.8	0.8	1.0	0.8	0.6	-	-	-
1.2. Minor agricultural crops										
Value (US$ mn.)	161.9	183.4	194.6	231.5	287.3	240.4	71.6	88.7	76	101.3
Growth	7.9	13.3	6.1	19.0	24.1	-16.3	-70.2	23.9	-14.3	33.3
% of total exports	2.8	2.9	2.8	3.0	3.5	3.4	0.8	0.8	0.8	1.0
2. Mineral exports										
Value (US$ mn.)	120.0	143.3	119.9	127.8	97.8	88.7	24.2	32.9	61.3	51.6
Growth	42.9	19.4	-16.3	6.6	-23.5	-9.3	-72.7	36.0	86.3	-15.8
% of total exports	2.1	2.3	1.7	1.7	1.2	1.3	0.3	0.3	0.6	0.5
3. Industrial exports										
Value (US$ mn.)	4,506.1	4,948.4	5,401.1	5,967.3	6,158.0	5,305.4	6,096.1	7,991.70	7,371.20	7,749.40
Growth	13.3	9.8	9.1	10.5	3.2	-13.8	14.9	31.1	-7.8	5.1
% of total exports	78.3	78.0	78.5	78.1	75.9	74.9	70.7	75.7	75.4	74.6
3.1 Textile & garments										
Value (US$ mn.)	2,808.9	2,894.5	3,080.4	3,339.6	3,468.7	3,274.2	3,356.0	4,191.20	3,991.10	4,508.30
Growth	9.1	3.0	6.4	8.4	3.9	-5.6	2.5	24.9	-4.8	13.0
% of total exports	48.8	45.6	44.8	43.7	42.8	46.2	38.9	39.7	40.8	43.4
3.2 Petroleum products										
Value (US$ mn.)	99.6	130.9	188.4	168.9	254.9	134.7	263.4	552.7	463	427.7
Growth	53.2	31.4	43.9	-10.4	50.9	-47.2	95.5	109.8	-16.2	-7.6
% of total txports	1.7	2.1	2.7	2.2	3.1	1.9	3.1	5.2	4.7	4.1
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	5,757.2	6,346.7	6,882.7	7,640.0	8,110.6	7,084.5	8,625.8	10,558.8	9,773.50	10,394.30
Growth	12.2	10.2	8.4	11.0	6.2	-12.7	21.8	22.4	-7.4	6.4
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	5,657.6	6,215.8	6,694.3	7,471.1	7,855.7	6,949.8	8,362.4	10,006.1	9,310.5	9,966.6
Growth	11.6	9.9	7.7	11.6	5.1	-11.5	20.3	19.7	-7.0	7.0

Note: (a): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report*, various issue; IPS database.

Table A17: Tourism, 1994-2013

	Unit	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Tourist arrivals	No.	407,511	403,101	302,265	366,165	381,063	436,440	400,414	336,794	393,171	500,642
Excursionist arrivals	No.	8,413	10,556	12,863	18,265	27,629	28,335	44,518	60,084	63,560	82,066
Tourist nights	000	4,251	4,024	2,947	3,680	3,944	4,479	4,056	3,342	3,989	5,093
Earnings	Rs. mn.	11,401.6	11,551.6	9,559.1	12,980.0	14,868.0	19,297.3	19,162.2	18,863.3	24,202.0	32,810.0
	US$ mn.	230.7	225.4	173.0	216.7	230.5	274.9	252.8	211.1	253.0	340.0
Receipts per tourist per day	US$	54.2	56.1	57.9	58.6	59.5	61.4	62.3	63.1	63.4	66.8
Average duration	Nights	10.4	10.0	9.8	10.1	10.4	10.3	10.1	9.9	10.1	10.2
Accommodation											
Rooms	No.	10,742	11,255	11,600	12,370	12,770	12,918	13,311	13,626	13,818	14,137
Beds	No.	20,929	21,680	22,040	22,944	23,373	24,216	24,953	25,595	25,956	26,511
Occupancy rate, graded	%	56.6	52.6	40.3	49.1	52.8	57.6	52.3	42.1	43.1	53.2
Sri Lanka nationals											
Arrivals	No.	422,367	459,441	488,055	482,850	481,793	521,073	514,448	487,356	493,947	560,602
Departures	No.	448,437	504,420	494,258	530,712	518,050	496,963	524,212	505,341	533,565	561,126
Employment											
Direct	No.	33,956	35,068	31,963	34,006	34,780	36,560	37,943	33,710	38,821	46,761
Indirect	No.	47,538	49,095	44,748	47,608	48,692	51,184	53,120	47,194	54,349	65,465

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	Unit	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)
Tourist arrivals	No.	566,202	549,308	559,603	494,008	438,475	447,890	654,476	855,975	1,005,605	1,274,593
Excursionist arrivals	No.	110,000	119,618	128,719	98,432	87,695	89,526	112,497	119,875	126,523	140,009
Tourist nights	000	5,742	4,754	5,793	4,940	4,166	4,075	6,548	8,560	10,056	10,961
Earnings	Rs. mn.	42,666.3	36,377	42,586	42,519	37,094	40,133	65,018	91,926	132,427	221,147
	US$ mn.	416.8	362.3	410.0	384.4	319.5	349.3	575.9	838.9	1038.3	1715.5
Receipts per tourist per day	US$	72.2	74.6	83.4	79.1	76.7	81.8	88.0	98.0	103.0	156.5
Average duration	Nights	10.1	8.7	10.4	10.0	9.5	9.1	10.0	10.0	10.0	8.6
Accommodation											
Rooms	No.	14,322	13,162	14,218	14,604	14,793	14,461	14,714	14,653	15,510	16,223
Beds	No.	26,854	24,740	27,117	27,500	28,698	28,344	28,978	28,844	30,399	32,284
Occupancy rate, graded	%	59.3	45.4	47.8	46.2	43.9	48.4	70.1	77.1	71.2	71.7
Sri Lanka nationals											
Arrivals	No.	646,990	683,169	734,421	817,524	900,815	914,584	1,081,417	1,210,951	1,210,914	1,200,778
Departures	No.	680,248	727,301	756,735	862,011	966,337	962,786	1,122,212	1,239,290	1,268,792	1,261,711
Employment											
Direct	No.	53,766	52,085	55,649	60,516	51,306	52,071	55,023	57,786	67,862	112,550
Indirect	No.	75,272	72,919	77,909	84,722	71,828	72,899	77,032	80,899	95,007	157,600

Notes: (a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report*, various issues; Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A18: Monthly Tourist Arrivals, 2002-2013

	2002		2003		2004		2005		2006		2007	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	28,296	-36.0	40,647	43.6	49,950	22.9	38,187	-23.5	52,103	36.4	56,553	8.5
February	31,683	-32.0	39,081	23.4	43,584	11.5	36,645	-15.9	52,687	43.8	43,051	-18.3
March	33,084	-25.3	40,818	23.4	38,418	-5.9	50,418	31.2	54,746	8.6	35,031	-36.0
April	27,057	-26.7	33,714	24.6	30,672	-9.0	42,261	37.8	49,776	17.8	33,039	-33.6
May	26,661	-1.0	30,048	12.7	30,162	0.4	40,878	35.5	43,825	7.2	26,307	-40.0
June	26,355	-6.9	31,836	20.8	32,119	0.9	45,699	42.3	44,066	-3.6	30,810	-30.1
July	35,742	25.1	43,743	22.4	50,525	15.5	56,745	12.3	55,354	-2.5	44,142	-20.3
August	35,475	125.7	42,111	18.7	48,675	15.6	51,216	5.2	52,931	3.3	44,742	-15.5
September	32,982	180.5	36,054	9.3	51,525	42.9	43,536	-15.5	38,485	-11.6	37,104	-3.6
October	36,258	181.0	49,922	37.7	59,442	19.1	44,095	-25.8	38,815	-12.0	37,011	-4.6
November	37,395	115.6	54,946	46.9	64,971	18.2	48,457	-25.4	37,591	-22.4	45,102	20.0
December	42,183	81.0	57,722	36.8	66,159	14.6	51,171	-22.7	39,224	-23.3	61,116	55.8
Total	393,171	16.7	500,642	27.3	566,202	13.1	549,308	-3.0	559,603	1.9	494,008	-11.7

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	2008		2009		2010		2011		2012		2013(a)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	56,916	0.6	38,468	-32.4	50,757	31.9	74,197	46.2	85,874	15.7	110,543	28.7
February	40,551	-5.8	34,169	-15.7	57,300	67.7	65,797	14.8	83,549	27.0	113,968	36.4
March	38,049	8.6	34,065	-10.5	52,352	53.7	75,130	43.5	91,102	21.3	113,208	24.3
April	29,747	-10.0	26,054	-12.4	38,300	47.0	63,835	66.7	69,591	9.0	80,737	16.0
May	31,140	18.4	24,739	-20.6	35,213	42.3	48,943	39.0	57,506	17.5	74,838	30.1
June	27,960	-9.3	30,234	8.1	44,730	47.9	53,636	19.9	65,245	21.6	90,279	38.4
July	32,982	-25.3	42,223	28.0	63,339	50.0	83,786	32.3	90,338	7.8	107,016	18.5
August	30,672	-31.4	41,207	34.3	55,898	35.7	72,463	29.6	79,456	9.7	123,269	55.1
September	29,529	-20.4	37,983	28.6	47,339	24.6	60,219	27.2	71,111	18.1	90,339	27.0
October	35,103	-5.2	37,575	7.0	52,370	39.4	69,563	32.8	80,379	15.5	107,058	33.2
November	36,901	-18.2	44,311	20.1	72,251	63.1	90,889	25.8	109,202	20.1	109,420	0.2
December	48,925	-19.9	56,862	16.2	84,627	48.8	97,517	15.2	122,252	25.4	153,918	25.9
Total	438,475	-11.2	447,890	2.1	654,476	46.1	855,975	30.8	1,005,605	17.5	1,274,593	26.7

Note: Monthly growth figures reflect percentage changes compared to the same month in the previous year.
(a): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report*, various issues and Monthly Statistical Bulletin, 2012.
Ceylon Tourist Board, Monthly Statistical Bulletin, 2012.

Table A19: Tourist Arrivals by Country of Residence, 2002-2013

	2002		2003		2004		2005		2006		2007	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	19,866	24.3	25,110	26.4	29,759	18.5	46,457	56.1	35,323	-24.0	28,355	-19.7
Canada	8,301	9.1	11,164	34.5	14,633	31.1	21,185	44.8	14,623	-31.0	11,869	-18.8
U.S.A.	11,565	38.1	13,946	20.6	15,126	8.5	25,272	67.1	20,700	-18.1	16,486	-20.4
Western Europe	200,295	-1.8	255,169	27.4	284,440	11.5	227,191	-20.1	228,445	0.6	194,448	-14.9
Germany	55,170	-8.7	58,908	6.8	58,258	-1.1	46,350	-20.4	47,402	2.3	35,042	-26.1
United Kingdom	67,533	-0.4	93,278	38.1	106,645	14.3	92,629	-13.1	88,306	-4.7	94,060	6.5
France	19,989	-4.6	28,585	43.0	29,996	4.9	26,653	-11.1	22,693	-14.9	8,091	-64.3
Italy	12,177	0.9	15,654	28.6	18,862	20.5	10,192	-46.0	12,424	21.9	11,451	-7.8
Netherlands	11,748	-6.5	18,197	54.9	21,455	17.9	15,156	-29.4	19,360	27.7	17,526	-9.5
Asia	143,064	59.4	177,351	24.0	198,068	11.7	223,351	12.8	242,132	8.4	202,480	-16.4
Japan	13,602	47.3	17,115	25.8	19,641	14.8	17,148	-12.7	16,189	-5.6	14,274	-11.8
India	69,960	106.2	90,603	29.5	105,151	16.1	113,323	7.8	128,370	13.3	106,067	-17.4
Pakistan	6,756	-21.1	9,704	43.6	9,638	-0.7	11,029	14.4	11,145	1.1	10,204	-8.4
Australasia	13,209	0.8	22,965	73.9	26,540	15.6	29,738	12.0	25,127	-15.5	22,924	-8.8
Australia	11,217	-2.1	19,958	77.9	23,247	16.5	25,986	11.8	21,849	-15.9	20,241	-7.4
Other(a)	16,737	19.6	20,047	19.8	27,395	36.7	22,571	-17.6	28,576	26.6	45,801	60.3
Total	393,171	16.7	500,642	27.3	566,202	13.1	549,308	-3.0	559,603	1.9	494,008	-11.7

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	2008		2009		2010		2011		2012		2013(b)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	24,311	-14.3	24,948	2.6	40,216	61.2	49,057	22.0	59,236	20.7	65,616	10.8
Canada	10,258	-13.6	10,707	4.4	21,123	97.3	24,671	16.8	29,329	18.9	30,926	5.4
U.S.A.	14,053	-14.8	14,241	1.3	19,093	34.1	24,386	27.7	29,907	22.6	34,690	16.0
Western Europe	167,187	-14.0	170,123	1.8	256,861	51.0	315,210	22.7	373,063	18.4	421,037	12.9
Germany	30,625	-12.6	29,654	-3.2	45,727	54.2	55,882	22.2	71,642	28.2	85,470	19.3
United Kingdom	81,331	-13.5	81,594	0.3	105,496	29.3	106,082	0.6	114,218	7.7	137,416	20.3
France	10,594	30.9	15,886	50.0	31,285	96.9	48,695	55.6	56,863	16.8	64,388	13.2
Italy	9,126	-20.3	7,514	-17.7	11,423	52.0	13,527	18.4	15,871	17.3	17,982	13.3
Netherlands	13,030	-25.7	11,291	-13.3	17,861	58.2	23,966	34.2	26,754	11.6	22,281	-16.7
Asia	173,039	-14.5	174,534	0.9	244,124	39.9	333,841	36.8	380,289	13.9	509,653	34.0
Japan	10,075	-29.4	10,926	8.4	14,352	31.4	20,586	43.4	26,085	26.7	31,505	20.8
India	85,238	-19.6	83,634	-1.9	126,882	51.7	171,374	35.1	176,340	2.9	208,795	18.4
Pakistan	7,885	-22.7	7,373	-6.5	9,148	24.1	14,724	61.0	16,056	9.0	25,336	57.8
Australasia	21,839	-4.7	26,068	19.4	37,290	43.0	46,467	24.6	57,776	24.3	60,836	5.3
Australia	19,536	-3.5	23,239	19.0	33,456	44.0	41,728	24.7	51,614	23.7	54,252	5.1
Other(a)	52,099	13.8	52,217	0.2	75,985	45.5	111,400	46.6	135,241	21.4	217,451	60.8
Total	438,475	-11.2	447,890	2.1	654,476	46.1	855,975	30.8	1,005,605	17.5	1,274,593	26.7

Notes: (a): Latin America & the Caribbean, East Europe, Africa, and Middle East.
(b): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues and Monthly Statistical Bulletin, 2012.

Table A20: Balance of Payments, 2002-2013

	Unit	2002	2003(c)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013(a)
1. Trade balance	US$ mn.	-1406	-1539	-2243	-2516	-3370	-3657	-5981	-3122	-4825	-9710	-9417	-7609
	% of GDP	-8.5	-8.2	-10.9	-10.3	-11.9	-11.3	-14.7	-7.4	-9.7	-16.4	-15.9	-11.3
2. Services balance	US$ mn.	295	399	419	338	257	302	401	391	707	1099	1262	1180
	% of GDP	1.8	2.1	2.0	1.4	0.9	0.9	1.0	0.9	1.4	1.9	2.1	1.8
3. Income, net	US$ mn.	-252	-172	-204	-299	-389	-358	-972	-488	-617	-647	-1219	-1817
	% of GDP	-1.5	-0.9	-1.0	-1.2	-1.4	-1.1	-2.4	-1.2	-1.2	-1.1	-2.1	-2.7
4. Net private transfers	US$ mn.	1097	1205	1350	1736	1904	2214	2565	2927	3608	4583	5339	5619
	% of GDP	6.6	6.4	6.5	7.1	6.7	6.8	6.3	7.0	7.3	7.7	9.0	8.4
5. Net official transfers	US$ mn.	31	36	30	93	101	97	101	77	52	60	53	21
	% of GDP	0.2	0.2	0.1	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0
6. Current account balance	US$ mn.	-237	-71	-648	-650	-1499	-1402	-3886	-214	-1075	-4615	-3982	-2607
	% of GDP	-1.4	-0.4	-3.1	-2.7	-5.3	-4.3	-9.5	-0.5	-2.2	-7.8	-6.7	-3.9
7. Capital and financial a/c	US$ mn.	444	722	631	1224	1808	2097	1774	2594	2877	4263	4394	3197
	% of GDP	2.7	3.8	3.1	5.0	6.4	6.5	4.4	6.2	5.8	7.2	7.4	4.8
Capital account	US$ mn.	65	74	64	250	291	269	291	233	164	164	130	71
8. Financial account	US$ mn.	379	648	567	974	1517	1828	1483	2361	2713	4098	4263	3126
Long-term	US$ mn.	326	722	680	798	907	1251	1016	1304	2379	3308	2589	2128
Foreign direct investment	US$ mn.	181	171	217	234	451	548	691	384	435	896	877	851
Private long-term (net)	US$ mn.	-21	-33	14	11	-35	31	74	79	149	175	719	455
Government long-term	US$ mn.	162	554	439	554	491	672	252	840	1796	2237	992	821
9. Short-term	US$ mn.	53	-75	-112	176	610	577	466	1058	334	790	-753	671
Foreign portfolio investment	US$ mn.	25	2	11	60	51	101	60	-6	-230	-171	273	263
10. Other (b)	US$ mn.	38	-148	-189	-72	-105	-165	728	346	-881	-708	-412	-590
11. Overall balance	US$ mn.	338	502	-205	501	204	531	-1385	2725	921	-1062	151	985
	% of GDP	2.0	2.7	-1.0	2.1	0.7	1.6	-3.4	6.5	1.9	-1.8	0.3	1.5

Notes: (a): Provisional.
(b): Valuation adjustments, errors, and omissions.
(c): From 2003, data are based on GDP estimates compiled by the Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report,* various issues.

Table A21: Exchange Rate Behaviour, 2002-2013

Currency	Unit	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nominal exchange rates													
U.S.A.	S.L. Rs. per US$	96.73	96.74	104.61	102.12	107.71	108.72	113.14	114.38	110.95	113.90	127.16	130.75
Japan	S.L. Rs. per Yen	0.82	0.90	1.02	0.87	0.91	0.97	1.25	1.24	1.36	1.47	1.48	1.25
U. K.	S.L. Rs. per Pound	155.12	172.20	201.37	175.94	211.29	217.15	163.28	181.75	171.41	175.45	205.47	215.58
Europeon Union	S.L. Rs. per Euro	101.38	121.60	142.32	120.96	141.58	160.27	159.45	163.72	147.56	147.42	168.13	180.45
India	S.L. Rs. per Ind. Rs.	2.02	2.12	2.40	2.27	2.44	2.77	2.36	2.46	2.48	2.15	2.33	2.11
24 currency													
Nominal effective exchange rates (NEER)	NEER 2006 = 100 (a)	-	113.75	104.32	104.06	110.94	98.96	100.07	99.85	100.00	99.84	90.44	91.40
Real effective exchange rate (REER)	REER 2006 = 100 (a)	-	92.82	90.60	97.43	81.02	78.07	95.19	97.36	100.00	101.84	95.80	100.61

Notes: (a): From 2006 onwards, NEER 2010 = 100.

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues.

Over the past half-Century, Asia has seen the most spectacular examples of economic development spanning from Japan to South Korea, Singapore and Hong Kong. In more recent decades, China and India have led the way as fast growing economies, spearheading Asia's seemingly relentless economic rise. While there seems little disagreement that Asia will continue to be a dynamic centre of global growth, the pace at which countries in the region will grow to lay claim to a collective 'Asian Century' is subject to considerable debate. Ageing populations, rising wages and other costs, environment degradation, and a prolonged and weak recovery in developed economies are only some of the challenges facing the region.

For Sri Lanka, the prospect of an invigourated Asia is clearly important as the country seeks new development partners, markets, and investors in its post-war economic expansion efforts. The development experiences, policies and institutions of its neighbours in Asia are being examined more thoroughly than ever before. An integral part of this learning curve is not only to emulate the successes, but also to avoid the pitfalls.

The Sri Lanka: State of the Economy 2014 argues that, while the Sri Lankan context is no doubt different, and following the Asian trajectory identically may not be feasible or desirable, there are salutary lessons to draw from Asia's rise, both for Sri Lanka's own development journey but also in understanding how to best latch on to it. Pursuing policies that temper growth with sustainable resource management, and instituting reforms that enhance productivity in driving economic growth will assure Sri Lanka a better chance to meet its interlinked goals of sustained economic prosperity and social harmony.

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