SRI LANKA

State of the Economy

2012



Keeping Sri Lanka on the Growth Expressway

IPS INSTITUTE OF POLICY STUDIES OF SRI LANKA

SRI LANKA
State of the Economy
2012

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ACRONYMS

ACU	Asian Clearing Union
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
APTA	Asia-Pacific Free Trade Agreement
ASEAN	Association of Southeast Asian Nations
BCI	LMD-Nielsen Business Confidence Index
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BOI	Board of Investment
BOP	Balance of Payments
BPO	Business Process Outsourcing
BRICS	Brazil, Russia, India, China, and South Africa
CBSL	Central Bank of Sri Lanka
CEB	Ceylon Electricity Board
CECA	Comprehensive Economic Cooperation Agreement
CEPA	Comprehensive Economic Partnership Agreement
CEPT	Common Effective Preferential Tariff
CPC	Ceylon Petroleum Corporation
CPI	Corruption Perceptions Index
DBI	Doing Business Index
DDR	Doha Development Round
DEWN	Disaster and Emergency Warning Network
EAS	East Asia Summit
ECB	European Central Bank
ECI	Economic Incentive Regime
EFI	Economic Freedom Index
EFSF	European Financial Stability Facility
EFW	Economic Freedom of the World Index
EIU	Economist Intelligence Unit
EMU	Economic and Monetary Union
EOI	Export-Oriented Industrialization
EPF	Employees' Provident Fund
ESC	Economic Service Charge
ETF	Employees' Trust Fund
EU	European Union
FDI	Foreign Direct Investment
FSB	Financial Stability Board
GCI	Global Competitiveness Index
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product
GSLI	Global Service Location Index
GSP	Generalized System of Preferences
GTA	Global Trade Alert
ICT	Information and Communication Technology
ICTA	Information and Communication Technology Agency
IDPs	Internally Displaced Persons
IFC	International Finance Corporation
IMF	International Monetary Fund
IPPs	Independent Power Producers
ISFTA	India-Sri Lanka Free Trade Agreement
ITES	Information Technology Enabled Services
KAM	Knowledge Assessment Methodology
KEI	Knowledge Economy Index
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MERCOSUR	Common Market of the South
MNE	Multinational Enterprise
MOU	Memorandum of Understanding
NBT	Nation Building Tax
NCDs	Non-Communicable Diseases
NEDA	National Enterprise Development Authority

NEREC	National Education Research and Evaluation Centre
NIBM	National Institute of Business Administration
NICs	Newly Industrialized Countries
NIEs	Newly Industrialized Economies
NIS	National Innovation System
NNI	National Nanotechnology Initiative
NRI	Network Readiness Index
NSF	National Science Foundation
NTBs	Non-Tariff Barriers
NTC	National Transport Commission
NVQ	National Vocational Qualification
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PAYE	Pay-as-You-Earn
PCs	Provincial Councils
PPAs	Power Purchase Agreements
PPP	Public-Private Partnership
PRSPs	Poverty Reduction Strategy Papers
PUCSL	Public Utilities Commission of Sri Lanka
R&D	Research and Development
R&E	Research and Extension
REER	Real Effective Exchange Rate
S&T	Science and Technology
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SBA	Stand-By Arrangement
SCI	Science Citation Index
SDR	Special Drawing Rights
SLBFE	Sri Lanka Bureau of Foreign Employment
SLIC	Sri Lanka Inventors Commission
SLINTEC	Sri Lanka Institute of Nanotechnology
SLTDA	Sri Lanka Tourism Development Authority
SMEs	Small and Medium Enterprises
SOEs	State Owned Enterprises
STP	Science and Technology Policy
TDF	Technology Development Fund
TEWA	Termination of Employment of Workmen (Special Provisions) Act
TI	Transparency International
TPP	Trans-Pacific Partnership
TRCSL	Telecommunications Regulatory Commission of Sri Lanka
TRQs	Tariff Rate Quotas
TT	Turnover Tax
TVET	Technical and Vocational Training
VAT	Value Added Tax
VC	Venture Capital
WEF	World Economic Forum
WTO	World Trade Organization

Towards Growth and Stability

1. Policy Perspectives

The aftershocks of the 2008/09 global financial crisis are yet to recede. The debt-ridden countries of the European Union (EU) are still struggling to get their economies back on track, whilst the US is seeing only marginal growth since the financial crisis. Emerging economies on the other hand have come out relatively unscathed and spent much of their efforts trying to place a break on growth. Indeed, faltering GDP growth in developed countries is precipitating a rapid convergence of living standards and a shift in economic power from the West to East.

> ***For Sri Lanka, the transition to a post-conflict era raises legitimate economic, political and social aspirations that call for a steady and politically harmonious growth process***

Sri Lanka too has been a rising star in emerging market economies, posting a speedy rebound with GDP growth averaging at 8 per cent since the country saw an end to its long-drawn conflict in May 2009. With a GDP growth of 8.3 per cent, an unemployment rate of 4.2 per cent, and an inflation rate of 6.7 per cent by end 2011, Sri Lanka at first glance appears to have weathered the global downturn remarkably well, and positioned itself for sustained growth and stability in the medium term. Higher growth, with a per capita GDP of US$ 2,836 in 2011, has been accompanied by sharp improvements in tackling absolute poverty across the country and falling income inequality, keeping with the government's stated development objectives of rapid and equitable growth.

Sri Lanka's most obvious development achievements in its post-conflict phase of growth have been in the areas of infrastructure. Infrastructure development has been driven by an ambitious public investment programme that has seen the country's public investment-to-GDP ratio climb to an average of 6.0-6.5 per cent from the more typical range of 4.0-4.5 per cent, seen over the last decade. Whilst this shift has been accompanied more recently with a better mix of fiscal consolidation efforts -- focused more on cutting current spending than on axing investment and raising taxes -- there has also been a greater reliance

on foreign private capital to meet Sri Lanka's development programmes.

Greater reliance on such sources of funding may be inevitable, as the country climbs up the rank of middle income countries, whereby traditional sources of overseas development assistance (ODA) funding for large scale infrastructure projects are on the wane. However, in the case of Sri Lanka, the uptake of costlier funds has been swift in order to meet post-conflict development aspirations. The share of non-concessional loans and commercial borrowing in Sri Lanka's outstanding foreign debt has increased sharply from 7.3 per cent in 2006 to 42.9 per cent in 2011. Indeed, in July 2012, Sri Lanka announced the issuance of a fresh US$ 1 billion Sovereign Bond, the fifth since the country started to tap the international capital market. Dependence on such foreign capital to finance public expenditures necessarily imposes constraints on domestic policy options on the macroeconomic front. Indeed, as noted in the 'Sri Lanka: State of the Economy 2011' report, "foreign currency denominated debt carries well-known additional risks, especially in relation to the exchange rate…the trade-off between fiscal conditions and exchange rate management can constrict a country's macroeconomic space considerably."

Such stresses and strains on the economy were clearly evident in the second half of 2011. Sri Lanka's financial market had swung sharply from an environment of excess rupee liquidity in the beginning of 2011, to constrained liquidity conditions by the third quarter of 2011. Excess rupee liquidity was created as the Central Bank of Sri Lanka (CBSL) stepped up intervention in the foreign exchange market to prevent an undue appreciation of the currency on the back of significant higher inflows of foreign capital. The relaxed monetary policy regime in turn fuelled a mini credit boom -- with credit to the private sector growing at 34 per cent - draining liquidity in the financial market and leading to upward pressure on interest rates.

Despite evidence of a sharply deteriorating external current account deficit, driven by a surge in imports fuelled by access to relatively cheap credit and an over-valued exchange rate, the CBSL continued to hold policy interest rates steady and resorted to reverse intervention in the foreign exchange market to ensure that the rupee stays within a pre-determined band. In doing so, Sri Lanka also saw its accumulated gross official reserves -- a large component of which is borrowed liabilities -- fall from a peak of US$ 8 billion in July 2011 to US$ 5.5 billion by February 2012 in defense of the currency. The policy strategy was reminiscent of what followed in 2008 which eventually saw Sri Lanka approach the International Monetary Fund (IMF) for a Stand-By Arrangement (SBA) for balance of payments (BOP) support in February 2009.

With the SBA yet to be fully disbursed, policy corrections were put in place in February 2012, allowing the exchange rate to move in line with underlying economic fundamentals, adjusting policy interest rates and imposing a ceiling on credit growth of commercial banks. Whilst the policy corrections were in the right direction bringing some long-awaited adjustments, they did involve a cost. As opposed to a more gradual depreciation of the currency, the sudden policy shift saw the rupee depreciate by over 20 per cent with significant overshooting and volatility as would be expected. Attempts to force the pace of credit growth too, lead to financial resource misallocation that Sri Lanka can ill afford. More critically, uncertainty in movements of key macroeconomic indicators destabilizes investor confidence in policy, as well as the near term outlook for the economy.

Thus, Sri Lanka needs to be more sensitive to the risks of undermining its long term growth objectives and be more circumspect in implementing prudent and timely policy interventions. Competent management of the macroeconomic environment is all the more critical in an era of increased reliance on foreign capital and global economic uncertainties that makes the country more vulnerable to periodic BOP stresses.

The upshot of efforts to regain macroeconomic stability is that the country will see a slowdown in its targeted GDP growth for 2012. Not surprisingly, the tighter monetary policy stance and subdued global demand saw the CBSL revise Sri Lanka's GDP forecast down to 7.2 per cent for 2012. This should not be a cause for alarm; a lower growth target in an environment of macroeconomic stability is to be preferred to one of high growth accompanied by unsustainable macroeconomic fundamentals.

While economic growth alone should not be the sole yardstick by which governments attempt to gain legitimacy, growth does matter. Rapid growth over a period of years allows countries such as Sri Lanka to grow from low income levels to middle-income status. The trickier part is to ensure that the growth process is sustainable and inclusive. This is particularly so for a country emerging from a prolonged and divisive conflict. For Sri Lanka, the transition to a post-conflict era raises legitimate economic, political, and social aspirations that call for a steady and politically harmonious growth process.

The available evidence suggests that much has already been achieved in bridging sectoral and regional disparities. Higher growth has been accompanied by sharper declines in poverty across the more disadvantaged estate and rural agriculture sectors, relative to the better off urban areas of economic activity. Nonetheless, socio-economic disparities do persist across provinces and population groups in the country. While Sri Lanka has seen a reduction of inequality at the aggregate level over recent years, more than a half of income is still received by the richest 20 per cent of households.

Income inequality captures both vertical inequality among individuals or households, and horizontal inequality across economic, social and political groups with common identities such as ethnicity, caste, gender and location. The extremes of the equity spectrum -- perfect equality or perfect inequality -- are both inimical to growth. For most countries, inequality lies somewhere between these two, and impacts on their efforts to maximize growth, dependent partly on specific country contexts.

More recent literature finds that inequality may shorten growth duration. For instance, it can make it difficult for the poor to invest in education and health and improve their economic opportunities. At the same time, the evidence cautions against distortionary incentives to address inequality. Poorly designed efforts can be more harmful to growth than inequality per se. On balance, promoting policies that maximize the use of productive resources can tilt the scales towards the notion that attention to inequality can bring significant long run benefits for growth. What is also perhaps critical to the argument is emerging evidence that suggests that for developing countries, longer growth spells -- as opposed to rapid growth spells -- are associated with more equality in income distribution. Thus, sustaining a country's long term growth momentum is vital.

For Sri Lanka, the sources of faster growth in recent years have been kick-started, not surprisingly, by the government. There has

been a remarkable strengthening of the country's infrastructure development programmes, making up for decades of underinvestment. Better infrastructure in roads, ports, airports, etc., that will improve running costs and cut-down on delays will filter through to all parts of the economy and bring gains in efficiency. Even as the rapid expansion of the country's physical assets bode well for longer term growth prospects, the multiplier effects of the infrastructure boom is also providing an immediate boost to current growth. In 2011, construction activities grew by 14.2 per cent, and by 17.9 per cent in the first half of 2012. The momentum will continue for some time yet, but it would be prudent to desist from extrapolating long term growth targets based on growth rates of the recent past.

Linear extrapolations do not factor in policies, the role of government, the state of market, and regulatory institutions that will determine long term growth dynamics. Indeed, factors that spur growth at one phase of development might impede it at another. Infrastructure financing -- maintaining existing infrastructure as well as new investments -- is costly. Sri Lanka has opted to rely on foreign savings to finance a large bulk of its new infrastructure needs. However, as already discussed, accumulating non-concessional external public debt poses other risks and should only be seen as a last resort.

Domestic resource mobilization efforts stand high on the policy agenda for sustaining stable long term growth. Sri Lanka has fared poorly in these efforts, the country's revenue-to-GDP ratio has declined progressively over the last two decades to stand at 14.2 per cent in 2011 relative to a low-middle income average of 20 per cent; Sri Lanka's domestic saving ratio stood at 15.4 per cent in 2011. Aside from the possibility that socio-cultural norms play a role -- i.e., that Sri Lankans lack a culture of savings -- the country's macroeconomic environment over the decades has also not helped. A high inflationary environment has been a habitual feature of the economy, discouraging saving and rewarding borrowing. In addition, the country's current demographic transition -- a rapidly ageing population with fewer earners and a larger proportion of dependents -- will, over time, work against Sri Lanka's long term growth aspirations. In the absence of savings, and adequate social security, the elderly will depend on the younger generations for support. In such instances, ageing can reduce the ability of younger workers to save as they have to support older adults longer.

The flip side of low domestic savings is high consumption spending. In 2011, total consumption was 84.6 per cent of GDP in Sri Lanka. Consumption spending has been a source of faster growth in recent years; indeed, the sector-wise exposure of the banking sector shows consumer lending to have grown by 60 per cent by December 2011. Again, the overall macroeconomic environment -- movements in inflation, interest rates and exchange rates -- has a bearing on the behaviour of savers and borrowers. It is important, therefore, to have prudent policies in place that will strike an appropriate balance between consumption and investment, foreign and domestic demand.

In a low savings and investment environment with a dwindling working age population, aside from attracting underutilized population groups such as youth, females and elderly into the labour force, only productivity gains will support long term growth. The ability of low-productivity sectors such as agriculture to support Sri Lanka's growth is of particular concern, especially in view of its role as an important source of employment in the country, as well

as being at the core of some socio-economic parameters that go beyond growth, such as food security and poverty reduction. Indeed, the global food crisis of 2008 highlighted the merits of having a strong domestic food production sector in a low-middle income country like Sri Lanka -- currently providing 85 per cent of the country's food requirement -- under conditions of growing volatility in world commodity markets.

Still, however, the challenges to raising productivity in the agriculture sector are many. Expanding the extent of agricultural land operated, or intensifying operations in a given extent of land often comes at the expense of exploitative land and forest usage, leading to natural resource degradation that can in turn, impede sustainable long term growth. Ensuring productivity gains in agriculture call for new technology, generated through sustained investment in agricultural research and extension. Sri Lanka has done poorly in this regard over recent decades.

Ensuring that the economy overall enjoys total factor productivity growth -- the efficiency with which workers and capital are used -- means facilitating a structural transition of shifting the often underemployed rural labour to more productive and better paid jobs. With the country's rate of unemployment at 4.2 per cent and future demographic developments that suggest a shrinking working age population, sustaining higher long term growth will critically depend, among other factors, on the availability of a skilled, productive, and flexible workforce.

The importance of a skilled workforce for staying competitive and attracting investment and business is now well recognized. The demand for routine manual and cognitive tasks that are easily computerized are reducing, while the demand for complex communication and expert thinking types of jobs are increasing. If Sri Lanka is to develop and manage the available human resources in the country to ensure that people enter work equipped with the skills demanded by firms, improving access to high quality tertiary level education, and training workers who are able to learn new skills, are critical areas for policy attention. The present tertiary education sector is found to be inadequate, narrow in scope, and of low quality for a middle-income country. Clearly, changing the education system and structures will run up against opposition, as already evident from efforts to introduce a Higher Education Bill -- officially titled the Higher Education Quality Assurance, Accreditation and Quality Framework Bill -- to pave the way for a quality assurance and accreditation framework. As Sri Lanka's population ages and workers become more expensive, reforming the country's education system cannot be ignored for too long. As already mentioned, current demographic and labour force trends are working against the country's long term growth objectives.

Education reform, though essential, will take time to implement and produce results. In the interim, complementary strategies to promote innovation and entrepreneurship can produce faster results. An innovation policy constitutes those elements of science, technology and economic policy that explicitly aim to promote the development, spread, and efficient use of new products, processes, services, and business or organizational models. Fostering innovation and entrepreneurship improves the chances of sustaining productivity growth in an economy.

Sri Lanka's share of GDP to research and development (R&D) is poor. The available figures suggest it is as low as 0.1 per cent of GDP when compared with the globally recommended value for developing

countries of 1 per cent. Despite stated policy intentions to raise this to 1.5 per cent of GDP by 2016, more needs to be done to put in place a holistic innovation policy that will bring together entrepreneurs and different organizations within the so-called 'innovation system,' such as universities, public laboratories, banks, business chambers, and other enterprises. Unless Sri Lanka improves its training in advanced science and technology related subjects, and develops skills in problem solving and creativity, it will exhaust the gains from adopting existing 'catch-up' technology without leaving much room for further productivity gains.

The environment in which many of these sorts of transitions take place is strongly influenced by broader factors such as the quality of institutions and governance in a country. Be it the promotion of private-public partnerships (PPPs) in driving innovation through pioneering institutions such as the Sri Lanka Institute of Nanotechnology (SLINTEC), greater private sector participation in government infrastructure programmes, or a circumspect management of the macroeconomic environment, institutional and governance aspects are important enabling conditions. It is an acknowledged fact that the socio-political and economic characteristics of a particular country matters in the interactions between institutions, policy process, and policy outcomes.

These issues have come to the fore with the rise of China and the renewed arguments about the relative merits of the state and the market. 'State capitalism' has entered the lexicon, describing a state that has the competency and capacity to use capitalist tools to achieve sustained economic growth. The Sri Lankan state too, is more vigourously involved in the economic sphere of late, through an ambitious public investment programme and the re-entry of previously privatized state owned enterprises (SOEs) into the government fold. However, there, the comparisons largely end. Sri Lanka, for instance, does not follow the Chinese footsteps of retaining the public structure in SOEs while functioning as a competitive firm. PPPs may be an alternative to improve productivity and efficiency, private investor entry is more likely to weed out politically expedient but financially unsound projects from being implemented. If PPPs are to be the way forward in Sri Lanka, building effective regulatory agencies is the prime catalyst to attracting private investment, and here too, Sri Lanka lags behind in establishing the required formal institutions.

What is clear from the preceding discussion is that there has to be coherence in the design of policies on several fronts, so that they add up to a plausible overall growth strategy. The opportunities and challenges for Sri Lanka are many: to leverage the global economy to accelerate growth and insulate it from external shocks; use its human resource endowment to avoid the stasis that can trap countries at middle-income level; manage and enhance the social mobility that comes with higher per capita income growth; and build institutional and governance structures that not only deliver sustainable growth, but also engineer social cohesion in the country. The road to sustained and equitable growth will not be easy -- it will take time, and there will be setbacks -- but Sri Lanka should press ahead. Ultimately, the political commitment and the nature of the political leadership will define the country's transition to meet the legitimate aspirations of its people for better living standards.

These and other issues pertinent to the debate on opportunities and challenges to accelerate growth in Sri Lanka will be discussed in the rest of the report.

1. ප්‍රතිපත්ති දෘෂ්ටිකෝණයන්

2008/2009 වර්ෂයන්හි ඇති වූ ආර්ථික අර්බුදයේ පසු කම්පන තවදුරටත් නොනැසී පවතී. යුරෝපානු සංවිධානයේ රටවල් එනම් ණය බරින් පීඩිත රටවල් ඔවුන්ගේ යහපත් ආර්ථික තත්ත්වයට නැවත පිවිසීමට වෙර දරන අතරතුරදී ආර්ථික අර්බුදය හේතුවෙන් ඇමරිකා එක්සත් ජනපදය ආන්තික වශයෙන් පමණක් ආර්ථිකමය වශයෙන් වර්ධනයක් පෙන්නුම් කරයි. අනෙක් අතට දියුණු වෙමින් පවතින ආර්ථිකයක් ඊට සාපේක්ෂව නොනැසී පැවති අතර ආර්ථික වර්ධනයෙහි සැලකිය යුතු කාර්ය සාධන ලබා ගැනීමට වෙර දරමින් සිටි. නිසැක වශයෙන්ම සංවර්ධිත රටවල විචලනය වන දළ දේශීය නිෂ්පාදිත වර්ධනය පුද්ගලයන්ගේ ජීවන තත්ත්වය පහත හෙළීමට හේතු වී ඇති අතර එය ආර්ථික බලය බටහිර සිට පෙරදිගට ගෙන යෑමට ද හේතු වී ඇත.

ශ්‍රී ලංකාවද දැනට පවතින වෙළඳපොළ ආර්ථිකය තුළ නැඟී එන තරුවක් බවට පත් වී ඇති අතර, 2009 වර්ෂයේ මැයි මාසයේදී දීර්ඝ කාලීනව පැවති සිවිල් යුද්ධ තත්ත්වය නිමා වීමත් සමඟ දළ දේශීය නිෂ්පාදිතය සාමාන්‍ය වශයෙන් 8% ක් ලෙස වාර්තා කොට ඇත. 2011 වර්ෂයේ අවසානයේදී දළ දේශීය නිෂ්පාදිත වර්ධනය 8.3% ක් ද, විරැකියා අනුපාතය 4.2% ද උද්ධමනය 6.7% ක් ද පෙන්නුම් කරමින් ශ්‍රී ලංකාව සුවිශේෂී වශයෙන් ලෝක ආර්ථිකමය අවපාතයකට ළඟා වීම අභිබවා මධ්‍යස්ථ මට්ටමෙන් ආර්ථික වර්ධනයේ තිරසරබව හා චිරස්ථායී බව තහවුරු වී ඇත. 2011 වර්ෂයේදී ඒක පුද්ගල ආදායම ඇමරිකානු ඩොලර් 2836 පෙන්නුම් කරමින් ද, ඒ සමඟම රටේ නිරපේක්ෂ දරිද්‍රතාවය පහත හෙළමින්, ආදායම් විසමතාව අවම කරමින් ද ශීඝ්‍ර හා චිරස්ථායී ආර්ථික වර්ධනයක් ළඟා කර ගැනීම සම්බන්ධ රජයේ අභිප්‍රායන් මූලික කොට ගනිමින් ඉහළ ආර්ථික වර්ධනයක් ළඟා කර ගෙන ඇත.

සිවිල් යුධ තත්ත්වය නිමා කිරීමත් සමඟ ශ්‍රී ලංකාවේ කැපී පෙනෙන සංවර්ධනයක් පෙන්නුම් කරනුයේ යටිතල පහසුකම් සම්බන්ධයෙන් ය. යටිතල පහසුකම් සංවර්ධන ක්‍රියාදාමය නිශ්චිත ඉලක්කයන් සමඟ වූ පොදු ආයෝජන වැඩසටහනක් මඟින් ක්‍රියාත්මක කරනු ලබයි. දළ දේශීය නිෂ්පාදිතයේ 6.0 - 6.5 අතර වර්ධනයක් පෙන්නුම් කරමින් යටිතල පහසුකම් සංවර්ධනය සම්බන්ධයෙන් රාජ්‍ය ආයෝජනය ඉහළ අගයක් පෙන්නුම් කොට ඇති අතර එය පසුගිය දශක කිහිපය තුළ ඒ හා සම්බන්ධයෙන් පෙන්නුම් කළ 4.0 - 4.5 වඩා වැඩි අගයක් දක්වයි. මෙම වර්ධනය මෑත කාලීන වශයෙන් ශ්‍රී ලංකාව එළැඹි ආදායම් තහවුරු කර ගැනීම සඳහා වූ ප්‍රයත්න සමඟ ඉතා හොඳින් මුසු වී ඇති අතර, එවැනි ප්‍රයත්නයන් ආයෝජන හා බදු වැඩි කිරීම යන කරුණු පිළිබඳව සෘණාත්මක තීරණ නොගෙන පුනරාවර්තන වියදම් කපා හැරීම සම්බන්ධයෙන් වැඩි වශයෙන් යොමු වෙමින් එම තත්ත්වය ඉටු කර ගෙන ඇති අතර ශ්‍රී ලංකාවේ සංවර්ධන ව්‍යාපෘති සාක්ෂාත් කර ගැනීම සඳහා විදේශ පෞද්ගලික ආයෝජන වෙත දැඩි විශ්වාසයක් තබා කටයුතු කොට ඇත.

අප රට මධ්‍යම ප්‍රමාණයේ ආදායම් ලබන රටක් වශයෙන් දියුණු වී තිබීම හේතුවෙන් මහා පරිමාණ යටිතල පහසුකම් සම්බන්ධ ව්‍යාපෘති සඳහා විදේශ සංවර්ධන සහයෝගිතාවය (ODA) වැනි පාරම්පරික ක්‍රියා විධීන් හීන වී ගෙන යයි. එවන් අවදියක මෙසේ මූල්‍ය පිළිබඳ විශාල විශ්වාසයක් තබා කටයුතු කිරීම නොවැලැක්විය හැකි කරුණක් වේ. කෙසේ වෙතත් ශ්‍රී ලංකාව සහනදායී නොවන විදේශ ආධාර ලබා ගැනීම කඩිනම් වී ඇත්තේ පශ්චාත් යුධසමයේ පසු සංවර්ධන අරමුණු මුදුන් පමුණුවා ගැනීමේ අරමුණෙනි. 2011 වර්ෂයේදී ශ්‍රී ලංකාවේ කැපී පෙනෙන විදේශ ණය ලෙස පෙන්නුම් කළ හැකි සහනදායී නොවන ණය හා වාණිජ ණය සම්බන්ධයෙන් සලකන විට 2006 වර්ෂයේ පැවති ප්‍රතිශතය වූ 7.3% සිට 2011 වර්ෂය වන විට 42.9% දක්වා සුවිශේෂී වර්ධනයක් පෙන්නුම් කරයි. 2012 වර්ෂයේ ජූලි මාසයේදී ශ්‍රී ලංකාව විසින් ඇමරිකානු ඩොලර් බිලියන 1 ක රන් ණයකර නිකුත් කරනු ලැබූ අතර එය ජාත්‍යන්තර ප්‍රාග්ධන වෙළඳපොලට ලංකාව පිවිසීමෙන් පසු ණයකර නිකුත් කළ පස්වෙනි අවස්ථාවය. රාජ්‍ය වියදම් සඳහා එසේ විදේශ මූල්‍ය කෙරෙහි පවතින පරාදීනත්වය සාර්ව ආර්ථිකයේ දේශීය ප්‍රතිපත්ති සම්බන්ධයෙන් නිසැක වශයෙන් බලපෑම් ඇති කරයි. මෙම කරුණු "ශ්‍රී ලංකාවේ 2011 රාජ්‍ය ආර්ථික තත්ත්වය" නැමැති වාර්තාවේ මෙසේ සඳහන් වේ. "විදේශ ණය අප

කවුරුත් දන්නා අමතර අවදානම් ගෙන එයි. විශේෂයෙන්ම විනිමය අනුපාතය සම්බන්ධයෙන් එම අවදානම පවතී. මූල්‍ය කොන්දේසි හා විනිමය අනුපාත කළමනාකරණය අතර අතරමැදි තත්ත්වය තුළින් රටක සාර්ව ආර්ථික අවකාශය සැලකිය යුතු මට්ටමෙන් අවහිර කරනු ඇත.

2011 වර්ෂයේ දෙවැනි භාගයේ ආර්ථිකය තුළ එවැනි පීඩන ඉතා පැහැදිළිව දක්නට ඇත. ශ්‍රී ලංකාවේ මූල්‍ය වෙළඳපොල 2011 වර්ෂයේ මුල් භාගයේදී රුපියලේ අධික ද්‍රවශීලිතාවයේ සිට 2011 වර්ෂයේ තුන්වන කාර්තුවේදී සංරෝධක ද්‍රවශීලිතාව දක්වා විචලනය වී ඇත. රුපියලේ අධික ද්‍රවශීලිතාව ඇති වීමට හේතු වූයේ ශ්‍රී ලංකා මහ බැංකුව (CBSL) විසින් සුවිශේෂී වශයෙන් විදේශ මූල්‍ය මෙරටට ගලා ඒමෙන් පසු විදේශ විනිමය වෙළඳපොලේ ඇතිවිය හැකිව තිබූ මුදල් අධික ලෙස වැඩි වීම වැළැක්වීමට පියවර ගැනීමයි. ලිහිල් මූල්‍යකරණ ප්‍රතිඵලයන්හි සුළු මූල්‍ය උත්සාහයන් සඳහා මඟ පෑදු අතර එහිදී පෞද්ගලික අංශය සඳහා 34% ක මූල්‍ය වර්ධනයක් ඇති කරමින් හා මූල්‍ය වෙළඳපලේ ද්‍රවශීලිතාව ශූන්‍ය කරමින් පොලී අනුපාතය ඉහළ අනුපාතයක් දක්වා ගෙන ගොස් ඇත.

ආනයන වටිනාකම් ඉතා ඉහළ නැඟීම හා ඉහළ ගිය විනිමය අනුපාතය හේතුවෙන් මතු වූ විදේශ ජංගම ගිණුම් හිඟය නොසලකා හරිමින් මහ බැංකුව විසින් තවදුරටත් පොලී අනුපාත නොවෙනස්ව පවත්වාගෙන යනු ලැබූ අතර, ප්‍රථම වශයෙන් නිගමනය කරන ලද පරාසයේ රුපියල පවතීද යන්න සහතික කර ගනු වස් විදේශ විනිමය වෙළඳපොලට නැවත මැදිහත් වෙන ලදී. එසේ ක්‍රියාත්මක වෙමින්, ශ්‍රී ලංකාව තම මුළු විදේශ සංචිත ප්‍රමාණය, එනම් 2011 ජූලි මාසයේ ඇමරිකානු ඩොලර් බිලියන 8 සිට 2012 පෙබරවාරි මාසයේදී ඇමරිකානු ඩොලර් බිලියන 5.5 දක්වා විචලනය වූ විදේශ ණය වැඩි වශයෙන් ඇතුළත් වූ එම විදේශ සංචිත ලබා ගත්තේය. 2008 වර්ෂයේදී අනුගමනය කරනු ලැබූ ප්‍රතිපත්තිම ක්‍රියාමාර්ග මඟින් ශ්‍රී ලංකාව 2009 වර්ෂයේ තම ගෙවුම් ශේෂ (BOP) පියවා ගැනීම සඳහා පොරොත්තු සැලසුමක් (SBA) ලෙස ජාත්‍යන්තර මූල්‍ය අරමුදල (IMF) වෙත ළඟා වෙන බව අනාවරණය කෙරිණ.

පොරොත්තු සැලසුම් මඟින් ගෙවුම් ශේෂ පියවා ගැනීමට යොදා තිබිය දී, විනිමය අනුපාතය ආර්ථික මූලධර්ම හා ක්‍රියා කිරීමට ඉඩ සලසමින් හා වාණිජ බැංකුවල මූල්‍ය වර්ධන උපරිම සීමාව හා පොලී අනුපාත ගලපමින් 2012 වර්ෂයේ පෙබරවාරි මසදී ප්‍රතිපත්ති වෙනස්කම් සිදු කරන ලදී. ප්‍රතිපත්ති නිවැරදි කිරීම් දීර්ඝ කාලයක් පැවති ගැලපීම් සිදු කරමින් නිවැරදි මාවතක පිවිස සිටි අතර, ඒ සඳහා වියදමක් ද දැරීමට සිදු විය. මුදල් ක්‍රම ක්‍රමයෙන් අවප්‍රමාණය වීමට ප්‍රතිවිරුද්ධව හදිසියේ ඇති වූ ප්‍රතිපත්තිමය වෙනස බලාපොරොත්තු නොවූ ලෙස ඉලක්ක පරයා යමින් 20% කට වඩා වැඩියෙන් රුපියල අවතරණය වන බව අනාවරණය විය. මූල්‍ය වර්ධනය වෙත ගමන් කිරීමට ගත් උත්සාහයන් හි දී ද ශ්‍රී ලංකාවට පාලනය කළ නොහැකි ලෙස මූල්‍ය සම්පත් විසම ලෙස බෙදී යාමක් සිදු විය. එහෙයින් මූලික සාර්ව ආර්ථික දර්ශකවල අස්ථායිතාව හේතුවෙන් ආයෝජනයන්ගේ ප්‍රතිපත්ති පිළිබඳ තැබූ විශ්වාසය මෙන්ම ආර්ථිකය පිළිබඳ වූ අපේක්ෂාව ද අස්ථායි තත්ත්වයට පත් විය.

මෙසේ ශ්‍රී ලංකාව තම දීර්ඝ කාලීන සංවර්ධන අරමුණු ක්ෂය වී යාම පිළිබඳ වඩාත් සංවේදී විය යුතුවාක් මෙන්ම විචක්ෂණශීලි මෙන්ම කාලීන ප්‍රතිපත්තිමය මැදිහත්වීම් පිළිබඳව වඩාත් සුපරීක්ෂාකාරී විය යුතු වේ. සාර්ව ආර්ථික පරිසරයේ තරඟකාරී කළමනාකරණය, විදේශ මූල්‍ය පිළිබඳව වූ නොමනා විශ්වාසය හා ගෝලීය ආර්ථික අස්ථායිතාවක් පැවති කාල පරිච්ඡේදයේදී වඩාත් තීරණාත්මක සාධකයක් වූ අතර ගෙවුම් ශේෂ හිඟය ඇති වීමට ද වඩාත් පාදක විය.

මෙරට සාර්ව ආර්ථික ස්ථායිතාව නැවත අත්කර ගනු පිණිස වූ උත්සාහයන්හි දී සිදු වූයේ 2012 වසරේදී ඉලක්කගත දළ දේශීය නිෂ්පාදිතයේ වර්ධනය තවදුරටත් මන්දගාමී වීමයි. එතකුදු වුවත් දැඩි මූල්‍ය ප්‍රතිපත්ති ආකල්ප හා දැමුණු ගෝලීය ඉල්ලුම හමුවේ ශ්‍රී ලංකා මහ බැංකුව විසින් 2012 වර්ෂය සඳහා ශ්‍රී ලංකාවේ දළ දේශීය නිෂ්පාදනය පිළිබඳ පුර්වකතනය ප්‍රතිශෝධනය කරන ලද්දේ 7.2% ලෙසය. මෙය පුදුමයට කරුණක් නොවේ. ඒ සාර්ව ආර්ථික ස්ථායිතාව තුළ වූ මන්දගාමී වර්ධන ඉලක්ක, ස්ථායි නොවන සාර්ව ආර්ථික මුලධර්ම සමඟ යා වූ ඉහළ වර්ධනයකට හිතවාදී ලෙස බලපාන බැවිනි.

රාජ්‍යයන් නිත්‍යනුකූල තත්ත්වය ලබා ගැනීමට දරණ ප්‍රයත්නයේදී ''වර්ධනය'' යන කරුණ තුළදී ආර්ථික වර්ධනය පමණක් මිනුම් දණ්ඩක් ලෙස නොගනී. දීර්ඝ කාලයක් තුළ සිදු වූ ශීඝ්‍ර ආර්ථික වර්ධනය ශ්‍රී ලංකාව වැනි රටවල් සම්බන්ධයෙන් අඩු ආදායම් මට්ටමේ සිට මධ්‍යම ආදායම් මට්ටම දක්වා වර්ධනය වීමට

අවස්ථා සලසා ඇත. දුෂ්කරම කාර්යය වනුයේ මෙම වර්ධන ක්‍රියාවලිය තිරසර මෙන්ම එය ක්‍රියාත්මක වන්නේ ද යන්න පිළිබඳ සහතික වීමය. මෙම කාරණය විශේෂයෙන් අදාළ වන්නේ දීර්ඝ කාලීන වශයෙන් යුද්ධයකින් අනතුරුව ඉදිරියට ගමන් කරන රටක් සම්බන්ධයෙනි. ශ්‍රී ලංකාව සම්බන්ධයෙන්, එහි පශ්චාත් යුධ සංක්‍රාන්ති සමයේ ඇති වූ ආර්ථික, දේශපාලන හා සමාජයීය අභිලාෂයන් හමුවේ ස්ථායී මෙන්ම දේශපාලනමය වශයෙන් සමකාමී වර්ධනයකට ඉඩ සලසා ඇත.

දැනට පවතින කරුණුවලින් හෙළිවී ඇත්තේ ලංකාවේ එක් එක් කොටස්වල මෙන්ම කලාපීය වශයෙන් විසමතාවක් ඇති වීමට බොහෝ කරුණු හේතු වී ඇති බවයි. ආර්ථිකයේ ඇති වූ ඉහළ වර්ධනය සම්බන්ධයෙන් සලකන විට ලංකාවේ වඩාත් දරිද්‍රතාවයෙන් පෙළෙන ග්‍රාමීය කෘෂි ප්‍රදේශ හා වතුකරයේ ජනතාව දරිද්‍රතාවයේ සුවිශේෂ පහළයෑමක් පෙන්නුම් කරන අතර එය වඩා ඉහළ ආදායම් තත්ත්වයක් සහිත නාගරික ජනතාව හා සංසන්දනය කිරීමේදී වඩා සුවිශේෂී වර්ධනයකි. එසේ වුවත් ශ්‍රී ලංකාවේ පළාත් මට්ටමෙන් වෙන්ව ජන කණ්ඩායම් අතරද සමාජ ආර්ථික විසමතාවයක් තව දුරටත් පවතී. ශ්‍රී ලංකාව මෑත වකවානුව තුළදී විසමතාවයන් අවම කිරීම උපරිම අන්දමින් සිදු කර තිබුණද, මුළු ආදායමෙන් හරි අඩක්ම ධනවත් 20% ක පිරිසක් අතර පමණක් සංසන්දනය වේ. පුද්ගලයින් අතර එනම් ගෘහ මට්ටමෙන් සිරස් ලෙස අදායම් විසමතාවය දැකිය හැකි අතරම වාර්ගික කුල ස්ත්‍රී පුරුෂ භේදය හා දේශපාලනමය වශයෙන් සිරස් විසමතාවයද හඳුනාගෙන ඇත. සමතුලිතභාවයේ අතිශය සීමාන්තික එනම් පූර්ණ වශයෙන් සාමූහික බව හෝ පූර්ණ විසමතාව යන අන්තයන් ද්විත්වයම ''වර්ධනය'' සඳහා ප්‍රතිවාදී ලෙස බලපායි. බොහෝ රටවල ''විසමතාවය'' ඉහත කී අන්තයන් දෙක අතර කොතනක හෝ ස්ථානගත වී ඇති අතර, වර්ධනය උපරිම කර ගැනීම සඳහා දරන ප්‍රයත්නය රටින් රටට වෙනස් වේ.

මෑත කාලීන කරුණුවලින් හෙළිවී ඇත්තේ විසමතාවය වර්ධනය හීනකර වීමට හේතු විය හැකි බවයි. උදාහරණයක් ලෙස දරිද්‍රතාවයෙන් පෙළෙන්නන්හට අධ්‍යාපනය සහ සෞඛ්‍යය වෙනුවෙන් ආයෝජනය කිරීම දුෂ්කර කාර්යයක් වීම ඔවුන්හට ආර්ථික අවස්ථාවක් කරා ළඟා වීමට ද දුෂ්කර වේ. ඒ අතරම එවැනි කරුණු ''විසමතාවය'' ඇති කරලීම සම්බන්ධයෙන් ද හේතුපාදක වේ. අසාර්ථක ලෙස සිදු කරන උත්සාහයකදී එවැනි කරුණු විසමතාවයට වඩා වර්ධනය කෙරෙහි ඍණාත්මක ලෙස බලපානු ඇත. අනෙක් අතට ඵලදායී සම්පත් උපරිම අයුරින් ප්‍රයෝජනයට ගැනීම ප්‍රවර්ධනය කරවන ප්‍රවෘත්ති මගින් ''විසමතාවය'' පිළිබඳ අවධානය යොමු කිරීම කාලවකවානුවක් අවසානයේ දී ''වර්ධනය'' සඳහා ධනාත්මක වශයෙන් බලපානු ඇති බවට අදහස ඇති කරවයි. ඇතැම් විට මෙම කාර්යය සම්බන්ධයෙන් ඍණාත්මක සාක්ෂියක් වී ඇත්තේ දියුණුවෙමින් පවතින රටවල් සම්බන්ධයෙන් සලකන විට සීඝ්‍ර වර්ධන ක්‍රියාවලියට වඩා දීර්ඝකාලීන වර්ධන ක්‍රියාවලීන් ආදායම් විසමතාවය අවම කිරීමට වඩා හිතවාදී ලෙස බලපාන බවයි. මෙසේ රටක දීර්ඝ කාලීනව පවතින ගමන්තාව ඉතා අත්‍යාවශ්‍ය වේ.

ශ්‍රී ලංකාවේ මෑත කාලීනව සිදු වූ ශීඝ්‍ර වර්ධනයේ මූලාශ්‍රයන් පණ ගැන්වීමට ආණ්ඩුව ඉවහල් වූ බව නොරහසකි. දශක ගණනාවක් මුළුල්ලේ අවම වශයෙන් ආයෝජනයක් සිදු වූ යටිතල පහසුකම් සම්බන්ධයෙන් සංවර්ධනයක් සිදු කිරීමට ඒ හා බැඳි වැඩසටහන් සුවිශේෂී වශයෙන් ක්‍රියාත්මක කරනු දක්නට ලැබේ. මහාමාර්ග, වරාය, ගුවන්තොටුපල ආදිය සංවර්ධනය කරමින් ඇති වන යටිතල පහසුකම් සංවර්ධනය මගින් ප්‍රමාදය වළක්වමින් ආර්ථිකයේ සෑම අංශයක් වෙතම සුභදායී ප්‍රතිඵල ඇති කරමින් කාර්යක්ෂමතාව ඉහළ නැංවීමට උපකාරීවේ. රටක භෞතික සම්පත්වල ශීඝ්‍ර ව්‍යාප්තිය දීර්ඝ කාලීන වර්ධන සැලසුම් කෙරෙහි ද එවැනි යටිතල පහසුකම්වල බහුවිධ ප්‍රතිපල පවත්නා වර්ධනය වේගවත් කරලීමට ද සහේතුක වේ. 2011 වර්ෂයේ දී ඉදිකිරීම් කටයුතු 142 ක් වර්ධනය වූ අතර 2012 වර්ෂයේ පළමු භාගයේදී 17.54% ක් ද වර්ධනය විය. මෙම ගමන්තාව තවදුරටත් යම්තාක් කාලයක් දක්වා පවතිනු ඇත. එහෙයින් එය මෑත අතීතයේ වර්ධන අනුපාත පාදක කොට ගනිමින් දීර්ඝ කාලයක් වර්ධන ඉලක්ක අනුමාන කිරීමෙන් වැළැක්වීමට තරම් විචක්ෂණශීලී වනු ඇත.

දීර්ඝ කාලීන වර්ධන ගතිකත්වයෙන් නිරීක්ෂණය කරනු ලබන නියාමන ආයතන, වෙළඳපල ස්වභාවය රජයේ භූමිකාව සහ ප්‍රතිපත්ති සඳහා රේඛීය බහිර්නිවේශන හේතුපාදක නොවේ. නිසැක වශයෙන්ම සංවර්ධනයේ එක් අවදියකදී එම වර්ධනය ඉහළ නංවන කරුණු එම සංවර්ධනයේ තවත් අවදියකදී ඊට ඍණාත්මක ලෙස බලපානු ඇත.

යටිතල පහසුකම් සඳහා මුදල් යෙදවීම, පවත්නා යටිතල පහසුකම් නඩත්තු කිරීම මෙන්ම නව

ආයෝජනය සිදු කිරීම ද වියදම් සහිත ක්‍රියාවන්ය. ශ්‍රී ලංකාව තම යටිතල පහසුකම් ළඟාකර ගැනීමෙහිලා විදේශ මූල්‍ය කෙරෙහි වැඩි විශ්වාසයක් තබා ගනී. කෙසේ වෙතත් මීට පෙර සාකච්ඡා කළ පරිදි සහන නොමැති විදේශ ණය ඉහළ යෑම හේතුවෙන් වෙනත් අවදානම් තත්ත්වයන්ට මුහුණ දීමට සිදුවන හෙයින් එවැනි විසඳුමකට යායුත්තේ අවසාන උපාය ලෙසයි.

තිරසර මෙන්ම දීර්ඝ කාලීන වර්ධනයක් සඳහා වූ ප්‍රතිපත්ති වැඩසටහන තුලදී විදේශ සම්පත් යෙදීම සම්බන්ධව ප්‍රයත්න සඳහා එහි මුල් තැනක් හිමි වී ඇත. එහිදී ශ්‍රී ලංකාව මෙම ප්‍රයත්නය හමුවේ දුර්වල ලෙස ප්‍රතිචාර දක්වා ඇත. එනම් පසුගිය දශක දෙක තුළදී දළ ජාතික නිෂ්පාදනය සඳහා රටේ අයහාරය ක්‍රම ක්‍රමයෙන් අඩු වූ අතර එය 2011 වර්ෂයේදී 14.2% ලෙස දැක්වූයේ 20% ක් වූ මධ්‍යම ආදායම් සාමාන්‍යයට සාපේක්ෂකවය. 2011 වර්ෂයේදී ශ්‍රී ලංකාවේ දේශීය ඉතිරි කිරීම් ප්‍රතිශතය වූයේ 15.4% කි. එවැනි තත්ත්වයකට ශ්‍රී ලංකාවේ සමාජ සංස්කෘත සම්මතයත් බලපා ඇත. එනම් මෙරට ඉතිරි කිරීම් සම්බන්ධයෙන් සළකන විට ඒ සඳහා වූ ඉතිරි කිරීම් පුරුද්ද ඉතා අඩු මට්ටමක පවති. එමෙන්ම ඒ සඳහා දහක ගණනාවක් තුළ මෙරට පැවති සාර්ව ආර්ථික පරිසරය ඒ සඳහා ආධාර අනුබල දී නොමැත. ඉහළ මට්ටමක පවතින උද්ධමනය ආර්ථිකයේ සාමාන්‍ය අංගයක් වී ඇති අතර, එය ඉතිරි කිරීම් අධෛර්යවත් කිරීමටත් ණය ගැනීම දිරිමත් කිරීමටත් හේතු වී ඇත.

ඊට අමතරව, ශ්‍රී ලංකාවේ වර්තමාන ජනගහන වෙනස්කම් සම්බන්ධ කරුණේදී, එනම් ඉතා ඉක්මන් වයෝවෘද්ධ ජනගහනය වැඩිවීමේ ප්‍රවණතාවයක් තුළ ආදායම් උපයන්නන්ගේ සංඛ්‍යාව අඩුවීම හා යැපෙන්නන් සංඛ්‍යාව ඉහළ යෑම හේතු කොටගෙන යම් කාලයක් ගතවීමත් සමඟ ශ්‍රී ලංකාවේ දීර්ඝ කාලීන ආර්ථික වර්ධන අභිලාෂයන්ට ප්‍රතිවිරුද්ධ ලෙස බලපානු ඇත.

ඉතිරි කිරීම් සිදු නොකිරීම හා ප්‍රමාණවත් සමාජ ආරක්ෂණයක් නොමැතිවීම හේතු කොටගෙන වයෝවෘද්ධ ජනතාව තවදුරටත් තරුණ ජනගහනය මත යැපෙනු ඇත. එවැනි තත්ත්වයක් තුළදී තරුණ ශ්‍රමිකයන්හට වයෝවෘද්ධ පිරිස රැකබලා ගැනීමට සිදුවන බැවින් ඔවුන්ගේ ඉතිරිකිරීම් පහළ දැමීමට හේතුවනු ඇත. ගෘහස්ථ ඉතිරිකිරීම් අඩුවීමේ ප්‍රවණතාවයේ අනෙක් පැතිකඩ වනුයේ ඉහළ යන පාරිභෝගික වියදමයි. 2011 වසරේදී ශ්‍රී ලංකාවේ මුළු පරිභෝජනය ද දේශීය නිෂ්පාදනයෙන් 84.6% ක් විය. මෑත වර්ෂයන්හිදී පාරිභෝගික වියදම ශීඝ්‍රයෙන් ඉහළයෑම එක් ප්‍රවණතාවකි. සැබැවින්ම බැංකු ක්ෂේත්‍රය විසින් එක් එක් ක්ෂේත්‍ර සම්බන්ධයෙන් අනාවරණය කරගත් පරිදි 2011 වසරේ දෙසැම්බර් වන විට පාරිභෝගික ණය ලබා ගැනීම් 60% කින් ඉහළ ගොස් ඇත. එමෙන්ම සමස්ත ආර්ථික පරිසරය, එනම් උද්ධමනයේ හැසිරීම, පොලී අනුපාත, විනිමය අනුපාතවල සියල්ලක්ම ඉතිරිකරන්නන්ගේ හා ණය ලබාගන්නන්ගේ හැසිරීම් රටාවට බලපායි. එබැවින් පරිභෝජනය හා ආයෝජනය අතර මෙන්ම දේශීය හා විදේශීය ඉල්ලුම අතරද මනා සමතුලිතතාවක් ඇති වීම කෙරෙහි විචක්ෂණශීලී ප්‍රතිපත්ති තිබීම අත්‍යාවශ්‍ය වේ.

ආයෝජනය හා ඉතිරිකිරීම් සම්බන්ධව අඩු නැඹුරුවක් සහිත වූ ද හීන වන ශ්‍රම බලකායක් ද සහිතව, එනම් තරුණ පිරිස් ස්ත්‍රීන් හා වැඩිහිටියන් වැන්නවුන්ගෙන් ශ්‍රම බලකායට දායකත්වයක් නොමැති තත්ත්වයක් තුළදී අඩු ඵලදායීතාවක් සහිත කෘෂිකාර්මික ක්ෂේත්‍රය වැනි ක්ෂේත්‍රයන් ආර්ථික වර්ධනය සඳහා ආධාර විය හැකි ආකාරය සුවිශේෂී අවධානයකට යොමු කළ හැකි වනුයේ විශේෂයෙන් එය මෙරට රැකියා අවස්ථාවන් බිහි කිරීමේ වැදගත් මූලාශ්‍රයක් ලෙස සහ ආර්ථික සංවර්ධනයට වඩා වැදගත් වූ සමාජ ආර්ථික ප්‍රමිතීන් එනම් ආහාර සුරක්ෂිතභාවය හා දරිද්‍රතාව අවම කිරීම වැනි කරුණුවලදී ප්‍රධාන නිර්ණායකයක් වීම පදනම් කොට ගනිමිනි. සැබැවින්ම ශ්‍රී ලංකාව වැනි අඩු - මධ්‍යස්ථ ආදායමක් සහිත රටවල් තුළ ශක්තිමත් වූ දේශීය ආහාර නිෂ්පාදන ක්ෂේත්‍රයක පැවතීමේ වාසි පිළිබඳ 2008 වර්ෂයේ ගෝලීය ආහාර අර්බුදයේදී විශේෂයෙන් පෙන්වා දෙන ලද අතර, වර්තමානය වන විට ලෝකයේ භාණ්ඩ වෙළඳපල වර්ධනය වීමේ ප්‍රවණතාවක් තුළ මෙරට ආහාර අවශ්‍යතාවයෙන් 85% ක ප්‍රමාණයක් එම ක්ෂේත්‍රය මගින් සපයනු ලැබේ.

කෙසේ වුවද කෘෂි ක්ෂේත්‍රයේ ඵලදායීතාව ඉහළ නැංවීමෙහි අභියෝගයන් විශාල ප්‍රමාණයක් පවතී. කෘෂිකර්මාන්තය තුළ ඵලදායීතාව තහවුරු කිරීමේදී කෘෂි පර්යේෂණ හා ව්‍යාප්ති සඳහා සිදුකරන තිරසර ආයෝජනය තුළින් බිහි වූ නව තාක්ෂණය අත්‍යවශ්‍ය වේ. පසුගිය දශක කිහිපය තුළ මේ සම්බන්ධයෙන් ශ්‍රී ලංකාව විසින් දක්වන ලද ප්‍රතිචාර අවම මට්ටමක පවතී.

ඵලදායීතා වර්ධනයේ සියළුම අංශයන් සම්බන්ධයෙන් ආර්ථිකය සමන්විත වන බව තහවුරු කිරීම, විනම් ශ්‍රමිකයන්ගේ සහ ප්‍රාග්ධනයේ කාර්යක්ෂමතාව ආයෝජන අවස්ථාවක් හා ව්‍යාපාර ඇදගැනීමෙහි ලා පුහුණු ශ්‍රම බලකායක් තරඟකාරිත්වයකින් සිටීම වැදගත් කාරණයක් බව හඳුනාගෙන ඇත. ඉතා සරල වූ දැනුම උපයෝගී කරගත් කාර්යයන් හා කාර්යයන් අඩුවීගෙන යන අතර සංකීර්ණ සන්නිවේදනයක් හා විශේෂ ඥානය අවශ්‍ය වන රැකියාවන්ගේ ප්‍රමාණය ඉහළ යෑමත් දක්නට ලැබේ. ශ්‍රී ලංකාවේ පවත්නා මානව සම්පත් ආයතන විසින් ඉල්ලුම් කරනු ලබන ආකාරයේ පුහුණු ශ්‍රමයක් ලෙස සංවර්ධනය කිරීමට සහ පවත්වාගෙන යෑම පිළිබඳ තහවුරු කරන්නේ නම්, නව නිපුණතාවක් ලබාගැනීමට හැකි වන ආකාරයට තෘතීක අධ්‍යාපනය හා පුහුණු ශ්‍රමිකයන් වෙත මං පෙත් විවර කිරීම සම්බන්ධයෙන් වූ තීරණාත්මක කරුණා කෙරෙහි ප්‍රතිපත්තිවලදී අවධානය යොමු කළ යුතු වේ. වර්තමානයේ පවතින තෘතීය අධ්‍යාපනය අඩු - මධ්‍යස්ථ ආදායම් උපයන රටවල් සඳහා ප්‍රමාණවත් නොවන, එමෙන්ම පටු ක්ෂේත්‍රයකින් හා වඩා අඩු මට්ටමක පවතින බවට හඳුනාගෙන ඇත. උසස් අධ්‍යාපන පනත හෙවත් උසස් අධ්‍යාපන තත්ත්ව සහතිකකරණ බලය ලබා දීමේ හා ගුණාත්මක රාමුකරණයේ පනත ලෙස ද පනත හඳුන්වා දීමට දරන ලද උත්සාහයන් හි දී ද පෙන්නුම් කළ පරිදි, අධ්‍යාපන ක්‍රමය හා ආකෘතිය වෙනසකට භාජනය කිරීම තුළින් තත්ත්ව සහතිකකරණය හා බලය ලබා දීමේ රාමුව වෙතට මං පෙත් විවර කරනු ඇත. ශ්‍රී ලංකාවේ ශ්‍රමයේ මිල ඉහළ යන බැවින්, මෙරට අධ්‍යාපනය ප්‍රතිසංස්කරණය කිරීම තවදුරටත් නොසැලකිල්ලට භාජනය කළ යුතු කරුණක් නොවේ. මීට පෙර සඳහන් කළ පරිදි ශ්‍රී ලංකාවේ වර්තමාන ජනගහන හා ශ්‍රම බලකාය සම්බන්ධ ප්‍රවණතාවක් මෙරට දීර්ඝ කාලීන වර්ධන ඉලක්කවලට ප්‍රතිවිරුද්ධ ලෙස ක්‍රියාත්මක වේ.

අධ්‍යාපන ප්‍රතිසංස්කරණ සිදු කිරීම අත්‍යවශ්‍ය වුවද ඒවා ක්‍රියාත්මක වීමට මෙන්ම එහි ප්‍රතිඵල ලබා දීමට ද යම් කාලයක් ගත වනු ඇත. ඒ අතර කාලයේදී, නව සොයා ගැනීම් හා ව්‍යවසායකයන් ප්‍රවර්ධනය කිරීම සඳහා වූ අනුපූරක උපාය මාර්ග තුළින් වේගවත් ප්‍රතිඵල අත් කර ගත හැක. විද්‍යාව, තාක්ෂණය හා ආර්ථික ප්‍රතිපත්ති යන මූලිකාංගයන්ගෙන් සමන්විත වන නව්‍යතා ප්‍රතිපත්තියක් තුළින් සංවර්ධනය, ව්‍යාප්තිය හා නව නිෂ්පාදන ක්‍රියාවලීන්, සේවා, ව්‍යාපාර හෝ ආයතන ආකෘති ප්‍රවර්ධනය කිරීමට ඉලක්ක කෙරේ. නව්‍යතා ව්‍යවසායකත්ව අභිවර්ධනය තුළින් ආර්ථිකයක් තුළ ඵලදායීතාව තිරසර ලෙස පවත්වාගත හැකි අවස්ථාවන් ඉහළ නංවයි.

ශ්‍රී ලංකාව තුළ පර්යේෂණ හා සංවර්ධනය වෙනුවෙන් දළ දේශීය නිෂ්පාදිතයෙන් වෙන් කරනු ලබන ප්‍රතිශතය පහළ අගයක් ගනී. දැනට පවත්නා දත්ත තුළින් හෙළි වී ඇත්තේ ලෝකයේ සංවර්ධනය වෙමින් පවත්නා රටවල් සඳහා නිර්දේශ කර ඇති 1% හා සංසන්දනය කරන විට එය ශ්‍රී ලංකාවේ දළ දේශීය නිෂ්පාදිතයෙන් 0.1% ක තරම් අඩු ප්‍රතිශතයකි. 2016 වන විට දළ දේශීය නිෂ්පාදිතයෙන් 1.5% ක ප්‍රතිශතයක් දක්වා එය ඉහළ නැංවීම සඳහා සකසන ලද ප්‍රතිපත්ති තීරණ එක් පසෙක තිබියදී වඩාත් අවශ්‍ය කරුණක් වී ඇත්තේ විශ්වවිද්‍යාල, රාජ්‍ය පර්යේෂණායතන, බැංකු, ව්‍යාපාර කණ්ඩායම් සහ අනෙකුත් ව්‍යාපාර ආදී ව්‍යවසායකයන් හා විවිධ ආයතන එහි "නව්‍යතා පද්ධතිය" යටතේ ඒකාබද්ධ කරවන හිතවාදී නව්‍යතා ප්‍රතිපත්තියක් සම්පාදනය කිරීමයි. ශ්‍රී ලංකාව අති නවීන විද්‍යාව සහ තාක්ෂණය හා සබැඳි විෂයයන් සම්බන්ධ පුහුණු කිරීමේ ප්‍රවර්ධනය නොකිරීම හා ගැටලු නිරාකරණය හා නිර්මාණශීලි බව හා සම්බන්ධ කුසලතා වර්ධනය නොකිරීම යන කරුණු තුළ පවත්නා තාක්ෂණය භාවිත කිරීම තුළින් ලබා ගන්නා වූ ප්‍රතිඵල සහ අනාගත සාධන මට්ටම තුරන් කරයි. මෙවැනි සංක්‍රාන්ති සිදු වන පරිසරයක් වෙත එම රටේ පාලනය මෙන්ම සංවිධානවල තත්ත්වය වැනි පුළුල් වූ හේතූන් දැඩි ලෙස බලපෑම් එල්ල කරයි. එය ශ්‍රී ලංකාවේ නැනෝ තාක්ෂණික මධ්‍යස්ථාන වැනි ප්‍රමුඛ පෙළේ ආයතන මගින් නව්‍යතා ක්‍රියාවල යෙදෙන පෞද්ගලික හා රාජ්‍ය හවුල්කාරිත්වය දිරි ගැන්වීම විනම් රාජ්‍ය යටිතල පහසුකම් වැඩසටහන්වල විශාල ප්‍රබල පෞද්ගලික අංශයේ සහභාගිත්වය විය හැකිය. නැත්නම් සාර්ව ආර්ථිකයෙහි ඉතා විචක්ෂණශීලී කලමණාකාරිත්වයක් විය හැකිය. එහිදී ආයතනික සහ පාලනමය අංගයන් ඉතා වැදගත් වන්නේය. යම් රටක ආයතන, ප්‍රතිපත්ති ක්‍රියාවලිය හා ප්‍රතිපත්තිවල ප්‍රතිඵල අතර සිදු කෙරෙන අන්තර්ක්‍රියාකාරිත්වයන්හිදී එම රටේ සමාජ දේශපාලන හා ආර්ථික ලක්ෂණ බලපාන බව පැහැදිලි කරුණකි.

චීනයේ නැඟී සිටීමත්, රාජ්‍යයේ හා වෙළඳපොළ අතර සාපේක්ෂ වාසි පිළිබඳ වූ නව්‍යකරණයන් හමුවේ, මෙකී කරුණු තවදුරටත් කැපී පෙනුණි. ''රාජ්‍ය ධනවාදය'' යන්න වාග් කෝෂයට පැමිණි අතර, ඉන් තිරසර ආර්ථික වර්ධනයක් අත් පත් කර ගැනීම උදෙසා

රාජ්‍ය වෙත ධනවාදී උපක්‍රම භාවිත කිරීමේ හැකියාව හා නිපුණතාව පවතින බව විස්තර කොට ඇත. ශ්‍රී ලංකාව ද පසුකාලීනව තම උද්යෝගිමත් රාජ්‍ය ආයෝජන වැඩසටහන් හා පෞද්ගලීකරණය කරන ලද රජයට අයත් ව්‍යාපාර නැවත රජය වෙතට ලබා ගැනීමෙන් ද ඉතා ශක්තිමත් ලෙස ආර්ථික ක්ෂේත්‍රය කරා අවතීර්ණ විය. කෙසේ වෙතත් සංසන්දනය කිරීම් බොහෝ විට නිමවී ඇත. නිදසුනක් වශයෙන් ශ්‍රී ලංකාව රාජ්‍ය ආයතන නැවත ඈඳා ගැනීමේදී චීනයේ ක්‍රමවේදය භාවිතා නොකරයි. එනම් රාජ්‍ය ආයතනයක් වශයෙන් පැවත, පෞද්ගලීකරණය වූ පසු තරඟකාරී ලෙස ක්‍රියාත්මක වන්නේ නම් එය ඈඳා නොගනී. පෞද්ගලික හා රාජ්‍ය හවුල් ව්‍යාපාර ඵලදායිතාව සහ කාර්යක්ෂමතාව වැඩි දියුණු කිරීම සඳහා විකල්පයක් විය හැකිය. පෞද්ගලික ආයෝජකයන්ගේ පිවිසීම බොහෝ විට දේශපාලනික සහ ආත්මාර්ථකාමී අරමුණු සහිත සහ මූල්‍යමය වශයෙන් හිතකර නොමැති ව්‍යාපෘති ක්‍රියාත්මක වීම වළක්වයි. පුද්ගලික හා රාජ්‍ය හවුල් ව්‍යාපාර ශ්‍රී ලංකාවේ අනාගතයට ගැලපෙන්නේ නම් ඵලදායී නියාමන ආයතන ගොඩනැගීම පෞද්ගලික ආයෝජන ඈඳා ගැනීමට ඉවහල් වේ. මෙහිදී ද ශ්‍රී ලංකාව අවශ්‍ය ආයතන ඇති කිරීමෙහිලා පසුබෑමට ලක්ව ඇත. ඉහත සාකච්ඡාවෙන් පැහැදිලි වන කරුණක් වනුයේ විවිධ මානයන් පිළිබඳ වූ ප්‍රතිපත්ති සැලසුම් කිරීමේදී ගැලපීමක් තිබිය යුතු බවයි.

ශ්‍රී ලංකාව හමුවේ ඉඩ ප්‍රස්ථාවන් හා අභියෝග විශාල ප්‍රමාණයක් පවතී. ආර්ථික වර්ධනය කඩිනම් කිරීම සඳහා ගෝලීය ආර්ථිකය සමඟ සම්බන්ධ වීම හා බාහිර බලපෑම්වලින් එය වළක්වා ගැනීම තම රට මධ්‍යස්ථ ආදායම් ලබන රටක් ලෙස තව දුරටත් පැවතීම වළක්වන ආකාරයෙන් මානව සම්පත ප්‍රයෝජනයට ගැනීම, ඉතා ඉහළ ඒකා පුද්ගල වර්ධනයක් ඇති වන ආකාරයට සමාජ සංචලතාවය ඉහළ දැමීම හා පාලනය කිරීම, තිරසර වර්ධනයක් පමණක් නොව රට තුළ සමාජ ඒකාබද්ධතාවයක්ද ගොඩනංවන ආකාරයෙන් සංවිධානමය හා පාලන ක්‍රමයක් ඇති කිරීම.

තිරසර හා සමාන වර්ධනයක් ළඟා කර ගැනීම සඳහා වූ මාර්ගය එතරම් සරල නොවේ. ඒ සඳහා කාලයක් ගත වනවා පමණක් නොව අවහිරතා ද පවතී. එසේ වුවද ශ්‍රී ලංකාව එවැනි අවහිරතා පසුකර යා යුතුය. අවසානයේ දේශපාලන කැප කිරීම් හා දේශපාලන නායකත්වයේ ස්වභාවය විසින්ම තම රටේ ජනතාවගේ වඩාත් උසස් ජීවන තත්ත්වයක් උදෙසා රට ගමන් කිරීම පිළිබඳ කරුණු හෙළි කරනු ඇත.

මේවා සහ මේ හා සම්බන්ධ වූ කරුණු ශ්‍රී ලංකාවේ වර්ධනය වේගවත් කිරීම සඳහා වූ අවස්ථාවන් සහ අභියෝග පිළිබඳ විවාදය හා සම්බන්ධ වේ. ඒ පිළිබඳව මෙම වාර්තාවේ ඉතිරි කොටසේ දී සාකච්ඡා කිරීමට නියමිත ය.

1. கொள்கைக் கண்ணோட்டங்கள்.

2008/09 களின் பூகோள நிதி நெருக்கடியின் பின் விளைவுகள் இன்னும் முழுமையாக அகலவில்லை. ஐரோப்பிய ஒன்றியத்தின் கடன் சுமைக்குட்பட்ட நாடுகள் தமது பொருளாதாரத்தை பழைய நிலைக்கு கொண்டுவர இன்னும் போராடிக்கொண்டிருக்கின்றன. இந் நிதி நெருக்கடி ஏற்பட்டதைத் தொடர்ந்து அமெரிக்கா மாத்திரமே சிறு வளர்ச்சியைக் கண்டு வருகிறது. மறுதலையாக வளர்ந்து வரும் பொருளாதாரங்கள் இந்நெருக்கடியிலிருந்து ஒப்பீட்டுரீதியில் பாதிப்புக்களின்றி மீண்டு, பொருளாதார வளர்ச்சியில் குறிப்பிடத்தக்கதோர் அடைவை அடைந்துகொள்ள தமது முயற்சிகளைச் செலவிட்டுக்கொண்டிருக்கின்றன. உண்மையில், அபிவிருத்தியடைந்த நாடுகளது உறுதியற்ற மொத்தத் தேசிய உற்பத்தி வளர்ச்சியானது, வாழ்க்கைத்தரத்தில் சடுதியான நெருக்கடிகளைத் தோற்றுவித்திருப்பதோடு பொருளாதார பலத்தில் மேற்கிலிருந்து கிழக்கை நோக்கிய நகர்வொன்றையும் ஏற்படுத்தியிருக்கின்றது.

இலங்கையும் கூட தனது நீண்ட காலப்போர் 2009 மே மாதம் முடிவுக்கு வந்ததைத் தொடர்ந்து விரைவானதோர் மீளெழுச்சியைக் காட்டி மொத்தத் தேசிய உற்பத்தியில் சராசரி 08 வீத வளர்ச்சியுடன், வளர்ந்து வரும் சந்தைப் பொருளாதாரங்களிடையே ஓர் உதய தாரகையாக மாறிவருகிறது. 2011ம் ஆண்டின் நிறைவில் 8.3 வீத மொத்த தேசிய உற்பத்தி வளர்ச்சியுடனும், 4.2 வீத வேலையின்மை வீதத்துடனும், 6.7 வீத பண வீக்க வீதத்துடனும், இலங்கையானது உலகின் பொருளாதாரப் பின்னடைவின் பாதிப்புக்களிலிருந்து குறிப்பிடத்தக்க வகையில் சிறப்பாக தன்னைக் காத்துக்கொண்டிருப்பதும், நடுத் தவணையில் நிலையான வளர்ச்சிக்கும், உறுதி நிலைக்கும், தன்னை நிலைப்படுத்திக் கொண்டிருப்பதும் முதற்பார்வையிலேயே தெளிவாகத் தெரிகிறது. 2011 இல் 2836 அமெரிக்க டொலர் ஆள் வீத மொத்தத் தேசிய உற்பத்தியுடனான இந்த உயர் வளர்ச்சியானது நாடு தழுவிய ரீதியில் முழுமையான வறுமையைக் கையாள்வதிலான தெளிவான முன்னேற்றங்களுடனும், வருமானச் சமமின்மை வீழ்ச்சியுடனும், விரைவான மற்றும் சமமான வளர்ச்சி குறித்த அரசாங்கத்தின் தெரிவிக்கப்பட்ட அபிவிருத்திக் குறிக்கோள்களுடன் இணைந்தவகையில் பெறப்பட்டுள்ளது.

போருக்குப் பிந்திய வளர்ச்சிக்கட்டத்தில் இலங்கையின் மிகத் தெளிவான அபிவிருத்தி அடைவுகளானவை கீழ்க்கட்டுமானத் துறைகளிலேயே காணப்படுகிறது. கீழ்க்கட்டுமான அபிவிருத்தியானது குறித்த இலக்கொன்றுடனான பொது முதலீட்டு நிகழ்ச்சித்திட்டம் ஒன்றினால் முன்னெடுக்கப்படுகின்றது. அதன் படி நாட்டின் மொத்தத் தேசிய உற்பத்தியின் விகிதாசாரம் என்ற வகையில் நாட்டின் பொது முதலீடானது கடந்த தசாப்தத்தின் வழமையான 4.0 - 4.5 வீதம் என்ற அளவிலிருந்து சராசரி 6.0 - 6.5 வீதம் வரை உயர்ந்திருக்கிறது. இந்த நகர்வானது மிக அண்மையில் – முதலீடுகளை சடுதியாக நிறுத்துவதிலும், வரி அறவிடுவதிலும் அல்லாமல் நடைமுறைச் செலவினங்களைத் துண்டிப்பதில் கூடுதல் கவனம் செலுத்தும்– நிதித்திரட்சி முயற்சிகளுடன் சிறந்த முறையில் பிணைக்கப்பட்டு முன்னெடுக்கப்பட்டது. அத்தோடு இலங்கையின் அபிவிருத்தி நிகழ்சித்திட்டங்களை நிறைவு செய்வதற்காக வெளிநாட்டு தனியார் முதலீடுகளில் பெரிய அளவில் தங்கியிருக்க வேண்டிய ஓர் நிலைமையும் ஏற்பட்டிருக்கிறது.

இப்படியான நிதி மூலங்களில் அதிகம் தங்கியிருப்பது தவிர்க்க முடியாததாக மாறிவிடுவதற்குக் காரணம், எமது நாடானது, நடுத்தர வருமான நாடுகளின் அந்தஸ்தை அடந்துள்ள காரணத்தால், உதவி நிதிகளை வழங்கும் பாரம்பரிய மூலங்கள் (ODA) தமது நிதி உதவிகளை படிப்படியாகக் குறைத்துக் கொண்டிருப்பதாகும். எது எப்படி இருப்பினும், இலங்கையானது போருக்குப் பிந்திய அபிவிருத்தி அபிலாஷைகளை நிறைவேற்றிக் கொள்ளும் பொருட்டு, பேரளவிலான கீழ்க்கட்டுமான செயற்திட்டங்களுக்காக செலவு கூடிய வெளிநாட்டு அபிவிருத்தி நிதிகளை வேகமாகப் பெற்றுவருகிறது. இதனால் இலங்கையின் மொத்த வெளிநாட்டுக் கடன்களில் 2006ல் 7.3 வீதமாக இருந்த சலுகையில்லாக் கடன்களுடையவும், வர்த்தகக் கடன்களுடையவும் பங்கானது 2011ல் 42.9 வீதமாக மிக வேகமாக அதிகரித்துள்ளது. உண்மையில் 2012 ஜுலையில் இலங்கையானது

01 பில்லியன் அமெரிக்க டொலர்களுக்கான தங்கப் பிணைகளின் விநியோகம் பற்றி அறிவித்தது. இது இலங்கையானது சர்வதேச மூலதனச் சந்தையில் இருந்து பணம் பெற்றுக் கொள்ள ஆரம்பித்த பின்னரான 05வது தங்கப் பிணை விநியோகமாகும். பொதுச் செலவினங்களுக்கான நிதியீட்டத்துக்காக இவ்வாறான வெளிநாட்டு மூலதனங்களில் தங்கியிருப்பதானது, பேரினப் பொருளாதார அம்சங்கள் மீதான உள்நாட்டு கொள்கைத் தெரிவுகள் மீது தவிர்க்கமுடியாத தடைகளை ஏற்படுத்தும். உண்மையில், "இலங்கை: 2011ம் ஆண்டின் பொருளாதார நிலை" என்ற அறிக்கையில் குறிப்பிடப்பட்டிருப்பது போல, "வெளிநாட்டு நாணயத்தால் நிர்ணயிக்கப்பட்ட கடனானது விஷேடமாக நாணய மாற்றுவீதம் தொடர்பாக மிகவும் அறியப்பட்ட மேலதிக ஆபத்துகளைக் கொண்டுவரும். வரி நிபந்தனைகளுக்கும், நாணயமாற்று வீத முகாமைத்துவத்திற்கும் இடையிலான விட்டெடுத்தலானது நாட்டின் பேரினப் பொருளாதார வெளியை குறிப்பிடத்தக்க வகையில் நெருக்கடிக்குள்ளாக்கும்."

பொருளாதாரத்தின் மீதான அத்தகைய அழுத்தங்களும் நெருக்குதல்களும் 2011ம் ஆண்டின் இரண்டாம் அரைப்பகுதியில் தெளிவாகத் தெரிந்தன. இலங்கையின் நிதிச் சந்தையானது, 2011ம் ஆண்டின் ஆரம்பத்தில் ரூபாவுக்கான மிகைத் திரவத்தன்மை நிலையிலிருந்து, அதே ஆண்டின் 03ம் காலாண்டாகும் போது இறுக்கமான திரவத்தன்மை நிலைக்கு வேகமாகத் தளம்பலுக்குட்பட்டது. ரூபாவுக்கான இம்மிகை திரவத்தன்மை நிலையானது, வெளிநாட்டு மூலதன உட்பாய்ச்சல் குறிப்பிடத்தக்க அளவு உயர்வாகக் காணப்பட்ட நிலையில் நாணயத்திற்கான மிகைப் பெறுமதியேற்றம் ஒன்று ஏற்படுவதைத் தடுக்குமுகமாக வெளிநாட்டு நாணயமாற்றுச் சந்தையில் இலங்கை மத்திய வங்கி தனது தலையீட்டை அதிகரித்த காரணத்தினால் உருவானது. அதனால் ஏற்பட்ட ஸ்தீரமான நாணயக் கொள்கை நிலை சிறியதோர் கடன் செழிப்பைத் தோற்றுவித்து, தனியார் துறைக்கான கடன்கள் 34 வீதமாக அதிகரித்து நிதிச்சந்தையில் திரவத்தன்மை வீழ்ச்சியடைந்ததோடு, வட்டி வீதங்களின் மேல் நோக்கிய அழுத்தங்களுக்கும் காரணமாக அமைந்தது.

ஒப்பீட்டு ரீதியில் மலிவான கடன்களுக்கான வாய்ப்புக்கள் ஏற்பட்டதன் காரணமாகவும் மேலதிகமாகப் பெறுமதியிடப்பட்ட நாணய மாற்று விகிதத்தின் காரணமாகவும், இறக்குமதியில் ஏறபட்ட சடுதியான அதிகரிப்பின் காரணமாகத் தோன்றிய வெளிநாட்டு நடைமுறைக் கணக்குப் பற்றாக்குறை மிக மோசமான நிலையை அடைந்திருப்பதற்கான சான்றுகள் தென்பட்ட போதும் இலங்கை மத்திய வங்கியானது கொள்கை வட்டி வீதங்களை தொடர்ந்து நிலையாக வைத்திருந்தோடு, ஏலவே தீர்மானிக்கப்பட்ட நாணயப் பெறுமதி எல்லைக்குள் ரூபா நிலைத்திருப்பதை உறுதிப்படுத்தும் பொருட்டு வெளிநாட்டு நாணய மாற்றுச் சந்தையில் எதிர்மறை தலையீட்டைச் செய்தது. அவ்வாறு செய்ததனால் இலங்கை தனது நாணயத்தை பாதுகாத்துக்கொள்ளும் முயற்சியில் தனது திரட்டிய மொத்த உத்தியோகபூர்வ ஒதுக்குகள் – அவற்றின் பெரும் பகுதி பெற்ற கடன் பொறுப்புக்களாக இருக்கும் நிலையில்- 2011 ஜூலை மாதம் 08 பில்லியன் அமெரிக்க டொலர்களிலிருந்து, 2012 பெப்ரவரி மாதமாகும் பொழுது 5.5 பில்லியன் அமெரிக்க டொலர்களாக வீழ்ச்சி அடைந்ததைக் கண்டது. இதன் போது கடைப்பிடிக்கப்பட்ட கொள்கை உபாயமானது 2008ம் ஆண்டில் பின்பற்றப்பட்ட கொள்கை உபாயத்திற்கு ஒப்பானது. அப்போதைய அந்நடவடிக்கையின் விளைவாக 2009 பெப்ரவரியில் இலங்கை சர்வதேச நாணய நிதியத்தை அணுகி தனது சென்மதி நிலுவையை சரிசெய்து கொள்வதற்காக மேலதிக நிதி ஏற்பாடொன்றைக் (SBA) கோரியது.

இன்னும் முழுமையாக செலுத்தப்பட வேண்டியுள்ள இந்த மேலதிக நிதி ஏற்பாட்டுடன், நாணயமாற்று வீதம் அடி நிலைப் பொருளாதார அடிப்படைகளுடன் இணைந்து நகர்வதை அனுமதிக்கவும், கொள்கை வட்டி வீதங்களை சரிப்படுத்தி, வணிக வங்கிகளின் கடன் வளர்ச்சிக்கான பாதுகாப்புக் கூரையொன்றை ஏற்படுத்தவுமென 2012 பெப்ரவரியில் கொள்கைத் திருத்தங்கள் மேற்கொள்ளப்பட்டன. இக்கொள்கைத் திருத்தங்கள் சரியான திசையில் செயற்பட்டு நீண்ட காலமாக எதிர்பார்க்கப்பட்ட சில மாற்றங்களைக் கொண்டு வந்ததோடு, அதற்காக வேண்டி சில செலவினங்களும் ஏற்பட்டன. கூடுதல் படிமுறையிலான நாணயப் பெறுமானத் தேய்வொன்றுக்கு எதிர்ப்புத் தெரிவிக்கப்பட்ட நிலையில், திடீர் கொள்கை நகர்வானது, குறிப்பிடத்தக்கவகையில் இலக்கைக் கடந்து சென்றும் எதிர்பார்க்கப்பட முடியுமான இலகு தன்மையுடனும் 20 வீதத்துக்கு மேற்பட்ட பெறுமானத் தேய்வை ரூபாவில் ஏற்படுத்தியது. கடன் வளர்ச்சி நகர் வேகத்தை விசைப்படுத்துவதற்கான முயற்சிகளும் கூட, இலங்கையால் தாங்க முடியாத, நிதி வளங்களின் தவறான ஒதுக்கீட்டுக்கே இட்டுச் செல்கின்றன. மிகத் தீர்க்கமாக, பிரதான பேரினப்

பொருளாதாரக் குறிகாட்டிகளின் நகர்விலான நிச்சயமற்ற தன்மைகள் கொள்கை முதலீட்டாளர் நம்பிக்கையையும் பொருளாதாரத்துக்கான கிட்டிய தவணை வெளித் தோற்றத்தையும் தளரச் செய்து விடுகின்றன.

இவ்வாறாக, இலங்கையானது தனது நீண்ட கால வளர்ச்சி இலக்குகளை வேரறுக்கின்ற ஆபத்துக்கள் குறித்து மிகவும் கவனமாக இருக்க வேண்டியதோடு, முன்னெச்சரிக்கையானதும் காலத்துக்குத் தேவையானதுமான கொள்கைத் தலையீடுகளை மேற்கொள்வதில் மிகவும் அவதானமாக இருக்கவும் வேண்டும். வெளிநாட்டு மூலதனத்தில் அதிகம் தங்கியிருக்கின்ற ஒரு நாட்டை தொடர்ந்தேர்ச்சையான சென்மதி நிலுவை அழுத்தங்களுக்கு அதிகம் உட்படுத்தக்கூடிய உலகப் பொருளாதார நிச்சயமின்மைகள் நிலவுகின்ற ஒரு காலப்பகுதியில் மிக அத்தியாவசியமான தேவையாக அமைவது பேரினப் பொருளாதாரச் சூழலை தகைமையுடன் முகாமைத்துவம் செய்வதாகும்.

பேரினப் பொருளாதார ஸ்திரத்தன்மையை மீளப்பெற்றுக் கொள்வதற்கான முயற்சியின் இறுதி விளைவானது, 2012ம் ஆண்டிற்கு இலக்காக கொள்ளப்பட்டுள்ள மொத்தத் தேசிய உற்பத்தி வளர்ச்சியில் நாடு ஒரு மந்த கதியை அடைவதாக இருக்கும். எனவே இறுக்கமான நாணயக்கொள்கை நிலையும் மந்த கதியிலான உலகக் கேள்வியும் நிலவும் நிலையில் இலங்கை மத்திய வங்கியானது, இலங்கையின் 2012க்கான மொத்தத் தேசிய உற்பத்தி எதிர்வு கூறலை 7.2 வீத மாகக் குறைத்து மீளமைத்திருப்பது ஆச்சரியத்துக்குரியதல்ல. இது குறித்து அச்சம் கொள்ளவும் தேவையில்லை. பேரினப் பொருளாதார ஸ்திரத்தன்மை நிலவும் சூழலொன்றில் குறை வளர்ச்சி இலக்கொன்றானது, நிலையற்ற பேரினப் பொருளாதார அடிப்படைகளுடனான உயர் வளர்ச்சி வீதமொன்றை விட மேலாகக் கொள்ளப்படல் வேண்டும்.

அரசாங்கங்கள் சட்டபூர்வத்தன்மையைப் பெற்றுக்கொள்ள முயல்கையில் அடிப்படையாகக் கொள்கின்ற ஏக அளவுகோலாக பொருளாதார வளர்ச்சி மாத்திரம் இருக்கக் கூடாது. என்றாலும் வளர்ச்சி முக்கியமானது தான். பல வருட காலங்களிலான வேகமான பொருளாதார வளர்ச்சி இலங்கை போன்ற நாடுகள் குறை வருமான மட்டத்திலிருந்து நடுத்தர வருமான நிலைக்கு வளர உதவும். இங்குள்ள மிகக் கடினமான பகுதி யாதெனில், வளர்ச்சிச் செயன்முறையானது நிலையானதாகவும் அனைத்தையும் உள்ளடக்கியதாகவும் இருப்பதனை உறுதிப்படுத்துவதாகும். இலங்கையானது விஷேடமாக, நீண்ட காலம் தொடர்ந்த பிரிவினைவாதப் போர் ஒன்றிலிருந்து மீண்டுவருகின்ற ஒரு நாடாகும். இலங்கையைப் பொறுத்தவரையில் போருக்குப் பிந்திய ஒரு யுகத்தை நோக்கிய மாறுகையானது சட்டபூர்வமான பொருளாதார, அரசியல் மற்றும் சமூக அபிலாஷைகளை மேலெழச் செய்திருக்கிறது. அவை உறுதியானதும் அரசியல் ரீதியாக இசைவானதுமான வளர்ச்சிச் செயன்முறையொன்றை வேண்டி நிற்கின்றன.

துறை வாரியானதும் மற்றும் பிராந்திய ரீதியானதுமான வேறுபாடுகளுக்கிடையில் இணக்கம் காண்பதில் ஏற்கனவே பல விடயங்கள் சாதிக்கப்பட்டிருக்கின்றன என்பதற்கு பல சான்றுகள் காணப்படுகின்றன. பொருளாதார ரீதியான உயர் வளர்ச்சியானது, பொருளாதார நடவடிக்கைகள் மிகுந்த நகர்ப்புறப் பிரதேசங்களின் செல்வந்த மக்களோடு ஒப்பிடுகையில், மிகவும் அனுகூலம் குறைந்த தோட்டப்புற மற்றும் கிராமிய விவசாயத் துறை சார்ந்த மக்களுக்கு மத்தியிலான வறுமையையும் பெருமளவுக்குக் குறைத்திருக்கிறது. என்றாலும் சமூக, பொருளாதாரப் பாகுபாடுகள் மாகாணங்களுக்கிடையேயும் சனத்தொகைக் குழுக்களுக்கிடையேயும் தொடர்ந்தும் காணப்படுகின்றன. அண்மைய பல வருடங்களாக மொத்த அளவில் வருமானச் சமமின்மையில் ஒரு வீழ்ச்சியை இலங்கை காணும் அதேவேளை, அரைவாசிக்கும் மேற்பட்ட வருமானமானது இன்னும் வீட்டுத்துறையினரின் 20 வீதமான செல்வந்தர்களாலேயே பெற்றுக்கொள்ளப்படுகிறது.

வருமானச் சமமின்மையானது, தனி நபர்கள் அல்லது வீட்டுத்துறையினருக்கு இடையிலான நிலைக்குத்துச் சமமின்மை மற்றும் மற்றும் இனம், குலம், பால், இடம் போன்ற பொது அடையாளங்களுடனான பொருளாதார, சமூக மற்றும் அரசியல் குழுக்களுக்கிடையிலான கிடையான சமமின்மை ஆகிய இரு பகுதிகளையும் உள்ளடக்கியதாகும். நீதித்தன்மையின் பல்வேறு அளவுகளிலுமான தீவிரங்கள் – முழுமையான சமத்துவம் அல்லது முழுமையான சமத்துவமின்மை – ஆகிய இரண்டுமே வளர்ச்சிக்கு எதிரானவையாகும். பல நாடுகளைப் பொறுத்தவரையில் சமமின்மையானது, இவ்விரண்டுக்குமிடையில் அமைந்து விஷேடமான நாட்டுச் சூழ்நிலைகளில் பகுதியாகத் தங்கி நின்று வளர்ச்சியை உச்சப்படுத்துவதற்கான அவர்களது முயற்சியில் தாக்கம் செலுத்தும்.

மிக அண்மைய ஆய்வுகள் சமமின்மையானது, வளர்ச்சி நீடிப்புக் காலத்தைக் குறுக்கும் என கண்டுள்ளன. உதாரணமாக அது, ஏழைகள் கல்வியிலும் சுகாதாரத்திலும் முதலீடு செய்வதையும் தமது பொருளாதார வாய்ப்புக்களை அதிகரித்துக் கொள்வதையும் சிரமமானதாக ஆக்கும். அதே நேரம் சமமின்மையை நிவர்த்திப்பதற்காக ஒழுங்கற்ற ஊக்குவிப்புக்களை வழங்குவது குறித்தும் சான்றுகள் எச்சரிக்கின்றன. சமமின்மையானது பொருளாதார வளர்ச்சிக்கு விளைவிக்கும் தீங்குகளை விட, ஒழுங்கீனமாக வடிவமைக்கப்பட்ட முயற்சிகள் தன்னளவில் விளைவிக்கும் தீங்குகள் அதிகமானவையாக இருக்கும். அனைத்து விடயங்களையும் கவனத்திற் கொள்ளும் போது, உற்பத்தித் திறன் மிக்க வளங்களின் பயன்பாட்டை உச்சப்படுத்தும் கொள்கைகளை ஊக்குவிப்பதானது, சமமின்மை குறித்துக் கவனம் செலுத்துவது வளர்ச்சிக்கு முக்கியமானதும், நீண்ட கால அடிப்படையிலுமான நன்மைகளைப் பெற்றுத் தரும் என்ற எண்ணக்கரு குறித்த அளவீடுகளை கவிழ்த்து விட முடியும். இந்த விவாதத்தில் மேலும் முக்கியமாக அமைவது யாதெனில், வளர்ந்து வரும் நாடுகளுக்கான மிக நீண்ட வளர்ச்சிக் காலப் பகுதிகள் – துரித வளர்ச்சிக் காலப் பகுதிகளுக்கு எதிராக – வருமானப் பங்கீட்டிலான கூடுதல் சமத்துவத்துடன் இணைக்கப்பட்டிருக்கிறது என்ற வளரும் சான்றாகும். இவ்வாறு, ஒரு நாட்டின் நீண்ட கால வளார்ச்சியில் நிலையான பலத்திரட்சி மிக முக்கியமானதாகும்.

இலங்கையைப் பொறுத்தவரையில் வேகமான வளர்ச்சிக்கான மூலங்கள், அண்மைய வருடங்களில் அரசாங்கத்தால் முடுக்கிவிடப்பட்டுள்ளதென்பது ஆச்சரியமானதல்ல. பல தசாப்த காலக் குறை முதலீட்டை ஈடு செய்து, நாட்டின் கீழ்க்கட்டுமான அபிவிருத்தி நிகழ்ச்சித் திட்டங்கள் குறிப்பிடத்தக்க வகையில் பலப்படுத்தப்பட்டுள்ளன. பாதைகள், துறைமுகங்கள், விமான நிலையங்கள் போன்றவற்றிலான சிறந்த கீழ்கட்டமைப்பு வசதிகளானவை, இயங்கு செலவுகளை அதிகரிக்கச் செய்து, தாமதங்களைக் குறைத்து பொருளாதாரத்தின் அனைத்துப் பகுதிகளுக்கும் நன்மையளித்து வினைத்திறனிலான இலாபங்களைப் பெற்றுத் தரும். நாட்டின் பௌதீகச் சொத்துக்களிலான வேகமான விரிவாக்கம், நீண்ட கால வளர்ச்சி எதிர்பார்க்கைகளுக்கு நல்ல சந்தர்ப்பமாக அமையும். கீழ்க்கட்டுமானச் செழிப்பின் பன்மடங்குத் தாக்கங்கள் நடைமுறை வளர்ச்சிக்கு உடனடித் தூண்டுதல்களை வழங்கும். 2011ல் நிர்மாணத்துறை நடவடிக்கைகள் 14.2 வீத்த்தாலும், 2012ன் முதல் காலாண்டில் 17.5 வீதத்தாலும் வளர்ந்தது. இந்த பலத்திரட்சியானது, இன்னும் சில காலங்களுக்குத் தொடரும். என்றாலும் கிட்டிய கடந்த காலத்தின் வளர்ச்சி வீதங்களை அடிப்படையாகக் கொண்டு நீண்ட கால வளர்ச்சி இலக்குகளை புறச்செறுகல் செய்வதைத் தவிர்த்துக் கொள்வது முன்னெச்சரிக்கையான காரியமாக அமையும்.

நேர்கோட்டு புறச்செறுகல்களானவை கொள்கைகள், அரசின் வகிபாகம், சந்தை நிலைமைகள் மற்றும் நீண்ட கால வளர்ச்சி இயங்கியலைத் தீர்மானிக்கின்ற சீராக்கல் நிறுவனங்கள் ஆகியவற்றில் தாக்கம் செலுத்தமாட்டா. உண்மையில் அபிவிருத்தியின் ஒரு கட்டத்தில் வளார்ச்சியைத் தூண்டுகின்ற காரணிகள் மற்றொரு கட்டத்தில் அதனைத் தடை செய்யும். கீழ்க்கட்டுமான நிதியிடலானது – இருக்கும் கீழ்க்கட்டுமானங்களைப் பராமரிப்பதும் புதிய முதலீடுகளும் – செலவு கூடியதாகும். இலங்கையானது தனது புதிய கீழ்க்கட்டுமானத் தேவைகளில் பெருமளவுக்கான நிதியைப் பெற வெளிநாட்டுச் சேமிப்புக்களில் தங்கியிருப்பதைத் தெரிவு செய்தது. எப்படியிருப்பினும் மேலே கலந்துரையாடியது போல திரட்டிய சலுகையில்லா வெளிநாட்டுப் பொதுக் கடனானது வேறு ஆபத்துக்களை விளைவிக்கும். அத்தோடு, கடைசி வழிமுறையாகவே அது பயன்படுத்தப்படல் வேண்டும்.

உள்நாட்டு வள நகர்வு முயற்சிகள் நிலையான, உறுதியான, நீண்ட கால வளர்ச்சிக்கான கொள்கை நிகழ்ச்சி நிரலின் ஆரம்பத்தில் காணப்படும் விடயமாகும். இலங்கையானது இம்முயற்சிகளில் மிகக் குறைவாகவே வெற்றியடைந்துள்ளது. – நாட்டின் மொத்தத் தேசிய உற்பத்திக்கான வருமான விகிதாசாரம் கடந்த 02 தசாப்தங்களாக தொடர்ந்தும் வீழ்ச்சியடைந்து 2011ல் 14.2 வீதமாக அமைந்து, ஒப்பீட்டளவில் 20 வீதமான குறை – நடுத்தர வருமானச் சராசரியைக் காட்டியது. இலங்கையின் உள்நாட்டுச் சேமிப்பு விகிதாசாரமானது 2011ல் 15.4 வீத மாக அமைந்தது. அது தவிர சேமிப்பு விடயத்தில் சமூக – கலாசார நியமங்களும் செல்வாக்குச் செலுத்துகின்றன. - அதாவது, இலங்கையர்களிடம் சேமிக்கும் கலாசாரம் இல்லை. - என்பதோடு, கடந்த பல தசாப்தங்களாக நாட்டின் பேரினப் பொருளாதாரச் சூழலும் இதற்கு உதவவில்லை. ஓர் உயர் பணவீக்கச் சூழல் பொருளாதாரத்தின் வழமையான பண்பாக இருந்துவந்தது. அது சேமிப்பை அதைரியப்படுத்தி கடன் வாங்கலை ஊக்குவித்தது. அத்தோடு நாட்டின்

தற்போதைய குடித்தொகையியல் மாறுகை – ஒரு சில உழைப்பளர்களுடனும் பெருமளவு தங்கியிருப்போருடனுமான வேகமாக மூப்படையும் சனத்தொகை - இலங்கையின் நீண்ட கால வளர்ச்சி அபிலாஷைகளுக்கு எதிராக அமையும். சேமிப்பு மற்றும் போதுமான சமூகப் பாதுகாப்பு என்பன இல்லாத ஒரு நிலையில், வயது முதிர்ந்தவர்கள் உதவிக்காக இளையவர்களில் தங்கியிருப்பர். அத்தகைய சந்தர்ப்பங்களில் முதுமையடைதலானது இளம் உழைப்பாளர்களின் சேமிப்பு ஆற்றலைக் குறைக்கும். ஏனெனில், அவர்கள் வயது முதிர்ந்தவர்களை நீண்ட காலம் பராமரிக்க வேண்டியேற்படும்.

குறைந்த உள்நாட்டு சேமிப்பின் மறுபக்கம் யாதெனில் உயர் நுகர்வுச் செலவாகும். 2011ல் இலங்கையில் மொத்த நுகர்வானது மொத்தத் தேசிய உற்பத்தியின் 84.6 வீதமாகக் காணப்பட்டது. நுகர்வுச் செலவினமானது அண்மைய வருடங்களில் வேகமாக வளரும் ஒரு காரணியாக இருந்து வருகிறது, உண்மையில் வங்கித்துறையுடைய துறைவாரியான வெளிப்படுத்துகை நுகர்வோர் கடனானது 2011 டிசம்பர் வரை 60 வீதத்தால் வளர்ந்திருப்பதைக் காட்டுகிறது. மீண்டும் ஒட்டு மொத்த பேரினப் பொருளதாரச் சூழலுக்கு – பணவீக்கம், வட்டி வீதங்கள், நாணயமாற்று வீதங்கள் என்பவற்றிலான நகர்வுகள் ஆகியவற்றிற்கு - சேமிப்பாளர்களுடையவும் கடன் பெறுநர்களுடையவும் நடத்தை மீது தாக்கம் காணப்படுகின்றது, எனவே நுகர்வுக்கும் மற்றும் முதலீட்டுக்கும், வெளி நாட்டு மற்றும் உள்நாட்டு கேள்விக்கும் மத்தியில் பொருத்தமானதோர் சமநி லையை தோற்றுவிக்கின்ற முன்னெச்சரிக்கையான கொள்கைகள் காணப்படுவது மிக முக்கிய மாகும்.

படிப்படியாகக் குறைந்து செல்லும், வேலை செய்யும் வயதையுடைய சனத் தொகையொன்றுடன் குறைந்த சேமிப்பும் மற்றும் முதலீடும் காணப்படும் சூழலொன்றில் – இளைஞர்கள் ,பெண்கள், முதியவர்கள் ஆகிய குறைப் பயன்பாட்டு குடித்தொகையை ஊழியர்படைக்கு கவர்வதுடனான – உற்பத்தி ரீதியான அடைவுகள் மாத்திரம் தான் நீண்டகால வளர்ச்சிக்கு ஆதரவளிக்கும். இலங்கையின் வளர்ச்சிக்கு விவசாயம் போன்ற குறை உற்பத்தித்திறன் துறைகளது ஆதரவு வழங்கும் இயலுமையானது விஷேடமாக நாட்டின் முக்கியமானதோர் வேலை வாய்ப்பு மூலம் என்ற வகையிலும் அத்தோடு உணவுப்பாதுகாப்பு மற்றும் வறுமைத்தணிப்பு போன்ற வளர்ச்சிக்கு அப்பாற்பட்ட சில சமூகப் பொருளாதார அளபுருகளின் உள்மையம் என்றவகையிலும் கவனத்திற்குரியது. உண்மையில் 2008ன் உலக உணவு நெருக்கடியானது, இலங்கை போன்ற குறை – நடுத்தர வருமான நாடொன்றில் பலமான உள்நாட்டு உணவு உற்பத்தித் துறையொன்று இருப்பதன் நன்மைகளை முனைப்புறுத்திக் காட்டியது. – தற்போது, உலக உணவுப் பொருள் சந்தைகளில் நிலையற்ற தன்மை வளர்ந்து வரும் நிலையில் இலங்கையின் உள்நாட்டு உணவு உற்பத்தித் துறையானது நாட்டின் உணவுத் தேவையில் 85 வீதத்தை வழங்குகிறது.

எது எப்படியிருப்பினும் விவசாயத்துறையிலான உற்பத்தித் திறனை அதிகரிப்பதற்கான சவால்கள் பலவாகும். விவசாயம் செய்யப்படுகின்ற நிலத்தின் அளவை விரிவாக்கம் செய்தல் அல்லது குறிப்பிட்டளவு நிலத்தில் விவசாய நடவடிக்கைகளை தீவிரப்படுத்துதல் ஆகியன காணி மற்றும் காடுகளின் சுரண்டல்வாதப் பாவனைக்கு வழிகோலி இயற்கை வளத் தர வீழ்ச்சிக்கு காரணமாய் அமைந்து நிலையான, நீண்ட தவணை வளர்ச்சியைத் தடைப்படுத்த முடியும். விவசாயத்துறையில் உற்பத்தித் திறனை உறுதி செய்வதானது, விவசாய ஆய்வுகளிலும், விரிவாக்கங்களிலுமான நிலையான முதலீட்டினூடு தூண்டப்பட்ட புதிய தொழில் நுட்பப் பயன்பாட்டை வேண்டி நிற்கின்றது. அண்மைத் தசாப்தங்களாக இது தொடர்பில் இலங்கை மிகக் குறைவாகவே செயற்பட்டிருக்கின்றது.

ஒட்டு மொத்தப் பொருளாதாரமானது மொத்தக் காரணி உற்பத்தித் திறன் வளர்ச்சியை அடைந்திருக்கிறது என்பதை உறுதிப்படுத்துவதானது – உழைப்பாளர்களும் மூலதனமும் பயன்படுத்தப்படுகின்ற வினைத்திறன் – கீழுழைப்பில் ஈடுபடும் கிராமப்புற ஊழியத்தை கூடுதல் உற்பத்தித் திறன் மற்றும் நல்ல சம்பளம் கொண்ட தொழில்களுக்கு மாற்றும் அமைப்பு ரீதியான மாறுகைக்கு வழியேற்படுவதனைக் குறிக்கும். நாட்டின் 4.2 வீத வேலையின்மை வீதத்துடனும் மற்றும் வேலை செய்யும் வயதிலான சனத்தொகையில் ஒரு குறுக்கம் ஏற்படும் என எதிர்வு கூறுகின்ற எதிர்கால குடித்தொகையியல் அபிவிருத்திகளுடனும் தற்போதைய உயர், நீண்ட கால வளர்ச்சியானது தவிர்க்க முடியாமல் வேறு காரணிகளான தேர்ச்சி மிக்க, உற்பத்தித் திறன் வாய்ந்த மற்றும் நெகிழ்வான ஊழியப்படையொன்று காணப்படுவதில் தங்கியிருக்கும்.

போட்டித் தன்மையும் கவர்ச்சியும் கொண்ட ஒரு முதலீடாக மற்றும் வியாபாரபாரமாக நிலைக்க வேண்டுமாயின், தேர்ச்சி மிக்க ஊழியப்படையொன்றின் முக்கியத்துவம் இப்போது

நன்கு உணரப்படுகிறது. இலகுவில் கணனி மயப்படுத்தலுக்குட்பட்டுள்ள பாரம்பரிய உடல் உழைப்பு மற்றும் அறிவு பூர்வப்பணிகளுக்கான கேள்வி குறைந்துவருகிறது,. அதே நேரம் சிக்கலான தொடர்பாடல் மற்றும் நிபுணத்துவ சிந்தனா ரீதியான தொழில்கள் அதிகரித்துக்கொண்டு வருகின்றன. இலங்கையானது நாட்டிலுள்ள மனித வளங்களை அபிவிருத்தி செய்து முகாமைத்துவத்துக்குட்படுத்தி நிறுவனங்கள் கேள்வியை ஏற்படுத்துகின்ற தேர்ச்சிகளுடன் மக்கள் தொழில்களில் நுழைவதை உறுதிப்படுத்தவும் வேண்டுமெனின், உயர் தரத்திலான மூன்றாம் நிலைக் கல்விக்கான வாய்ப்புக்களை மேம்படுத்துவதும் மற்றும் புதிய தேர்ச்சிகளைக் கற்றுக்கொள்ள முடியுமான தொழிலாளர்களைப் பயிற்றுவிப்பதும் கொள்கைக் கவன ஈர்ப்புக்குரிய மிக முக்கிய விடயங்களாகும். நடைமுறையில் உள்ள மூன்றாம் நிலைக் கல்வித் துறையானது ஒரு நடுத்தர வருமானமுடைய நாட்டுக்கு காலத்தின் தேவைகளுக்குப் போதாததாகவும், மிகக் குறுகிய வரையெல்லையைக் கொண்டதாகவும் தரம் குறைந்ததாகவும் காணப்படுகிறது. கல்வி முறைமையையும் கட்டமைப்புக்களையும் மாற்றுவதானது தெளிவாகவே எதிர்பாராத சிரமங்களைத் தோற்றுவிக்கும். ஏற்கனவே உயர் கல்விக்கான சட்டமொன்றை அறிமுகப்படுத்துவதற்காக மேற்கொள்ளப்பட்ட முயற்சிகள் இதற்குச் சான்றாகும். அவ் உயர் கல்விச் சட்டமானது உத்தியோகபூர்வமாக உயர் கல்வித் தர உறுதிப்படுத்தல், உரித்துச் சான்றளிக்கை மற்றும் தர நிர்ணயச் சட்டம் எனப் பெயரிடப்பட்டது. தர உறுதிப்படுத்தலுக்கும், உரித்துச் சான்றளிக்கை நிர்ணயத்திற்கும் வழியமைப்பது அதன் நோக்கமாகும். இலங்கையின் சனத்தொகை முதிர்ச்சியடைவதாலும் மற்றும் உழைப்பாளர்களுக்கான கேள்வி அதிகரித்துக்கொண்டு வருவதாலும் நாட்டின் கல்வி முறைமையை மாற்றியமைப்பதை மிக நீண்ட காலத்துக்கு புறந்தள்ள முடியாது. ஏற்கனவே குறிப்பிடப்பட்டது போல தற்போதைய குடித்தொகையியல் மற்றும் ஊழியர் படை செல்நெறிகளானவை நாட்டின் நீண்ட கால வளர்ச்சிக் குறிக்கோள்களுக்கு எதிராகத் தொழிற்பட்டுக் கொண்டிருக்கின்றன.

கல்வி மறு சீரமைப்பு அத்தியாவசியம் என்ற போதும், நடைமுறைப்படுத்தவும் விளைவுகளைத் தரவும் காலம் எடுக்கும். இடைக் காலத்தில், புத்தாக்கத்தையும், முயற்சியாண்மையையும் ஊக்குவிப்பதற்கான இணைப்பு உபாயங்கள் விரைவான விளைவுகளைத் தர முடியும். ஒரு புத்தாக்கக் கொள்கையானது விஞ்ஞானத்தின் மூலக்கூறுகளையும், தொழில் நுட்பம் மற்றும் அபிவிருத்தியை ஊக்குவிப்பதற்கான வெளிப்படையான இலக்கைக் கொண்டுள்ள பொருளாதாரக் கொள்கைகளையும் புதிய உற்பத்திகள், செயன்முறைகள், சேவைகள் ஆகியவற்றை செயற்றிறன் மிக்க வகையில் பயன்படுத்துவதையும், பரப்புவதையும் மற்றும் வியாபார அல்லது நிறுவன மாதிரிகளையும் உள்ளடக்கி இருக்கும். புத்தாக்கத்தையும் முயற்சியாண்மையையும் வளர்ப்பதானது, ஒரு பொருளாதாரத்தில் நிலையான உற்பத்தித்திறன் வளர்ச்சிக்கான சந்தர்ப்பங்களை மேம்படுத்தும்.

ஆய்வு மற்றும் அபிவிருத்திக்கான(R&D) இலங்கையின் மொத்தத் தேசிய உற்பத்திப் பங்கு மிகக் குறைவானதாகும். உலகளாவிய ரீதியில் அபிவிருத்தியடைந்துவரும் நாடுகளுக்காக பரிந்துரைக்கப்பட்டிருக்கின்ற 1% என்ற அளவோடு ஒப்பிடும் போது இலங்கையில் அதன் அளவு இருக்கின்ற தரவுகளின் படி மொத்தத் தேசிய உற்பத்தியில் 0.1% என்ற மிகக் குறைந்த அளவைக் காட்டுகின்றது. 2016ம் ஆண்டாகும் போது இதனை மொத்தத் தேசிய உற்பத்தியில் 1.5% மாக அதிகரிப்பதற்கான கொள்கை நோக்கங்கள் குறிப்பிடப்பட்டிருந்த போதிலும் பல்கலைக் கழகங்கள், பொது ஆய்வு கூடங்கள், வங்கிகள், வர்த்தக சம்மேளனங்கள் மற்றும் ஏனைய தொழில் முயற்சிகள் போன்ற முயற்சியாளர்களையும் வித்தியாசமான நிறுவனங்களையும் புத்தாக்க முறைமையினுள் ஒன்றிணைக்கின்ற ஒட்டு மொத்தமான புத்தாக்கக் கொள்கையொன்றை நடைமுறைப்படுத்த, செய்ய வேண்டியவை அதிகம் காணப்படுகின்றன. இலங்கையானது உயர் விஞ்ஞானம் மற்றும் தொழில் நுட்பம் தொடர்பான பாடங்களில் தனது பயிற்சிகளை மேம்படுத்தி பிரசினம் தீர்த்தல் மற்றும் புத்தாக்கம் ஆகியவற்றிலான தேர்ச்சிகளை அபிவிருத்தி செய்து கொள்ளவில்லையெனின் அது நடைமுறையிலுள்ள ஈடுகட்டும் தொழில் நுட்பத்தைக் கைக்கொள்வதன் நன்மைகளை இழப்பதோடு எதிர்கால உற்பத்தித்திறன் அடைவுகளுக்கான சந்தர்ப்பங்களையும் அது இழக்கும்.

இத்தகைய பல மாறுதல்கள் இடம் பெறுகின்ற சூழலானது, நிறுவனங்களின் தரம் மற்றும், ஒரு நாட்டில் அதன் ஆளுகை போன்ற பரந்த காரணிகளின் பலமான செல்வாக்கிற்கு உட்படுகின்றது. அது, இலங்கை நனோ தொழில் நுட்ப மத்திய நிலையம் (SLINTEC) போன்ற

முன்னோடி நிறுவனங்களினூடாக புத்தாக்க நகர்வுகளைச் செய்யும் தனியார்- பொதுத் துறை பங்குடமைகளை (PPPs) ஊக்குவிப்பதாக, அதாவது அரச கீழ் கட்டுமான நிகழ்ச்சித்திட்டங்களில் பேரளவிலான தனியார் துறைப் பங்கு கொள்ளலாக இருக்கலாம். அல்லது பேரினப்பொருளாதாரத்தின் மிகவும் அவதானமானதோர் முகாமைத்துவமாக இருக்கலாம்.அங்கு நிறுவன ரீதியான மற்றும் ஆளுகை ரீதியான பரிமாணங்கள் மிக முக்கியமான இயலுமைப் படுத்தும் காரணிகளாக இருக்கும். நிறுவனங்கள், கொள்கைச் செயன்முறைகள் மற்றும் கொள்கை விளைவுகள் ஆகியவற்றுக்கிடையிலான ஊடாட்டங்களில் குறிப்பிட்ட ஒரு நாட்டின் சமூக, அரசியல் மற்றும் பொருளாதாரப் பண்புகள் செல்வாக்குச் செலுத்தும் என்பது ஏற்றுக் கொள்ளப்பட்டதோர் உண்மையாகும்.

சீனாவின் எழுச்சியோடும் நாடு மற்றும் சந்தை ஆகியவற்றின் சார்பு நலன்கள் பற்றிய புதுப்பிக்கப்பட்ட விவாதங்களோடும் இந்த விவகாரங்கள் சந்திக்கு வந்திருக்கின்றன. “அரச முதலாளித்துவம்” என்ற சொல்லானது பேரகராதியில் இடம்பிடித்து, நிலையான பொருளாதார வளர்ச்சியைப் பெற்றுக் கொள்ளும் பொருட்டு முதலாளித்துவக் கருவிகளைக் கையாளும் தகைமையையும் ஆற்றலையும் பெற்றுள்ள நாட்டைக் குறிக்கிறது. இலங்கையும் கூட பிந்திய பொருளாதார வட்டத்தில், இலக்குக் குறிக்கப்பட்ட பொது முதலீட்டுத் திட்ட நிகழ்ச்சித் திட்டத்துடனும் ஏற்கனவே அரச உடைமையாக இருந்து தனியார் மயப்படுத்தப்பட்ட வர்த்தக முயற்சிகளை மீளக் கையகப்படுத்தியும் கூடுதல் பலத்துடன் இத்துறையில் ஈடுபட்டுள்ளது. எது எப்படியிருப்பினும் ஒப்பீடுகள் பெரிதும் நிறைவடைந்து விட்டன. உதாரணத்துக்கு இலங்கை அரச கட்டமைப்புக்களை மீளப்பெற்றுக் கொள்வதில் சீனாவின் அடிச்சுவடுகளைப் பின்பற்றுவதில்லை. அதாவது அரச உடைமையாக இருந்து தனியார் மயப்படுத்தப்பட்ட பின்னர் போட்டித்தன்மையுடன் இயங்கும் நிறுவனங்களை கையகப்படுத்துவதில்லை. தனியார் – பொதுத் துறைப் பங்குடைமையானது உற்பத்தித் திறனையும் செயற்றிறனையும் மேம்படுத்துவதற்கான ஒரு மாற்றீடாக அமைய முடியும். தனியார் முதலீட்டாளரின் நுழைவானது பெரும்பாலும் அரசியல் ரீதியாக சுய நல நோக்குக்கொண்ட ஆனால் நிதி ரீதியாக ஆரோக்கியமற்ற செயற்திட்டங்கள் அமுல்படுத்தப்படுவதைத் தடுக்கக்கூடியதாகும். தனியார் - பொதுத்துறைப் பங்குடைமைகள் இலங்கையின் எதிர்காலத்திற்குப் பொருத்தமெனின் தாக்கமுள்ள சீராக்கல் முகவர் நிறுவனங்களைக் கட்டியெழுப்புவதானது, தனியார் முதலீட்டைக் கவர்வதற்கான முக்கிய ஊக்கியாக அமையும். இங்கும் கூட இலங்கையானது, தேவையான முறையான நிறுவனங்களை உருவாக்குவதில் பின்னடைவு கண்டுள்ளது.

மேலே நடைபெற்ற கலந்துரையாடலிலிருந்து தெளிவாவது யாதெனில், கொள்கைகளை வடிவமைப்பதில் பல்வேறு திசைகளிலிருந்தும், இசைவிணைப்பு ஏற்பட்டு அவை நியாயமான ஒட்டு மொத்த வளர்ச்சி உபாயமொன்றை உருவாக்க வேண்டும் என்பதாகும். இலங்கைக்கான சந்தர்ப்பங்களும், சவால்களும் பலவாகும்: உலகப் பொருளாதாரத்தை முன்னோக்கித் தள்ளி, வளர்ச்சியை ஊக்கப்படுத்தி, வெளிவாரி அழுத்தங்களிலிருந்து அதனைப் பாதுகாத்தல், அதன் மனித வள குணாதிசயங்களைப் பயன்படுத்தி நாடுகளை நடுத்தர வருமான மட்டத்தில் சிக்க வைக்கின்ற நிலைமையைத் தவிர்த்தல். – உயர் தலா வருமான வளர்ச்சியுடன் கூடிய சமூக அசைவியக்கத்தை முகாமைத்துவம் செய்து ஊக்குவித்தல், நிலையான வளர்ச்சியை மாத்திரமன்றி நாட்டில் சமூக ஒட்டிணைவையும் ஏற்படுத்துகின்ற, நிறுவன ரீதியான மற்றும் ஆளுகைக் கட்டமைப்புக்களை உருவாக்குதல் என்பனவே அவையாகும். நிலையான மற்றும் நீதியான வளார்ச்சிக்கான பாதை இலகுவானதாக இராது. அதற்குக் காலம் எடுக்கும். சில பின்னடைவுகளும் ஏற்படமுடியும். ஆனாலும் இலங்கை முன்னோக்கி நகர வேண்டும். இறுதியாக, அரசியல் அர்ப்பணமும் அரசியல் தலைமைத்துவத்தின் இயல்பும், சிறந்த வாழ்க்கைத் தரங்கள் குறித்தான நாட்டு மக்களது சட்டரீதியான அபிலாஷைகளை நிறைவேற்றுதற்கான மாற்றத்தை வரைவிலக்கணப்படுத்தும்.

இவையும் ஏனைய விவகாரங்களும் இலங்கையில் வளர்ச்சியை வேகப்படுத்துவதற்கான சந்தர்ப்பங்கள் மற்றும் சவால்கள் குறித்த விவாதத்துடன் தொடர்புபட்டதாகும். அது பற்றி இந்த அறிக்கையின் எஞ்சிய பகுதியில் கலந்துரையாடப்படும்.

2. Macroeconomic Performance

2.1 Introduction

Sri Lanka continued to build on its strong post-conflict growth performance, recording GDP growth of 8.3 per cent in 2011, maintaining the momentum generated by the government's infrastructure related development drive. Higher growth, however, was also accompanied by increasing signs of macroeconomic stress from the second half of 2011. This is not entirely unexpected. Greater recourse to foreign financing of government expenditure needs, as undertaken by Sri Lanka, limits options for policy manoeuvre. There is a trade-off between fiscal conditions and exchange rate management when currency movements impact debt ratios. Inflows of foreign capital, associated with higher volumes of borrowing, then spills over into the conduct of monetary and exchange rate policy management.

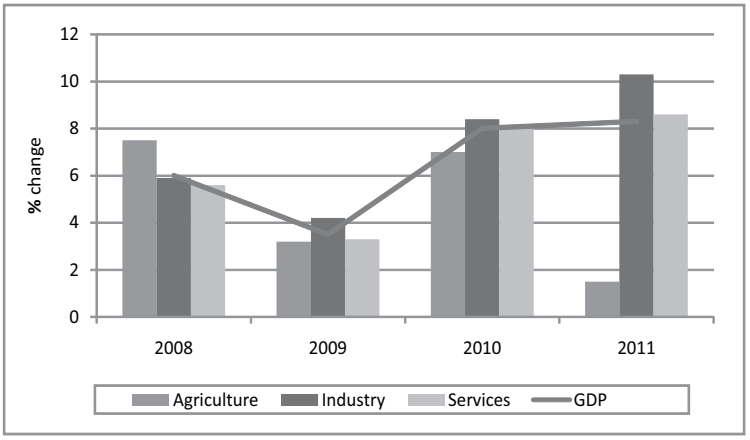
These stresses were particularly evident in the Sri Lankan economy from the third quarter of 2011. Subsequent policy corrections, particularly with regards to exchange rate policy setting, have helped to avert a prolonged period of macroeconomic instability and a longer recovery in growth prospects. Nonetheless, it is a salutary lesson that the country must learn, following on from its foreign exchange crisis of 2009, that implementation of prudent macroeconomic policy is a must if Sri Lanka's long term growth and, hence, its socio-economic development objectives are to be met.

> ***"It is often better to ensure an early trade-off between growth and stability as opposed to encouraging rampant growth and risk potential instability in the macroeconomic front"***

2.2 Output and Employment

GDP growth of 8.3 per cent in 2011, was driven by strong growth in industry and services sectors, accounting for approximately 29.3 per cent and 59.5 per cent respectively of total output. Agricultural output slumped sharply to record a growth of only 1.5 per cent on the back of adverse weather conditions experienced in the first quarter of 2011.

Figure 2.1
GDP Growth



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

Inclement weather in the form of severe floods in the first quarter of 2011 caused extensive crop damage -- as a result of direct crop damage as well as indirect impacts on yield -- in key agriculture products, particularly in paddy and other food crops. Paddy production contracted by 10 per cent in 2011, while many other field crops such as maize, green gram, kurakkan, etc., also saw a downturn in production.

The drag on agricultural output was compensated by improved performance in the industry sector, with much of the higher growth emanating from construction related activities, where growth accelerated to 14.2 per cent in 2011, from 9.3 per cent in the previous year. Other industry sectors such as mining and quarrying and utilities (electricity, water and gas) have also seen a fairly strong upturn in output. By contrast, manufacturing, the most critical sub-sector in industry, saw only a marginally higher rate of growth in 2011, with the manufacturing share of GDP continuing to stagnate at 17.3 per cent.

Table 2.1
GDP Sectoral Output

	Share of GDP (%)	Rate of Change (%)	
	2011	2010	2011
Agriculture	11.2	7.0	1.5
Tea	1.0	13.8	-0.9
Paddy	1.5	17.5	-8.4
Other food crops	3.6	4.4	2.5
Industry	29.3	8.4	10.3
Manufacturing	17.3	7.3	7.9
Construction	7.1	9.3	14.2
Services	59.5	8.0	8.6
Wholesale and retail trade	23.6	7.5	10.3
Transport and communication	14.3	11.9	11.3
Banking, insurance and real estate	8.8	7.5	7.9
Government services	7.1	5.4	1.2

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

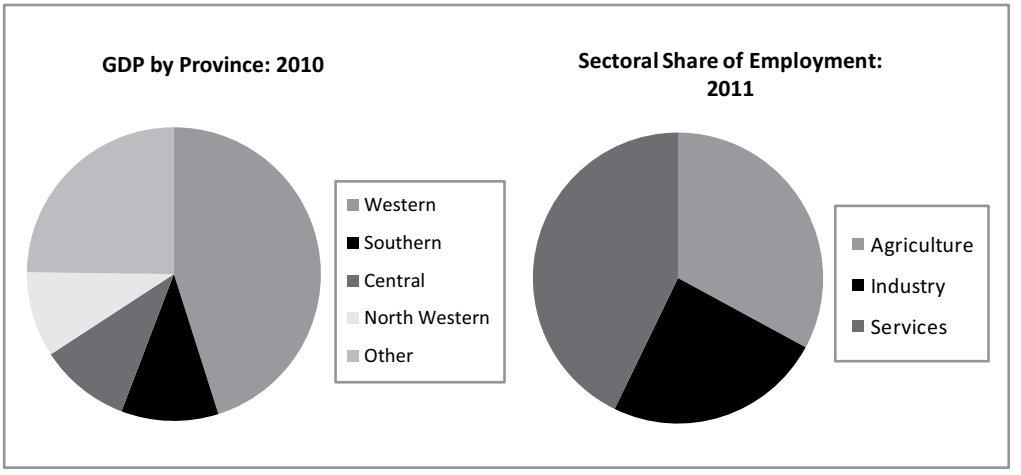
In the services sector, domestic demand and high trade volumes saw the wholesale and retail sector expand substantially by 10.3 per cent in 2011 relative to a growth rate of 7.5 per cent in the previous year. Financial services also saw an expansion, albeit at a lower rate of growth. By contrast, transport and communication services – a key area that Sri Lanka is keen to develop as a regional hub – saw slower growth in 2011. The sharp drop in cargo handling is of particular concern given the significant capital investments being made in the ports and aviation sectors in the country.

Higher growth has been accompanied by a wider dispersion of economic activity across the country in recent years. The share of economic activity generated in the Western Province has declined over time from 50 per cent in 2006 to 45 per cent by 2010. This is in keeping with the government's stated policy objective of ensuring that regional disparities are bridged and the benefits of economic growth are more equitably distributed within the country.

The increased focus on the rural economy is also reflected in the sectoral share of employment across the country. Despite the sharp decline in agriculture's contribution to GDP, it remains the source of livelihood for the majority of those in the labour force. In 2011, the agriculture sector share of employment rose marginally to 32.9 per cent with the addition of 82,000 jobs. The industry and services sectors absorbed 48,000 and 60,000 jobs in 2011, with their share of employment being 24.3 per cent and 42.8 per cent, respectively.

Sri Lanka has continued to see a marked drop in its rate of unemployment in recent years. This trend persisted into 2011, with the rate of overall unemployment estimated at 4.2 per cent, although marked differences across provinces, gender, age, level of education, etc., still continue to persist. As the country

Figure 2.2
GDP by Province and Sectoral Share of Employment



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

Table 2.2
Labour Force Trends[a]

	2009	2010	2011
Labour force ('000 persons)	8,074	8,108	8,236
LFPR[b] (%)	48.7	48.1	48.2
Male	66.6	67.1	66.5
Female	32.8	31.2	31.8
Unemployment rate (%)	5.7	4.9	
By gender			
Male	4.3	3.5	2.7
Female	8.6	7.7	6.8
By age group			
15-19	20.9	20.3	15.4
20-29	15.4	13.8	12.4
By education level			
GCE (O/L)	8.5	6.9	5.2
GCE (A/L)	11.2	11.6	9.0

Notes: a: Date excludes Northern Province.
b: Labour Force Participation Rate.

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

aims for higher growth, labour market constraints – skills gaps as well as issues of labour productivity -- will be key factors in whether or not Sri Lanka is able to sustain high growth over the longer term. In addition, emerging labour market trends in Sri Lanka hold significant implications for any policy approach adopted in regard to promotion of foreign employment, particularly in the context of current initiatives to encourage more skilled migrants to seek temporary employment overseas.

2.3 Consumption, Savings and Investment

The relatively sharp upturn in consumption expenditure in 2011, particularly of private consumption – rising to 69.8 per cent of GDP compared to 65.2 per cent of GDP in 2010 -- is indicative of the demand-driven nature of economic performance in 2011. Indeed, higher consumption spending saw Sri Lanka's domestic savings ratio plummet sharply to 15.4 per cent of GDP in 2011 from 19.3 per cent recorded in 2010. Clearly, Sri Lanka's

Table 2.3
Consumption, Investment and Savings

(% of GDP)	2009	2010	2011
Consumption	82.1	80.7	84.6
Private	64.4	65.2	69.8
Government	17.6	15.6	14.8
Investment	24.4	27.6	29.9
Private	17.9	21.4	23.7
Government	6.6	6.2	6.3
Domestic savings	17.9	19.3	15.4
National savings	23.7	25.4	22.1

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

low domestic savings ratio, despite gains made in raising per capita income, is a cause of concern as low savings limits domestic resource mobilization for investment purposes.

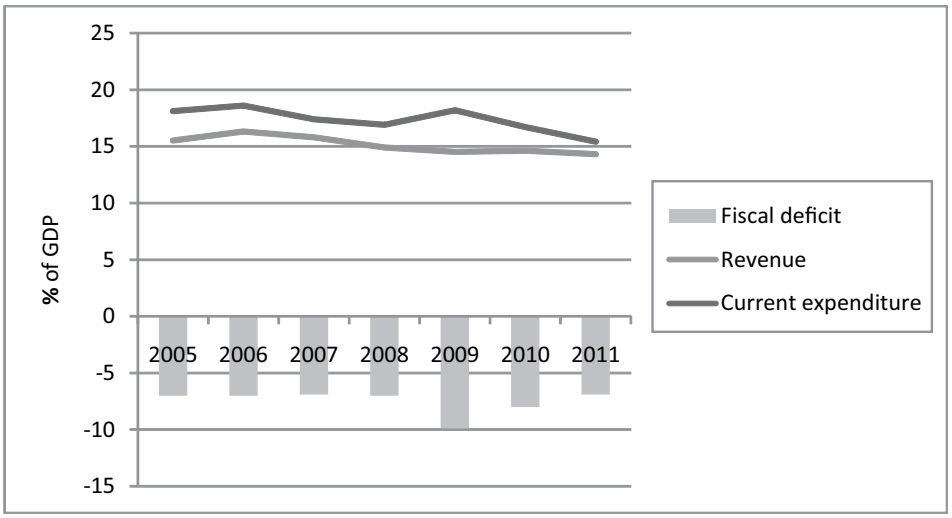
Moreover, as a matter of setting macroeconomic policy, Sri Lanka should make attempts to encourage saving over consumption, particularly in order to ensure that future consumption relative to current consumption is not penalized, as a rapidly ageing population finds itself without adequate retirement incomes. The country needs to not only focus on policy decisions around pensions funding and retirement savings, but also on ensuring an environment that encourages savings. Low interest rates, designed to encourage private investment, can also discourage savings. Here, maintaining a real return on savings is important so that there is no transfer of wealth from savers to borrowers.

2.4 Fiscal Policy Developments

Government budgetary management over the years has also failed to contribute to the country's efforts to raise savings. Persistent fiscal deficits signal that the government is drawing on resources of other sectors in the economy. Over more recent years however, Sri Lanka has made progress in key fiscal balances in keeping with the country's commitments under the IMF SBA arrived at in July 2009. The overall deficit has seen a marked reduction from 9.9 per cent of GDP in 2009 to 6.9 per cent of GDP in 2011 and is expected to be contained further to 6.2 per cent of GDP in 2012. Fiscal consolidation has been accompanied by a consistent decline in Sri Lanka's government debt to GDP ratio from 86.2 per cent in 2009 to 78.5 per cent in 2011.

The turnaround has come about despite a sustained public investment drive with public investment as a percentage of GDP maintained at an average of 6.5 per cent of GDP over the period 2009-11. This is in contrast to earlier efforts where fiscal targets have often been met, simply, by cutting back on allocated expenditure on capital investment. Thus, the decline in current expenditures from 18.2 to 15.4 per cent of GDP between 2009 and 2011 is the most promising aspect of Sri Lanka's recent fiscal consolidation efforts.

Figure 2.3
Key Fiscal Trends



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

Table 2.4
Current Expenditures

(% of GDP)	2009	2010	2011	2012
Expenditure on goods and services	7.9	6.9	6.6	6.7
Salaries and wages	5.6	5.4	4.9	4.9
Interest payments	6.4	6.3	5.5	4.9
Foreign	0.7	1.0	1.1	0.6
Domestic	5.7	5.3	4.4	4.3
Transfers and subsidies	3.9	3.5	3.3	3.1
Households and other sectors	3.1	2.8	2.6	2.5
Samurdhi	0.2	0.2	0.1	0.2
Pensions	1.8	1.6	1.5	1.5
Fertilizer	0.6	0.5	0.5	0.4
Other	0.6	0.5	0.5	0.4

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

Salaries and wages of public sector employees account for one-third of government revenues. A relatively low inflationary environment that dampened demand for public sector wage increases, and an estimated 6 per cent reduction in the overall number of public sector employees between 2009 and 2011,[1] has allowed the government some flexibility to restrain recurrent spending on wages and salaries. Meeting interest payments on debt that take up another one-third of government revenue has also been helped since mid-2009 by a sharp reduction in domestic interest rates as well as by a relatively stable rate of exchange in regard to external debt service obligations.

However, significant weaknesses in financial management of SOEs continue, exerting pressure on public finances. Operational losses by SOEs not only dent government tax revenue enhancement efforts, but they are also a source of high government borrowing from the banking sector that crowd out private sector investment. If Sri Lanka is to prevent continuous hemorrhage of scarce domestic resources through growing financial losses incurred by SOEs, reforming of operational management of state enterprises has to be a priority item on the government's agenda for long term fiscal sustainability.

Such action is all the more necessary in view of continuing revenue deficits and attempts

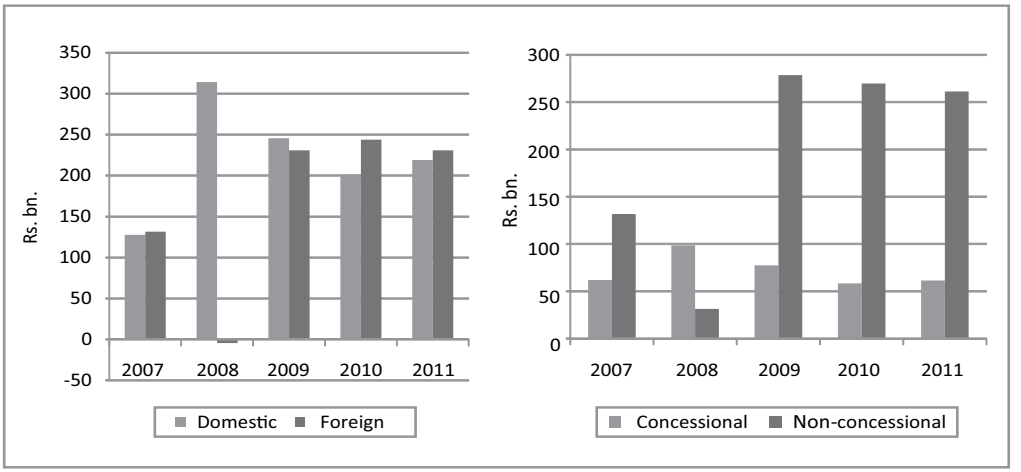
Table 2.5
Operational Losses/Profits of Select SOEs

(Rs. bn)	2009	2010	2011
Ceylon Petroleum Corporation	-26.2	-27.0	-94.0
Ceylon Electricity Board	-11.0	4.8	-25.5
SriLankan Airlines	-12.2	-6.3	-19.1
Department of Posts	-2.5	-3.0	-4.6
Sri Lanka Railways	-4.8	-3.2	-4.1
Sri Lanka Transport Board	-5.2	-8.4	-3.8

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

[1] See CBSL, *Annual Report 2011*.

Figure 2.4
Trends in Deficit Financing



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

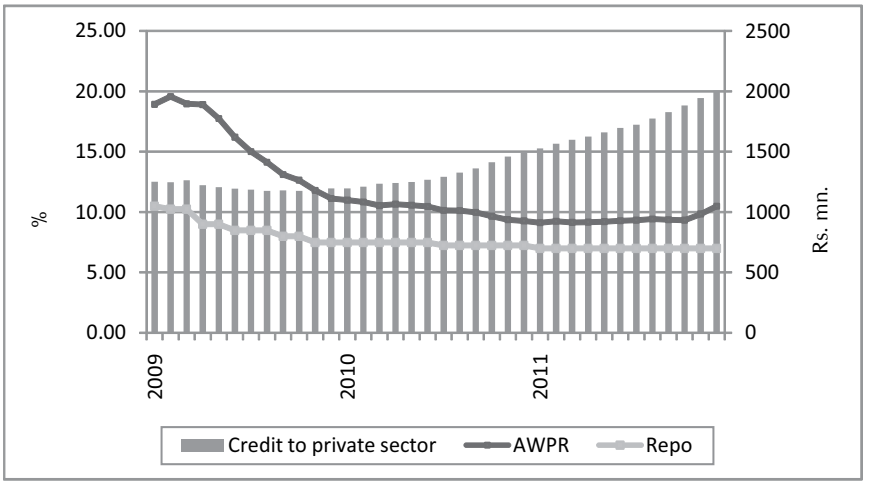
to improve revenue collection via a host of reforms recommended by a Presidential Commission on Taxation in 2010. Despite GDP growth in excess of 8 per cent over the last two years, tax revenue as a percentage of GDP declined to 12.4 per cent in 2011 from 12.9 per cent in 2010. Sri Lanka's revenue to GDP ratio of 14.3 per cent is a well below average performance for a country that has attained lower middle income status whereby the ratio should be in the region of 20 per cent. Recommendations of the Presidential Commission on Taxation -- to rationalize the tax system, broaden the tax base and improve administrative oversight on tax collection -- should be implemented in a systematic fashion if Sri Lanka is to see a continuous improvement in its tax revenue-to-GDP ratio over the medium term.

Better domestic resource mobilization is vital for fiscal consolidation. Sri Lanka has been relying on a mix of domestic and foreign finance to bridge its fiscal deficit. Historically, such foreign financing has been by way of grants and concessional assistance. Increasingly, however, the country has turned to non-concessional sources of funding as the major component of foreign financing of its fiscal deficit. Even as the transition away from grants can be expected as countries like Sri Lanka graduate to middle income status, a swift accumulation of costlier external debt to bridge fiscal financing needs can make the country more vulnerable to external shocks and constrain macroeconomic policy space. A tighter policy environment in which to manoeuvre, calls for prudent macroeconomic management -- a coordinated approach to both fiscal and monetary policies, as well as exchange rate management. In the absence of this, macroeconomic stability can begin to unravel and hinder the country's long term growth prospects.

2.5 Monetary Policy

Whilst improvements in overall fiscal policy trends, particularly in containing the fiscal deficit, contributed towards allowing a moderate inflationary environment to persist, monetary policy management has not been without problems. With the end of the conflict in May 2009 and increased reliance on government foreign borrowing to finance development expenditures, the CBSL intervened in the foreign exchange market to prevent an undue appreciation of the Sri Lankan rupee. The resulting build-up of reserves saw an ex-

Figure 2.5
Credit Growth and Interest Rates



Notes: a: AWPR = Average Weighted Prime Lending Rate.
Repo = Repurchase Rate.

Source: CBSL, *Monthly Economic Indicators*, various issues.

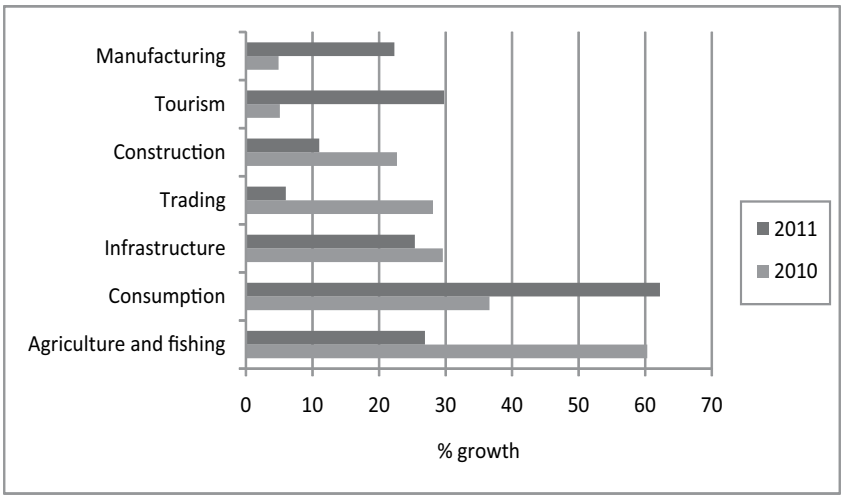
pansion of the monetary base, with significant volumes of excess liquidity in the financial market. Credit growth to the private sector which was slow to expand initially as Sri Lanka's long-drawn conflict ended precipitately, began to gather momentum from mid-2010, and accelerated during 2011. Indeed, as credit growth to the private sector picked up sharply, financial sector developments shifted swiftly from an environment of excess liquidity in the first quarter of 2011 to an environment of tight liquidity by the third quarter of 2011. Despite credit growth to the private sector averaging 34.5 per cent in 2011, relative to 25 per cent growth in 2010, policy rates remained unchanged throughout 2011.

A rapid credit expansion can have broader implications for medium term financial sector stability as experienced by Sri Lanka in 2008/09. The loan-to-deposit ratio of the banking sector has climbed steadily from 71 per cent in 2009 to 85 per cent by end 2011. Sector-wise credit exposure in 2011 indicates the high growth in consumption lending, a segment that is particularly vulnerable to a general economic slowdown when it comes to servicing debt obligations.

Whilst keeping policy rates unchanged, the CBSL was also simultaneously attempting to hold the currency steady for much of 2011. The initial pressure on the rupee to appreciate in the face of foreign capital inflow began to reverse from mid-2011 as Sri Lanka's current account position on the BOP began to weaken significantly. Access to cheap credit and an overvalued exchange rate were pulling in imports and widening the country's trade balance sharply. Thus, even as import expenditure expanded and the currency began to come under pressure, the CBSL adopted a policy stance of reverse intervention of selling dollars to ensure that the rupee remained within a pre-determined band.

[2] See IPS, *Sri Lanka: State of the Economy 2010*, IPS, Colombo.

Figure 2.6
Sector-wise Lending



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

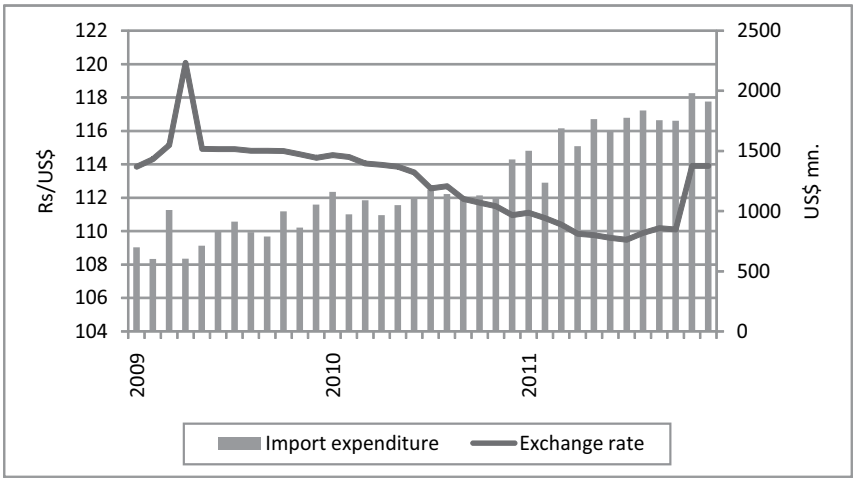
Clearly, such a policy stance holds inherent threats to macroeconomic stability, particularly so in the face of a weak global economic environment that can have a significant drag on a country's foreign exchange reserves. Despite the CBSL stance, the Budget 2012 presented in November 2011, sought a change of policy with regards to exchange rate management in announcing a nominal depreciation of 3 per cent against the US dollar.

Tight liquidity conditions in the domestic financial sector saw upward pressure on interest rates, particularly in the fourth quarter of 2011. The CBSL, however, held off from adjusting policy rates until February 2012, whereby an upward adjustment of 50 basis points was effected. Additional measures to curb credit growth to the private sector were also announced in February 2012, where the CBSL slapped a mandatory ceiling on commercial bank credit growth for 2012 of 18 per cent and 23 per cent if the balance 5 per cent comes from foreign sources.

A redeeming feature of Sri Lanka's monetary policy management has been that inflationary pressures have remained moderate with annual average inflation rising marginally from 6.2 per cent in 2010 to 6.7 per cent in 2011. Much of the inflationary pressure emanated from rising food prices following inclement weather in the first quarter of 2011, and adjustments to fuel prices in April 2011. Despite high credit growth, the inflationary consequences were mitigated to an extent by the fact that much of the credit growth is likely to have been channeled to higher import expenditures, dampening pressure on domestic output. In addition, an overvalued exchange rate also helped to curb import-related price inflation.

Rising inflationary pressures will be of some concern in 2012. Adjustments to administered prices and a depreciating rupee will be driving inflationary pressure. While front loading in the credit growth ceiling imposed on commercial banks will see credit growth remain high for the first half of 2012, it is likely to ease thereafter, especially if export growth is hampered by a weakening global economy.

Figure 2.7
Exchange Rate Trends

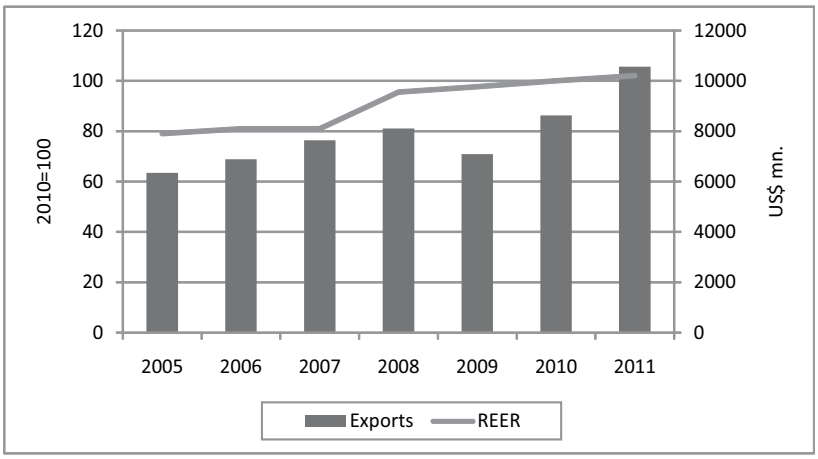


Source: CBSL, *Monthly Economic Indicators*, various issues.

2.6 Balance of Payments

The performance of Sri Lanka's export earnings from both goods and services is going to be a critical lynchpin to the country's long term growth objectives. Not surprisingly, the reversal in exchange rate policy management introduced in the Budget 2012 was presented as a necessary adjustment to support the export sector to compete in an increasingly volatile and weak global economic environment. Despite a healthy 8 per cent GDP growth rate achieved in Sri Lanka's immediate post-conflict phase of development, the contribution of exports to drive growth has been poor. The country's exports-to-GDP ratio has declined persistently from 26 per cent in 2005 to 17.8 per cent in 2011. Whilst this points to structural constraints to export growth, a steady appreciation of the real effective exchange rate (REER) of 26 per cent from 2007-2011 would not have helped the export sector to retain price competitiveness in international markets.

Figure 2.8
Real Exchange Rate Trends



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

Table 2.6
External Current Account Developments

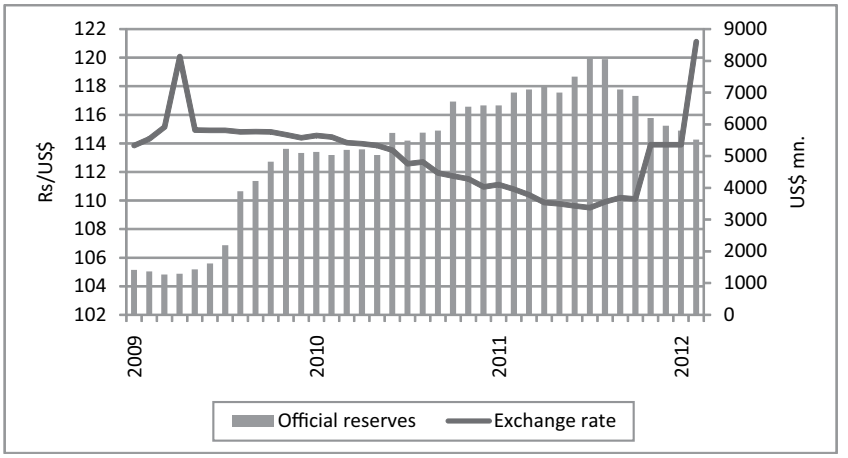
	2009	2010	2011
Trade balance (US$ mn.)	-3122	-4825	-9710
Remittances (US$ mn.)	3330	4116	5145
Tourism (US$ mn.)	350	576	830
Current account (% of GDP)	-0.5	-2.2	-7.8

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

With import expenditure growth (51 per cent) far outstripping export earnings growth (22 per cent) in 2011, even healthy earnings from remittances and tourism could not help to bridge Sri Lanka's ballooning current account deficit of 7.8 per cent of GDP. As mentioned previously, even as the current account was weakening and exerting pressure on the exchange rate, the CBSL resorted to selling dollars in the foreign exchange market in an attempt to prop up the currency.

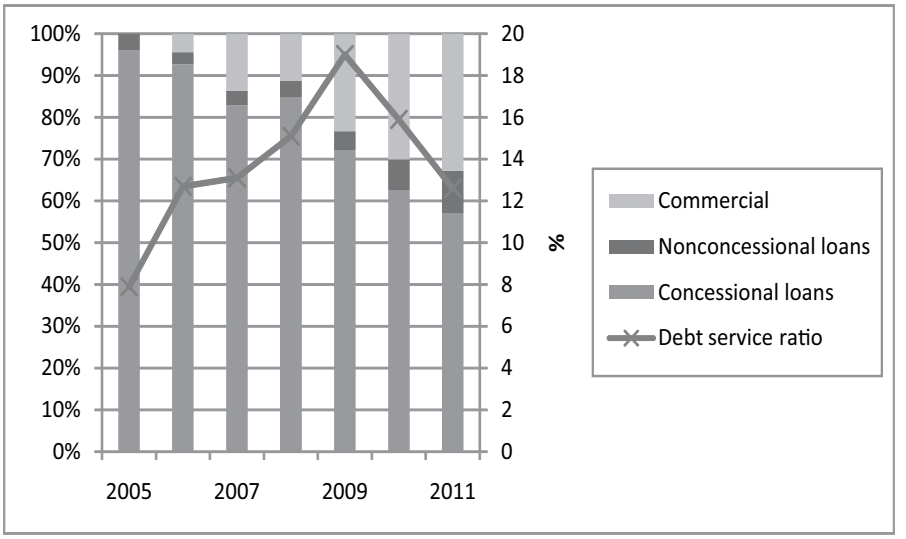
Sri Lanka's gross official reserves built up since the end of the conflict and SBA with the IMF peaked at US$ 8 billion (sufficient for 5.7 months of imports) in July 2011 on the back of the country's fourth US dollar benchmark offering in the global bond markets since 2007. Indeed, the bond issue followed an upgrade of Sri Lanka's long-term foreign and local currency issuer ratings to "BB-" from "B" with the outlook on both listed as "stable" by Fitch Ratings. Similarly, Moody's Investors Service lifted the outlook on Sri Lanka's below-investment-grade "B1" credit to "positive." By end 2011, Sri Lanka's official reserves had dipped to US$ 5,958 million with a further drop to US$ 5,522 million by February 2012, sufficient for 3.2 months of imports. The depletion of reserves compelled the CBSL to allow the exchange to move in line with market conditions from February 2012. Indeed, as would be expected, there was significant volatility and overshooting of the exchange rate in the immediate aftermath of the policy change. In effect, the currency saw a nominal depreciation in the range of 20 per cent following the relaxation of controlled intervention by the CBSL.

Figure 2.9
Gross Official Reserves



Notes: Official reserves exclude Asian Clearing Union (ACU) balances.
Source: CBSL, *Monthly Economic Indicators*, various issues.

Figure 2.10
Outstanding Public External Debt



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

The policy correction was welcomed, not least to avert a potential foreign exchange crisis as that experienced in 2009 from a similar attempt to prop up a currency under pressure, that eventually led to Sri Lanka's approach to the IMF for a SBA. Most importantly, however, the policy stance to allow the exchange rate to reflect underlying macroeconomic fundamentals is welcome from the stance of meeting the country's long term structural challenges. Sri Lanka's accumulation of reserves since the end of the conflict, and the initial resultant upward pressure on the exchange rate, was primarily driven by a rebalancing of flows on the capital account with larger volumes of foreign currency denominated borrowing by the government.

The accumulation of costlier commercial and non-concessional forms of foreign debt has been swift. Indeed, the share of concessional funding in Sri Lanka's outstanding foreign debt has dropped sharply from 96 per cent in 2005 to 57 per cent by 2011. While there may be year-to-year fluctuations in the resultant external debt service ratios in response to exchange rate policy, export earnings performance, bunching of debt service repayments, etc., the overall trend is suggestive of higher external debt service ratios in the medium to longer term. This calls for a strategy that will support stronger demand for Sri Lanka's goods and services overseas, allowing the country to service its fast growing external debt obligations comfortably.

2.7 Conclusion

Sri Lanka's overall post-conflict development focus on accelerated, but balanced regional growth has yielded positive results since the end of the conflict in May 2009. GDP growth has averaged 8 per cent with significant improvements in achieving better regional parity as made evident by the country's overall achievements in tackling poverty and deprivation. Nonetheless, the country's growth strategy propelled by a rapid roll-out of a public infrastructure investment drive, financed largely by borrowed funds -- especially foreign currency denominated debt -- does impose challenges on macroeconomic

policy management. It raises a country's vulnerability to external shocks and can often constrain the space for policy manoeuverability. In such circumstances, any deviation from prudent and timely policy adjustments can be costly for macroeconomic stability and medium term growth sustainability.

Sri Lanka did come up against such constraints and instituted policy corrections, particularly reversing the approach to maintain the exchange rate within a pre-determined band. The imposition of credit ceilings on commercial bank lending, policy interest rate revisions, re-imposition of import duties, etc., were other changes effected to ensure that the country retains stability on the macroeconomic front. The overall impact of these policy adjustments will be to lower Sri Lanka's GDP growth in 2012, forecast to be in the region of 7.0 per cent, down from the previous estimate of 8 per cent growth.

A slowdown in GDP growth in 2012 should not be viewed with concern. It is often better to ensure an early trade-off between growth and stability as opposed to encouraging rampant growth and potential instability in the macroeconomic front that will require sharper policy adjustments that drag growth down more and for longer. For Sri Lanka, the immediate priority is to regain stability, particularly on the exchange rate front. A weakening global economic outlook will help, easing pressure on international oil prices that together with reduced domestic demand will allow the exchange rate to stabilize. Although inflation will pick up in the second half of 2012, monetary tightening will ensure that inflation remains fairly moderate, allowing the country to renew efforts to raise its GDP growth target back on track to 8 per cent in 2013.

3. Expanding Sri Lanka's Global Economic Reach

3.1 Introduction

After suffering a major setback in 2011, the prospects for the world economy strengthening in 2012 remain bleak. Growth in global economic output which slowed down considerably from 5.0 per cent in 2010 to 3.8 per cent in 2011 is expected to slow down further to 3.5 per cent in 2012.[1] Improved economic data emerging from the United States (US) for the second half of 2011 and the uptake of more prudent policy measures by the Euro Zone in response to the worsening of the sovereign debt crisis has somewhat alleviated the risk of a severe economic downturn. The IMF, however, warns that the recovery is fragile, and another bout of volatility in Europe or an oil price spike as a consequence of geopolitical uncertainty would severely dampen the prospects of a global economic recovery in the near future.

> ***" There is a need to diversify Sri Lanka's export market share and look towards the rapidly developing economies of Asia, not only as sources of assistance, but also as economic partners"***

With the Euro Zone expected to experience a mild recession in 2012 and the pace of growth in the US constrained by indebted consumers, high unemployment, and a weak housing market, the much needed impetus required to keep the global economy afloat is expected to come from emerging and developing economies. Economic growth in emerging and developing economies is expected to average 5.7 per cent in 2012, with Asia and Latin America leading the way.

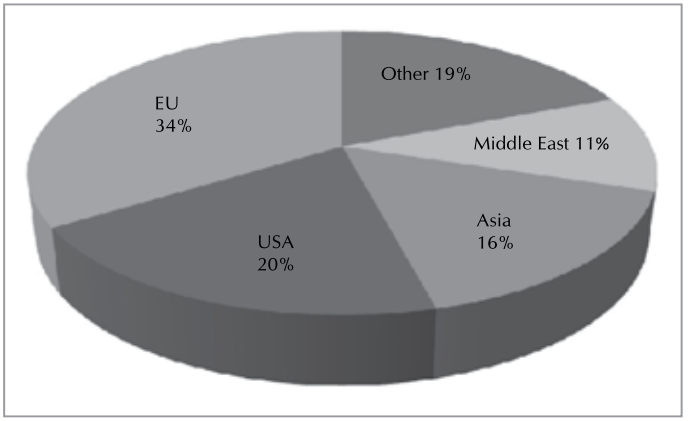
In line with the projected slowdown in world GDP, world trade growth too is estimated to decline to 3.7 per cent in 2012, down from 5 per cent in 2011.[2] Whilst current forecasts for 2013 are more positive with an anticipated improvement in world trade growth of 5.6 per cent, it will depend on the ability of the Euro Zone to avoid further recessions. Unpredictable factors such as geopolitical developments and natural disasters can change all projections.

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[3] IMF, *World Economic Outlook*, April 2012.

[2] World Trade Organization, *World Trade Report 2012*.

Figure 3.1
Sri Lankan Exports by Destination: 2011



Source: CBSL, *Annual Report 2011*.

The Sri Lankan economy has not been immune to global developments. With Sri Lanka's key exports markets suffering yet another setback, coupled with geopolitical tensions in the country's major oil importing economies, the trade balance deteriorated significantly, particularly in the latter part of 2011. The US$ 5 billion trade deficit at the end of 2010 almost doubled to US$ 9.7 billion by the end of 2011, stemming from a massive increase in imports, particularly of intermediate goods. The changing global economic landscape suggests the crucial need for Sri Lanka to diversify its external economic linkages and look at strategic ways of moving forward. In this context, this Chapter examines the changing global dynamics and possible implications for the Sri Lankan economy in the near term.

3.2 Outlook for Sri Lanka's Key Export Markets

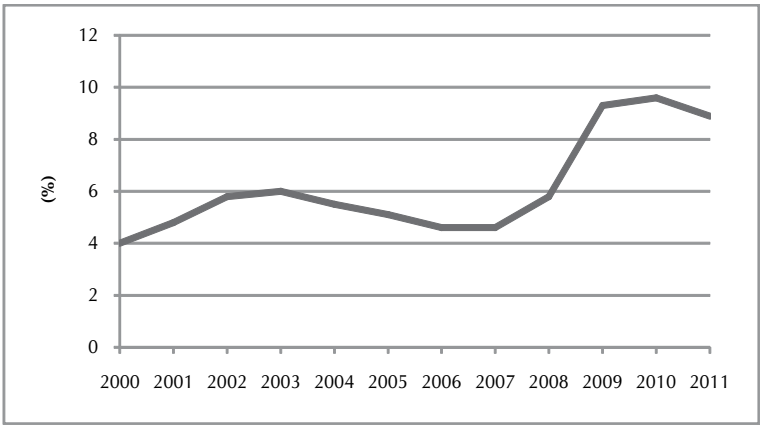
The US and EU are among the largest economies in the world, contributing 19.1 per cent and 14.3 per cent respectively of total world GDP in 2011.[3] They are also the largest markets for Sri Lanka's exports, accounting for roughly 54 per cent of overall exports in 201 (Figure 3.1). As such, these two markets play a key role in determining the impact of any external shock on Sri Lanka's domestic economy.

3.2.1 Growth Prospects for US and EU

There has been a rapid decline in several Euro Zone economies in 2011 due to the region's sovereign debt crisis, with knock-on effects on the US economy as well. However, recent IMF forecasts indicate that the West will perform more positively than previously predicted. With stronger labour market outcomes – including a decreasing unemployment rate, and renewed consumer confidence – the US economy has picked up and is predicted to attain a GDP growth rate of 2.1 per cent and 2.4 per cent for 2012 and 2013, respectively. The US unemployment rate shot up following the global financial crisis of 2008/09, but tapered off thereafter and has since come down to 8.9 per cent in 2011 (Figure 3.2). Personal consumption expenditure has also increased, following a dip in 2009 (Figure

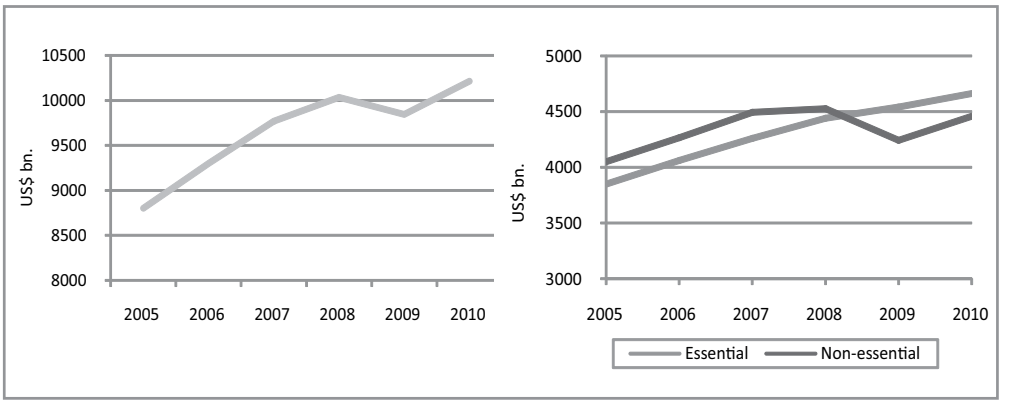
[3] IMF, *World Economic Outlook*, April 2012.

Figure 3.2
US Annual Unemployment Rate, 2000-2011



Sources: US Department of Labor, Bureau of Labor Statistics and US Bureau of Economic Analysis.

Figure 3.3
US Overall Personal Consumption Expenditure and Expenditure on Essential vs. Non-essential Items, 2005-2010



Source: US Bureau of Economic Analysis.

3.3). Furthermore, spending on non-essential items, such as household appliances and motor vehicles, saw a rise from 2009 to 2010, although it has yet to reach levels recorded in 2008 prior to the crisis.

However, certain domestic factors continue to be areas of concern. Several tax provisions, including tax cuts introduced by the previous Republican administration, are due to expire in 2013. Coupled with proposed reductions in government spending this could slow down economic recovery in the US. Moreover, there is little expectation that medium-term debt reduction will take place before 2013 due to the November 2013 Presidential Election and bipartisanship in the US Congress, with Democrats unwilling to shift their position on major welfare programmes, including, Medicare, Medicaid, and Social Security, while Republicans refuse to entertain policy reforms that call for tax increases.

Box 3.1
Instability of Real GDP Forecasts

The IMF publishes its projections for global economic growth in its World Economic Outlook annually, with accompanying updates through the year. However, uncertainty in economic recovery among advanced economies and instability in financial markets have led to constant revisions with each successive report. The Euro Zone debt crisis and challenges in US domestic policy, such as policymakers' inability to reach an agreement on medium-term debt consolidation have placed substantial constraints on growth in developed markets. Furthermore, the devastating earthquake and tsunami that hit Japan, and the Arab Spring uprisings in several oil-exporting nations resulted in further disruptions in global economic output. However, new figures published in April 2012 indicate a more positive outlook throughout much of the world. The European Central Bank (ECB) and IMF have negotiated bailout packages for debt-ridden economies in the region, and the US has picked up its growth following renewed consumer confidence and a stronger labour market. Developing countries have also been affected by these events, projecting an expected rise in real GDP growth rates of 0.3 percentage points, compared to figures published in the previous January 2012 report.

Table 3.1
Overview of Real GDP Forecasts: Changing Projections for 2012 (%)

	June 2011	September 2011	January 2012	April 2012
World	4.5	4.0	3.3	3.5
Advanced economies	2.6	1.9	1.2	1.4
US	2.7	1.8	1.8	2.1
Euro area	1.7	1.1	-0.5	-0.3
United Kingdom	2.3	1.6	0.6	0.8
Japan	2.9	2.3	1.7	2.0
Emerging and developing economies	6.4	6.1	5.4	5.7
Developing Asia	8.4	8.0	7.3	7.3
China	9.5	9.0	8.2	8.2
India	7.8	7.5	7.0	6.9
ASEAN-5	5.7	5.6	5.2	5.4
Latin America & the Caribbean	4.1	4.0	3.6	3.7
Brazil	3.6	3.6	3.0	3.0
Mexico	4.0	3.6	3.5	3.6
Middle East & North Africa	4.4	3.6	3.2	4.2
Sub-Saharan Africa	5.9	5.8	5.5	5.4

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

Developments in European economies may also hold back US growth. The role of the US as a hub for financial markets may see it receive strong negative spillovers from financial markets in the euro area as it battles the sovereign debt crisis. Heightened stress on sovereign debt and the banking system in the euro area may lead to a fall in confidence in the US corporate sector, affecting investment and demand, and ultimately hampering growth in output. The two economies are so closely connected that the US could experience an economic slowdown of roughly 40 per cent of that experienced in the Euro Zone.[4]

[4] IMF, *World Economic Outlook*, April 2012.

Box 3.2
How did Greece Incur So Much Debt?

Among the many countries struggling with debt in the Euro Zone, Greece has arguably been the most severely affected. European countries granted Greece a second bailout package worth US$ 173 billion, with strict austerity measures attached to the package, including increased taxes and cutbacks on public sector pay and pensions.

The proximate causes of the debt crisis are many. Indeed, it is alleged that manipulation of data prior to the entry of Greece into the Euro Zone in 2001 may have masked emerging vulnerabilities. For instance, the Maastricht Treaty stipulated the criteria necessary to join the Euro Zone, including setting boundaries for inflation and debt levels. A key indicator was ensuring a budget deficit of no more than 3 per cent of GDP. It is argued that certain expenditures were omitted from the government's budget balance sheets in order to cover up the country's true debt figures, whereby Greece seemingly met all the necessary criteria to join the Euro Zone.

Having joined as a member of the Euro Zone, Greece was allowed to obtain loans at low interest rates. The country borrowed heavily to help fund its expenditures, including rising public sector wages and the 2004 Olympic Games, which went beyond its budget. Banks were willing to lend to Greece, believing there was little risk of default, as the country's currency was now the same as that of more stable, wealthier economies like Germany. With increasing debt, Greece was ill-prepared to face the global financial crisis of 2008/09. The economic downturn meant increased spending on welfare benefits and a decrease in tax revenue, adding to the country's spiraling debt. To help combat the crisis, the IMF and the ECB drew up a bailout package of US$ 146 billion in May 2010. In October 2011, the Euro Zone implemented a debt-restructuring plan that involved negotiating a 50 per cent reduction of Greek debt among banks and assorted investors. However, it remains to be seen whether the country will dig itself out of the crisis it is currently experiencing.

Sources: BBC News, *Q&A: Greek debt crisis, 2 March, 2012; Little, Allan, How 'magic' made Greek debt disappear before it joined the euro*, BBC News, 3 February 2012.

Despite recent upward revisions, the Euro Zone economies are still expected to experience a recession in the coming months. The euro area is projected to experience a GDP growth rate of -0.3 per cent in 2012 and 0.9 per cent in 2013. The sovereign debt crisis that plagued the Euro Zone was the result of a confluence of several factors. Mispriced risk, weak macroeconomic policy, and inadequate prudential frameworks were coupled with flaws in the EUs Economic and Monetary Union (EMU) to produce excessive public and private sector imbalances. A key flaw of EMU governance is argued to be its Stability and Growth Pact which, despite being designed to promote fiscal discipline, did not successfully limit poor fiscal policy.[5] Banks were lending at a growing rate across borders without supervision and regulation that extended beyond national borders. The ECB was not permitted to act as lender of last resort, although this did not prevent a moral hazard scenario from forming. Markets operated as if governments and central banks would be ready with bail-out packages if things went badly. Banking systems

[5] IMF, *World Economic Outlook*, April 2012.

Table 3.2
Top Sri Lankan Products to the US and EU: 2005 and 2010

Product	2005		2010	
	Export Value (US$ mn.)	Share (%)	Export Value (US$ mn.)	Share (%)
US				
Articles of apparel, clothing and textile	1657.0	83.5	1370.9	77.7
Rubber and articles thereof	119.9	6.0	177.7	10.1
Pearls, precious stones and metals	55.2	2.8	32.9	1.9
Coffee, tea, mate and spices	22.9	1.1	29.9	1.7
Plastics and articles thereof	22.2	1.1	17.8	1.0
Total	1877.1	94.6	1629.2	92.3
EU				
Articles of apparel, clothing and textile	1003.2	52.5	1699.5	58.5
Rubber and articles thereof	208.2	10.9	249.8	8.6
Pearls, precious stones and metals	174.0	9.1	240.4	8.3
Coffee, tea, mate and spices	93.6	4.9	130.2	4.5
Fish	45.2	24	114.8	3.9
Total	1524.3	79.8	2434.7	83.8

Source: Department of Customs of Sri Lanka.

and economies in the Euro Zone were seen as 'too big to fail,' and sovereign and credit risks were underestimated and mispriced.

3.2.2 Sri Lanka's Exports to the US and EU

Over the years, Sri Lanka's main export items to the US and EU have remained largely unchanged. As illustrated in Table 3.2, despite a marginal decline in its share, garment exports continue to account for over three-quarters of exports to the US, while exports to the EU have demonstrated an increasing trend. Rubber exports have increased in importance in the US. Pearls, precious stones and metals, coffee, tea and other spices are some other important export products both in the US and EU markets. Additionally, fish exports have become significant in the EU.

Economic stagnation in both the US and EU in the recent past has been a concern for Sri Lanka, given that over half of its exports are destined to these two economies. A reduction in the purchasing power of middle-end consumers leading to spending cuts was a main factor contributing to sluggish demand in the US and EU markets. While the outlook for the first quarter of 2012 has been somewhat more optimistic, significant risks still linger. The Asian Development Bank (ADB), in its report on Sri Lanka's economic outlook for 2011 and 2012, predicts a decline in export growth of 11 per cent in 2012 mainly owing to weaker demand – especially from Europe -- as key trade zones cut back orders.[6]

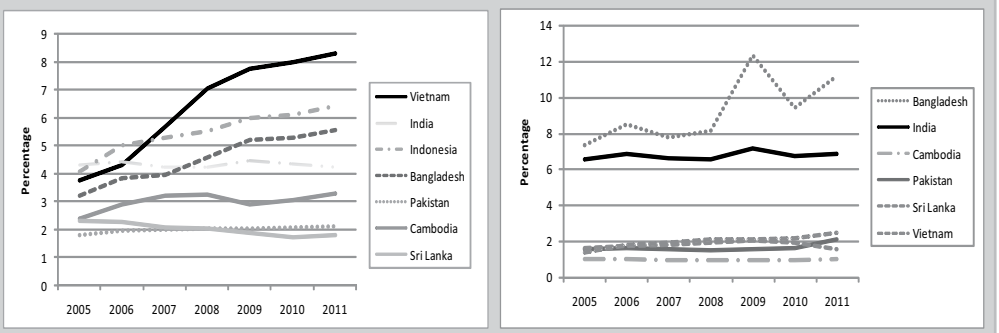
Textile and clothing is the primary export of Sri Lanka to the US and EU, where its prospects remain mixed. Despite the gloomy outlook in the developed world and loss of EU (Generalized System of Preferences) GSP-plus concessions, garment exports remained significant in 2011, rising by 24.6 per cent to US$ 4.2 billion compared to an overall

[6] ADB, 2012, *Asian Development Outlook 2012: Confronting Rising Inequality in Asia*, ADB, Manila.

Box 3.3
Sri Lanka's Market Share in the US and EU: The Case of Garment Exports

Despite considerable increases recorded in absolute export earnings to both the US and EU markets, it is of concern to note that Sri Lanka's relative market share in garment exports has been losing ground. The increase in export earnings over the years has been due largely to a shift in Sri Lankan garments exports from the US to the EU. As indicated in Figure 3.4, Sri Lanka has been seeing a steady decline in its market share in the US, from 2.3 per cent in 2005 to 1.8 per cent in 2011. Sri Lanka has been losing out to countries such as Pakistan, Vietnam, Bangladesh, Indonesia, India, Cambodia and Bangladesh. Pakistan's share in the US apparel market was significantly below that of Sri Lanka's in 2005 at 1.8 per cent, but is now ahead of Sri Lanka at 2.1 per cent. Diversification of its product range, marketing and large investments in value-added sectors including in sewing machines, stitching, knitting, finishing and knitting processing have contributed towards Pakistan's progress.

Figure 3.4
Export Shares in the US and EU Textile and Clothing Markets, 2005-2011



Sources: Calculated using data from OTEXA, US Imports of Textile, Apparel and the Market Access Database, and Statistical Database.

While Sri Lanka has been successful in penetrating the EU market, 2010 and 2011 have seen a marginal decline in the share compared to 2009. Moreover, Sri Lanka is bound to lose its foothold further as the EU GSP-plus concessions are eroded. As mentioned previously, Sri Lankan garment exports will face higher tariffs under new reforms that will come into effect in 2014. Whereas China and Turkey still account for over half of the garment export share in the EU, as seen in Figure 3.4, Sri Lanka has been losing its market share to competitor countries such as Bangladesh, India, Vietnam, Pakistan and Cambodia. Bangladesh has been particularly successful in penetrating the EU market, with an increase from 6.2 per cent in 2009 to 11.2 per cent in 2011.

Bangladesh is already a beneficiary of GSP-plus concessions, and Pakistan will also become eligible under the new reforms. Additionally, India is scheduled to sign a trade agreement with the EU in 2014 which would guarantee benefits to Indian garment imports through tariff preferences. With competitor countries gaining from such tariff concessions, securing market share in the EU will be a challenging task for Sri Lanka in 2014 and beyond. Therefore, it is imperative that market diversification takes place in Sri Lankan garment exports. In this respect, Sri Lanka has made rapid inroads into new markets such as Turkey and the United Arab Emirates.

Sources: Memon N. Ahmed (2011), *Pakistan Textile Journal*, (http://www.ptj.com.pk/Web-2011/01-2011/Dr.Noor-2.htm).

export growth of 22.4 per cent.[7] Earnings from garment exports to the US increased by 21.5 per cent in 2011, while those to the EU recorded an increase of 25.1 per cent. High quality of Sri Lankan garments coupled with the rising cost of production in competitor countries were key contributory factors that helped sustain a strong demand.

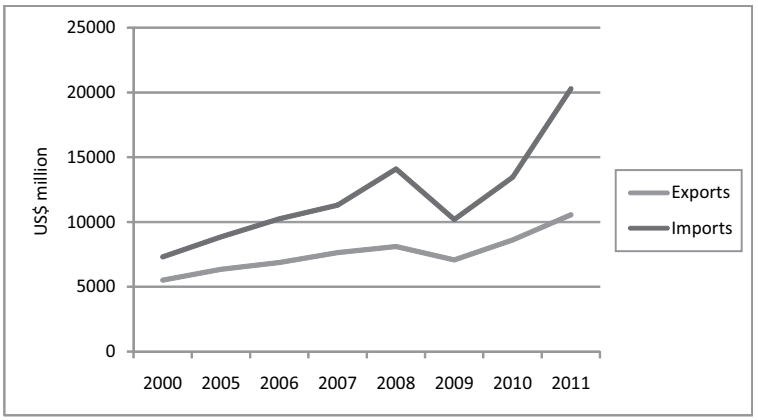
The US garment market is predominantly driven by non-athletic apparels such as jeans wear, casual wear, corporate wear, occasional wear and intimate wear.[8] This is advantageous to Sri Lanka as the bulk of Sri Lankan apparel exports are concentrated in casual wear for women and men, and there is expectation that the country will benefit from an anticipated pick-up in the US market. In the EU, the strong image Sri Lankan apparel has established has helped in sustaining demand, despite the crises engulfing countries in the region. In particular, Sri Lanka's recognized values of corporate responsibility in manufacturing and ethical differentiation of products complying with required international standards have contributed to a resilient performance. Such factors have played a big role in securing orders, despite the fact that Sri Lanka no longer has a cost advantage compared to other competitors. However, future developments in the global environment could pose significant challenges to Sri Lanka's industry. Under new reforms that will come into effect in 2014 through the EU GSP system, Sri Lankan exports to the EU are set to face higher tariffs.[9]

3.3 A Weakening Balance of Payments

3.3.1 Trade Imbalances

Sri Lanka's trade deficit, which has been on the rise since 2005 peaked in 2011, recording a dramatic increase in the second half of 2011 (Figure 3.5). The trade deficit which was US$ 5 billion at the end of 2010 almost doubled to US$ 9.7 billion by the end of 2011. While exports grew by 22 per cent supported mainly by industrial exports, imports recorded a massive increase of 51 per cent, reflecting a sharp growth in intermedi-

Figure 3.5
Export and Import Earnings of Sri Lanka: 2000-2011



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

[7] CBSL, *Annual Report 2011*.

[8] Gupta, Ankur (2012), The US Apparel and Footwear Industry Outlook to 2015 - Changing Consumer Behavior and Purchasing Decisions (http://www.articlesbase.com/clothing-articles/the-us-apparel-and-footwear-industry-outlook-to-2015-changing-consumer-behavior-and-purchasing-decisions-5652845.html).

[9] Sri Lanka could face many challenges with both Pakistan and Bangladesh eligible to benefit from EU trade concessions, and a possible free trade agreement with India is also expected to exert more pressure.

ate goods, led primarily by oil imports and investment goods for government infrastructure projects. Current global economic conditions suggest that the trade deficit is likely to remain high in 2012.

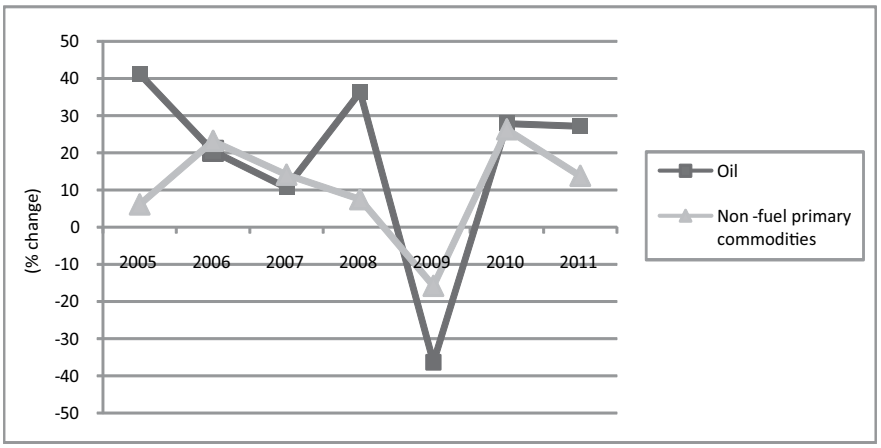
There has been significant volatility in commodity price movements during 2005-10, particularly in oil prices. Oil prices peaked in 2005, increasing by 41.3 per cent during the year, owing largely to increased global demand. After a drop in prices during 2006-07, prices increased by a noteworthy 36.4 per cent in 2008. Increased global demand for oil, owing to the rapid growth of emerging economies, especially that of China and India, was a major factor. Moreover, on the supply side, there was a significant tightening of world oil production which also contributed towards exceptionally high prices.

Oil prices experienced a historical low in the aftermath of the global financial crisis, falling by 36.3 per cent in 2009. However, the declining trend saw a turnaround in 2010, led by the quick recovery in emerging economies, and the resurgence continued through to 2011. Supply risks owing to geopolitical uncertainty in the Middle East and North Africa created upward pressure on oil prices during the year. However, the slowdown in global economic conditions and industrial activity in 2011, led to a relatively lower demand for oil during the year, causing oil prices to remain close to its 2010 level.

As of March 2012, oil prices had overtaken the previous peak values of April 2011 and were back at about US$115 per barrel.[10] While the fluctuations in oil prices are largely due to increased geopolitical risks, particularly in Iran, other supply setbacks over the past year have also contributed towards dwindling global oil production. The IMF forecasts a decline in oil prices to around US$ 110 per barrel in 2013, in line with prices in future markets, but supply constraints present significant upside risks.

For Sri Lanka, the threat of rising oil prices has a strong bearing on its external trade account. The increase of international petroleum prices from US$ 78 per barrel in 2010 to US$110 in 2011 alone is estimated to account for US$ 1.5 billion of the expansion in the trade deficit. Although export earn-

Figure 3.6
World Commodity Prices, 2005-2011



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

[10] IMF, *World Economic Outlook*, April 2012.

ings recorded a considerable increase, this was by no means sufficient to offset the rising import bill. Had Sri Lanka maintained a more diversified export base, both in terms of products and markets, there would have been scope for higher export earnings, thereby lessening the adverse impact on the trade balance.

The deterioration of the trade balance was also a result of a series of policy oversights. The combination of an overvalued exchange rate, a relaxed monetary policy stance and moral suasion on commercial banks to lend, led to an unavoidable credit boom, fuelling an unsustainable increase in imports, pressure on the rupee and a sharp erosion of re-

Box 3.4
Global Tourist Flows and Impact on Sri Lanka's Tourism

According to the latest UNWTO World Tourism Barometer, despite stalled global economic recovery, international tourist arrivals recorded an increase of 4.4 per cent in 2011 amounting to a total of 980 million, up from 939 million in 2010.[11] By region, Europe recorded the highest growth of 6 per cent. Unlike in previous years, growth was higher in developed economies (5 per cent) than in emerging ones (3.8 per cent), owing largely to political turmoil in the Middle East and North Africa. UNWTO predicts continued growth of international tourism in 2012, although at a slower rate. Emerging economies are expected to regain the lead with stronger growth in Asia and the Pacific and Africa, followed by the Americas and Europe.

Growing concerns of crises in the EU can weigh heavily on global tourism, given that Western Europe is the largest source of international departures, accounting for 38 per cent of the global total in 2010.[12] The outlook for outbound tourism in 2012 in the UK and Germany -- two of the top outbound tourism sources -- remains uncertain. The debt crisis has had limited impact on Germany's outbound travel, as Germans seem to cut spending in other areas and continue spending on holidays. However, a worsening economic situation could change this pattern. In the UK, domestic tourism is expected to have higher priority over international tourism in 2012, given the worsening economic conditions, and the Olympics to be held in summer 2012.

In the US, the recession depressed both international outbound, as well as, domestic travel in the post-2008 period. According to the Office of Travel and Tourism Industries, outbound travel was flat in the second half of 2011, reflecting a 3 per cent drop in travel to Canada and Mexico and offsetting a 3 per cent gain in travel to overseas destinations.[13]

Country-wise data show that Sri Lanka was among the top five countries that experienced the highest growth rate of tourists in 2011 at 31 per cent.[14] Indeed, tourism has shown remarkable growth in the post-conflict period and is one of the key sources of foreign exchange earnings. The largest number of arrivals in 2011 were from India (171,374), followed by the UK (106,082), Germany (55,882) and France (48,695).[15] However, the share of tourists from Western Europe and North America has been on the decline. Given the current economic turmoil in Europe and the fact that close to 40 per cent of tourist arrivals are from Western Europe, prospects for Sri Lanka's tourism industry in 2012 could be somewhat gloomy, unless this could be offset by increased arrivals from other regions, such as Asia.

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[11] World Tourism Organization (2012), *UNWTO World Tourism Barometer*, Volume 10, March 2012.

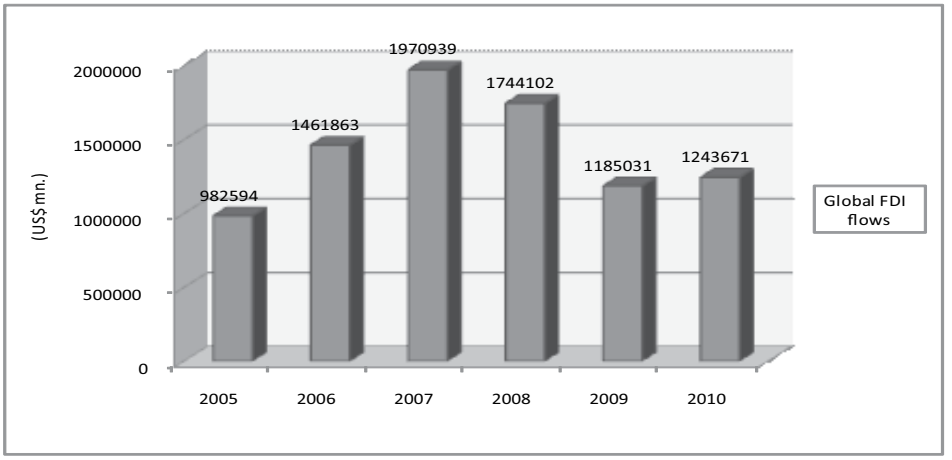
[12] Grant, Michelle (2011), "Impact of the Western European Debt Crisis on Global Outbound Tourism," *Euromonitor International*, (http://blog.euromonitor.com/2011/10/impact-of-the-western-european-debt-crisis-on-global-outbound-tourism.html).

[13] Cook, S. (2012), U.S. *Travel Outlook,* (http://www.ustravel.org/sites/default/files/page/2009/09/March2012_public.html?utm_source=MagnetMail&utm_medium=email&utm_term=mike.stauf).

[14] World Tourism Organization (2012), *UNWTO World Tourism Barometer*, Volume 10, March 2012.

[15] CBSL, *Annual Report 2011*.

Figure 3.7
Global FDI Flows: 2005-10



Source: United Nations, *World Investment Report 2011*.

serves. The subsequent devaluation of the rupee by 3 per cent in the 2012 Budget, accompanied by increases in policy interest rates, restricting bank lending and the raising of prices of fuel and electricity to reflect cost of imports and production, were late but required adjustments to avoid a major BOP deterioration. These factors reinforce the economy's susceptibility to global market developments.

3.3.2 Capital Flows

A dramatic decline in global foreign direct investment (FDI) flows was a significant unfavourable outcome of the global financial crisis. Prior to the global crisis, the levels of global FDI showed an increasing trend, supported by favorable global economic growth, financial conditions and low interest rates (Figure 3.7). The financial crisis saw a massive drop in FDI inflows by 11.5 per cent and 32.1 per cent in 2008 and 2009, respectively. Despite post-crisis recovery, low levels of global FDI still remain a key concern. According to the United Nations 'World Investment Report 2011' global FDI flows have risen moderately in 2010 but are still 15 per cent below their pre-crisis average.

Indeed, the report notes a clear shift in global FDI inflows from developed economies to developing and emerging economies in the post-crisis period. Developing countries, which accounted for 37 per cent of global FDI flows in 2005, saw an increase in their share to over 50 per cent by 2010, whereas developed countries experienced a declining share. The buoyant economic performance, a better investment environment and an increase in corporate earnings of developing countries may have contributed in making them an attractive FDI destination by 2010.

The FDI inflows to Asia were mainly dominated by East Asia, which accounted for over a half of total FDI flows to the region. The industrial success of major East Asian economies such as Hong Kong and China, the conducive business environment prevailing in the East Asian economies and greater economic integration within ASEAN countries; especially between China and ASEAN, and resultant interregional FDI flows contributed to high FDI flows. The other regions of Asia such as South Asia seem to be experiencing relatively poor and stagnant FDI flows owing to factors such as political uncertainty, unrest, hostile business environments and

time consuming administrative procedures. The FDI flows to South Asia are dominated largely by India - its share of 53 per cent of South Asia's FDI inflows in 2005 had risen to 77 per cent in 2010. The dynamic performance of the Indian economy compared to the other South Asian countries helped to make India a more favorable FDI destination compared to the rest of South Asia.

FDI flows to Sri Lanka have over the period 2005-2011, been fairly volatile, owing both to domestic and external developments. With net inflows having peaked at US$ 691 million in 2008 – led by the rapid increase in telephone and telecommunication related FDI – there was a sharp drop following the global downturn. With the post-conflict recovery in the economy, FDI inflows in 2011 increased to US$ 896 million, led by FDI into the hotels and restaurants on the back of expected expansion of the country's tourism activities.

Sri Lanka's sources of FDI have seen a change over the years. As shown in Table 3.3, the UK and US which ranked third and seventh respectively in terms of FDI flows in 2005 have declined in importance. India has increased in importance over the years and is the second largest investor at present, especially in the services sector. Mauritius and Hong Kong have also emerged as important sources of FDI. Hence a clear shift in FDI flows from Western economies to developing and emerging Asian countries is evident.

With the graduation to low middle income status, Sri Lanka has seen a gradual reduction in dependency on traditional forms of ODA, to other forms of foreign finance to meet its developmental needs. These are primarily in the form of bilateral lines of credit and multilateral donor funding. Total foreign finance commitments to Sri Lanka by both bilateral and multilateral donors, have increased from US$ 1,740 million in 2005 to US$ 3,260 million in 2010.[16] The relative contribution by multilateral donors such as the World Bank and ADB has declined, while bilateral donors have become more significant. As depicted in Figure 3.8, China is the primary source of foreign finance, accounting for 25 per cent of the total in 2010. The bulk of

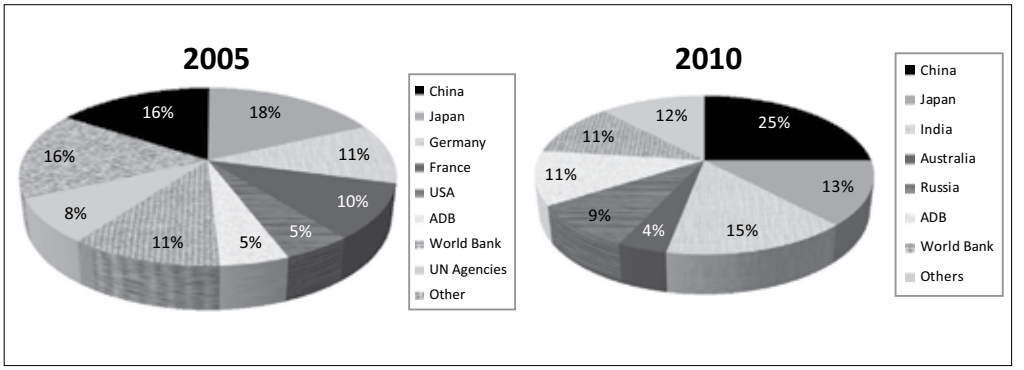
Table 3.3
Top Ten Investors in Sri Lanka: 2005 and 2011

	FDI Values (US$ million)			
Rank	**Country**	**2005**	**Country**	**2011**
1	Malaysia	99.6	Mauritius	253.3
2	Singapore	30.6	India	146.8
3	UK	26.4	Hong Kong	138.8
4	India	17.9	Malaysia	89.5
5	Luxemburg	17.3	British Virgin Islands	53.5
6	Hong Kong	15.5	Singapore	53.0
7	USA	12.8	UAE	52.9
8	Italy	10.6	UK	52.0
9	Sweden	10.1	Netherlands	51.4
10	Belgium	8.4	Japan	27.2

Source: Board of Investment of Sri Lanka.

[16] Department of External Resources, *Performance Report 2010,* Ministry of Finance and Planning, Colombo.

Figure 3.8
Sources of Foreign Finance Commitments to Sri Lanka: 2005 and 2010



Source: Department of External Resources, *Performance Report*, various years.

such finance has been committed towards infrastructure projects. In 2010, for instance, 58.8 per cent of China's foreign finance commitments were directed towards the Puttalam coal power project, while other projects included the implementation of the Hambantota port development, Mattala-Hambantota international airport, and the Colombo-Katunayake expressway.

In addition to bilateral and multilateral financial commitments, Sri Lanka has also increasingly resorted to issuing bonds in the international capital market since obtaining a sovereign rating in 2006. Indeed, the country raised its fifth international sovereign bond for US$ 1 billion in July 2012.

As global growth continues to slow and Euro Zone prospects remain weak, Sri Lanka's BOP is likely to remain under stress. The reliance on current transfers to offset the widening current account deficit may prove challenging. The expectation of higher remittances and tourist earnings to bridge the massive trade deficit is not sustainable - the fundamental reasons for the deteriorating trade balance needs to be recognized and dealt with. In this context, it is vital that the prudent policy reforms initiated recently are taken forward in view of the economy's long-term stability and faster growth. In addition, Sri Lanka must focus on diversifying its sources of earnings from exports in terms of both products, as well as markets. It is clear that the country is increasingly building closer economic relations with the Asian region - as sources of trade and capital flows. As global economic activity shifts from East to West, Sri Lanka too must position itself to take ad-

Table 3.4
Borrowing from International Capital Markets

Date Issued	Type	Amount (US$ million)	Period (Yrs)
2006 September	Syndicated loan	100	3
2007 October	Sovereign bond	500	5
2008 June	Syndicated loan	150	3
2009 October	Sovereign bond	500	5
2010 September	Sovereign bond	1000	10
2011 July	Sovereign bond	1000	10
2012 July	Sovereign bond	1000	10

Source: Compiled from www.cbsl.gov.lk.

vantage of new opportunities, including closer engagement with evolving international governance structures in place to address global economic issues.

3.4 International Governance Architecture

As previously mentioned, developing and emerging economies are spearheading global economic growth. Asia in particular is at the forefront of rising output, but Latin America, the Middle East/North Africa, and Sub-Saharan Africa are also expected to experience robust economic growth in the coming years. As these regions close the income gaps with the developed countries, their influence on international institutions and frameworks governing global economic discussions are expected to strengthen. However, there is increasing concern whether emerging economies are taking on the mantle of leadership through South-South cooperative frameworks such as the BRICS (Brazil, Russia, India, China, and South Africa) or in multilateral groups such as the G-20.

3.4.1 Regional Dynamics

The leader behind Asia's robust economic growth is China. Despite decreased demand for Chinese exports from weakening economies like those in the Euro Zone, China's output is expected to be relatively healthy due to strong levels of domestic consumption and investment. Asia's second largest economic powerhouse is India. Despite a slowdown in growth – due in part to policy uncertainty and constraints in supply chains, in addition to increased interest rates and weakened demand for its exports – the nation's growing middle class is expected to provide a surge in consumption and a boost in output. Indeed, India's middle class is projected to increase to over a quarter of a billion people by 2015, and will be a major source of consumer power in the years to come.

A region facing a reasonably steady growth path, albeit less robust, is Latin America. High commodity prices have played a key role, with Mexico, Brazil, and Venezuela among the top 15 oil producers in the world. A key driver behind Latin America's growth is Brazil, the second largest economy in the region. Unlike many of its neighbours, it is projected to experience an increase in real GDP on the back of tighter macroeconomic policies and strong domestic demand. However, the country is at risk of overheating if capital flows rise sharply enough to reach previous levels, coupled with increased growth in credit and imports.

Both Asia and Latin America have regional trade agreements that have brought key benefits for participating countries. The Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) is an agreement among ASEAN members that aims to lower intra-regional tariffs within the group through a Common Effective Preferential Tariff (CEPT) scheme. Over 99 per cent of the products on the CEPT Inclusion List of ASEAN-6 (a more limited set of Southeast Asian economies) enjoy a tariff range of between 0-5 per cent. The remaining members of ASEAN are expected to implement similar tariff reduction measures in the near future. AFTA also aims to reduce non-tariff barriers (NTBs) through a process of verification and cross-notification of barriers, the implementation of a database on all NTBs employed by member states, and the eventual elimination of unnecessary and unjustifiable non-tariff measures.

A key trading bloc among South American countries is MERCOSUR, or the Common Market of the South. Major players include Brazil and Argentina, but membership extends to eight other nations on the continent, including Venezuela and Chile. The primary aim of the group is to facilitate the

movement of goods, capital, services, and labour across its borders. The bloc has been enlisted with the responsibility of regulating tariff policies on exports and imports in addition to arbitrating any trade disputes among its members. The proposition of a MERCOSUR Development Bank to loan funds for the development of member nations has been discussed, as has the idea of creating a free trade area spanning the entire continent.

Over the past decade, there was a widely held belief that the emerging economies of BRICS would play key roles in the future development of global governance architecture. However, it may now be the case that these countries have passed their prime, and in fact, are no longer the dynamic, rapidly-developing economies they once were. Indeed, a report examined 60 emerging market economies for their long term potential to take advantage of the changing global economic landscape, where the countries were subsequently ranked based on factors such as economic diversification, corruption, entrepreneurship, and business climate.[17] It emerged that the BRICS countries were well below the expected top tier, with Brazil at 31, Russia at 51, India at 23, China at 13, and South Africa at 26. Smaller countries such as Chile, Tunisia, and Jordan placed among the top few were seen as the most versatile economies most ready to adapt to a changing global economy.

Furthermore, China and India do not seem to be taking up the slack in global governance left over by weakening markets in the West. During the G-20 Summit of 2011, China was faltering on its decision on whether or not to help fund the European Financial Stability Facility (EFSF), which aims to provide more credit to banks in the region and would help provide additional aid to Greece, which is currently battling a deepening debt crisis. The Asian juggernaut was also hesitating on its decision to purchase European bonds. Both issues revolve around the worsening situation in Greece and its implications on other economies in the Euro Zone, and doubts as to whether bailout plans drawn up by the EU will help stabilize the regional economy.

China's stated goals are to see a more equitable system of global governance through several facets. These include improving the international monetary system through expanding the use of the Special Drawing Rights (SDR) facility of the IMF, whose goal is to supplement member countries' official reserves, and setting up a stable and manageable international reserve currency system. In addition, it has called for an expansion of free trade through a curbing of existing trade and investment protectionism and commitment to reject additional protectionist measures. However, there is little evidence that the country has sought to address the above mentioned issues in the near future.

India's role as a leader among G-20 members is perhaps even less pivotal. There is widespread sentiment that the country's public and administration are rather indifferent to the G-20.[18] India is nowhere near the economic giant that China is, and is in fact, by far the poorest nation in the G-20, with a GDP per capita of US$ 1,000 in 2008 – compared to the G-20 average that exceeds US$ 23,000. It is also still a major recipient of aid and has very limited financial clout.

However, India does have a certain amount of influence over redesigning international financial regulation. The country has three representatives on the Financial Stability Board (FSB), an international body tasked

[17] KPMG and Overseas Development Institute, *Change Readiness Index 2012*.

[18] Cox, S., (2010), "India in the G20: Macroeconomic Policy Coordination, Regulation and Global Governance," Centre for Economic Policy Research, UK.

with coordinating national financial authorities across the world and designing regulatory and supervisory guidelines in the financial sector. Like its East Asian cousin, India has also sought an expansion of the SDR facility of the IMF, and has called for the organization to increase the amount members contribute to the Fund. However, the country's relatively weak financial clout may also be an indicator of its prospects of influencing global governance.

This attitude may also explain why India has done little to voice the issues and concerns of its South Asian neighbours. Despite the expectation for India to discuss economic and financial constraints with its smaller neighbours, like Sri Lanka, Bangladesh, and Nepal, and relay these problems to the wider G-20 community, this has not happened. India is the only member in the G-20 that represents the South Asian Association for Regional Cooperation (SAARC), and as such, is the only country likely to voice issues facing the region at G-20 summits. However, the problem remains that there is currently no consultative mechanism in place for India to discuss and identify with its regional neighbours the specific issues that may be brought before the G-20. Without such a mechanism it is difficult for India to successfully represent South Asia at the G-20, despite widespread expectation for it to do so.

3.4.2 Regional Dynamics and Sri Lanka

It is no surprise that Sri Lanka has very little involvement on the global scale, but it is disappointing to note that it also has a minimal amount of involvement in regional dynamics as well. The country only has four regional trade agreements in place - i.e., the bilateral agreements with India and Pakistan, the South Asian Free Trade Agreement (SAFTA), and the Asia Pacific Free Trade Agreement (APTA). All together these agreements cover only 21 per cent of its total trade.[19]

The India-Sri Lanka Free Trade Agreement (ISFTA) that was signed over ten years ago has seen trade volume increase between the two countries. However, discussions have yet to produce a Comprehensive Economic Partnership Agreement (CEPA), despite extensive negotiations spanning several years. Such an agreement would facilitate trade in goods and services between the two countries as well as cross-border investment. Gaining greater access to India's rapidly growing middle class, promoting Indian FDI into Sri Lanka's services sector, harnessing India's technological advantage in the IT sector, and establishing a regulated environment for professionals and other workers to move freely between borders would be key advantages expected from the CEPA.

Closer cooperation with India could also bring about greater access to other emerging and rapidly developing markets in Asia. India has signed a Trade in Goods Agreement with ASEAN along with Comprehensive Economic Cooperation Agreements (CECAs) with Japan, Malaysia, Singapore, and South Korea, which aim to break down barriers in the flow of goods, services, and foreign investment. As of now, Sri Lanka has very limited integration with East Asia. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) seeks to link the two sub-regions of South Asia and Southeast Asia. However, the trade liberalization component of the agreement has yet to be finalized and currently, the initiative is not considered among Sri Lanka's enforced agreements. The APTA is the only regional trade arrangement in place that di-

[19] United Nations Economic and Social Commission for Asia and the Pacific (2010), *Asia-Pacific Trade and Investment Report 2011: Post-crisis Trade and Investment Opportunities*, United Nations, New York.

rectly links Sri Lanka with East and Southeast Asia. Despite being implemented in 1975 as the Bangkok Agreement, it has offered Sri Lanka only limited access to markets in the East, with tea and coir forming the main part of goods exported under the agreement.

Another way in which Sri Lanka may be able to benefit from the growth and development taking place in emerging Asia is through developing supply chains and production networks in the region, which has been the main driver of intra-regional trade within East Asia. A detailed analysis carried out by the ADB indicates that increasing levels of intra-regional trade in East Asia is primarily due to an increase in trade in parts and components (intermediate goods).[20] Unlike Central and South Asia, East Asia's trade in intermediate goods is based largely on supply chains that use parts and components manufactured in individual countries which are subsequently assembled in a separate location, and then exported. Sri Lanka's engagements in such regional supply chains remain almost non-existent at present. Unlike Sri Lanka, which has not sought to engage in preferential agreements in recent years, the trend for most other countries has been to seek alternative options through bilateral and regional initiatives, particularly in the face of a stalled deal under the WTO Doha Development Round (DDR).

3.4.3 Stalling of the Doha Round and the Emergence of Other Trade Relations

Negotiations of the WTOs DDR launched in 2001, which first collapsed in 2003, have come to a standstill with the onset of the financial crisis in 2008. The failure of DDR has been recognized as a consequence of the substantial changes in the global economic system which became evident with the onset of the crisis, as well as the large political commitment required to work at a multilateral level. Some believe that the DDR is not 'dead' but rather 'not in the best of health.' The WTOs current strategy is to focus on simple and relatively uncontroversial trade issues for the time being, such as trade facilitation. However, others argue that continuing shifts of power in the world economy and the increasing convergence of trade and finance may make the DDR impossible to conclude.

The crucial need to keep the DDR alive, especially from a developing country perspective, is evident due to several reasons. First and foremost, the DDR has promised due consideration of the special development needs of disadvantaged WTO members through the application of the principle of 'less-than-full-reciprocity,' which is particularly important in the context of the global slowdown and resultant setbacks in the Millennium Development Goal (MDG) achievements in many Least Developed Countries (LDCs). Second, the aftermath of the crisis has seen increasing rhetoric on trade protectionism, particularly on the part of the developed world towards Asia and other emerging markets. In a time of global economic crisis and political uncertainty, there is a threat that the absence of a multilateral trading system could reinforce a move towards protectionism.

Third, the weakening global trading system has led to the increasing proliferation of bilateral and regional trade arrangements, which are adding to the already existing 'spaghetti-bowl' problem. In the ASEAN region, there are already FTAs between ASEAN and all six of its dialogue partners (Australia, China, India, Japan, Korea, and New Zealand), as well as numerous other bilateral FTAs. The EU has just completed nego-

[20] ADB, 2010, *Institutions for Regional Integration: Toward an Asian Economic Community*, ADB, Manila.

tiations with Korea, which has put pressure for the Korea-US FTA to be ratified as soon as possible. The EU has also completed negotiations with India, and is negotiating with Singapore, Malaysia, and hoping to do so with other ASEAN countries. Recently, China, Korea and Japan announced revitalization of their FTA initiative. Another important development, in terms of its implications for international governance architecture and geopolitical relations, is the proposed Trans-Pacific Partnership (TPP) initiative among nine Asia-Pacific Economic Cooperation (APEC) member states.

The TPP is an FTA initiative that aims to deepen economic integration in the Asia-Pacific, with the current negotiations including Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the US and Vietnam. It intends to build on an existing arrangement, the Trans-Pacific Strategic Economic Partnership,[21] and is seen as a means of keeping the US engaged in Asia. The member countries account for almost 40 per cent of the global economy. Japan's decision to start consultations with countries currently negotiating the TPP is an important development, and has elevated the significance of this initiative.

So far, 11 rounds of negotiations have been held, the most recent being in March 2012. The objective of the negotiations is to develop an FTA which will be able to adapt and incorporate current issues, concerns and interests. The TPP has been called a 'state-of-the-art' trade agreement that would go beyond existing 'traditional' trade agreements as its scope involves dealing with behind-the-border impediments to trade and investment. For instance, there is additional focus on cross-cutting 'horizontal issues' such as regional integration, regulatory coherence, competitiveness, development and small and medium enterprises (SMEs).

While the TPP provides an opportunity to advance free trade, specifically in a DDR dead world, the realistic implementation of the agreement will be a challenge. It has been argued that despite claims of the TPP being an innovative, timely and ambitious project, it suffers from 'divisiveness and elusiveness of its goals.'[22] For example, market access in goods continues to be handled in three separate chapters with an additional group negotiating rules of origin. Keeping them separate makes it easier to use less liberalizing tools like tariff rate quotas (TRQs) and various 'product forward' rules to limit the free flow of goods among members. Also, the TPP has yet to develop common positions and commitments for LDCs which is a key component of the WTO Doha Round. Ensuring concessions for LDCs is imperative in maintaining a balanced global trading system. This is also important because bilateral trade between TPP and LDCs stands at close to $32 billion.[23]

Of greater concern is the fact that the emergence of the TPP raises some critical issues for both the Asian geo-political architecture as well as the multilateral trading system. First is the issue of whether the TPP can be viewed as a 'building block' towards strengthening the global trading system, or as a 'stumbling block.' Some argue that while the TPP is supposed to bring the Asia-Pacific region together, without careful consideration and a manageable framework, it is likely do the opposite, excluding key partners and making it difficult for those excluded to join, the

[21] The Trans-pacific Strategic Economic Partnership includes Singapore, Brunei, Chile and New Zealand.

[22] Lehmann, Jean-Pierre (2011), "TPP - Fresh Trade Winds in the Pacific or a Hot-air Balloon?", (http://www.fungglobalinstitute.org/index.php?option=com_zrticles&id=204&view=publication&tmpl=component&print=1).

[23] Ahmed, Faisal (2011), "Trans-Pacific Partnership should Include China", *The Economic Times*, (http://articles.economictimes. indiatimes.com/2012-01-07/news/30601865_1_tpp-trans-pacific-partnership-apec-members)

most important being China.[24] The high standards the US is advocating for in the TPP -- stronger intellectual property rights, stronger labour and environmental standards and regulatory discipline of state owned enterprises -- will make it especially hard for developing countries and transitional economies to join. A TPP of this kind could end up as a series of bilateral agreements revolving around the US.[25]

In terms of its geopolitical consequences, the TPP has been viewed as a means for the US to create regional allies against China. It has been stated that the US appears to be cultivating a 'new and somewhat threatening Asia-Pacific policy that combines trade with geopolitics.'[26] It has also been pointed out that the US now stands out as a major resistant force against the DDR, in contrast to the Clinton administration in 1993 which worked towards generating momentum to conclude the Uruguay Round and stimulate the global trading system.

Another worry is the possibility of the TPP overshadowing the East Asia Summit (EAS),[27] which the US and Russia joined recently, and is another grouping by which the US is linked to Asia. Economic integration in East Asia has been market-driven, led by production networks through which both middle-income and LDCs have experienced growth and development. The TPP, on the other hand, has a narrow trade agenda and lacks focus on integration. This carries a potential risk of overriding ASEAN-style economic cooperation within APEC, which has been delivering progress in economic integration.[28]

Economically, at present, the TPP may not have a direct impact on Sri Lanka, given that neither China nor India is a part of the initiative. However, any impact on the geo-political climate and a possible divide between the US and its partners and China could carry significant implications to small economies like Sri Lanka, whose growth and development prospects depend to a large extent on the performance of developed and emerging economies. However, even as countries seek to strengthen their economic positions through bilateral and regional trade initiatives, a weaker global economic outlook is also promoting a shift towards more protectionist trade policy positions at national levels.

3.4.4 Weakening Global Outlook and Emergence of Protectionism

As highlighted before, the high risks and fragile situation in the global economy amidst slowly improving growth suggests that several concerns still remain both in the developed and developing world. According to the WTO, despite it being three years since the trade volumes began to shrink in 2008/09, world trade still remains fragile with several downside risks remaining. A cause for worry, particularly for developing economies such as Sri Lanka, is the possibility that the sluggish pace of economic recovery might lead to an influx of restrictive trade measures which could gradually undermine the ben-

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[24] Drysdale, Peter (2011), "Are there Real Dangers in the Trans-Pacific Partnership Idea?", *East Asia Forum*, (http://www.eastasiaforum.org/2011/04/18/are-there-real-dangers-in-the-trans-pacific-partnership-idea/).

[25] The Singapore negotiations in 2011 were largely conducted on a bilateral basis, where the US exchanged offers with Vietnam and Malaysia separately, which were not made public to the rest of the partners. Officials have still not decided how to consolidate these bilateral agreements together at the end of the process.

[26] Lehmann, Jean-Pierre (2011), "TPP - Fresh Trade Winds in the Pacific or a Hot-air Balloon?", (http://www.fungglobalinstitute.org/index.php?option=com_zrticles&id=204&view=publication&tmpl=component&print=1).

[27] The EAS originally comprised of ASEAN members plus China, Japan, South Korea (ASEAN + 3) plus Australia, India and New Zealand (ASEAN + 6).

[28] Armstrong, Shiro (2011), "The TPP, APEC and East Asian Trade Strategies," *East Asia Forum*, (http://www.eastasiaforum.org/2011/11/14/the-tpp-apec-and-east-asian-trade-strategies/).

Table 3.5
Highest Imposers of Discriminatory Measures

Rank	Number Imposed	Number of Tariff Lines Affected	Numer of Sectors Affected	Number of Trading Partners Affected
1	EU27 (242)	Vietnam (927)	Algeria (62)	China (195)
2	Russia (112)	Venezuela (786)	EU27 (58)	EU27 (181)
3	Argentina (111)	Kazakhstan (729)	China (47)	Argentina (175)
4	UK (59)	China (698)	Nigeria (45)	Germany (161)
5	Germany (58)	Nigeria (599)	Kazakhstan (43)	India (154)
6	India (56)	EU27 (550)	Germany (42)	UK (154)
7	China (55)	Algeria (476)	USA (42)	Belgium (153)
8	France (51)	Russian Federation (439)	Ghana (41)	Finland (153)
9	Brazil (49)	Argentina (429)	Indonesia (40)	Indonesia (151)
10	Italy (47)	Indonesia (388)	Russia (40)	France (150)

Source: Evenett, Simon J., (2011), *Trade Tensions Mount: The 10th GTA Report*, Center for Economic Policy Research, UK.

efits of trade openness. In fact, according to the latest Global Trade Alert (GTA) report which monitors trade tensions,[29] protectionism is at its highest level since the immediate aftermath of the global financial crisis in 2009.[30] However, this trend has not been very evident as protectionist measures tend to take new and subtle forms, many of which are not captured by existing WTO prohibitions. For instance, the GTA report identifies 101 out of the 132 new protectionist measures adopted in the fourth quarter of 2011 as forms of discriminatory state intervention other than traditional trade defense measures or tariff increases. Such measures, termed 'behind-the-border' or 'creeping protectionism' include environmental clauses, discriminatory investment measures, export subsidies, discriminatory bailouts, and wage subsidies.

The GTA report also shows that these measures are not limited to the developed world, but are also rising in emerging markets including China, India, Russia, Brazil, and Vietnam (Table 3.5). China ranks first in terms of the number of trading partners affected by discriminatory measures and third and fourth in terms of number of sectors and number of tariff lines affected, respectively. Vietnam has affected the highest number of tariff lines, while Russia has imposed the second highest number of discriminatory measures. India has also imposed a significant number of protectionist measures and has in turn affected a large number of its trading partners.

Mounting trade tensions between China and the US is another cause for concern, as it could further dim the already gloomy economic outlook. Frictions have increased as China and the US both focus on the high-end manufacturing sector including new energy and materials. US protectionism has been shifting from traditional sectors to emerging ones. In the past two years, the US has launched a host of trade investigations targeting China's new-energy products.[31] Signaling a further rise in trade protectionism,

[29] Evenett, Simon J. (2011), *Trade Tensions Mount: The 10th GTA Report,* Center for Economic Policy Research, UK.

[30] Since July 2011, new protectionist measures have outnumbered liberalization measures by nearly three to one.

[31] One example is the launching of US anti-dumping investigations against China's leading solar panel manufacturers.

the US set up the Interagency Trade Enforcement Center in February 2012 to investigate 'unfair trade practices' from its major trading partners. Moreover, trade investigations from the US have also prompted other nations to follow suit.[32]

While China has been affected by trade protection, as noted earlier, it is also a significant offender. Results of a study which attempts at identifying the most harmful state measures to the world trading system indicate that China appears top on the list with the measure of export tax rebates affecting 243 tariff lines and 155 trading partners.[33] Another important factor is China's policy stance to increase reliance on domestic consumption as opposed to exports under its 12th Five-Year Plan.

Such rising protectionist trends in both the developed world and emerging economies could have significant repercussions for developing countries and LDCs, in particular for countries that depend on external demand for its goods and services to sustain growth. As a small open economy, Sri Lanka is dependent to a large extent on external demand both to sustain domestic growth as well as to earn foreign exchange for its import expenditures. In the context of the significant expansion in Sri Lanka's trade deficit, boosting exports has become crucial. However, rising protectionism – not only in Sri Lanka's key export markets, but also in other potential and emerging economies – will pose considerable challenges in accelerating export growth.

3.5 Conclusion

Despite a negative outlook on the fiscal instability in the Euro Zone, risks in global economic development have shifted markedly to a slowdown in global economic growth, and volatile international oil prices. Ongoing developments in Iran and sanctions imposed by the EU suggest continuing volatility in oil prices, with such risks posing significant implications for the Sri Lankan economy.

Furthermore, developments in Western economies are likely to impact Sri Lanka's export market. While garment exports to the EU have been on the rise in recent years, the sovereign debt crisis plaguing the region, in addition to higher tariffs which will come into effect in 2014, may affect the prospects of the country's garment export industry. Also of concern is the fact that, in spite of recent improvements in the US economy, Sri Lanka's export share in the US market, particularly garment exports, has been on the decline. Such concerns are particularly noteworthy given Sri Lanka's high concentration of exports in these economies.

Sri Lanka has yet to effectively link with emerging markets in East and Southeast Asia, such as Taiwan, Malaysia, and South Korea. The APTA is currently the only trade agreement linking Sri Lanka with economies in the East, yet its impact on trade relations has been marginal. The progress of implementing the BIMSTEC agreement has been slow and is also likely to yield very few economic benefits. With regard to the two economic giants of Asia, Sri Lanka has no close economic relations with China, and has failed to build on existing relations with India, for example, by implementing the CEPA. Through greater economic cooperation with India, Sri Lanka would be able to access other dynamic groupings in Asia, such as ASEAN.

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[32] The imposition of anti-dumping duties by the US on Chinese-coated paper in 2006 prompted Brazil, Argentina and Thailand to launch similar investigations

[33] Evenett, Simon J. and Johannes Fritz (2012), "Jumbo Discriminatory Measures and the Trade Coverage of Crisis-Era Protectionism", GTA Analytical Paper No. 3, Center for Economic Policy Research, UK.

Another way of accessing these markets would be to develop supply chains in East Asia in order to harness the growth and dynamism that is currently taking place in the region.

In contrast to the highly concentrated export destinations, Sri Lanka's sources of FDI, ODA, and foreign finance commitments have shifted over the years from Western markets to emerging economies, in line with global developments. As such, there is a need to diversify Sri Lanka's export market share and look more strategically at opportunities in the rapidly developing economies of Asia, not only as sources of assistance, but also as economic partners.

Keeping Sri Lanka on the Growth Expressway

4. Reducing Inequality Amidst Fast Growth

4.1 Introduction

Policies directed towards accelerated growth have become the centre of policy efforts in the world. Yet, inequality trends in the world are on the rise. Even traditionally more egalitarian countries such as, Germany, Denmark and Sweden, have experienced widening inequalities between the rich and the poor. This implies that, though strong economic growth has been able to reduce absolute poverty, it has not been able to distribute its benefits evenly.[1] Consequently, there has been a shift in the emphasis of policy frameworks of many countries from poverty reduction to the reduction of inequality.

Sri Lanka is not an exception in setting its policies towards accelerating economic growth but ensuring, at the same time, that issues of equity are not neglected. This, the country has achieved in its post-conflict phase of development, sustaining growth in excess of 8 per cent during 2010-11. Even more critically, the country has witnessed a sharp reduction in poverty over the recent past. These achievements are in line with one of the major objectives of the 'Mahinda Chinthana: Vision for the Future' development strategy – i.e., to achieve equitable development through pro-poor, pro-growth and pro-regional public spending. The most recent available data suggest that while reduction in poverty has been accompanied by improvements in bridging inequities, socio-economic disparities still persists among provinces and population groups in the country. In this backdrop, it is important to examine where Sri Lanka stands in terms of income inequality and the possible causalities behind the current status. This will enable a better understanding of whether the benefits of accelerated economic growth have permeated to all segments of the population in the country. To this end,

> ***"The benefits of growth take considerable time to reduce inequities substantially. Policy efforts on growth have to be aligned with appropriate welfare policies to meet the challenges of inequality"***

[1] Gurría, A., (2011), Remarks made at the press conference organised at the launch of the report on "Divided we Stand: Why Inequality Keeps Rising", OECD, Paris. Available at http://www.oecd.org/document/22/0,3746, en, 21571361_44315115_49185046_1_1_1_1,00.html. (Accessed on 23/04/2012).

Section 1.2 discusses the relationship between economic growth and income inequality. Section 1.3 identifies income inequality trends in Sri Lanka. Section 1.4 discusses how far the country is from achieving equity. Section 1.5 identifies possible reasons that determine inequality in Sri Lanka. Section 1.6 concludes with policy implications.

4.2 Income Inequality: A Matter for Growth?

The relationship between income inequality and growth is complex and could work both ways. On the one hand, inequality could become an incentive for effective functioning of a market economy - i.e., if all individuals in a society are not getting an equal share of income, it would be an incentive for a person to get ahead of the other. On the other hand, inequality might also be destructive for growth - i.e., if only a few have all they want while others struggle to survive, it will hold back growth. Neither of these scenarios will allow an economy to grow at its fastest possible rate,[2] and striking a balance between these two extreme scenarios, therefore, is of some importance.

If income inequality is an incentive for people to work, earn and invest more, why is it a matter of policy concern? Income inequality has inefficient social and economic outcomes, and addressing it is of importance for a number of reasons: (i) Income inequality is directly linked to poverty reduction. Poverty reduction in a given country and at a given point of time is fully determined by the rate of growth of the mean income of the population and change in the distribution of income;[3] (ii) Extreme inequality leads to economic inefficiency and curtails growth; (iii) Higher inequality is associated with higher levels of crime in a country. A positive relationship between income inequality and crime is to be found;[4] (iv) Income inequality leads to unequal access to health care services and education. Indeed, high income inequality is reflected in a lower life expectancy rate; (v) The labour market is also affected by income inequality in a country. Equal income distribution can minimize the gender wage gap and discrimination against women; (vi) Similar to the link between income inequality and crime, there is also a positive relationship between income inequality and corruption; and (vii) Extreme inequality can undermine social stability and solidarity.

Theories on economic growth and inequality have a long history dating back to the era of classical economists like Adam Smith and David Ricardo, and to Marxian theory. According to Adam Smith, economic inequality is unavoidable in an attempt to achieve higher economic growth. Higher social division as a result of income inequality is also argued to lead to higher productivity. In contrast, Marxian theory suggests that economic growth will be sustained with equal income distribution. Kuznets theory, which argues that income inequality would change as economic growth changes -- or more precisely, income inequality would rise first and then decline with economic growth – can be considered as a plausible theory of inequality.

There is mixed evidence on growth and inequity around the world. For instance, there are studies that point to a significant negative relationship between inequality and growth in democratic countries.[5] By con-

[2] See Berg, A. G. and J.D. Ostry (2011), "Inequality and Unsustainable Growth: Two Sides of the Same Coin?", Staff Discussion Note, IMF, April 2011.

[3] Bourguignon, F., (2004), "The Poverty-Growth-Inequality Triangle", proceedings of the Indian Council for Research on International Economic Relations. New Delhi.

[4] ILO (2008), "World of Work Report 2008: Income Inequalities in the Age of Financial Globalization", ILO, Geneva.

[5] Persson, T. and G. Tabellini (1994), "Is Inequality Harmful for Growth? Theory and Evidence," *American Economic Review*, Vol. 84, pp. 600-621.

trast, other studies suggest that there is a negative relationship for poor countries, but a positive relationship for rich countries.[6] According to Berg and Ostry (2011), the more relevant issue for the developing countries is the relationship between income distribution and sharp growth spells,[7] rather than the long-run average growth. Longer growth spells are associated with more equality in income distribution. They note that "half the inequality gap between Latin America and emerging Asia would, according to our central estimates, more than double the expected duration of a growth spell. Inequality typically changes only slowly, but a number of countries in our sample have experienced improvements in income distribution of this magnitude in the course of a growth spell. Inequality still matters, moreover, even when other determinants of growth duration – external shocks, initial income, institutional quality, openness to trade, and macroeconomic stability -- are taken into account."

Among the several social and economic impacts of income inequality, its impact on economic growth and poverty reduction is important. Thus, policy frameworks of many countries have been changed over time in response to this. The first generation of Poverty Reduction Strategy Papers (PRSPs) focused mainly on 'poverty reduction,' and consequently, each country PRSP began by providing a contextual definition of poverty and designing projects and programmes aimed at reducing poverty in their respective countries. The second generation of PRSPs which focuses on growth, poverty and inequality is a response to the involvement in the first generation PRSPs. This paradigm shift shows that policy concerns of these countries shifted from poverty reduction to achieving equity.

Income inequality is twofold: vertical income inequality and horizontal income inequality. Vertical inequality consists of inequality among individuals or households, while horizontal inequality is defined as economic, social, and political inequality among groups with common identities, typically culturally defined – e.g., by ethnicity, religion or race.[8] In other words, vertical inequality is a summary measure of the general level of inequality between rich and poor people in a country, irrespective of the group characteristics such as ethnicity, caste, gender and location.

Given that achieving a targeted rate of growth depends on the level of inequality at the aggregate and spatial levels, where inequality can either promote or hold back accelerated growth, understanding country contexts is critical for future policy decisions. In this context, the next section provides a detailed analysis of the current situation of income inequality in Sri Lanka. Different inequality measurement indicators such as distribution of income across different income groups (quintiles), income distribution ratios (quintile ratio) and Gini coefficient are used to assess the prevailing situation.

4.3 Income Distribution across Different Income Groups

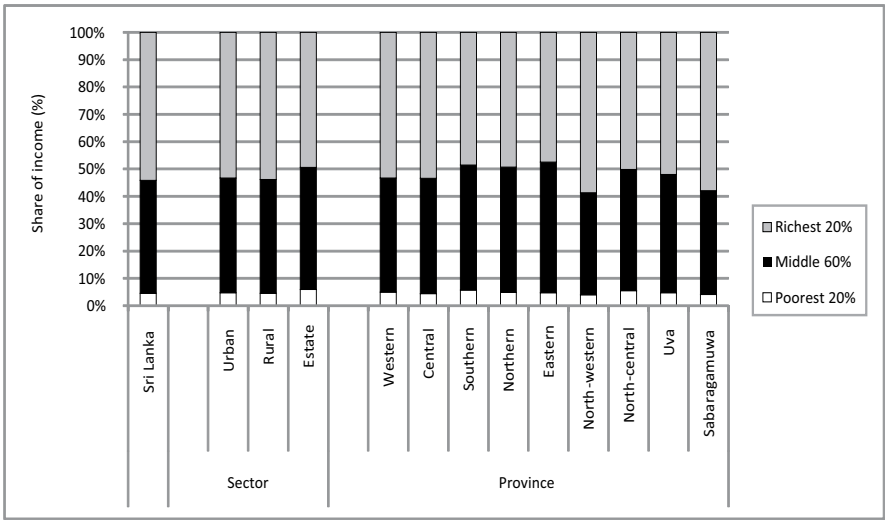
The income distribution pattern across different income groups (quintiles) shows the inequality of wealth concentration. In Sri Lanka, at the aggregate level, more than half of the income is earned by the richest 20 per cent of households. In contrast, the poorest 20 per cent of households receive less than 5 per cent of the income (4.5 per cent). The remaining 60 per cent of households, who are in the middle income categories, receive

[6] Barro, R. J., (2000), "Inequality and Growth in a Panel of Countries", *Journal of Economic Growth*, Vol. 5, pp. 87-120.

[7] Defined as the interval starting with a growth up-break and ending with a down-break.

[8] Stewart, F., G. Brown, and A. Cobham (2009), "The Implications of Horizontal and Vertical Inequalities for Tax and Expenditure Policies", CRISE Working Paper No. 65.

Figure 4.1
Share of Income of Households across Income Quintiles by Sector and Province- 2009/10



Source: Based on Department of Census and Statistics of Sri Lanka, 2011, *Household Income and Expenditure Survey 2009/10 Final Report*.

41.4 per cent of income. The distribution of income across the income groups at the aggregate level itself shows the income inequality that persists in the country (Figure 4.1).

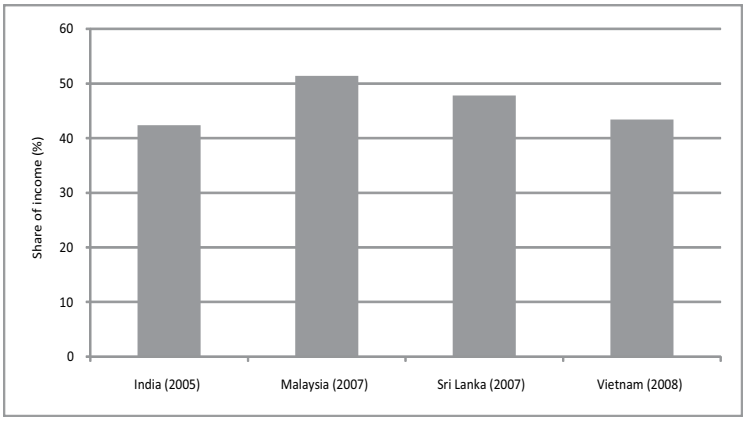
Spatial inequality can be observed by examining income distribution across sectors and provinces of the country. The estate sector shows a relatively low level of inequality compared to the rural and urban sectors. Yet, close to half of the income (49.4 per cent) of the estate sector is concentrated with the richest 20 per cent of households. Comparatively higher levels of income inequality can be observed in urban and rural sectors. In both these sectors, over half (53 per cent) of the income is with the richest 20 per cent of households (Figure 4.1).

Similar inequality patterns among income groups can be observed across provinces, with slight variations. In the North-Western and Sabaragamuwa Provinces, the richest 20 per cent of households receive close to 60 per cent of income, while the poorest 20 per cent receives less than 5 per cent. This signals the prevalence of higher levels of inequality in these provinces. The Southern, Northern and Eastern Provinces show relatively lower levels of inequality, with the richest 20 per cent of households receiving less than half of total income of each province (Figure 4.1).

District-wise observations show that in all the districts, the richest 20 per cent of the households receive more than 40 per cent of income. However, inequality levels are much higher in Ratnapura, Kurunegala, Gampaha, and Matale districts.

A comparison of income distribution among a few selected countries in Asia shows that such high levels of unequal distribution of wealth is a common phenomenon, irrespective of the level of economic growth (Figure 4.2). More than 40 per cent of income is found to be concentrated with the richest 20 per cent of households in these Asian countries.

Figure 4.2
Comparison of Income Shares of the Richest 20 per cent of Households across Countries

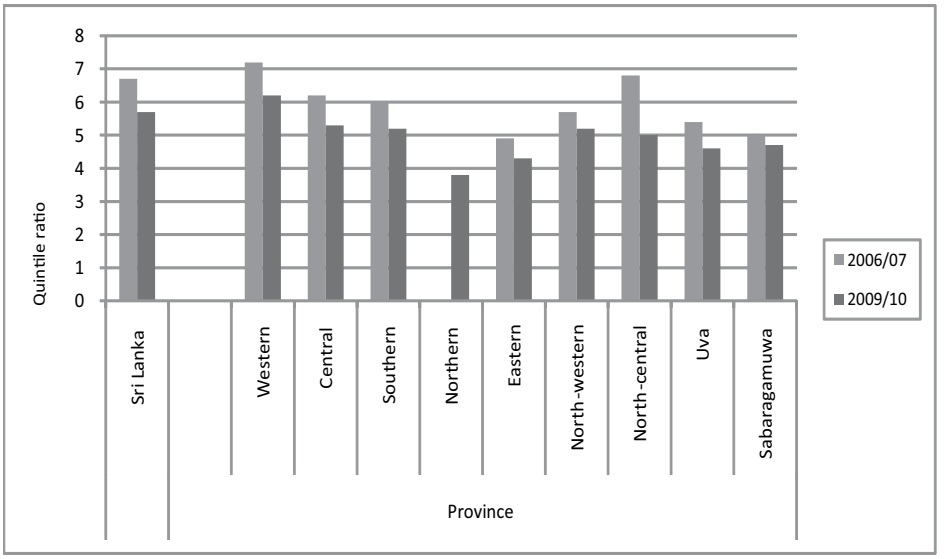


Notes: Income shares are graphed for the latest year for which the data are available or taken for earlier years for comparison purposes.

Source: Based on World Bank, World Development Indicators (WDI) database.

The quintile ratio is also widely used as a measurement of inequality. It measures inequality as a ratio of income received by the richest and the poorest. Whilst the ratio can

Figure 4.3
Quintile Ratios by Provinces in 2006/07 and 2009/10



Note: Quintile Ratio is the ratio of income received by the richest 20 per cent of households to the income received by the poorest 20 per cent of households (expenditure quintiles have been taken as a proxy for income as used by the Department of Census and Statistics of Sri Lanka).

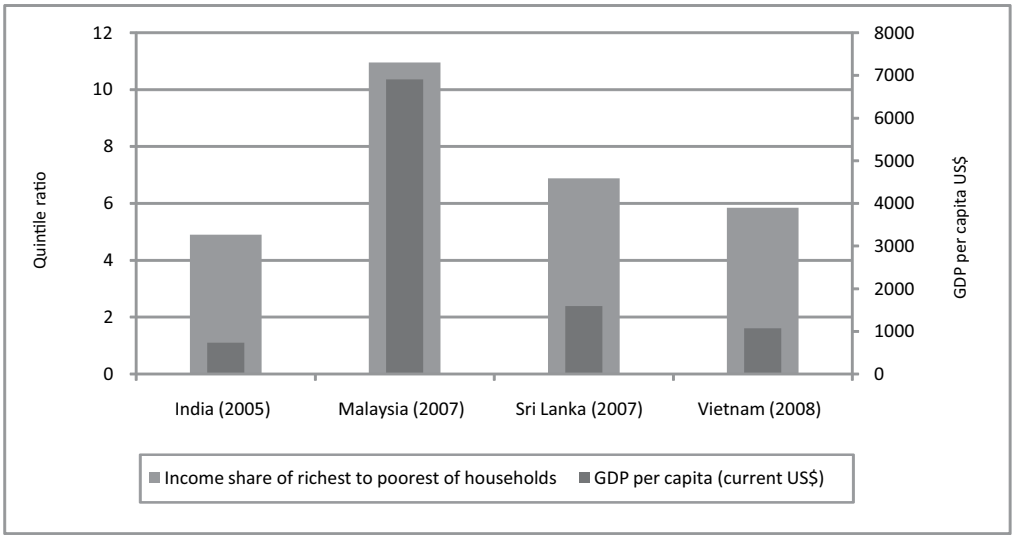
Source: Based on Department of Census and Statistics of Sri Lanka, 2011, *Household Income and Expenditure Survey 2009/10 Final Report*.

be measured in alternate ways,[9] for the purposes of this analysis, the quintile ratio is taken as the income received by the richest 20 per cent of households in comparison to the income received by the poorest 20 per cent of households. At the aggregate level, the quintile ratio has fallen from 6.7 in 2006/07 to 5.7 in 2009/10. This shows that the richest 20 per cent of households received a 6.7 times higher income than that of the poorest 20 per cent of households in 2006/07 (Figure 4.3). Given that the ratio has dropped to 5.7 by 2009/10, these figures indicate a reduction of inequality at the aggregate level over recent years in Sri Lanka.

The quintile ratios across the provinces also show a declining pattern, indicating a fall in inequality in all the provinces between the two periods. However, the Western Province shows the highest level of inequality (with a quintile ratio of 6.2 in 2009/10), followed by the Central, Southern and North-Central Provinces (Figure 4.3).

The comparison among the same set of Asian countries as before, shows higher quintile ratios for all the countries, indicating higher levels of inequality in these countries. Further, as shown in Figure 4.4, the level of inequality in these countries is also associated with their per capita GDP -- i.e., higher the per capita GDP, higher the inequality and vice versa.

Figure 4.4
Country Comparisons of GDP Per Capita and Inequality



Notes: Quintile Ratio is the ratio of income received by the richest 20 per cent of households to the income received by the poorest 20 per cent of households. Quintile ratios are graphed for the latest year for which the data are available for comparison purposes.
The GDP per capita values are taken for the respective years the quintile ratios are calculated for each country.

Source: Based on World Bank, World Development Indicators (WDI) database.

[9] Different ways of measuring the quintile ratio: [Q5/Q1], [Q5/(Q1 + Q2)], [Q1/Q5]. The 'Q' refers to the Quintile. The number shows the quintile. i.e.: Q1 is the poorest, while Q5 is the richest.

The above section looked at the income inequality in Sri Lanka using both the distribution of income across different income groups and the quintile ratio. The next section looks at inequality using the Gini coefficient -- a widely used measurement of inequality.

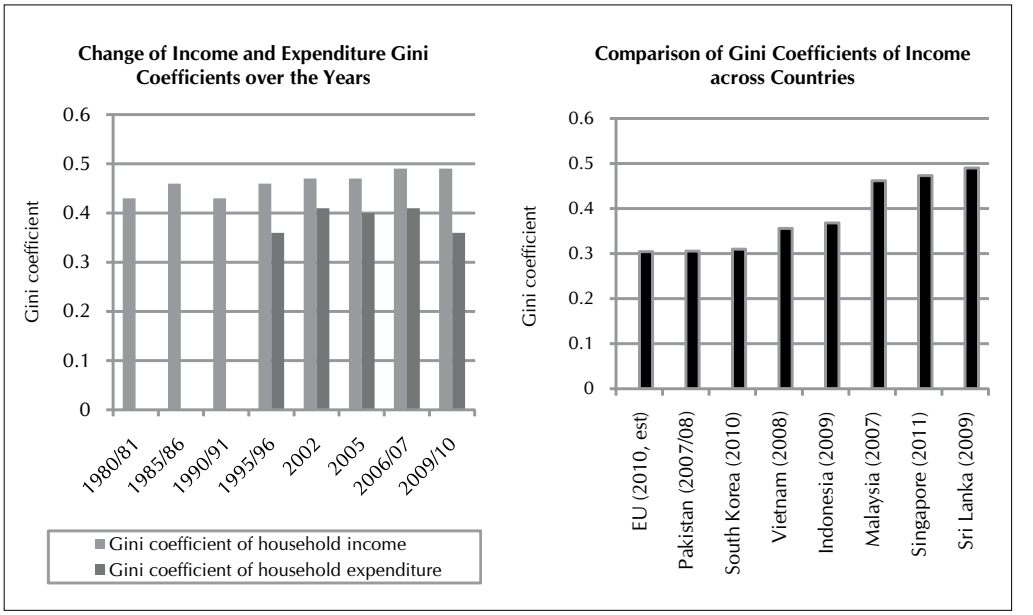
4.4 How far is Sri Lanka from Achieving Income Equality?

The Gini coefficient measures the extent to which the distribution of income (or consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The closer the coefficient is to zero, the more equal the distribution of income is. Overall, Sri Lanka has experienced a reduction of inequality in recent years. The Gini coefficient of expenditure has come down from 0.4 in 2002 to 0.36 in 2009/10. However, the Gini coefficient of income does not show a reduction of inequality (Figure 4.5). Nonetheless, it should be noted that expenditure is the more reliable indicator, since households are prone to smooth expenditure when income changes. As such, the Gini coefficient of expenditure would be the more reliable indicator of income distribution.

A comparison across countries show that Sri Lanka has a long way to go in achieving equality compared to other countries such as Indonesia, South Korea and the EU region. However, it should be noted that the cross country comparison uses the Gini coefficient of income due to data limitations (Figure 4.5).

There are also considerable levels of inequality across geographical regions in Sri Lanka. The level of inequality is higher in both the

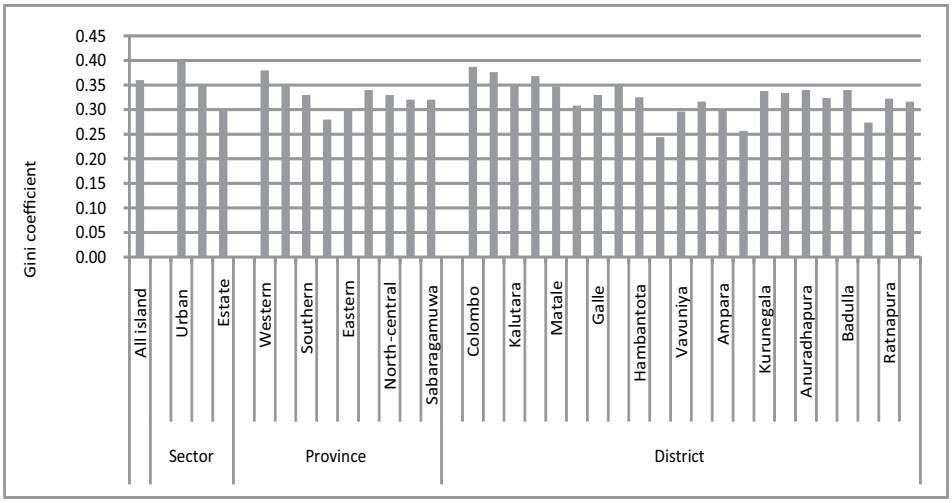
Figure 4.5
Change in Gini Coefficient over the Years in Sri Lanka and Comparison across Countries



Source: Based on Department of Census and Statistics of Sri Lanka, 2011, *Household Income and Expenditure Survery 2009/10 Final Report*.

Source: Based on Central Intelligence Agency (CIA), *The World Fact Book*.

Figure 4.6
Gini Coefficient by Sectors, Provinces and Districts in 2009/10



Notes: Gini coefficient here refers to Gini coefficient based on expenditure (Gini coefficient of expenditure is a better measurement than Gini coefficient of income).

Source: Based on Department of Census and Statistics of Sri Lanka, 2011, *Household Income and Expenditure Survey 2009/10 Final Report*.

urban and rural sectors, as compared to the estate sector. This implies that despite a higher level of poverty in the estate sector, income is much more equitably distributed in this sector compared to the other two sectors of the economy (Figure 4.6).

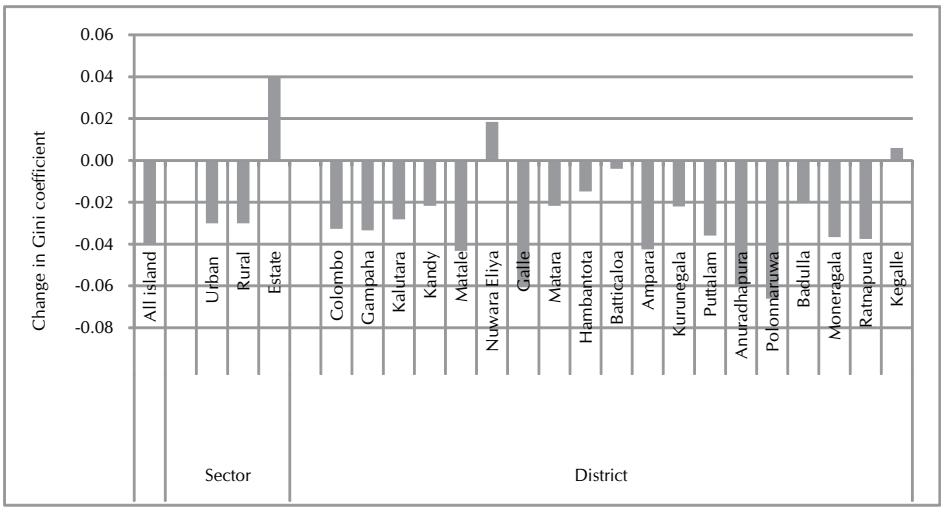
Across provinces, the Western Province has the highest level of inequality measured by the Gini coefficient. The Central, Southern and the North-Western Provinces record the next highest levels of inequality (Figure 4.6). Similarly, higher levels of inequality are to be found in the districts of Colombo, Gampaha, and Kandy. The districts of Jaffna, Trincomalee, Moneragala and Vavuniya have experienced the lowest levels of inequality in the country.

While it is important to analyze the current status of inequality, it is also necessary to understand changes in inequality over time. This is examined both at the aggregate level and in terms of spatial differences as depicted in Figures 4.7 and 4.8, respectively.

At the aggregate level, the level of inequality measured by the Gini coefficient has reduced by 0.04 points between 2006/07 and 2009/10. The changes across sectors and the districts provide an understanding of the changes in spatial inequality during this period. Although the current status of inequality is lower in the estate sector compared to the other two sectors, inequality has increased only in this sector. It has increased from 0.26 to 0.30 between 2006/07 and 2009/10. This indicates that the reduction of poverty in the estate sector has not necessarily brought equal benefits to all households in the sector. This is re-inforced by the rise in district Gini coefficients of Nuwara-Eliya and Kegalle districts, where there is a substantial share of the estate sector population. In contrast, the level of inequality measured in terms of Gini coefficient in all other districts have reduced in 2009/10 as compared to 2006/07.

Examining the changes in the level of spatial inequality with growth over the years would take the analysis a step forward. Due to the

Figure 4.7
Change in Gini Coefficient by Sectors and Districts between 2006/07 and 2009/10

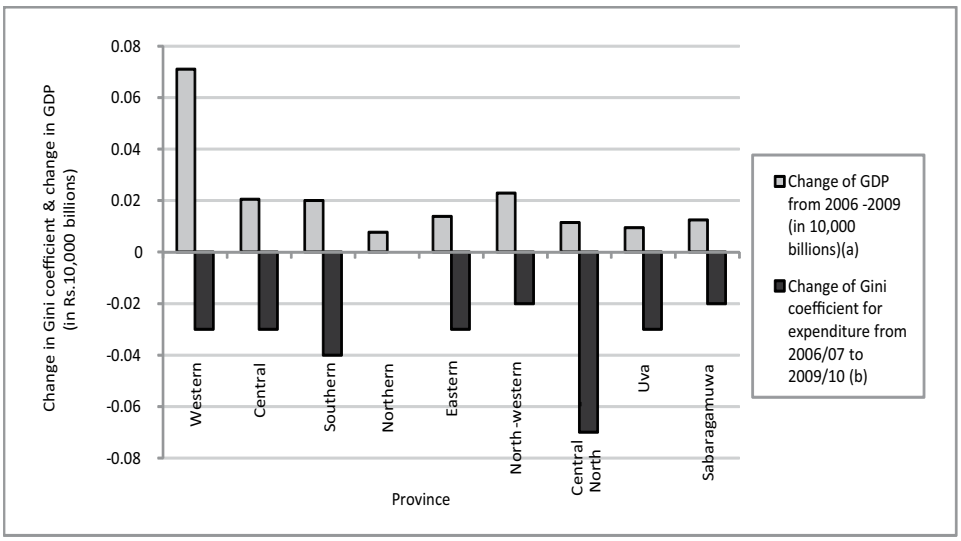


Notes: Gini coefficient here refers to Gini coefficient based on expenditure (Gini coefficient of expenditure is a better measurement than Gini coefficient of income).

Source: Based on Department of Census and Statistics of Sri Lanka, *Household Income and Expenditure Survey*, 2006/07 Final Report, and 2009/10 Final Report.

data limitations, the changes are graphed only at the provincial level (Figure 4.8). The data indicate the negative relationship between growth and reduction in inequality across provinces. In particular, the Western Province shows a marked growth in the output

Figure 4.8
Change of GDP and the Gini Coefficient of Expenditure from 2006 to 2009 by Provinces



Notes: The GDP change is provided in Rs. 10,000 billions

Sources: Based on CBSL, *Annual Report 2011*; Department of Census and Statistics of Sri Lanka, *Household Income and Expenditure Survey 2009/10 Final Report*.

but a lower level of reduction of inequality. This indicates that in the Western Province, benefits of growth have not trickled down adequately for a substantial reduction of inequality to have occurred. In contrast, the North-Central Province has been able to reduce inequality remarkably during the considered period, even with a lower level of growth. This suggests that growth is not the only factor which brings in income equality.

Based on the above analysis which provides an initial understanding of the current situation of inequality in Sri Lanka, measured using different indicators, the following section attempts to assess the most probable reasons for the prevalence of inequality in the country.

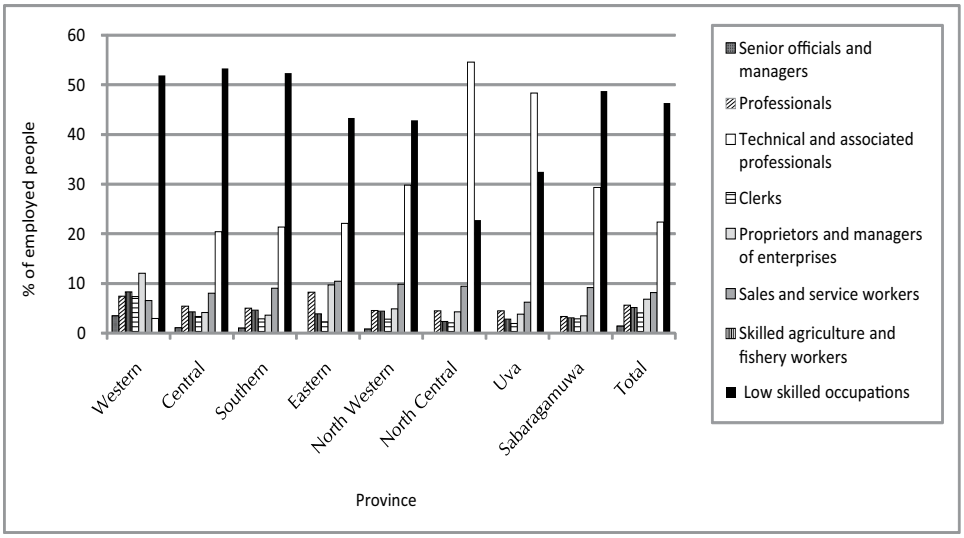
4.5 Determinants of Income Inequality in Sri Lanka

This section discusses the key factors that may be contributing to income inequality in Sri Lanka. These include wage differentials in different occupation categories, gender wage differentials, contribution of migration and remittances to inequalities, disparities in education -- including both differences in access to education and educational outcomes -- concentration of economic activities, and contribution of infrastructure to inequalities. Each of these factors is discussed in detail below.

4.5.1 Wage and Skills Differentials

The determination of the wages by the market is one of the major causes of economic inequality within the modern market economies. This is caused by supply and demand interactions for different types of work. Hence, wages are determined on the market price of skills. For instance, increased competition for a given type of work can lead to a fall in wages for that type of work. Work which require higher levels of skills are often in short supply and are paid higher wages. The above interactions in labour markets lead to wage differentials, causing income inequality among workers.

Figure 4.9
Currently Employed Persons by Occupation Categories by Provinces, 2010



Source: Based on Department of Census and Statistics of Sri Lanka, *Sri Lanka Labour Force Survey: Annual Report 2010*.

Table 4.1
Current Employed Persons, by Sector of Employment

	Public Sector		Private Sector	
	Male (%)	Female (%)	Male (%)	Female (%)
Western	61	39	69	31
Central	53	47	72	28
Southern	59	41	71	29
East	71	29	88	12
North-Western	56	44	71	29
North-Central	70	30	67	33
Uva	58	42	61	39
Sambaragamuwa	56	44	65	35
Total	60	40	70	30

Note: Percentage by gender of total employed.

Source: Based on Department of Census and Statistics of Sri Lanka, *Sri Lanka Labour Force Survey: Annual Report 2010*.

This scenario can be observed for Sri Lanka by looking at occupation categories across provinces. Western, Central and Southern Provinces, which have a higher share of people employed in low skilled occupations,[10] record higher levels of inequality (Figure 4.9). At the same time, the dominance of an economic sector in a region, in terms of providing employment, results in wage differentials. The productivity differentials of economic sectors affect wages. For example, Central, North-Central and Sabaragamuwa Provinces have the majority of their labour in the agriculture sector. The agriculture sector typically records the lowest productivity, in turn leading to greater inequality across these provinces – i.e., the low labour productivity of the agriculture sector translates into low wages for workers in agriculture, increasing inequalities in these provinces.

The higher level of employment of women in the private sector and the wage differentials for women is another possible factor leading to inequalities in certain provinces. Although women are more productive than men, they are found to be paid less in Sri Lanka.[11] In particular, women are paid less in the private sector and the agriculture sector. There is no wage difference to be found between male and female workers in public sector employment.[12] Thus, the higher rate of female participation in the private sector might be one of the reasons for high income inequality in the Sabaragamuwa, Western and North Central Provinces (Table 4.1). However, wage differentials are not the only factor, and there could be multiple reasons behind the inequality levels observed in Sri Lanka. Some of these are discussed below.

4.5.2 Contribution of Migration and Remittances to Income Inequality

Whilst migration may be identified as a response to unequal distribution of wealth, migration itself can contribute to increasing inequality. Indeed, migration is perhaps a major demographic attribute that is contributing to income inequality in Sri Lanka. As remittances increase the income of remittance receiving households, it leads to affordability for better services such as education and

[10] Craft and related workers, plant and machine operators and assemblers, and elementary occupations were considered as the occupations which require lower levels of skills.

[11] Gunawardena D., (2008), "An Analysis of Gender and Ethnic Wage Differentials in Sri Lanka: 1996-2004", available at http://www.google.lk/#hl=en&sclient=psy-ab&q=An+Analysis+of+Gender+and+Ethnic+Wage+Differentials+in+Sri+Lanka:+1996-2004. (Accessed on 23/04/2012).

[12] *Ibid.*

health, compared to non-migrant households. Further, increased income of migrant households leads to changes in their consumption patterns. Better access to education leads to higher education outcomes among migrant households. Such developments can create income inequality between migrant and non-migrant households.

In Sri Lanka, remittances are positively related to the level of income of the income receivers.[13] Indeed, it is found that the poorest 10 per cent of income receivers gets 1.3 per cent of their income as remittances, while the richest 10 per cent of income receivers gets 4.6 per cent of their income from remittances. This clearly explains that remittances have significant impact on household income and thereby, have an impact on inequality. Further, the majority of remittances receiving households are in the top income decile which further links remittance to income inequality.[14]

In contrast to the impact of external migration, internal migration from rural to urban areas is more likely to contribute towards reduced income inequality in the long run. For example, people moving from rural to urban areas, which are considered economically advanced areas, contribute to improved production and increased incomes. As a result, income disparities among individuals between rural and urban areas can reduce in the long run.

4.5.3 Disparities in Education

Education policies are considered a tool for reducing income inequality in a country. Education has a direct link to employment and employability, which affects income and inequality. Differences in both access to education and educational outcomes contribute to income inequality. In the case of Sri Lanka, there is evidence to suggest that the contribution to total inequality from education has increased progressively over time, from 12 per cent in 1980 to 15 per cent in 2002.[15]

Despite universal free education policies, significant disparities do exist across income groups, gender, regions, in terms of access, quality of education and also in educational outcomes. For example, the estate sector and the poorest quintile register the lowest net enrolment ratio in upper secondary and collegiate education cycles. One of the factors for such disparities is the unequal distribution of resources.[16] Thus, disparities in education in countries can be a significant factor in explaining inequality.

4.5.4 Unequal Spatial Concentration of Economic Activities

The differences in intensity of economic activities across regions are a cause for spatial inequalities. The World Bank (2009) identifies three spatial dimensions of density, distance, and division to describe geographic transformation using the concept of market access.[17] The report highlights that density is the most important dimension in the 'local' geographic scale, and distance is the most important dimension in the 'national' geographic scale. The density indicates the size of economic output or total purchasing power per unit of surface area. It is found to be highly correlated with the geographic concentration of labour and capital.

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[13] Karunaratne, H.D., (2008), "International Labour Migration, Remittances and Income Inequality in a Developing Country: The Case of Sri Lanka", available at http://www.google.lk/#hl=en&sclient=psy-ab&q=International+Labour+Migration%2C+Remittances+and+Income+Inequality+in+a+Developing+Country:+The+Case+of+Sri+Lanka&oq. (Accessed on23/04/2012).

[14] *Ibid*.

[15] Gunatilaka, R., (2011), "Income Distribution after Economic Reforms in Sri Lanka, 1980-2002", in S. Kelegama and D. Gunewardena (eds.), *Economic and Social Development Under a Market Economy Regime in Sri Lanka*, Vijitha Yapa. Sri Lanka.

[16] IPS/UNDP (2012),"Second National Human Development Report: Sri Lanka", (forthcoming).

[17] The World Bank (2009), "World Development Report 2009: Reshaping Economic Geography", The World Bank, Washington DC.

With growth, economic activities are more likely to be concentrated at the local scale and then at the national scale. The local scale concentration would lead to urbanization. At the national level, production and workers will be concentrated in the leading areas. During the early stages of development, infrastructure and social services would tend to be concentrated in economic centres. Later, with progress in development, more internal integration would lead to higher distinction between the leading and lagging regions in terms of economic activity, but a lesser distinction for living standards. Further development, which would lead to structural transformation, would level off the spatial distribution of economic activities, reducing spatial disparities. However, living standards would widen for a prolonged period before slowly converging.[18]

The relationship between economic concentration and its relatedness to inequality in Sri Lanka can be observed to a certain extent when provincial level indicators are examined. For instance, the Western Province which generates close to half of the output of the country (45 per cent) records the highest level of inequality. The Central, Southern and North-Western Provinces record the next highest levels of contribution to total output of the country, together with higher levels of inequality (see Figure 4.6).

4.5.5 Differential Access to Infrastructure Facilities

Differential access to infrastructure facilities is a major determinant of spatial inequality. Studies have shown that the contribution of infrastructure to total inequality in Sri Lanka increased progressively over the years, from 13 per cent in 1980 to 26 per cent in 2002.[19] The spatial inequality could be across provinces and also within provinces, between urban and rural populations. Such studies confirm that the concentration of most of the formal employment in urban centers is due to remoteness (poor road network, communication barrier) leading to poorer access to markets for the rural population. This further prevents lagging regions from being absorbed into the growing economy.[20]

Infrastructure is one of the determinants of the spatial dimension of 'distance.' According to the World Bank (2009), the distance measures the ease of reaching markets and determines access to opportunities. Hence, when a region is far, and less accessible from an economically dense centre in a country, it is likely to lag behind. However, it should be noted that economic distance is not the same as, but is related to, physical distance. During the early stages of development, infrastructure and social services typically tend to be concentrated in economic centres, but gets leveled off during later stages.

4.6 Conclusion and Policy Implications

Inequality is desirable for economic growth. Yet, higher inequality could lead to negative effects on growth. As countries adopt accelerated growth strategies, widening of inequalities at the initial phases is an expected outcome. However, balancing growth and overall welfare of the population remains a challenge for governments in sustaining growth momentum.

There is ample evidence globally to suggest that the benefits of growth take a long time to trickle down to reduce inequalities substantially. Hence, prudent policies should be in place to address inequalities and to man-

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[18] *Ibid.*

[19] Gunatilaka, R., (2011).

[20] Kumara, T. and D. Gunewardena (2011), "Spatial Inequality" in S. Kelegama and D. Gunewardena (eds.), *Economic and Social Development Under a Market Economy Regime in Sri Lanka*, Vijitha Yapa, Sri Lanka.

age rising levels of inequity. As such, improved investments in human capital and regional infrastructure -- thereby improving connectivity of lagging regions to economic centres, creating more opportunities in productive sectors and productive employment, etc., -- are two key areas for policy attention.

Investment in human capital is one of the most important elements in achieving greater income equality in the country. This requires investment in early childhood development and education. Investment in education together with investment in skills development would help improve the employability of the workforce. This would be instrumental in reducing income inequality. However, this should go hand-in-hand with the creation of more productive and rewarding employment opportunities. Furthermore, it is necessary to tie up employment opportunities with training and career prospects.

Although accelerated economic growth requires that concentration be more on leading regions, lagging regions also need to grow along, without falling 'far behind.' This stresses the need to focus on regional development while achieving the objective of accelerated economic growth. In this sense, the government initiatives on regional development are noteworthy. The improvement of infrastructure, connecting the lagging regions to markets and economic centres, etc., would open up access to economic opportunities. This will help to ensure a higher possibility that the benefits of growth will be shared by all and bridge inequities across the country.

Reducing inequality also requires better jobs for the poor. Better jobs can be generated with structural transformation from agriculture to the more productive industrial and services sectors. The infrastructure improvement within the regions and connectivity is one of the ways of achieving this, as they encourage industry and services growth. However, such structural transformations may be slow to occur. In the interim, there is an onus on governments to ensure that less productive sectors of the economy and the population that derive a livelihood from such economic activities are not left behind. These and other issues of sustaining agriculture productivity and growth will be examined next in Chapter 5 of this report.

5. Optimizing Natural Resources and Agriculture

5.1 Introduction

In order for Sri Lanka to achieve its targeted GDP growth in excess of 8 per cent in the medium to longer term, various economic sectors will have to contribute significantly by raising their output – although the degree and nature of increased contribution may vary depending on the sector. The issue of sustainability comes into play, when the activities of the sectors have significant linkages to the natural environment, including 'natural capital.' Although the present classification of economic sectors does not include natural capital as a sector -- whereby the actual contribution is largely unnoticed -- it contributes significantly to the economy of Sri Lanka.

> ***Resource-specific approaches would help to sustainably utilize the natural resource base in Sri Lanka and sustain its contribution to accelerated economic growth***

Natural resources are directly linked to the economy primarily via agriculture, fisheries, tourism and forestry. In addition, there is an array of indirect means through which natural resources contribute to economic activities. The contribution of natural resources to economic development is not well captured in the conventional system of national accounting. The inherent feature of some natural resource-based activities is that they are provided free and thus do not have market prices. This can lead to the neglect of the role of natural resources in policy formulation. In certain instances, the goods and services obtained through natural resources are counted under other economic sectors. Therefore, care has to be taken in making policies and strategies, since the issues related to natural resources are not well reflected in the current statistics.

The natural resource base in Sri Lanka will undoubtedly have to contribute its fair share to the country's medium and long term strategy to achieve the targeted high rate of growth. In turn, accelerated economic growth can have implications on the natural resource base, particularly on its sustainability. Agriculture has a major role to play in this as the

largest sector dependent on natural resources at present. Unlike in many other uses of natural resources, in agriculture its values are determined in the market, albeit incompletely. Further, agriculture is at the core of some socio-economic parameters that go beyond growth, such as food security and poverty reduction. Hence the role of agriculture, in an attempt to achieve accelerated economic growth, stands out as a special concern.

In this context, it is imperative and timely to assess the real economic contribution of natural resources to attain and sustain a high growth rate and its repercussions on the sustainability issue, which might in turn determine growth in the long term. In this connection, it is a challenging task to increase the economic contribution of natural resource-based sectors in the short term in order to support high growth. Moreover, global environmental challenges such as climate change are also expected to decelerate the rate of growth if appropriate actions are not taken. Therefore, impacts of global climate change have also to be taken seriously in making policies for accelerated economic growth.

The nexus between the economy and environment consists of a complex web of relationships. Hence, it is a challenge to isolate the individual linkages to assess the specific contributions of the natural environment to the economic performance of a country. Therefore, the assessment which follows focuses on the most significant aspects of natural resources which are linked to economic growth. Accordingly, agriculture, fisheries, forests and tourism have been selected as the key sectors of high policy relevance in maintaining a high targeted growth rate in Sri Lanka. The discussion focuses on the current contribution of the sectors to GDP and the ways and means in which the sectors can participate in the anticipated growth process in a sustainable manner.

5.2 Agriculture

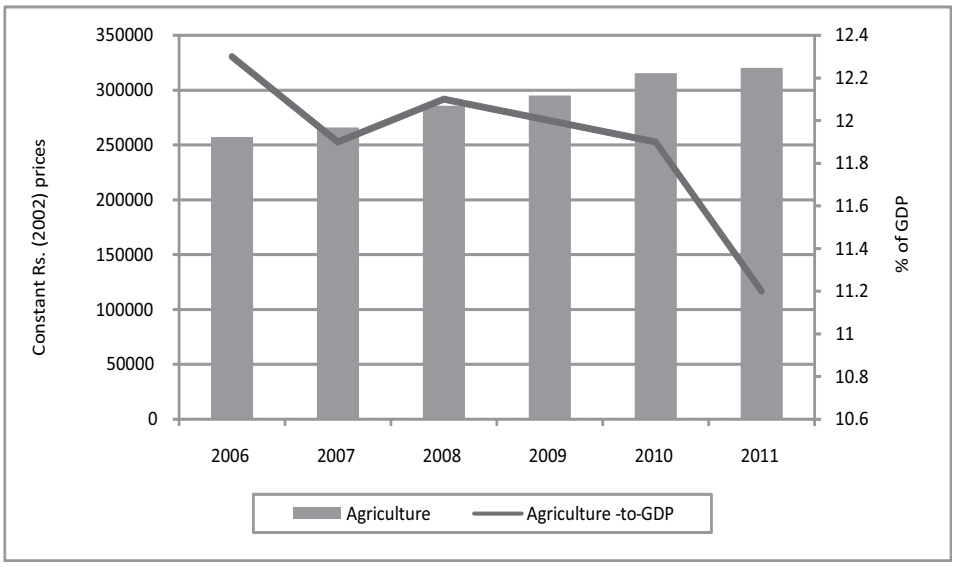
5.2.1 The Status-quo of the Agriculture Sector

Agriculture is one of the key sectors of the Sri Lankan economy with a significant contribution to GDP and employment, while being the main income source of the rural population. The relative contribution of agriculture to GDP was 11.2 per cent in 2011. The absolute contribution of the agriculture sector to the GDP has increased over time, but at a very slow pace. In absolute terms, agriculture's contribution to GDP has increased by 53.5 per cent from 2006-2010 (Figure 5.1). However, its relative contribution to GDP has declined from 14.3 per cent in 2002 to 11.2 per cent in 2011 due to faster growth rates recorded by industry and services sectors.

Owing to this gradual reduction of the contributions of agriculture to GDP and employment,[1] there was a growing concern that its contribution to the economy is no longer important. However, this mind set has changed significantly after the global food crisis of 2008. The merits of having a strong domestic food production sector in a low-middle income country like Sri Lanka, under conditions of growing volatility in world commodity markets, has received due attention. Indeed, domestic agriculture still provides 85 per cent of Sri Lanka's food requirement in value terms and provides employment to 33 per cent of the total labour force, while utilizing 30 per cent of the habitable land mass. It is the main stay of the rural economy which houses 38 per cent of the rural population. As such, it is highly un-

[1] Agriculture from here onwards refers to food production although some issues raised are common to both food production and plantation sectors.

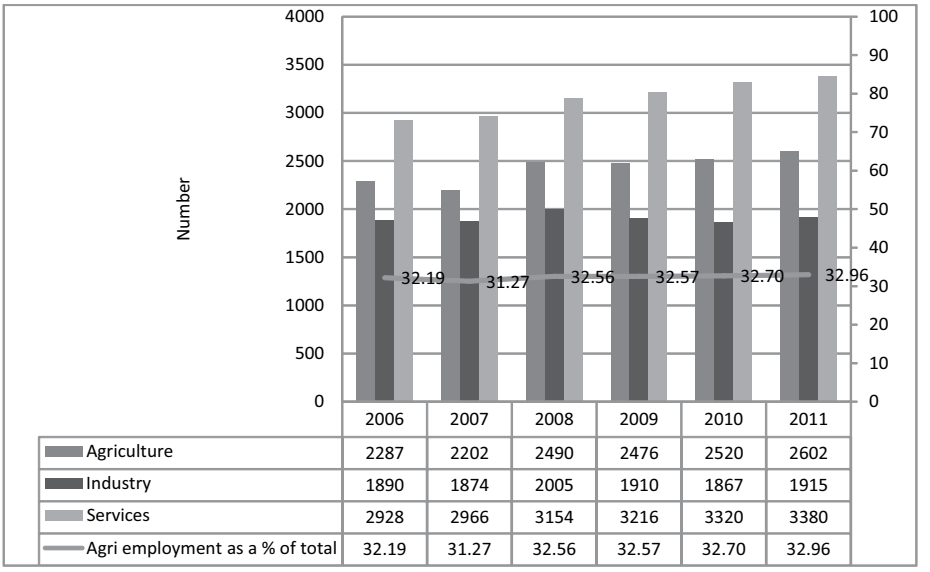
Figure 5.1
Agriculture Contribution to GDP



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

likely that Sri Lanka's domestic agriculture will lose its national importance in the near future, even if world food prices fall and food imports become cheaper.

Figure 5.2
Employment by Economic Activities



	2006	2007	2008	2009	2010	2011
Agriculture	2287	2202	2490	2476	2520	2602
Industry	1890	1874	2005	1910	1867	1915
Services	2928	2966	3154	3216	3320	3380
Agri employment as a % of total	32.19	31.27	32.56	32.57	32.70	32.96

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

Whilst this is the current status quo, the problem at hand is how this lacklustre agriculture sector could effectively contribute to higher growth -- aspired to be achieved and maintained over an extended period of time. The ideal response of the agricultural sector to this could be multipronged.

- Increasing the growth rate of food production to match domestic demand
- Introducing and expanding non-traditional products mainly for exports
- Releasing resources for fast growth in industry and services
- Conserving the resource base in agriculture and protect it from degradation

Increasing the growth rate of food production

Currently, the agriculture sector produces nearly 85 per cent of the food requirement of the country and the balance is imported. Sri Lanka is now self sufficient with its staple food, rice. The country is producing nearly 94 per cent of its rice requirement in an average crop year and the entire requirement, or more, in a favourable crop year. Individual per capita food production in selected food items (rice, pulses and milk) have increased over the last decade (Table 5.1). However, Sri Lanka still strongly depends on imported sugar (local production accounts only for 9 per cent of the total requirement), pulses and nuts (local production amounting to 24 per cent of the total requirement), milk (local production fulfilling only 78.5 per cent of the requirement) and fish (local production accounting for only 83.6 per cent of the requirement).

Therefore, while Sri Lanka is generally self-sufficient in its staple food of rice, 15 per cent of the country's food requirement is still imported. The cost of food imports was 12.2 per cent of total import expenditure in 2010. This is a substantial burden on the country's BOP and a hindrance to the achievement of accelerated economic growth. Also, this is directly related to the macro level food security of the country. The situation would be further aggravated when the country moves along the anticipated high growth path, as the resulting improvements in per capita income will lead to increased demand for food. This is especially true for Sri Lanka, where the low income strata dominate the country's population. If domestic food production is not increased to match the increased demand resulting from this income growth and continuing population growth, the need for food imports will be further exacerbated. The increased food imports will result in a further strain on the BOP and, if not, would result in higher rates of inflation. Both could strain or undermine the efforts of achieving, and maintaining, high economic growth in the country. Nevertheless, Sri Lanka as country with a tradition in agriculture with large proportions of resources already committed to it, has a rational option of increasing domestic food production in order to avoid this predicament.

Increasing non-traditional agricultural exports

The role of agriculture in supporting higher economic growth rates does not stop at meeting the growing food requirement. As a sector that employs a large portion of the national resource base, it should contribute to increasing the trade volume and income generation. The possibilities of expanding exports of traditional plantation crops any further, are limited. However, the current situation where substantial amounts of land and labour are being continuously committed to the production of traditional food crops under substandard technologies is something that needs to be reconsidered. At least part of these resources have to be diversified into agricultural products with an export poten-

tial to buttress current efforts to achieve a higher economic growth. The pros and cons of this proposition will be discussed in the sections to follow.

Releasing resources to non-agricultural sectors

Agriculture has an imperative role in the transformation of an agricultural economy to an industrial one as the main source of labour supplied to the growing 'capitalist sectors.'[2] Although the conditions assumed in this classical theory of Lewis are not entirely valid in contemporary Sri Lanka, the need for transferring labour and some land into other sectors emerges as a basic requirement for attaining higher growth. As such, a growth spurt can only be generated from industry and services, but not in agriculture.

However, this necessitates growth of output per unit of labor and land in agriculture too, as the amount being already produced or more will have to be produced with less land and labour after such a transformation. This is another dimension of the necessity of boosting agricultural production concomitant to the acceleration of GDP growth. Further, agriculture contributes to economic growth by being the source of raw material to other sectors. Sri Lanka, being a developing country, possesses a higher potential for agro-based industries and in this case too, agriculture sector has a main role of supplying inputs to the industry sector. Thus, the need for the enhancement of agricultural production is strongly felt in a situation where a high economic growth rate is the expectation.

Conserving agricultural resource base

Resource degradation is a customary problem in agriculture, and it is particularly severe where attempts are made to accelerate production. Increasing agricultural production could be done either through expanding the extent operated, or intensification of operations in a given extent. Higher food demand from rapid growth will provide an incentive for the agriculture sector to apply both these strategies in order to increase output in both the short and long run. However, the experience in Sri Lanka as well as in other countries is that under these circumstances, small farmers tend to use resources, especially land and forests, exploitatively – resulting in their degradation. This, in the long run leads to a reduction of a country's natural capital, which in a more comprehen-

Table 5.1
Per-capita Food Production 2002-2010

Year	Rice (MT)	Pulses (MT) (Green Gram, Dhal, Cowpea, Soya Beans)	Potatoes (MT)	Milk (L)
2002	0.15	1.15	4.67	9.64
2003	0.16	1.37	3.73	9.70
2004	0.14	0.97	4.18	9.78
2005	0.17	1.28	4.04	9.80
2006	0.17	1.17	3.95	9.89
2007	0.16	1.20	3.89	10.10
2008	0.19	0.95	3.70	10.29
2009	0.18	1.03	3.02	11.41
2010	0.21	1.08	2.51	11.99

Source: Department of Census and Statistics, *Food Balance Sheet*.

[2] Arthur Lewis theory on 'duel sector model' in 1954 explains the transition of labour between two sectors, from the agriculture to the industrial sector.

sive framework of national accounting, would be a factor discounting a set GDP growth target. The same degradation, in future, will result in reduced productivity and reduced value added in the agricultural sector. As such, it is of utmost importance to respond to the enhanced demand for food, resulting from the pursuit of accelerated growth, with caution and with necessary legal and institutional backing to ensure sustainable resource use.

5.2.2 How to Increase Agricultural Production

Use unutilized land

At present, 1.2 million ha of high land and 0.7 million ha of low land are available for crop production, and nearly 80 per cent of the total arable extent is annually cultivated. As such, even under the most favourable conditions in economic and natural environments, only a 20 per cent increase in area cultivated can be expected.

Sri Lanka has introduced several development programmes such as 'Api Wawamu Rata Nagamu,' 'Rehabilitation of 1000 tanks,' and 'Divi Neguma' to cultivate unutilized agricultural lands. However, the sustainability of these programmes is doubtful as some of them have already faded out. In addition, most of these programmes are aimed at maintaining nutritional levels, rather than increasing agricultural production as a whole. For instance, the Divi Neguma programme is promoting the concept of home gardening. Yet, home gardens represent only 3.9 per cent of the total cultivable land,[3] and even if fully cultivated at current productivity levels, it is hardly adequate to add significantly to present production levels.

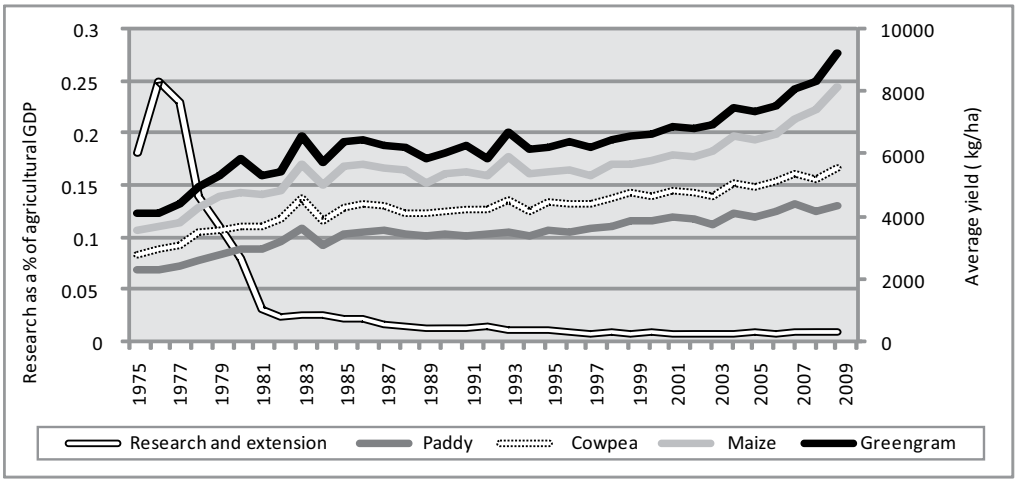
Sri Lanka has encountered several adverse experiences in the past when expanding arable land areas. For example, during the 'Production War' declared by the government in 1978 to accelerate agricultural production, Sri Lanka lost a considerable extent of virgin forest land due to clearing and inappropriate use, ultimately resulting in enhanced land degradation. Thus, as pointed out earlier, it is imperative to identify sustainable methods to increase agriculture production by increasing the cultivated extent without harming the resource base and the environment. This is an exceedingly difficult task as Sri Lanka is already using most of the cultivable land and the remaining forest cover is too limited for further exploitation.

Increase productivity of existing resources

In the face of growing scarcity of land and water, and emerging challenges due to climate change, productivity gains in agriculture will be the remaining option available for achieving increased agricultural output. Sri Lanka's historical experience of agricultural productivity growth casts doubts on whether it is possible to raise productivity in the near future. Productivity improvement has to be gained through the introduction of new technology, generated through sustained investment in agricultural research and extension (R&E). In countries like Sri Lanka where small farmers dominate the sector, investments in R&E have to be done by the public sector. As illustrated by Figure 5.3, the investment pattern in agricultural R&E over the past four decades clearly shows that it had an upward trend during the green revolution starting around the 1970s, declining from 1977 and continuing on a negative trend thereafter. This has been as low as 0.6 per cent of agricultural GDP after the 1980s, and was further reduced to 0.01 per cent after 1999. Most of these R&Es were allocated to rice, as it is the staple food, achieving national self sufficiency. However, productivity of other main crops increased at insig-

[3] Area of home gardens (land below 40 perches or below 0.1 ha) are 188,994 acres, whereas total cultivated land area is 4,797,004 acres.

Figure 5.3
Investment in Agricultural R&E in Sri Lanka and Productivity Growth



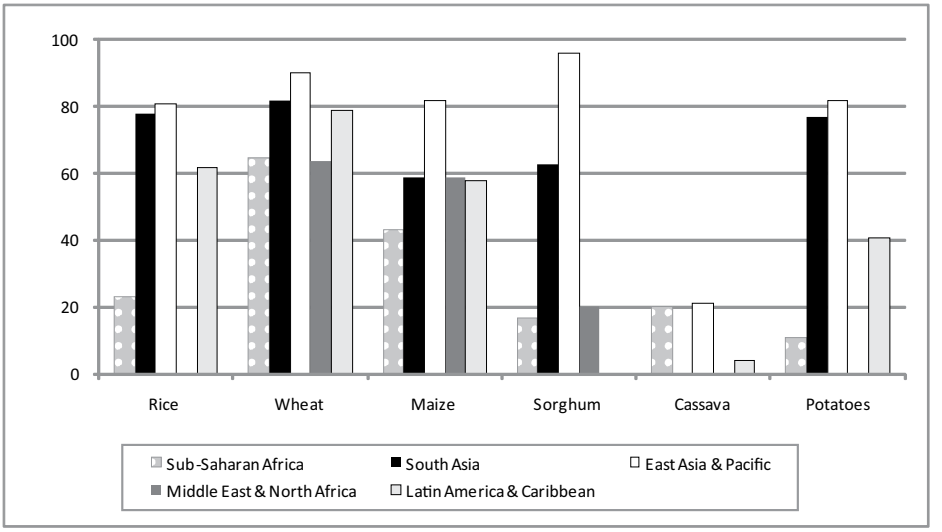
Source: IPS, *Sri Lanka: State of the Economy 2011*.

nificant rates. Under these circumstances, it is doubtful whether productivity can grow significantly within the next few years because Sri Lanka has not accumulated the technological capital necessary for this over the past three decades.

Find new technology and materials

Another possible option, to find new advanced technology and new genetic materials to achieve better productivity, is to import them. Most countries have adopted high yielding varieties to get high returns. Figure

Figure 5.4
Area Planted with Improved Varieties in Different Regions



Source: World Bank, *World Development Report 2008*.

5.4 shows the area planted with improved varieties in different regions as a percentage of total crop areas between 2000 and 2005. South Asia is only second to East Asia in using high yield varieties. Thus, there is a high potential to increase production in Sri Lanka by adopting imported new technology.

Nevertheless, importing technology and high yielding varieties will be very costly and they will directly and indirectly affect the trade balance. Further, even if Sri Lanka imports technology and high yield varieties, it will take several years to adapt it to domestic conditions. As such, it is highly unlikely that the country will be able to do it within a short period of time in order to achieve rapid growth in the near future.

In addition, agricultural bio-technology has the potential for generating a substantial impact on many facets of agriculture, especially in crop and animal productivity, yield stability and environmental sustainability. Agricultural bio-technology has been adopted by many developed countries. Developing countries are lagging behind in introducing this technology due to the large investment expenditure needed to experiment and implement bio-technology. However, as Sri Lanka achieves better growth outcomes, it may be possible to import new technology as it will take a long time to invent them domestically – and again, at large capital cost. It also takes several years to perform the necessary adaptive research before commercial utilization.

Agricultural diversification

Most of the options discussed earlier to ensure national (or macro) level food security entail large fiscal expenditure and sometimes, foreign exchange spending. Therefore, to minimize the impact on the trade balance, one option would be to adopt agricultural diversification, with more non-traditional agricultural products for export. Agricultural diversification can be regarded as a re-allocation of some farms' productive resources, such as land, capital and labour into new activities. These can be new crops or livestock products, value-adding activities that have export potential, or provision of services to other farmers and non-farm activities such as operating restaurants and shops which enhance farm earnings.

There are a number of ways to diversify agriculture. At present, there are several crop diversification programmes in Sri Lanka to increase national production whilst giving adequate consideration to safeguarding the environment. Some of the crop diversification programmes are agricultural diversification of marginal tea lands, inter-cropping coconut lands, introduction of fruit crops in dry zone uplands, and homestead development. There have been numerous programmes to diversify fragmented lands with fruits, vegetables and coconuts. The newly introduced Divi Neguma programme also supports a diversification strategy by providing different types of fruits and vegetable seeds to recipients. Further, vertical diversification can be introduced to utilize surplus labour available in farm households through activities such as domestic food processing. There can also be horizontal diversification, where uneconomical or less productive traditional food crops are replaced with high value, labour intensive products with comparative advantage, such as horticultural products.

It should be noted that agricultural diversification is strongly influenced by price policy, infrastructure development (especially markets and roads), urbanization, and technological improvements (especially information systems). To accelerate agricultural diversification, Sri Lanka needs to take a series of measures to reform the R&E sector and the institutional arrangements responsible for integrating production and markets. The other immediate measures include develop-

ing roads, creating appropriate infrastructure and encouraging private sector participation for value addition and processing. There is hope in this respect because of the present drive to improve infrastructure, as rural roads record the second highest rate of return on investment (after R&E) among agricultural development interventions.[4]

5.2.3 Challenges in Expanding the Agriculture Sector

In light of the above facts, it is clear that the agriculture sector has a serious role in achieving and sustaining high growth, either by its contribution to GDP or by way of supporting to reduce rural poverty, ensure food security and to supply labour to other sectors, etc.

Agricultural intensification can pose several challenges. It can generate environmental problems, such as reducing biodiversity, mismanaging irrigation water, agrochemical pollution, land degradation, etc. In general, agriculture and environment agendas are inseparable. Degradation of natural resources undermines the basis for agricultural production and increases vulnerability to risk, imposing high economic losses from the unsustainable use of natural resources. The agriculture-for-development agenda will not succeed without more sustainable use of natural resources -- i.e. water, forests, and soil conservation. Thus, it is imperative to have a strong and well-established institutional system and good governance for better implementation of agricultural policies, alongside efforts to raise investments in agriculture.

Adapting agricultural systems to climate change challenges is also becoming an important area, as the adverse impacts are already evident in some parts of the country by way of irregular rain fall patterns. In addition, some developmental programmes are decelerating the agricultural expansion programmes. For example, urbanization programmes and some infrastructural programmes have already acquired existing agricultural lands. Furthermore, with the increasing pattern of rising per capita income, the consumption pattern of the food basket is also changing. Therefore, meeting the new food requirements of the population is also another challenge.

5.3 Fisheries

The fisheries sector has become an important economic sector with high potential for growth in Sri Lanka's post-conflict era. In 2011, the fisheries sector accounted for 1.3 per cent of GDP. In addition to its direct economic contribution, the sector has an important role to play in ensuring food security of the country as a main source of protein. It also provides both direct and indirect employment opportunities, particularly to low skilled workers.

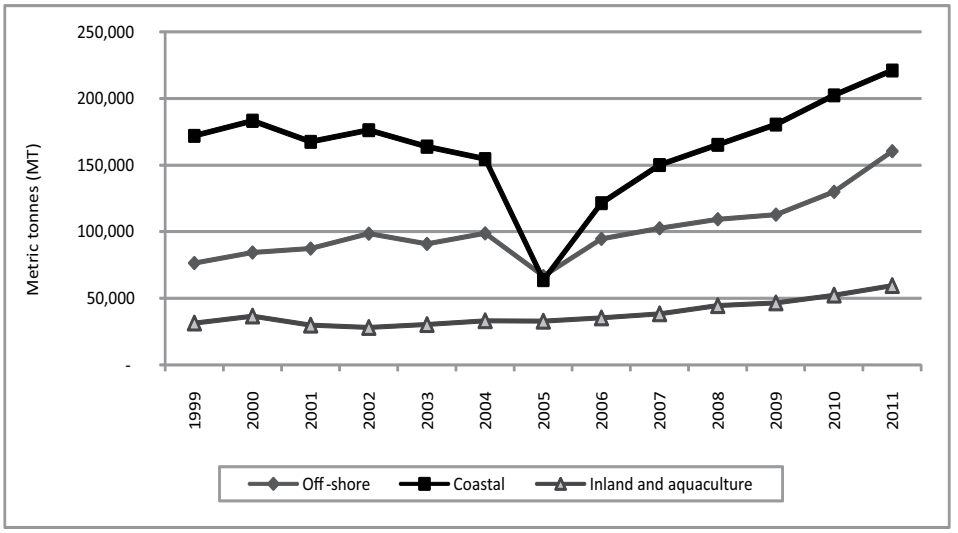
The fisheries sector in Sri Lanka primarily consists of three sub-sectors, namely coastal, off-shore and fresh water fisheries. In terms of annual fish production of each sector, the coastal sub-sector takes the first place, followed by the off-shore sub-sector (Figure 5.5).[5] Both coastal and off-shore sub-sectors recorded remarkable growth after the end of the separatist conflict in May 2009. The coastal line in the Northern and Eastern Provinces which comprises 60 per cent of the total length of the coastal line in Sri Lanka became available for resuming fishery and related livelihoods after 2009.

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[4] Fan, S., Jitsuchon.S, and N. Methakunnavut (2004), " The Importance of Public Investment for Reducing Rural Poverty in Middle-income Countries: The Case of Thailand", DSGD Discussion paper No.7, International Food Policy Research Institute (IFPRI).

[5] Coastal and off-shore fish production saw a sharp drop in 2005 following the December 2004 Asian tsunami.

Figure 5.5
Annual Fish Production by Sub-sectors (1999 - 2011)



Source: Based on data from the National Aquaculture Development Authority of Sri Lanka.

However, fisheries resources are as yet highly under-utilized. Sri Lanka possesses a territorial sea of 21,500 km2 and an Exclusive Economic Zone (EEZ) of 517,000 km2. The EEZ is seven times larger than the geological extent of the country. Under the UN Law of the Sea, Sri Lanka is entitled to lodge a claim for an extended area of seabed where the thickness of the sediment layer is over 1 km. The claim is being submitted and, if accepted, Sri Lanka will gain an additional seabed area which would be 23 times the island's land area. In addition to the living resources, the extended area is found to be rich in non-living resources such as hydrocarbons and a variety of economically important minerals including manganese nodules.

Given the vast potential that the country possesses in terms of its fisheries resources, there is enough room for increasing the fisheries sector contribution to support Sri Lanka's accelerated growth strategy. Increasing the sectors contribution to national GDP has already been acknowledged in Sri Lanka's medium term policy frameworks. However, in order to increase and sustain the fisheries sector contribution to economic growth, adequate attention has to be paid to issues which hamper increased utilization and sustainability of the fisheries resources. As of now, there is no comprehensive database on fisheries resources in Sri Lanka, which is vital for effective policy formulation. Although there are regulations in place, they are not properly enforced to handle unsustainable activities associated with fisheries. Better regulation also calls for an effective institutional set up where co-management is being foreseen as a successful tool. In addition, there are infrastructural constraints, inadequate technological facilities, and issues in the marketing of fish. Furthermore, there are large research gaps existing in an array of scientific and socio-economic aspects related to fisheries resource, such as the bio-economic aspects of sustainable fish harvesting and sustainable fishery management, etc. Hence, there is an essential need for addressing the said issues if the fisheries sector is to be geared towards supporting the country's efforts to raise GDP growth in a sustainable manner.

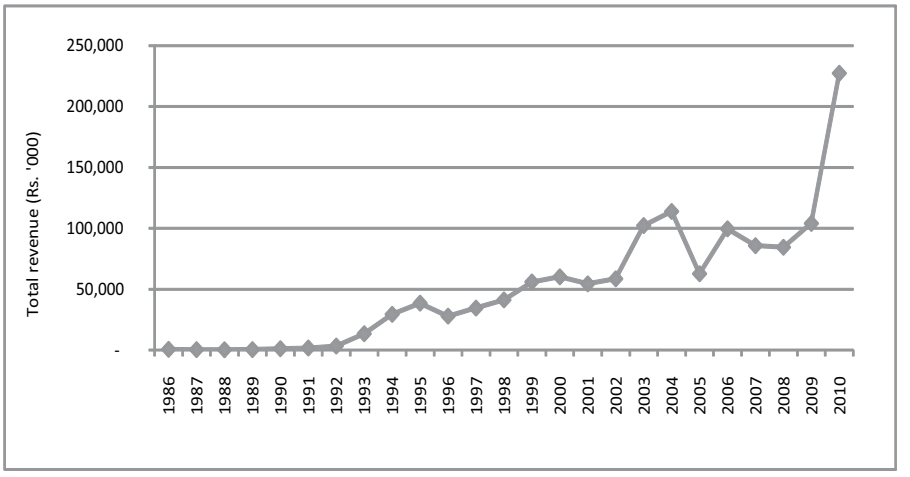
5.4 Forests

The depletion of forest resources and associated losses in biodiversity have been long discussed environmental issues in Sri Lanka. The extent of natural forests in 2010 was estimated to be 1,883,310 ha, which accounts for nearly 28.7 per cent of the total land area of the country.[6] Increasing population pressure has created land fragmentation and farmers tend to cultivate crops by clearing surrounding natural forest areas. Forests have now become more vulnerable to depletion, in the face of an increasing demand for land for rapid development activities, in the post-conflict period. Whilst the reported contribution of the firewood and forestry sector to national GDP is only 0.6 per cent, it does not capture the actual contribution of the forestry sector to Sri Lanka's economy. Ecosystem services provided by the forests and community level benefits of forests are some of the aspects that are not included in the statistics.

At micro level, forests contribute significantly to rural economies. They primarily provide inputs needed for agricultural activities taking place around the forests by providing land, the primary means for chena cultivation, serve as a source of firewood and as a supplementary source of food. However, unlike in some other countries in the region, communities are not as dependent on forests for commercial purposes. Instead, forest lands are cleared and used for crop production, which remain the main source of livelihood for the peripheral communities. Increased demand for emerging commercial agricultural activities has threatened the sustainability of the forest resource to a significant extent.[7]

Forest-based tourism has been a source of forests' economic contribution over the years. The forest resources possess a significant potential for developing forest-based tourism,[8] including ecotourism. Revenue from foreign tourists visiting wildlife national parks

Figure 5.6
Revenue from Foreign Tourists Visiting National Parks in Sri Lanka



Source: Sri Lanka Tourist Development Authority, *Annual Statistical Report 2010.*

[6] Ministry of Environment, *Progress Report 2011 and Action Plan 2012.*

[7] Senaratne, A. and K. Wickramasinghe (2011), "Commons vs. Commons: Managing Scarce Water Resources in Dry Zone Village Tank Systems in Sri Lanka", Economic and Environment Program for South East Asia (EEPSEA) Research Report.

[8] Wickramasinghe, K., (2009), "Ecotourism for Sustainable Forest Management in Sri Lanka", Environmental Economic Policy Series No. 12, Institute of Policy Studies, Colombo.

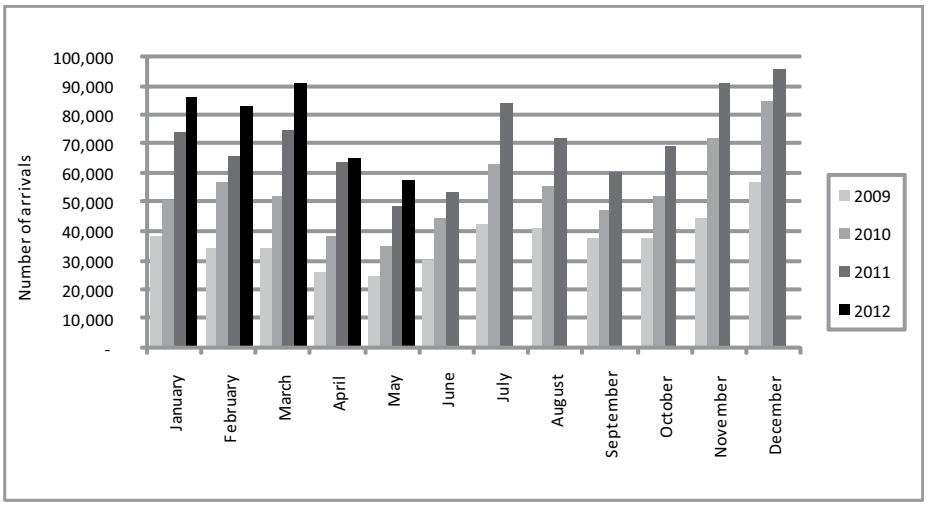
in Sri Lanka marked a momentous growth in 2010 (Figure 5.6). This is due to the increased tourist arrivals after the end of the conflict in 2009. The opening up of national wildlife parks which were restricted during the conflict period for security reasons, also made a significant contribution.

However, the forest sector is not well utilized in terms of exploiting its potential for providing recreational benefits. Given the vast diversity and richness in forest resources and associated cultural wealth in adjoining communities, promotion of forest-based tourism for high-end tourists can increase the earnings to the economy. Therefore, developments in the forest-based tourism sector can be considered an important and significant avenue to support Sri Lanka's current growth strategies.

However, the anticipated improvements in forest-based tourism will not be a medium and short term reality if insufficient attention is paid to the issues of the resultant environmental consequences. More specifically, negative implications to the natural environment due to increased visitations should not be taken lightly. Over the years, certain wildlife parks have been experiencing over-visitation which can damage the sustainability of the resource and consequently reduce the potential for earnings from tourism. Continued increases in tourist arrivals following the end of the conflict could further worsen the problem. Therefore, careful attention has to be paid to regulate tourist visits to wildlife parks, learning from the experiences of other countries which have been successful in effectively regulating tourism in the natural forest areas.

In addition, forests provide an array of environmental services which are not valued in the market, such as carbon sequestration, preservation of biodiversity and nutrient recycling. Since these services are not priced, the services are not reflected in the national accounts and thus are largely ignored in policy formulation. If the sustainability of the forest resources are not assured, it can have severe impacts on various aspects such as agricultural production, water scarcity, and energy security, etc.

Figure 5.7
Monthly Tourist Arrivals (2009 - 2012)



Source: Sri Lanka Tourism Development Authority.

While certain goods and services provided by the forests are not accounted for, the present system of national accounting also does not make any adjustment for the degradation and depletion of forests. This has been true for most other natural sectors also. In this connection, present estimates of national output can be considered an over-estimate, as natural resource degradation has not been taken into account. Although the degradation issues are currently ignored in national accounting, there remains a clear need for balancing conservation and utilization of natural forests, failing which, subsequent developments might impede growth prospects.

5.5 Tourism

The coastal resources and natural forest resources play an important role as a natural attraction for foreign tourists. Tourism was Sri Lanka's fifth largest source of foreign exchange earnings in 2011, increasing by more than 44 per cent, relative to earnings in 2010. The country recorded the highest ever tourist arrivals in 2011, rising by more than 30 per cent as compared to 2010, with the trend continuing into the first quarter of 2012 (Figure 5.7). Given the sector's potential, special policy attention should be paid towards the development of a sustainable tourism sector.

As per forecasts made by the Sri Lanka Tourism Development Authority (SLTDA), the tourism sector is expected to attract more than 2.5 million tourists, generate about 600,000 direct and indirect employment opportunities and earn about US$ 2,500 million of foreign exchange by 2016. Substantial tourism development activities are in place, in order to develop tourism infrastructure and to cater to the demands of increased tourist arrivals in the coming years.

However, if the tourism sector is to be made a significant contributor to the growth process, volume-based tourism targets alone will not be sufficient. Necessary care has to be taken to ensure the environmental and social sustainability of the tourism business, because favourable natural and social environments are the mainstay of a viable tourism industry. Although Sri Lanka's post-conflict environment has opened new avenues for developing an array of tourism products, most of the time they are not effectively regulated. For instance, whale watching is being carried out without any regulations or good practice guidelines. Sustainability of the whale resources can be under great threat as a result. If the issues related to social and environmental sustainability of tourism are not taken into consideration, the potential environmental and social costs can lead to a retardation of the rate of economic growth.

5.6 Coastal Resources

The coastal zone plays a crucial role in the economy of Sri Lanka. The coastal zone consists of around 25 per cent of the total land area of Sri Lanka. Almost a third of the country's population, two-thirds of the total urban population, two-thirds of the indus-

Table 5.2
Contribution of Coastal Sector to National GDP (%)

Sector	1983	1989	2004	2005
Coastal GDP	35.1	40.2	44.0	43.0
Non coastal area	64.9	59.8	56.0	57.0

Source: Nayanananda, O.K., (2007), "The Study of Economic Significance of Coastal Region of Sri Lanka in the Context of Environmental Changes of Pre and Post Tsunami", Coast Conservation Department and The Ministry of Environment and Natural Resources.

trial facilities and over 80 per cent of tourist infrastructure are accommodated within this zone. There has been an increasing trend in the contributions of the coastal area to the national GDP, rising from around 35 per cent in 1983 to 43 per cent in 2005 (Table 5.2). Agriculture, fisheries, trade and tourism sectors have been playing a major role in the coastal economy over the years. The contribution may have been increased further in the post-conflict period due to developments in the associated economic sectors. Accordingly, natural resources play an important role in the overall performance of the coastal districts of the country.

In addition to fisheries and tourism, other economic activities involving the use of coastal resources are coral mining for lime production, capturing of live ornamental fish mainly for export, and sand mining on the beaches and sand dunes. These activities have so far been environmentally damaging.

When the economic activities which are based on the coastal sector, such as tourism and fisheries are developed, there will be an increased threat to the sustainability of coastal resources. Whilst the sector holds the potential to further enhance its contribution to the country's overall growth, it is vital to minimize the environmentally damaging practices through policies and laws, and their effective implementation. The adoption of better fishery management approaches, effective law enforcement to minimize harmful harvesting methods and the promotion of sustainable fishing techniques are some of areas to be addressed.

5.7 Water Resources

According to the available estimates of water scarcity, there is no water scarcity in Sri Lanka as per 1991 data.[9] However, by 2025, with the projected increase in population, the demand for both irrigation and domestic and industrial water is expected to increase. Using the Falkenmark indicator, which uses annual per capita water availability to define water scarcity, it has been found that the country as a whole and the Dry Zone in particular, will reach a level of medium-water scarcity by 2025 (Table 5.3). As per 1991 scarcity levels, only five districts were in the medium to severe scarcity categories. Three more districts are expected to enter into this category by 2025.

Water scarcity in the rural areas of the Dry Zone will continue to impose severe impacts on agriculture-based livelihoods, food security and poverty. The consequences of water scarcity on Dry Zone agriculture would further intensify the problem of poverty and food security in the coming decades, if appropriate measures are not adopted. Additionally, water scarcity can have a number of other implications on human security, for instance the lack of water in major reservoirs leads to reduced hydro power generation in the country, which would have a serious implication on the energy security of the country.

In addition to population related impacts, global climate change is also expected to challenge the water security situation in Sri Lanka. Although precise scientific estimates are not available in this regard, it is predicted that there will be changes in the temporal and spatial distribution of rainfall in the coming years. Such changes have been seen in Sri Lanka during recent years. Changes in rainfall distribution will cause adverse impacts on cropping patterns and thereby on the agricultural performance of the country. In addition to the Dry Zone agriculture, plantation agriculture in the Wet Zone will also be adversely affected, since plantation crops are

[9] Amarasinghe, U.A., and L. M. R. Sakthivadivel (1999), "Water Scarcity Variations within a Country: A Case Study of Sri Lanka", Research Report 32, International Water Management Institute, Colombo.

highly sensitive to water shortages. Accordingly, water scarcity, when aggravated by the process of climate change will impact the foreign exchange earnings of the country. However, exact magnitude of the impact of climate change on water scarcity is not yet known.

The issues related to water scarcity can pose constraints on targeted contributions of individual economic sectors, such as agriculture and energy, towards economic growth. Also, there will be significant indirect implications on retarding the anticipated growth rate. Water scarcity problems have to be carefully dealt with and appropriate policy actions need to be taken to conserve and effectively utilize available water resources by different sectors. In this regard, it is important to encourage efficient water allocation through meaningful coordination between relevant government agencies and the promotion of water efficiency in agriculture, etc.

Table 5.3
Level of Water Scarcity, by District in 1991 and Projections for 2025

Area	1991	2025
Sri Lanka	**N**	**M**
Wet Zone	**N**	**N**
Dry Zone	**N**	**M**
Districts in the Wet Zone		
Colombo	MS	S
Galle	N	N
Gampaha	M	MS
Kalutara	N	N
Kandy	MS	MS
Kegalle	N	N
Matara	N	M
Nuwara Eliya	N	M
Ratnapura	N	N
Districts in the Dry Zone		
Ampara	N	N
Anuradhapura	N	M
Badulla	N	N
Batticaloa	N	M
Hambantota	N	M
Jaffna	S	S
Killinochchi	N	MS
Kurunegala	M	MS
Mannar	MS	MS
Matale	N	N
Moneragala	N	N
Mullaitivu	N	N
Polonnaruwa	N	N
Puttalam	MS	S
Trincomalee	N	N
Vavuniya	N	M

Notes: N – Little or no water scarcity, M – Moderate water scarcity, MS – Medium to severe water scarcity, S – Severe water scarcity.

Source: Amarasinghe et. al., (1999).

5.8 Global Environmental Threats: Climate Change

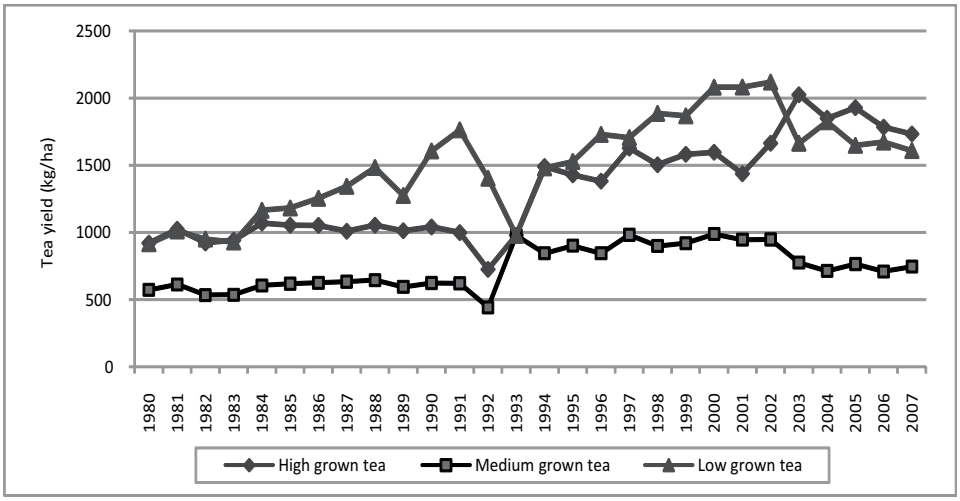
Climate change is a global environmental threat to which Sri Lanka has made a negligible contribution. Regardless, Sri Lanka is going to be a victim of various impacts of global climate change, which might affect the economy in numerous ways. Climate change can pose constraints on reaping benefits from the natural resource base, by way of its adverse effects on agriculture, fisheries, tourism, etc. In addition, climate change can have impacts on other economic sectors and the well-being of the population. As stated in the 'National Climate Change Adaptation Strategy (2011 - 2016)', the impacts of climate change will be primarily in terms of (i) increased frequency and intensity of natural disasters such as droughts, floods and landslides; (ii) variability and unpredictability of rainfall patterns; (iii) increase in temperature, and; (iv) sea level rise.

The agriculture sector will be adversely affected by the aforementioned impacts of climate change. It will have implications on national food security and also on export-oriented plantation agriculture activities such as tea and rubber products. Time series data on tea yield shows that tea production has been greatly affected by climatic conditions. As shown in Figure 5.8, significant yield drops have been observed in years which have recorded droughts, such as 1982, 1989, 1992 and 2003. Also, the tea sector will be more vulnerable for yield drops, as with the impacts of climate change the frequency of natural disasters is expected to increase.

The coastal zone is also going to be affected through sea level rise, which will result in numerous impacts such as the inundation of low-lying areas, salt water intrusion into coastal water bodies and the consequent changes to the coastal ecosystems. Additionally, increased frequency of extreme events, such as cyclones, will affect infrastructure and coastal livelihoods.

In addition, climate change is expected to post significant constraints on the growth of other sectors such as energy, industry, human settlements, infrastructure, etc. It will also have direct impacts on human health

Figure 5.8
Tea Yield in Different Tea Growing Areas (1980 - 2007)



Source: Based on data from the Sri Lanka Tea Board.

Box 5.1
Accounting for the Role of Natural Resources in Economic Output

The role of the natural capital is not well captured in the present system of national accounting. Also the depreciation of natural resources is not included in the national accounts. Therefore, it is questionable whether the current national statistics can be used as a basis in formulating policies for sustainable development. Presently, there is an increasing recognition of incorporating the contribution of natural resources into the national income accounting system. The Ministry of Environment together with other relevant state and non-state agencies is in the process of developing a green accounting system for Sri Lanka. The process has been initiated by developing a mechanism for integrating the forestry sector into national accounting in the country.

due to increased health stress, spread of vector borne diseases and health implications due to extreme events.

Therefore, despite Sri Lanka's negligible contribution to global climate change, its implications can pose challenges to the sustainability of long term growth, particularly if appropriate adaptation measures are not taken at the correct time. Hence, there is a need to mainstream adaptations to climate change into the national development agenda.[10] As Sri Lanka has a negligible contribution to global green house gas emissions, adaptation to climate change should be the main focus, over that of mitigation. Sri Lanka can obtain benefits via climate change mitigation activities such as clean development mechanisms and carbon trading. From a policy perspective, it is encouraging to note that Sri Lanka is in the process of developing a climate change policy which is required for the effective integration of climate change into the development agenda. A climate change adaptation strategy has already been prepared for the period of 2011-16 which provides a prioritized framework for action and investment aimed at systematically moving towards a climate-change resilient future.

5.9 Conclusion

Sri Lanka's natural resource base has the potential to contribute significantly to Sri Lanka's long term growth. For most of the natural-resource based sectors, such as tourism, fisheries and forests, the resource base remains under-utilized. Therefore, their contribution can be increased by adopting sustainable policies. On the other hand, certain natural resource sectors, such as coastal fisheries, lack effective regulatory and enforcement mechanisms which lead to over-exploitation.

Agriculture, being the sector that supports over one-third of the total population and using the largest share of natural resources, has a significant role to play in supporting higher growth. This involves increasing domestic production while conserving the resource base. Both import substitution and export promotion are possible avenues of making this contribution. However, the lack of land for agricultural expansion and the non-availability of an improved technological stock resulting from 30 years of neglect of agricultural R&E pose serious problems. Scarcity of land may be partially remedied through agricultural diversification but this,

[10] Senaratne, A., N. Perera, and K. Wickramasinghe (2009), "Mainstreaming Climate Change for Sustainable Development in Sri Lanka: Towards a National Agenda for Action", Working Paper Series No. 14, Institute of Policy Studies of Sri Lanka, Colombo.

again, needs new technology. One solution available for the lack of technology could be importing it, but this is expensive and also somewhat time consuming. As a result, import substitution may become socially unprofitable and export promotion almost impossible, due to a marginal competitive advantage. Consequently, these avenues should be tried with caution, especially in the short run. Hasty decisions may lead to uneconomic exploitative use and therefore degradation of the agricultural resource base. However, world prices in agricultural commodities show no sign of declining in the near future and therefore, chances exist in the long run for both import substitution and export promotion to be gainfully undertaken. Sri Lanka should learn from past mistakes and invest adequately in agricultural R&E now, in order to exploit these long run opportunities for sustained growth.

A single approach would not help to sustainably utilize the natural resource base in Sri Lanka and maintain its contribution to growth. Given the complexity of the natural environment and its multifarious links with the economy, actions essentially have to be resource-specific. In addition, comprehensive legal mechanisms and their effective enforcement emerge as a must, and multi-stakeholder collaboration becomes a key necessity in this regard. Long term economic growth can be unfavorably affected if the role of natural resources is not well reflected in a country's economic policies. Therefore, integration of sustainable practices is critical. Even as these issues are addressed, the overriding need to shift surplus agriculture labour to more productive sectors of economic activity, has to receive immediate policy attention. This requires an in-depth assessment of the human resource development needs of the country and appropriate policy measures to enhance education and labour market outcomes. These issues will be taken up in Chapter 6 of this report.

6. Maximizing Human Resource Potential

6.1 Introduction: Growth Targets and Challenges in the Human Resources Front

Sri Lanka's current policy framework aims to reposition the country in the global arena as a knowledge-based, middle income country with better and improved living standards. The focus is on developing Sri Lanka's naval, aviation, commercial, energy, and knowledge sectors into regional hubs. Following the ending of the conflict in May 2009, the country has overcome the main obstacle to investment and growth. With better security, and other government incentives, Sri Lanka is already seeing improved investor confidence and living standards. For instance, of total foreign arrivals, the proportion of arrivals for business purposes has increased from 8.6 per cent in 2009 to 13.7 per cent in 2010,[1] and the economy has grown at more than 8 per cent over the last two years. However, sustaining this growth momentum will critically depend, among other factors, on the availability of a skilled, productive and flexible workforce.

> ***'Sri Lanka's prospects for growth will partly depend on a workforce that is able to create and adapt new technologies and has the necessary general skills to be competitive in the global market'***

The importance of a skilled workforce for staying competitive and attracting investment and business is now well recognized. The skills demanded by the global labour market are changing constantly. The demand for routine manual (such as assembling machinery) and cognitive (such as keeping records) tasks that can easily be computerized are reducing, while the demand for complex communication (e.g., skills needed for persuading and negotiating with suppliers and customers) and expert thinking (e.g., problem solving skills) types of jobs are increasing.[2] The demand for skilled workers is already rising within Sri Lanka as well, and some sectors such as information and communication technology (ICT) are experiencing worker shortages. The immediate human resource need for

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[1] The Ceylon Chamber of Commerce, "Sri Lanka Economic Summit 2011", *www.chamber.lk/manager/upload_file/news/n_6191_1.pdf* [accessed on March 20th , 2012].

[2] World Bank (2011), *Transforming School Education in Sri Lanka*, World Bank, Washington, D.C.

the country is to cater to this rising demand. In addition, over the long run, a flexible workforce that can create new ideas and adopt new technology easily will be essential for the country to make a mark in the global knowledge economy and stay competitive in the global market. Competencies in the skills that are in demand as well as the flexibility to learn new skills to adjust to constant changes, are also important in maintaining productivity growth.

The critical task facing policy makers is to develop and manage the available human resources in the country to cater to this demand. This will on the one hand, require improving access to high quality tertiary level education that gives due attention to changing requirements in the market, and training workers who are able to learn new skills. Assessing the tertiary education system in Sri Lanka, World Bank (2009) finds the present tertiary education sector in the country inadequate, narrow in scope and of low quality for a middle income country.[3] Expanding and improving the tertiary education sector alone is not sufficient. The foundations for further training in advanced science and technology related subjects, and developing skills in problem solving and creativity are laid at the school level. As such, policies should be designed to improve the quality of general education at all levels, with opportunities for studying in a broad array of subject areas. Good quality general education is an essential foundation for future training, where emphasis is not only on facts, but in critical thinking, effective communication, problem solving, and creativity.

Sri Lanka's demographic profile is changing. Decreasing fertility rates and increasing life expectancy has resulted in a rapid ageing of the population. These demographic changes have created new challenges to the labour market. In essence, the country's labour force is stagnating and growing older. Studies from other countries show that a stagnant labour force can dampen economic growth. For example, declining workforces are estimated to reduce the per annum growth rates of France and Germany by 0.2 to 0.5 percentage points and that of Japan by 0.8 percentage points.[4] Along with population ageing, the dependent population of a country – children and the elderly who are typically not employed – in relation to the working population will increase. This increasing economic dependency is estimated to slow growth (compared to growth that would have taken place given the present age structure) by another 0.2 to 0.3 percentage points in France, Germany and Japan.[5]

The Sri Lankan labour force growth is also slowing down, and it is estimated to start reducing by 2030.[6] The country's labour force is also ageing. Given this, the country will increasingly need to pay attention to making best use of available labour resources and encourage labour force participation. At present, the skill development in the country is mainly geared towards entrants to the labour market. However, the above demographic changes have increased the need for extending training to mid-career workers.

Health is an important determinant of human resource development that ensures suc-

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[3] World Bank (2009), *The Towers of Learning*, World Bank, Washington, D.C..

[4] Martins, J.O., F. Gonand, P. Antolin, C. de la Maisonneuve, and K.Y Yoo (2005), "The Impact of Aging on Demand, Factor Markets and Growth", OECD Economics Working Papers No. 420.

[5] *Ibid*.

[6] Vodopivec, M. and Arunatilake, A., (2010), "Population Ageing and Labour Market Participation of Old Workers in Sri Lanka", *Journal of Population Ageing,* DOI 10.1007/s12062-011-9045-5.

cess in education and greater productivity in work life. Improving the health of the population will be critical in making best use of available human resources. The importance of nutrition for reducing health care costs, morbidity and mortality, and increasing productivity is well documented in the literature.[7] Studies also show that well nourished children are more likely to succeed in education. Along with nutrition, diseases that are more prevalent amongst the productive age population, such as non-communicable diseases (NCDs), also influence work life and productivity. Encouraging labour force participation of older workers will partly depend on preventing and better managing the diseases that are more prevalent amongst the elderly, such as NCDs.

The rest of this Chapter discusses the importance of a skilled and healthy workforce for improving productivity, sustaining competitiveness and managing the labour force.

6.2 Meeting the Current Demand for Labour

Globalization accelerates the pace of innovation and technology. Along with these changes new occupations are emerging and skill requirements and competencies are evolving. A major challenge countries face today is to enhance the responsiveness of education and training systems to cater to these ever changing skill requirements. With a view to making Sri Lanka a key logistics centre, large scale development activities have already been initiated in the naval, aviation, commercial, energy, road, transport, and urban development and irrigation sectors. New job opportunities are projected in an array of occupations that include, airport and aviation engineers, professionals, technicians and craft-related skilled workers in the building and construction industry; and, machine operators, mechanics, automobile and motor mechanic technicians, environmental managers and skilled workers in the metal and light engineering sector. Catering to this anticipated demand in required quantities, and training workers who have not only the technical skills but also the necessary general skills to be competitive in the world market, is a major challenge for the country. The following section highlights the magnitude of this challenge, taking the example of ICT and tourism sectors.

ICT skills have become a fundamental requirement in the service and industry sectors of the country. According to the National ICT Workforce Survey carried out in 2010, from 2006 to 2009, the IT workforce has increased by 4,200 new entrants each year. The IT work force is expected grow at an average growth rate of 17 per cent per annum.[8] Accordingly, the demand for new IT workers will be 50,000 in 2010. This survey further shows that the preferred minimum academic qualification required for an IT professional is a Bachelor's degree. According to the Information and Communication Technology Agency (ICTA),[9] the demand for new IT graduates (3,970 a year) is lower than the supply of graduates (4,473 a year). However, the current supply of graduates may not be sufficient to fulfill demand for two reasons.[10] First, when recruiting IT employees, soft skills knowledge is also considered an important requirement in IT, non-IT and Business Process Outsourcing (BPO) sector organizations. Second, many IT graduates, especially those with required soft skills, migrate abroad for

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[7] Alderman, H., (2008), "Stimulating Economic Growth through Improved Nutrition, Disease Control Priorities Project", World Bank. [Accessed on 25th April, 2012] www.dcp2.org/file/223/dcpp-nutritionpolicybrief-web.pdf .

[8] ICTA (2011), "National ICT Workforce Survey", Information and Communication Technology Agency of Sri Lanka.

[9] *Ibid*.

[10] Information on the supply of non-graduate IT workers in the country is not readily available.

employment. Indeed, employers find that essential soft skills, especially communication skills are lacking in employees.[11]

Information Technology Enabled Services (ITES)/BPOs have emerged as one of the fastest growing sectors in Sri Lanka and the fifth largest export earner in the country. Current earning of the BPO sector is estimated to be US$ 400 million. This level is estimated to reach US$ 1 billion by 2015 and US$ 2 billion by 2020.[12] Sri Lanka is recognized as a key BPO destination in the world. Sri Lanka has been featured in the A. T. Kearney Global Service Location Index (GSLI), which analyzes and ranks the top 50 countries worldwide for providing outsourcing activities, including IT services, contact centers and back-office support. Further, Sri Lanka's ranking has improved from 29th in 2007 to 16th in 2009, showing a steady expansion in its BPO sector.[13] This achievement is mainly attributed to low labour costs, widespread use of English, strong educational system, and the increasingly open and well regulated business environment. However, continued expansion of the sector will critically depend on the access to skilled workers with required IT knowledge and communication skills in English.

Restoration of peace has started a new era for the tourism industry in Sri Lanka. Tourist arrivals increased by 30 per cent in 2011 to reach 855,975 arrivals – the highest recorded to date. This gave rise to an increase in earnings from the sector of 44.2 per cent amounting to US$ 830 million in 2011. Sri Lanka is targeting to attract 2.5 million annual tourist arrivals and US$ 2.75 billion earnings by 2016 as well as an estimated 500,000 employment opportunities – both direct and indirect – from the sector. The challenge is to accommodate a three-fold increase in different types of tourists, including wildlife, culture and business. In line with the tourist sector expansion, tremendous growth is envisaged in food and beverages, transport and construction industries in the country.[14] The investor interest in the sector is already increasing. Already, more than 210 investment applications were processed in 2011 to build 9,192 rooms and several international hotel chains such as Shangri-La, Sheraton, Hyatt and Sun City, have entered the tourism industry in the country. A one-stop unit has been established at the SLTDA to facilitate investments. These factors highlight the increased need for skilled workers for sustaining growth in the sector. In 2011, student intake for training in the hotel industry has increased by 72 per cent to meet the skills shortage in the industry.[15] The question is whether the present pool of job seekers qualifies for these training programmes, and whether they have the necessary soft skills needed by the sector. Also, the sector cannot expect to depend only on new trainees. The demand for a substantial component of the employment opportunities in the sector will require persons experienced in the sector.

Besides IT, there is a rapidly growing demand for English language skills in the country today. Individuals competent in English have access to better quality jobs with higher salaries and benefits in the domestic as well as the international labour market. According to the findings of a vacancy survey in 2010,[16] the most demanded skills by white collar

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[11] The Ceylon Chamber of Commerce, "Sri Lanka Economic Summit 2011", www.chamber.lk/manager/ upload_file/news/n_6191_1.pdf [accessed on March 20th , 2012].

[12] *Ibid.*

[13] ICTA (2011), *National ICT Workforce Survey,* Information and Communication Technology Agency of Sri Lanka.

[14] CBSL, *Annual Report 2011*.

[15] *Ibid.*

[16] Vacancy survey collects and analyzes the job advertisements in two national weekend newspapers, *Sunday Observer* and *Silumina*.

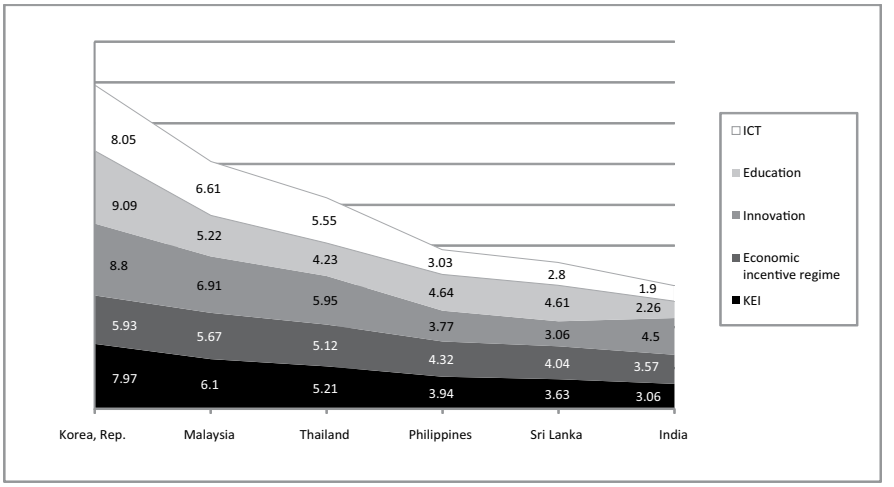
occupations include English (44 per cent of advertisements),[17] ability to use IT (18 per cent of advertisements),[18] and communication skills (12 per cent of advertisements). Among graduates in Sri Lanka, English language and ICT skills are identified to be the scarcest general skills needed for a middle income country.[19]

According to a Business Outlook Survey carried out in 2011, the shortage of man power with required skills has become the second most severe constraint encountered by the business community in Sri Lanka.[20] This situation will slow growth of investments and job creation in the country. Despite a low literacy level, Sri Lanka's closest competitor, India, does well in terms of teaching key subjects and the better quality of schools compared to Sri Lanka. For example, in 2010, Sri Lanka scored 6.87 in the quality of science and mathematics education compared to a score of 7.63 for India, and Sri Lanka scored 7.40 in the management of schools compared to 8.55 for India.

6.3 Skills to Stay Competitive in a Changing World

In the changing global and technological patterns across the world, future prosperity of a country depends on a skilled workforce that is able to innovate and adopt new technologies constantly. Across the world, countries are realizing the need for talented workers to remain competitive, and create new ideas and for sustaining growth. The BRICS group of countries is expanding their investments in education aimed at improving high-end technical talent, as they have realized the importance of human resources in science and technology.[21] At the same time, devel-

Figure 6.1
Aggregate Knowledge Economy Index (KEI) and Sub Indices, Sri Lanka and Selected Countries



Source: Based on data from World Bank, Knowledge Assessment Methodology (KAM) 2012 database.

[17] Managers, professionals, technical and associate professionals and clerical support workers.

[18] Ministry of Productivity Promotion (2011), *LMI Bulletin*, Vol. 1 No 1, Manpower Panning, Development and Research Division.

[19] World Bank (2009), *The Towers of Learning*, Washington, D.C.

[20] The Ceylon Chamber of Commerce, January 2012, http://chamberblog.chamber.lk/wp-content/uploads/2012/02/Business-Outlook-Survey.pdf, [accessed, 29th March, 2012].

[21] The Levin Institute (n.d), "The Evolving Global Talent Pool - Lessons from the BRICS Countries", levin.suny.edu/pdf/LevinBRICSFinal.pdf [accessed on April 20th, 2012].

oping countries are making strategic decisions to attract highly skilled workers from across the globe to support knowledge creation, as they have realized the importance of this factor for creating and commercializing new products and services.

Sri Lanka lags behind in the global knowledge economy. The World Bank's Knowledge Assessment Methodology (KAM) produces the Knowledge Economy Index (KEI) to help countries identify the challenges and opportunities they face in making the transition to knowledge-based economies.[22] The KEI is constructed as the simple average of four sub-indexes based on three key indicators each, which represent four pillars of the knowledge economy: economic incentive and institutional regime; education and human resources; innovation and technological adoption and; ICT infrastructure. Sri Lanka's performance according to this index is poor and it lags behind in most of the country's comparators in all four pillars (Figure 6.1).

Although the country's knowledge economy has grown, it has not kept pace with growth in other countries. According to the latest KEI rankings, Sri Lanka has fallen from 87th place in 2000 to 101st place in 2012 out of 145 countries. Sri Lanka's position has suffered especially due to poor performance in the 'economic incentive regime' (EIR) and ICT infrastructure indices (Table 6.1). Although the number of internet users per thousand people have increased from 10 in 2000 to 90 in 2012, the number of internet users in other countries have increased even faster, bringing down Sri Lanka's normalized internet users indicator from 4.4 to 2.6.[23] Similarly, its computer users indicator has fallen from 3.5 in 2000 to 2.3 in 2012. Sri Lanka's EIR pillar has declined, mainly because of the weakening of its tariff and non-tariff barriers and regulatory quality indicators.

Table 6.1
Sri Lanka's Knowledge Economy: 2000 vs. 2012

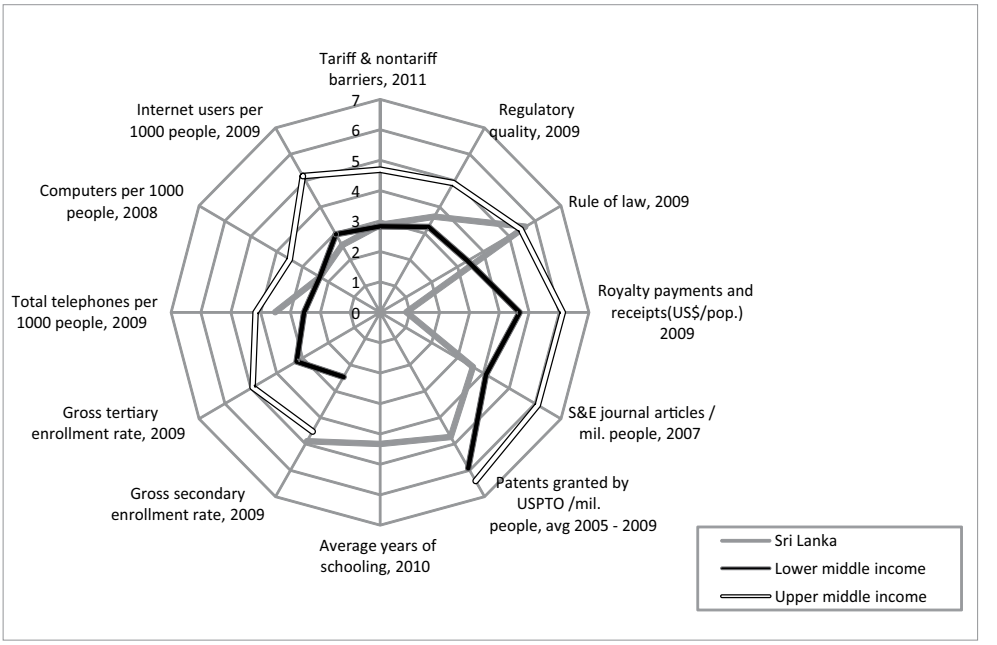
Variable	2012		2000	
	Actual	Normalized	Actual	Normalized
Tariff & non-tariff barriers	72.2	2.9	71.0	6.2
Regulatory quality	-0.3	3.6	0.3	6.0
Rule of law	-0.1	5.6	0.0	5.9
Royalty payments and receipts(US$/pop.)	0.0	0.9	0.0	0.7
S&E journal articles/mn. people	6.3	3.6	5.2	3.7
Patents granted by USPTO/mn. people	0.2	4.7	0.3	5.3
Average years of schooling	8.5	4.3	8.1	4.9
Gross secondary enrolment rate	87.2	4.9	85.1	5.9
Gross tertiary enrolment rate	n/a	n/a	5.3	2.2
Total telephones per 1000 people	860.0	3.5	60.0	3.0
Computers per 1000 people	40.0	2.3	10.0	3.5
Internet users per 1000 people	90.0	2.6	10.0	4.4

Source: Based on data from World Bank, Knowledge Assessment Methodology (KAM) 2012 database.

[22] World Bank, Knowledge Assessment Methodology 2012, www.worldbank.org/kam [accessed, 27th March, 2012].

[23] For a flexible cross-country comparison, each variable has been normalized on a scale of 0 to 10 relative to other countries in the comparison group.

Figure 6.2
Knowledge Economy Indicators, 2012 -- Sri Lanka and Averages for Lower Middle Income and Upper Middle Income Countries



Source: Based on data from World Bank, Knowledge Assessment Methodology (KAM) 2012 database.

Sri Lanka's performance in the KEI is constrained by its limited ICT penetration and innovation and technology adoption. A closer examination of the indicators measuring achievements in knowledge economy shows that Sri Lanka performs well in terms of rule of law,[24] and the gross secondary enrolment rates. Nonetheless, Sri Lanka's performance is even below the average for lower middle income countries in all the three indicators measuring innovation and technical adaptation (i.e., royalty payments and receipts, technical journal articles, patents granted). Also, the country's position in two indicators of the ICT pillar -- internet users per 1000 people and computers per 1000 people are either below or equal to the lower middle income countries position (Figure 6.2). These statistics further highlight the need to pay attention to modernizing and improving the quality and relevance of tertiary education in the country.

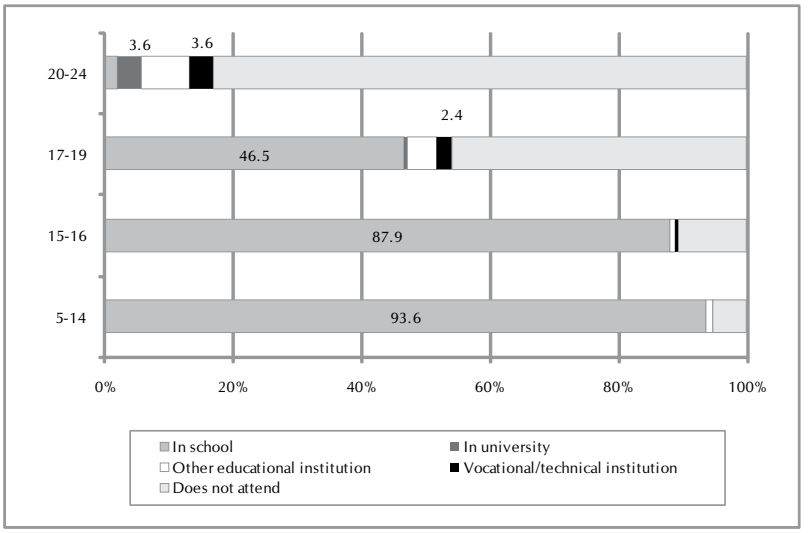
6.4 Education and Skills Development for Meeting Changing Needs

Sri Lanka's ability to cater to the increasing demand for skilled labour will depend on the success of the country's education system to cater to these demands in adequate numbers and quality. Further, given increasing trends of labour migration, especially skilled labour, the need is not just to cater to the domestic needs of the market.

Currently, Sri Lanka's tertiary education system caters to only a very small proportion of the population. Due to the limited number of placements in the state funded universities, only 17 per cent of those who qualify

[24] This indicator includes several sub-indicators which measure the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the incidence of both violent and non-violent crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.

Figure 6.3
Education Participation of 5-24 Year Olds, 2009



Source: Based on data from Department of Census and Statistics, Labour Force Survey 2009 data.

for university education gain admission to state universities. Each year, more than 100,000 qualified students are forced to abandon their ambitions to enter university.[25] Compared to other comparable countries, the number of students enroled in tertiary education is extremely low in Sri Lanka. For example, in 2009, only 3.6 per cent of 20-24 year olds were enrolled in a university while only a further 3.6 per cent of the same age group was enrolled in technical and vocational training (TVET) courses (Figure 6.3). Meanwhile, the average tertiary enrolment rates for lower middle income countries and upper middle income countries are around 23 per cent and 43 per cent, respectively. To be successful in the global arena, Sri Lanka has to urgently find means of improving opportunities for tertiary education in the country.

The public sector is the main provider of tertiary education in the country. The need to expand, modernize and improve the quality and relevance of education provided by this sector has received increasing attention in recent times, especially as high unemployment rates among graduates and related social problems have been a recurring issue in Sri Lanka. Part of the problem in the lack of preparedness amongst university graduates for the world of work, is the mismatch between the skills taught by the higher education institutes and competencies needed by the market. Major reasons for this mismatch are the outdated curricula, lack of interaction with the private sector when designing degree programmes, and lecture style teaching and learning processes which do not encourage learning by doing, as well as the learning of soft skills.[26] Further, Sri Lankan universities produce job seekers, rather than entrepreneurs who can create jobs. Part of the reason for high unemployment amongst graduates is the lack of suitable job opportunities in the country.

[25] Department of Census and Statistics, *Statistical Pocket Book 2011*.

[26] National Education Commission, (2009), *National Policy Framework on Higher Education and Technical and Vocational Education*.

Although there is no legal barrier for private universities to function in the country, these institutions are unable to offer degrees unless affiliated with a foreign university. Although different higher education institutions have attempted to get authority to award degrees, these attempts have not been successful due to political economy reasons, and issues with controlling the quality of education. Affiliation to foreign universities increases the costs of awarding a degree. Notwithstanding, various private sector degree-awarding institutions have sprung up across the country to cater to the increased demand for higher education. The absence of an accreditation system for private sector higher education providers makes it difficult to regulate the quality of programmes offered by these institutions. There are around 30 degree awarding private institutions currently functioning in the country, but the government has not recognized these institutions as higher education providers. Therefore, there is no proper monitoring mechanism to ensure the quality of the programmes offered by these institutes.

The absence of a robust accreditation system makes it difficult to regulate the quality of the programmes offered. According to the government, the Higher Education Quality Assurance, Accreditation and Quality Framework Bill (now shelved), was to pave the way for a quality assurance and accreditation framework to be introduced to both state and non-state universities. Such regulation is one means of improving the quality of education provided in the tertiary education sector. However, past experiences suggest that regulation alone cannot create an environment that is dynamic and proactive to changes in the market. The present tertiary education market in the country is supply driven and non-competitive, discouraging much needed change in the system.

6.5 A Good Foundation in Education is Essential for Effective Higher Level Training

Sri Lanka's general education system has not been able to provide quality education. Despite a high literacy rate, competencies in more demanding subjects such as English, science, mathematics and IT, is inadequate to cater to the growing demand of students for higher learning. For example, according to the National Education Research and Evaluation Centre (NEREC), assessment for grade 8 students conducted in 2008, half of the students scored below 50 per cent in mathematics, while around 40 per cent of students scored below 50 per cent in science and technology subject.[27] According to national assessment of grade 4 students conducted in 2009, the proportion of students scoring above 50 per cent for English was around 56 per cent while only one-fourth have scored above 75 per cent.[28] These low achievements in science and mathematics at lower levels of education, restrict opportunities for pursuing higher education in science and mathematics related subjects in the country. For example, according to the recently released O-Level results, pass rates for mathematics, science and English are 55, 62 and 45 per cent, respectively.[29] At least a credit pass in O-Levels is required for pursuing higher studies in science and mathematics. In addition, most science and technology related vocational training courses require a pass in English language. The above results indicate that close to half the students will not have the basic qualifications for higher studies.

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[27] National Education Research and Evaluation Center (2008), "National Assessment of Achievement of Grade 8 Students of 2007 in Sri Lanka", University of Colombo.

[28] National Education Research and Evaluation Center (2009), "National Assessment of Achievement of Grade 4 Students in Sri Lanka", University of Colombo. Competencies in English are not tested in Grade 8.

[29] Kanagara, A., *Sunday Observer*, http://www.sundayobserver.lk/2012/04/01/new41.asp.

Measures have been taken to move towards a competency based curriculum (from an examination based curriculum) giving special attention to English and IT education and improving competencies in life skills. The National ICT Education drive was launched in 2005 with the aim of strengthening and expanding IT education from primary to higher education. The reforms introduced, include IT as a common subject for all A-Level students, English medium instruction for A-Level science streams and bilingual education (English medium instruction in selected subjects) at the secondary level. However, IT is still in the early stages of development in schools while English medium instruction is available only in around 6 per cent of secondary schools.[30]

Part of the problem in promoting necessary competencies are resource disparities for more demanding subjects such as science, English and IT. Only 10 per cent of secondary schools have facilities to teach A-Level science streams. Schools offering science subjects in A-Levels are not rationally located and a majority of these are to be found in urban areas. For instance, one-fifth of these schools are located in the Colombo district followed by Jaffna district. On the other hand, in rural schools there is a deficit of teachers for more demanding subjects such as English and IT. Only half the schools have at least one primary English teacher in the school, while only one-fourth of secondary schools have an IT teacher in the school. This situation is worst in the districts which suffered severe infrastructural and human resource constraints due to the conflict. Only 6 per cent of schools in Kilinochchi and Mullaitivu districts have at least one primary level English teacher for a school, while less than 16 per cent of schools in Kilinochchi, Mannar, and Batticaloa districts have secondary level IT teachers.[31]

The school system has not yet been successful in harnessing the soft skills of students. As pointed out in World Bank (2011), one main issue in the present education system is the lecture based teaching and learning process in schools, which does not allow students to learn from doing.[32] Although the need to change the teaching and learning process in schools to encourage engagement, exploration, and problem solving skills have been recognized, the initiatives introduced to change the system have not been successful due to various reasons. For one, retraining of teachers to use the new method has not been successful due to the poor quality of training. Second, the teachers find it difficult to use the proposed methods as they are time consuming, and it is difficult to cover the vast syllabus while using such methods. The quality and availability of teachers is also a main problem in improving teaching. Available statistics at the aggregate level suggest that there are adequate teachers in the country, although there are issues in their quality and the way they are distributed across the country. Schools in urban areas have more than the required cadre of teachers, while schools in rural areas are suffering due to teacher shortages. Also World Bank (2011) points out that many teachers are themselves not competent in the subjects that they teach.[33] This is revealed in a study by the Department of Examination of 207 teachers who applied for O-Level paper marking in 2010. The study asked the teachers to take an exam similar to the O-Level mathematics paper consisting of two papers. The results revealed that although most teachers per-

[30] Calculations based on School Census 2010, Ministry of Education.

[31] *Ibid*.

[32] World Bank (2011), *Transforming School Education in Sri Lanka*, World Bank, Colombo.

[33] *Ibid*.

formed well in paper I, only 42.5 per cent of teachers were able to score over 80 per cent in paper II, which tested higher order skills.

Many students discontinue school education due to poor performance at the national level examinations. Each year, more than 100,000 students leave the school system without even succeeding in the first national level examination. Only about a half of the students who sit for O-Levels qualify to follow A-Levels.[34] Each year, about 300,000 students sit for O-Levels but only 50 to 60 per cent of them qualify to sit for A-Levels. Only a small proportion of students pursue A-Levels in science and mathematics subjects. This is partly due to the low numbers of students qualifying to study A-Levels in the science stream, as well as a lack of opportunities to study A-Levels in the science stream. Only 22 per cent of A-Level students are studying in the science stream, while 52 per cent are studying in the arts stream, and 25 per cent are studying in the commerce stream.[35]

The transition from school to the world of work is also not smooth. School leavers who do not succeed at the O-Levels are the prime target for specific training and skills development programmes designed to meet the skills demand of the country. However, most of these school leavers enter the labour force without following any skill development programme.[36] This is partly due to the lack of a systematic link between TEVT and secondary education, leaving a majority of school leavers with no access to skills development programmes. As seen in Figure 6.3, about 46 per cent of 17-19 year olds are not participating in any type of education programme. On the other hand, the general acceptance of the country's TEVT sector is poor, due to low recognition of the qualifications, lack of career development paths, lack of interaction with industry and the poor effectiveness of the courses in catering to the demands of the market. A system of National Vocational Qualification (NVQ) was established to provide national level accreditation for tertiary and vocational training and to certify on-the job training, but this alone has not been successful in improving the quality standards of training institutions.[37]

6.6 The Effect of Population Ageing and Demographic Change on the Economy

Changing demographics can influence the availability of a skilled work force in the country. As highlighted in the introduction, in many developed countries, ageing and reducing work forces are estimated to slow economic growth. Studies looking at the effects of population ageing in Japan argue that the fast changing age structure will influence Japan's productive capacity in three main ways.[38] Ageing will decrease savings and capital accumulation, it will reduce the labour force, and population ageing may slow the growth in total factor productivity.

6.6.1 The Effects of Ageing on Savings and Investments

Ageing can influence savings rates in opposing ways. Ageing and increasing retirement age are both factors that will reduce savings rates. On the other hand, declining labour force participation rates (or leaving the labour

[34] Department of Census and Statistics, *Statistical Pocket Book 2011*.

[35] Calculated using data from Ministry of Education, Sri Lanka Education Information - 2010.

[36] Asian Development Bank (2005), *Technical Assistance to the Democratic Socialist Republic of Sri Lanka: Preparing the Education Sector Development Program*, Manila.

[37] National Education Commission (2009), *National Policy Framework on Higher Education and Technical and Vocational Education*.

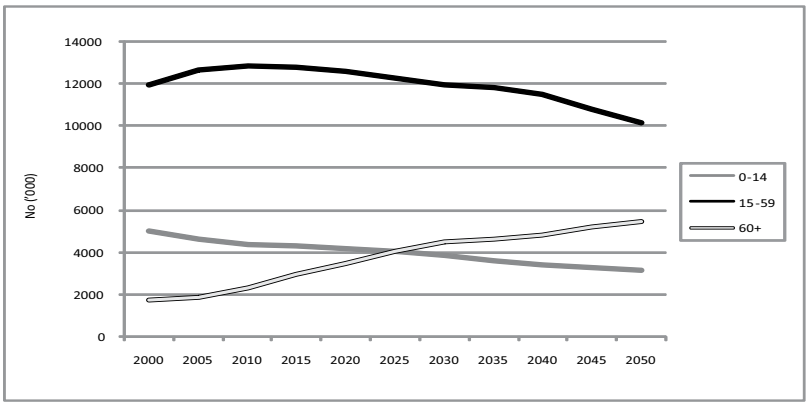
[38] Horlacher, D.E. and MacKellar, L., (2003), "Population Ageing in Japan: Policy Lessons for South-East Asia", *Asia-Pacific Development Journal*, Vol. 10, No.1.

force early) and increased life expectancy after retirement will increase savings rates.[39] Older people looking at a shorter life span are more likely to consume than save. Increases to retirement age will reduce years after retirement while, increasing life expectancy will have the opposite effect. Shorter years in retirement are likely to reduce savings. Some people may choose to leave the labour force earlier. This will lengthen the time in retirement and therefore increase savings. These effects will be different in developing countries where social security systems are not well developed. In such countries, in the absence of savings, and adequate social security, the elderly will depend on the younger generations for support. In such instances, ageing will not have the above discussed positive effects on savings. In fact, in such cases, ageing can reduce the ability of younger workers to save as they have to support older adults longer.

6.6.2 Ageing and the Labour Force

Population projections for Sri Lanka show that Sri Lanka's population is ageing (Figure 6.4). The Proportion of 60 plus people in the population is estimated to increase to 20 per cent by 2030. At the same time, the proportion of working age population (people who are between the 15-59 age group) is declining sharply. Population ageing is the result of declining fertility rates and increasing life expectancy. Sri Lanka's life expectancy at birth is 77.2 for females and 68.8 for males.[40] The life expectancy at birth has increased by about a year for males and by about 5 years for females from 1980-82 to 2000-02. Assuming retirement at 60 years, males can expect to live 9 years after retirement, while females can expect to live 17 years after retirement. According to a recent study, in 2006, only about a tenth of old people received pensions as their major source of income and about a third received non-pension government assistance.[41] The majority of those who receive pensions are former government servants, whose pensions are financed by the Budget, rather than through private savings. This indicates that most relied on their family or the government for old age support. The reliance on

Figure 6.4
Population Projections for Sri Lanka, by Age Group



Source: Based on data from Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects (2006 revision).

[39] *Ibid*.

[40] Gunesekara, H. R., (2008), Life Tables for Sri Lanka and Districts 2000-2002, Department of Census and Statistics.

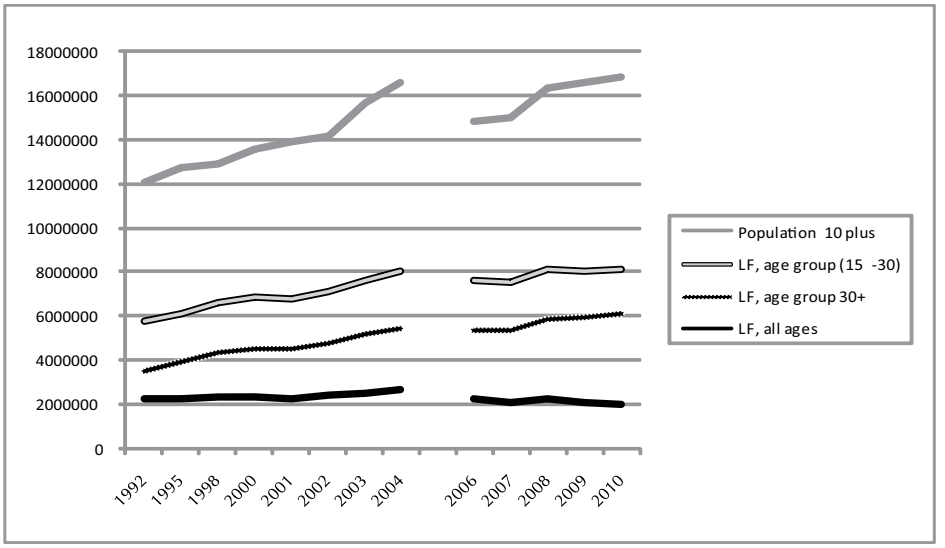
[41] Vodopivec, M. and Arunatilake, A., (2010).), "Population Ageing and Labour Market Participation of Old Workers in Sri Lanka", *Journal of Population Ageing*, DOI 10.1007/s12062-011-9045-5.

the family for old age support is greater for females for two reasons. Females participate less in the labour force even in their productive years and they are estimated to live longer than males. These statistics indicate that in Sri Lanka, although life expectancy has increased life in retirement, savings rates are not likely to increase because of ageing, as most individuals rely on their families for old age support, rather than on savings and pensions. Also the propensity to save for the younger population will be reduced, as they have to bear the increased burden of providing for the elderly.

As shown in Figure 6.5, Sri Lanka's work force is ageing. The Sri Lankan tertiary education sector mainly caters to new entrants to the labour market. Given that the requirements in the labour market are changing constantly and new occupations are emerging and replacing others, the country needs a demand driven education system that caters to all age groups. The education system should focus on a lifelong learning system which involves formal training as well as informal on-the-job training. The need for lifelong learning is even greater, as the proportion of young workers joining the labour market is slowing down. Further, the unemployment rates for the country are very low (less than 5 per cent). To make best use of available resources, Sri Lanka will have to focus on promoting mid-career workers.

There are already indications that the Sri Lankan labour force growth has slowed down. Since 2004, the labor force growth has stagnated (Figure 6.5). Further, the labour force is ageing. As seen in Figure 6.5 workers, aged 30 years and above, in the labour force is increasing, while the number of workers below 30 years of age is decreasing. A young, educated, and growing labour force can stimu-

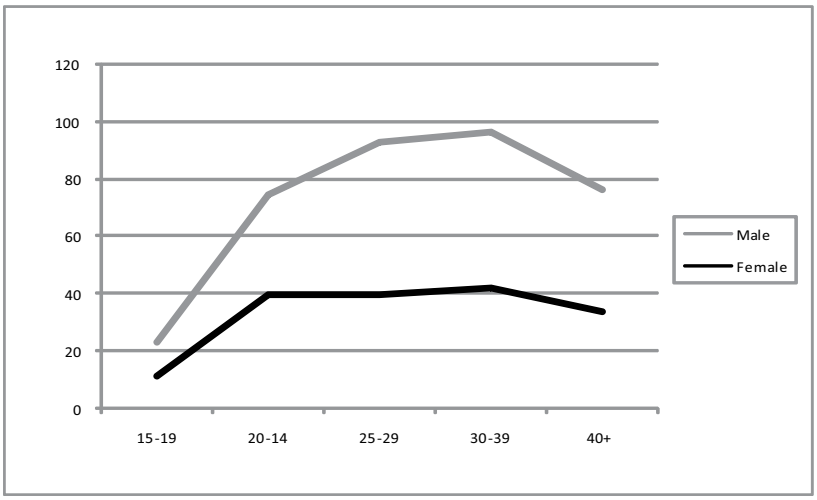
Figure 6.5
Trends in Working Age Population and Labour Force, by Age Group



Note: Data excludes Northern and Eastern Provinces except for 2003, 2004, 2008 and 2009. Data for 2003, 2008, 2009 and 2010 only excludes Northern Province, while 2004 only excludes Mullaitivu and Kilionochchi districts in the Northern Province. Age disaggregated data are not available for 2005.

Source: Based on data from the Department and Census and Statistics, Labour Force Survey – Annual Report 2010.

Figure 6.6
Labour Force Participation Rates, by Age and Sex for Sri Lanka



Source: Based on data from the Department and Census and Statistics, Labour Force Survey – Annual Report, 2010.

late economic growth. An older work force will be slower to innovate and adopt new technologies unless they are retrained constantly. Slow technology adoption and innovation will likely dampen growth. One method of countering these effects is to improve the labour force participation rates of women and youth. As seen in Figure 6.6, labour force participation rates are fairly low for women and youth in Sri Lanka. Improving labour force participation rates for elderly can also counter the slowing of the labour force.

A large number of individuals leave the country for foreign employment annually. In recent years, the number leaving the country for foreign employment has far exceeded the number entering the labour force in the country. For example, in 2011, the labour force increased by 128,000 from 2010 to 2011, while the number of departures (not adjusted for returnees) for foreign employment was 263,000.[42] Although promoting foreign employment is attractive in terms of remittances, as the labour resources become scarcer, policies for promoting foreign employment will need to be re-evaluated.

6.7 The Importance of Health as an Investment for Sustaining Economic Growth

Health has a major role to play in sustaining economic growth. It is now well recognized that healthy children are more effective learners and are more successful in the labour market. At the same time, ill health is known to reduce labour force participation as well as productivity in the labour market.

6.7.1 Nutrition and Economic Growth

The importance of nutrition for reducing morbidity and related health care costs as well as improving the returns to education and productivity in work life are well documented in the literature. Studies have shown that although improvements in living standards are estimated to improve the nutrition levels of a population, these improvements

[42] CBSL, *Annual Report 2011*.

Table 6.2
Opportunities for Adequate Nutrition, by Sector

		2000		2006	
		Mean	EOI	Mean	EOI
Under five children with at least minimum height-for-age	Sri Lanka	81.5	0.899	82.6	0.926
	Urban	89.8		85.4	
	Rural	81.8		83.7	
	Estate	56.3		59.0	
Under five children with at least minimum weight-for-age	Sri Lanka	77.0	0.903	78.6	0.934
	Urban	84.2		82.7	
	Rural	76.1		78.5	
	Estate	65.4		69.9	
Under five children with at least minimum weight-for-height	Sri Lanka	84.5	0.962	84.9	0.980
	Urban	88.5		85.3	
	Rural	83.0		84.8	
	Estate	86.0		85.7	
Newborns with at least minimum birth-weight	Sri Lanka	83.9	0.965	83.4	0.962
	Urban	86.0		87.1	
	Rural	83.7		83.5	
	Estate	77.2		69.3	
Maternal BMI >18.5	Sri Lanka	76.4	0.917	83.8	0.931
	Urban	87.5		90.3	
	Rural	75.4		83.9	
	Estate	52.3		68.5	

Note: EOI, constructed using methods developed by Ali and Son (2007) refers to Equity in Opportunity Index. An EOI above one indicates that opportunities are equitably distributed.

Source: Based on data from Department of Census and Statistic, Demographic and Health Surveys 2000 and 2006/07.

take place over a long period.[43] Therefore, given the importance of nutrition for upgrading living standards and human development, improving the nutrition levels of a population needs policy attention. On account of the fact that labour resources are becoming scarcer, attention should not only be on improving average levels of nutrition, but also on addressing the inequities in nutrition.

According to the Ministry of Healthcare and Nutrition, the nutritional status of children, youth and women are not satisfactory in Sri Lanka.[44] For example, according to the Demographic and Health Survey (DHS) 2006/07, 16.6 per cent of babies in the country were underweight, 21.1 per cent of children under-five were underweight (low weight for age); about 14.7 per cent of under-five children were wasted (low weight for height), and 17.3 per cent of under-five children were stunted (low height for age).[45] Further, there are wide disparities in the prevalence of malnutrition across the country (Table 6.2).

[43] Alderman, Harold (2008), "Stimulating Economic Growth through Improved Nutrition", Disease Control Priorities Project, World Bank. [Accessed on 25th April, 2012] www.dcp2.org/file/223/dcpp-nutritionpolicybrief-web.pdf .

[43] Ministry of Healthcare and Nutrition (2010), *National Nutrition Policy of Sri Lanka*, Ministry of Healthcare and Nutrition.

[45] *Ibid.*

Although the nutrition level of the country has improved from 2000 to 2006, these improvements are marginal. Also opportunities for adequate nutrition are inequitable in the country across income classes (Table 6.2). The average opportunities for adequate nutrition are particularly low in the estate sector. Further, opportunities for average nutrition have declined in some sectors for some measures of malnutrition (for example, newborns with adequate birth-weight in the estate sector).

The need to improve nutrition levels in Sri Lanka has been recognized since the early 1980s. The first Nutrition Policy for Sri Lanka was developed in 1986 and the need to revise this policy and address current issues is already recognized by policy makers. This will require the involvement of a variety of stakeholders, targeting different segments of the population such as pregnant mothers, infants, children, youth, and elderly, etc.

6.7.2 Non-communicable Diseases, Injuries and Economic Growth

Diseases that especially affect the working age population such as NCDs can affect labour productivity in terms of loss of work days and reduced productivity. Studies that assess the impact of NCDs on economic development are limited. However, available research indicates that NCDs can have long term macroeconomic impacts in terms of labour supply, capital accumulation and GDP, and further, these effects are likely to be larger in developing countries.[46] They further find that the loss of labour resources due to NCDs and health care costs owing to NCDs have resulted in reducing the quality and quantity of labour supply, globally. For example, it is estimated that in the US, men and women with chronic diseases work 6.1 per cent and 3.9 per cent fewer hours, respectively.

The NCD prevalence rate in Sri Lanka is high and increasing. Working and near retirement population groups are more likely to be affected by NCDs. Presently, the mortality rate due to NCDs in Sri Lanka is 20-50 per cent higher compared to developed countries.[47] Specifically, mortality rate for hypertension, ischemic heart disease (IHD), cancer, and diabetes are significant among working and near retirement age groups. Further, the mortality rates are higher for males than for females.[48] Also, a recent World Bank study finds that NCDs contribute most to the disease burden in Sri Lanka, accounting for 85 per cent of ill health, disability and early death.[49] Although NCDs were earlier a disease of the affluent, the study finds that NCD prevalence amongst the poorer groups is increasing in the country. As the country's health care system is less engaged in caring for NCDs, individuals have to bear the cost of treatment.

A number of factors influence NCD prevalence. According to DHS 2006/07, imbalanced diets, sedentary lifestyles, and lack of physical activity are factors affecting overweight, and other diet related NCDs such as diabetes mellitus, cardiovascular disease, hypertension and certain types of cancers.[50] In addition, obesity, tobacco and alcohol consumption and diets high in sugar, oil and salt are also proven to influence the prevalence of NCDs.

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[46] Bloom, D.E., et. al. (2011), "The Global Economic Burden of Non-communicable Diseases", World Economic Forum.

[47] E., Michael at el., (2010), "Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Actions", World Bank

[48] *Ibid*.

[49] World Bank, "Tackling Non-Communicable-Diseases in Sri Lanka", http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:22839556~menuPK:158844~pagePK:2865106~piPK:2865128~theSitePK:223547,00.html [accessed, 2nd May, 2012].

[50] Ministry of Healthcare and Nutrition (2010), *National Nutrition Policy of Sri Lanka*, Ministry of Healthcare and Nutrition.

Although not exactly a disease, injuries are also a major cause of morbidity and deaths in Sri Lanka. They contribute to reducing the quality and quantity of labour supply in the country both directly and indirectly. When working age people are injured, the supply of labour is directly affected. In addition, even when non-working age people are injured, working age people who are caregivers may miss work time. Although a number of initiatives have been started to reduce the number of accidents and injuries in the country, these continue to be a main health burden. According to the Ministry of Health, traumatic injuries remain the major cause of hospitalization in the country, and they have increased over time. One of the major contributory factors for traumatic injuries is road traffic injuries caused by excessive speeding, drinking and driving, and not using safety methods such as seat belts and helmets. According to the Traffic Division of the Department of Police, there were 2,721 deaths and 26,847 injuries due to road accidents in 2010. Further, it has been reported that Sri Lanka loses around 500,000 man-days due to occupational accidents.[51]

In 2009, the National Policy and Strategic Framework for Preventive and Control of Chronic NCDs was established with the objective of reducing premature mortality (less than 65 years) due to chronic NCDs by 2 per cent annually, over the next 10 years.[52] This framework addresses issues concerning awareness programmes, and regulation aimed at reducing the prevalence of NCDs, screening for NCDs, strengthening capacity for caring for NCD related diseases, improving information on NCD related issues and raising funds for the prevention and management of NCD related health services. Health services for NCDs are provided through special clinics in the secondary care facilities and above. Some of the lower level facilities provide follow up care for NCDs. Government initiatives for improving health care for NCDs are still being piloted. Careful monitoring of the impacts of present initiatives and their effectiveness in controlling and managing NCDS will need to be in place to ensure desired health outcomes related to NCDs. Sri Lanka has also started several initiatives to reduce morbidity and mortality relating to injuries and accidents. Indeed, 2011-2020 has been declared as the Decade of Action for Road Safety and Decade of Action Programmes, in an attempt to reduce the health burden and related economic losses relating to accidents.

6.8 Conclusion and Policy Recommendations

Sri Lanka's development initiatives aim to transform the country into a knowledge-based strong middle income country. The government is particularly focused on developing the naval, aviation, commercial, and energy and knowledge sectors of the economy. With the ending of the conflict, prospects for growth look promising. However, sustaining the growth momentum, among other things will require an adequate and skilled workforce that is able to create and adapt to new technologies, and has the necessary general skills to be competitive in the global market.

The employment opportunities envisaged to be created through the government's vision to develop Sri Lanka as a knowledge-based economy has already increased the demand for highly skilled workers who are particularly skilled in ICT and English language skills. In addition, to sustain productivity enhancements and to remain competitive in

[51] Ministry of Healthcare and Nutrition (2009), *National Policy and Strategic Framework on Injury Prevention and Management in Sri Lanka*.

[52] Ministry of Healthcare and Nutrition (2009), *Non-communicable Disease Policy*.

the global market, Sri Lanka will need to expand its workforce in S&T. However, the ability of the present education system to cater to these emerging demands is questionable.

At present, the main provider of tertiary and vocational training in the country is the public sector. Lack of resources has limited the expansion of the tertiary and vocational education sector and contained improvements to its relevance and quality. At the same time, the scope of university education in the country is very limited. The options for improving resources in the higher education sector include, either increasing public investments in the sector or, encouraging private participation in the sector. Given the current budget constraints facing the government, large increases in public investments to higher education are unlikely. Further, an increase in public investments alone will not make the universities dynamic centers of teaching and learning that react to changes in the market in a timely manner. To introduce such changes, the way universities are governed and financed will need to be changed. Although there is no explicit legal barrier, the political economy context of the country discourages investment in private universities. Sri Lanka is one of a very few countries in the world that has discouraged foreign universities functioning in the country. Those who cannot enter public universities have few options for pursuing higher education. Only those from highly affluent families are able to obtain university education outside the country. The absence of an accreditation system for private sector higher education providers makes it difficult to regulate the quality of the offered programmes. Unless these issues in improving access to better quality education in the country are addressed, Sri Lanka will soon face a severe talent shortage.

The foundation for more productive tertiary education in S&T related subjects and relevant competencies in general skills such as ICT and English language skills, are laid at the general education level. Available data indicate that the education outcomes in these vital subject areas are lacking in the country. Although the need to improve skills in ICT, English, science and mathematics have been well recognized and several programmes have been implemented to improve delivery of education, changes are taking place slowly.

Life expectancy in Sri Lanka has increased over the past several years, raising the number of years in retirement. Longer years in retirement could increase the propensity to save for current workers, thereby increasing savings and investments in the country. However, in the case of Sri Lanka, as only a limited proportion of workers rely on their savings for old age support, longer life expectancy can lead to lower savings.

Increasing life expectancy and reducing fertility rates are changing the age structure of the population. These demographic transitions are also reflected in the labour force. Sri Lanka's working age population is shrinking, while the older population is growing. Labour force projections for the country indicate that the labour force growth has already stagnated, and it will start to decline around 2030. Estimates for other countries where similar demographic changes are taking place shows that such changes to the labour force can slow economic growth. However, the effect of these changes on economic growth can be minimized by improving productivity and increasing labour force participation. Sri Lanka's labour force participation rates are low for females, youth and older adults. The country will increasingly need to find means of encouraging labour force participation of these groups of individuals. Along the same lines, introducing programmes to train and retrain workers so that they remain employable and productive throughout their lives, are important.

Health is estimated to play an important role in contributing to increasing labour supply and productivity. Health is also instrumental in enhancing the effectiveness of education. Although Sri Lanka performed well in terms of lowering infant and maternal mortality and in increasing life expectancy, it has several existing and emerging health challenges. With nearly a fifth of its population malnourished, the nutrition level of the country is low. Studies for other countries indicate the importance of improving the nutrition level as an important strategy for increasing growth. Several programmes have already been started to improve the level of nutrition in the country. Unlike the earlier programmes, the new initiatives are looking at a multi-sectoral approach for improving nutrition. Given the importance of nutrition for sustaining growth, it is prudent to monitor the impact of these initiatives in improving nutrition in the country, and take necessary action to revise and reform programmes as needed.

Demographic change, increases to living standards, and lifestyle changes to the country have resulted in increasing NCDs and the prevalence of injuries in the country. Again, studies for other countries show that increased disease burden, especially among the working age population, has the potential to decrease the quality and quantity of labour supply in the country. As shown earlier, labour is becoming increasingly scarce. As such, it will be important to initiate programmes to improve health services for prevention and management of NCDs and injury-related health issues.

In summary, the global environment is changing constantly, and with it, the skills that are in demand in the market are changing. At the same time, the demographic and epidemiological structure of Sri Lanka has changed over time. Labour resources are increasingly getting scarce, and the age structure of the work force is changing. As discussed in this Chapter, to cater to these changes, the country needs to pay attention to making the best use of available resources by encouraging labour force participation and employability and minimizing loss of workdays due to illnesses and disability. To remain competitive in this changing global market, the education system at all levels will also need to be modernized and improved, giving particular attention to education in science and mathematics and to improving competencies in general skills. Complementary strategies to promote innovation and entrepreneurship will be discussed next, in Chapter 7 of this report.

7. Stimulating Innovation for Sustained High Growth

"Innovative entrepreneurs, with their new products, new processes, new markets, and novel approaches to putting inventions to effective use, are key to an economy's long-term growth"

DR. WILLIAM J. BAUMOL
Harold Price Professor of Entrepreneurship and Academic Director, Berkley Center for Entrepreneurship and Innovation, New York University; Senior Economist and Professor Emeritus, Princeton University, USA.

7.1 Introduction

In positioning Sri Lanka for an era of faster growth, it is rightly acknowledged that "successful integration with the global economy and its sustained success in international competition will depend increasingly on effective combinations of science, technology and innovation."[1] Towards this end, there is also recognition of the fact that the country needs capacity in research and innovation, especially in view of attempts to position Sri Lanka as a 'knowledge hub' under the current policy framework. Creating supporting structures which ensure that goods and services produced in the country are globally competitive, therefore, becomes essential. This depends mainly on enhancing the level of innovation of the Sri Lankan economy.

> ***"Making innovation policy a key priority will determine how Sri Lanka country places itself in a rapidly changing global economic environment, delivering high growth and prosperity for its people"***

In the policy document "Sri Lanka: Emerging Wonder of Asia," the term 'innovation' features forty times, attesting to the emphasis placed on its importance. Yet, on each occasion it refers to innovation in particular sectors and the 'need' for promotion thereof. Taking a holistic approach, driving innovation at a national, strategic level, therefore, needs to become the new priority. Although technology has permeated many levels of the economy and society in the country, Sri Lanka has missed successive 'waves' of transformative technology, partly due to the distrac-

[1] Ministry of Finance and Planning (2010), *Sri Lanka: The Emerging Wonder of Asia*, pp.126.

tion of its long conflict. The UK, Europe and the US advanced on the basis of the industrial revolution. South Korea, Taiwan, and other East Asian 'tiger' economies latched on to the ICT and electronics (semi-conductor) revolution. China, India and Cuba caught the bio-technology revolution.

Sri Lanka ranks poorly in the Global Innovation Index, at 82nd out of 115 economies ranked, but does show promise on several sub-indicators analyzed in the report. The challenge now is to see which elements of these technology revolutions can still be adopted in the country to drive higher value exports and greater domestic value addition of products, while improving the standard of living of the people. Meanwhile, latching on to new and emerging technological revolutions like nanotechnology, which can be truly transformational, must also be looked at.

The overarching issue for all of this is the need to create a dynamic innovation culture in the country, and for this, having a holistic innovation policy is essential. While neither national governments, public institutions, or even firms, can fully predict what the next technology revolution would be or forecast how best to latch on to it; by creating a culture where innovation thrives and permeates through the majority of the economy, economic actors in the country would be able to be nimble and agile in capitalizing on whatever new technologies emerge and use them to benefit national development and achieve faster economic progress. For this, having the right policy frameworks in place is vital.

Some initiatives in this regard have already been taken. Sri Lanka adopted a Science and Technology Policy (STP) in June 2009. While this identifies the general S&T capability required, and highlights the broad areas of focus, it does not provide specific priorities. Moreover, innovation policy is much sharper than S&T policy. In fact, innovation may not necessarily be achieved through improved S&T capability alone. A more recent initiative towards advancing this agenda has been by the Ministry of Technology and Research which published its 'Science, Technology and Innovation Strategy (2011-2015).' This document takes a far more advanced approach, as well as providing concrete goals and implementation plans; however, it still remains the strategic plan of an individual line ministry. As this Chapter will argue, promoting innovation requires a much more holistic outlook through a national innovation policy that takes a 'whole-of-government approach,' gets the buy-in of a wider array of stakeholders, as well as provides clear direction on what needs to be done by these stakeholders, including line ministries beyond just the Ministry of Technology and Research.

The rest of this Chapter is organized as follows. Section 7.2 will look at the importance of innovation to economic growth, reviewing relevant literature. Section 7.3 attempts to dissect what innovation is and the elements in promoting it. Section 7.4 discusses the importance of innovation policy, while Section 7.5 provides an overview of the status of innovation policy making in Sri Lanka. Section 7.6 introduces the concept of national innovation system (NIS) and how it feeds in to effective innovation policy-making, while Section 7.7 reviews Sri Lanka's performance across selected elements of the NIS (with several sub-sections focusing on particular areas like R&D, human capital, incentives, and financing and commercialization). Section 7.8 highlights the importance of international openness and cooperation to strengthen innovation, while Section 7.9 discusses reversing the 'brain drain' and leveraging the diaspora. Finally, Section 7.10 provides a way forward and concludes.

Box 7.1
Sri Lanka in Bottom Half of Global Innovation Index

Sri Lanka was ranked 82nd out of 125 economies in the Global Innovation Index 2011 issued by INSEAD, an international business school. Sri Lanka stands behind India but ahead of other key South Asian countries. Out of the sub-indices measured, the country is placed at 96 in the innovation input sub-index, which evaluates the environment for innovations, while been placed far above at 65 in the innovation output sub-index, bringing it among the top 20 countries in terms of innovation efficiency. Within innovation inputs; institutions, human capital and research, market sophistication and business sophistication are found to be of relatively low order, while innovation infrastructure seems to be of a higher quality. Within the innovation outputs; Sri Lanka ranks low in science outputs such as patent applications, journal articles, new business density and hi-tech exports, while performing relatively well in creative outputs such as trade mark registrations, recreation and culture, and creative goods exports.

Source: The Global Innovation Index 2011 www.globalinnovationindex.org

7.2 What is Innovation and Why is it Important?

The relationship between economic growth and technological development is well established in the literature.[2] Although not the only pillar of innovation, technological development is both part of the process of innovation as well as a result of it. Innovation involves much more than knowledge of the relevant S&T. At least since Schumpeter (1911), economists have accepted a distinction between the formulation of a working idea for a product or process (an invention) and the application of that idea to the economy (an innovation).[3]

The literature stresses that innovation, i.e., the improvement of existing or the creation of entirely new products, processes, services, and business or organization models, drives long-run economic growth and quality-of-life improvements.[4] The US Department of Commerce has estimated that technological innovation has been responsible for as much as 75 per cent of growth in the US economy since World War II.[5] Innovation achieves this impact by the enabling of productivity and competitiveness improvements that lie at the core of economic growth. For instance, the innovative use of IT was responsible for two-thirds of total factor productivity increase in the US between 1995 and 2002 and virtually all of the growth in labour productivity.[6]

Innovation also leads to job growth. As the Organization for Economic Cooperation and Development (OECD) noted in a review of studies on productivity and employment, "Technology both eliminates jobs and creates jobs. Generally it destroys lower-wage, lower-productivity jobs, while it creates jobs

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[2] For example; Romer, P.M., (1990), "Endogenous Technological Change" *Journal of Political Economy*, Vol. 98. No. 5: Grossman, G. and E. Helpman (1991), *Innovation and Growth in the Global Economy*, MIT Press.

[3] Schumpeter, J.A.,(1911), *The Theory of Economic Development*, Oxford University Press, (1938 edition), as cited in Metcalfe, J.S., (2000), "Science, Technology and Innovation Policy in Developing Economies" a paper presented at a workshop on "Enterprise Competitiveness and Public Policies", Barbados, November 1999.

[4] Ezell and Atkinson (2010), "The Good, The Bad, and The Ugly of Innovation Policy: A Policymaker's Guide to Crafting Effective Innovation Policy", The Information Technology and Innovation Foundation.

[5] Ideas in Action with Jim Glassman (2010), "Is America Suffering an Innovation Gap?", http://www.itif.org /media/america-suffering-innovation-gap.

[6] Robert D. Atkinson and Andrew S. McKay (2007), "Digital Prosperity: Understanding the Economic Benefits of the Information Technology Revolution", Information Technology and Innovation Foundation, http://www.itif.org/files/digital_prosperity.pdf.

that are more productive, higher-skilled and better paid."[7] For a country like Sri Lanka where wages in basic manufacturing are rising (and consequently, the advantage of low-cost labour in the country is declining), and aspirations and attitudes towards employment are evolving towards higher-earning jobs, creating jobs that encourage higher productivity and better skills and pay becomes increasingly important. The OECD report noted that, historically, the income generating effects of new technologies have proven more powerful than the labour-displacing effects: technological progress has been accompanied not only by higher output and productivity, but also by higher overall employment.

Innovation has become a more central driver of growth and competitiveness. As modern technologies have brought the world ever closer together, global economic competition has become more intense than ever. Governments are constantly searching for strategies to win in this global competition to achieve economic growth and prosperity for their people, and attract foreign investment and talent to their shores. In just the past decade, a large number of countries have come to the realization that spurring innovation in the economy must be a central component of their economic development strategies.[8] For example, in 2009, the UK made a conscientious decision to "place innovation at the center of the country's economic growth strategy." Three dozen other countries have now created national innovation agencies and implemented national innovation strategies designed specifically to link science, technology, and innovation with economic growth.[9] An analysis of Eastern European countries found that both innovation-oriented and business-friendly policies enhance national innovation and boosts competitiveness in international markets.[10] The study highlights the crucial role of universities and the existing knowledge base complemented by R&D commitments from both public and private sources in driving innovation.

7.3 Innovation Policy and Key Elements in Promoting Innovation

It is important to understand what constitutes innovation in the developing world. Generally it does not mean something 'new' in absolute terms, but something new for the society under consideration. Innovation is usually instigated by a key actor -- an entrepreneur who brings the project to fruition in designing the new product or process, looking for finance, and exploring markets. The entrepreneur interacts with different organizations within the so-called 'innovation system,' such as universities, public laboratories, banks, business chambers, and other enterprises. In addition, the environment in which innovation takes place is strongly influenced by broader factors such as the macroeconomic situation, the level of infrastructure development, and the quality of institutions and governance.

A key success factor, is to integrate a vision for innovation in to long term development strategies. For example, China decided to become "the world's factory." Malaysia aimed at becoming an "information society world leader." This vision allows a country to define priorities and implement them across ministries and throughout the economy with well-aligned policies and in-

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[7] OECD (1994), "The OECD Jobs Study: Facts, Analysis, Strategy", http://www.oecd.org/dataoecd/42/51/1941679.pdf

[8] Ezell, S.J. and R.D. Atkinson (2010), "The Good, The Bad and The Ugly of Innovation Policy: A Policymakers Guide to Crafting Effective Innovation Policy", The Information Technology and Innovation Foundation.

[9] Stephen Ezell (2009), "America and the World - We're No. 40!", *Democracy: A Journal of Ideas*, Issue 14, Fall 2009.

[10] Krammer, S.M.S., (2009), "Drivers of National Innovation in Transition: Evidence from a Panel of Eastern European Countries", *Research Policy*, Vol. 38, pp 845-860.

vestments. This requires an explicit 'government-wide approach.'

Innovation policy is, therefore, fundamentally different from simply promoting ideas and projects from research to market, or the reverse – identifying needs and calling upon research or the science base to satisfy them. This linear and mechanistic view of the innovation process is outdated; a holistic and biological approach is more appropriate.[11] Governments should see their role as creating a favourable climate in which innovative projects can flourish.

7.4 Government Policy Support for Innovation

In the innovation arena, a government "has basically three functions - providing incentives and facilities to elicit or support innovative projects; removing bureaucratic, regulatory, competitive and other obstacles to innovation; and improving the knowledge base and its use in developing technical education and R&D structures."[12] As explained in Ezell and Atkinson (2010), innovation policy constitutes those elements of science, technology and economic policy that explicitly aim to promote the development, spread, and efficient use of new products, processes, services, and business or organizational models. Innovation policy conscientiously and proactively anticipates and articulates the intersecting roles and relationships of policies in S&T, R&D, education, workforce training, immigration, tax, trade, intellectual property (IP), and digital infrastructure in creating economic and social welfare. An innovation policy should not exhibit favouritism to domestic over foreign firms located in the country or vice-versa; all firms located in the country should be able to enjoy the benefits of the country's innovation policies. In contrast, industrial policy is designed to intervene in an economy to support, favour, or restructure specific business or sectors. Industrial policies often seek to pick specific national champion firms. This was a staple of Japanese and South Korean economic growth policy following World War II.

To clarify the differences between innovation policy and industrial policy, it is useful to envision a continuum of government-market engagement increasing from left to right from a 'laissez faire' approach to 'supporting factor conditions for innovation' to going further by 'supporting key broad technologies/industries' to, at the most extreme, 'picking specific technologies/firms', or in other words, picking winners. As emphasized by Ezell and Atkinson (2010), government support and engagement is best placed at points two and three of this spectrum, supporting factor conditions and placing strategic bets to support potentially breakthrough technologies (e.g., nanotechnology, biotechnology, robotics, etc.) and industries (e.g., broadband telecoms, life sciences, clean energy, etc.), all the while enabling competitive markets. This appears to be the approach taken by Sri Lanka as well, for example, through the general promotion of nanotechnology through the National Nanotechnology Initiative (NNI) since 2006.

The science, technology, and innovation policies of developing economies should not be aimed primarily at reaching the frontiers of world science, technology and innovation. Rather, the central concern should be with the "absorption and adaptation of established practices to suit local resource endowments and market prospects." This is an important consideration for Sri Lanka (Box 7.2).

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[11] Aubert, Jean-Eric (2010), '*Innovation Policy for the Developing World*', Special Report, World Bank Institute.

[12] *Ibid*.

[13] Metcalfe (2000), '*Science, Technology and Innovation Policy in Developing Economies*', paper presented at workshop on Enterprise Competitiveness and Public Policies, Barbados, November 1999.

Box 7.2
Innovation as Adaptation

Innovation as a concept does not simply mean the domestic development of cutting-edge scientific discoveries – for example, Sri Lanka trying to develop a game-changing technology, but also the adaption and use of existing innovations for productive use in the local context. This balance needs to be struck in Sri Lanka. While continuing to drive new innovation, for example, through innovative private-public partnership mechanisms such as the SLINTEC, Sri Lanka needs to cooperate more closely with technology champions in the world – from the world's most innovative nation, the US; or Europe's innovation and technology champion, Germany; to Eastern technology giants like, Japan, China, South Korea and even India.

Many developing countries like Sri Lanka have a long way to go before they can start creating world-changing, cutting-edge technologies. However, this does not mean that their development should not focus on creating an innovation culture. According to the report on 'Building Sri Lanka's Knowledge Economy' published by the World Bank in 2008, large rewards from technology accrue to those that adopt new technologies, adapt them, and make them productive in the local context. A report on Indian innovation revealed that India achieved a five-fold growth in output by simply adopting existing information and technologies elsewhere. East Asian champions like South Korea, Singapore and Malaysia also grew rapidly by adopting existing technologies by often 'looking East,' towards early adopters like Japan. Of course, later, they developed new and advanced capabilities and became global innovation hubs themselves.

Thus, an innovation culture for developing countries like Sri Lanka must be understood as the building of a technical culture and a system of incentives that support the adoption and subsequent adaptation of existing (often foreign) technologies.

Source: Wijesinha, A., (2012), 'What is An Appropriate Path for Sri Lanka as an Emerging Economy?', paper presented at Symposium on E.F. Schumacher Centenary Birth Celebrations, Practical Action, Colombo April 2012

7.5 Status of Policy Relating to Innovation in Sri Lanka

So far, in Sri Lanka, innovation has been seen mainly through the lens of 'science and technology.' In 1998, Sri Lanka established a National Science and Technology Commission as a policy making body with the responsibility of making recommendations on all aspects of scientific and technological development. Prior to this, a Presidential Task Force on S&T Development had published its report in 1991. More recently, however, a Science and Technology Policy was adopted by the Cabinet of Ministers in May 2009 (see Box 7.3).

The more recent government vision and policy document, "Sri Lanka: Emerging Wonder of Asia," is the main macro-level policy which refers to science, technology and innovation, and it recognizes that a broad range of policy areas need to be considered. It states,

> "Adoption and application of advanced technologies by industries will be promoted. A legislative basis for growth of high-technology industry will be provided through means such as national banking regulations, low-interest loans, tax incentives, and duty-free import of selected capital goods. Support will be given for application of advanced technologies in industry including biotechnology and

Box 7.3
Sri Lanka's National Science and Technology Policy, 2009

Sri Lanka was a latecomer to the S&T game and introduced the STP only in 2009, although attempts to design and adopt a national STP date back to the 1960s. The 10 objectives of the National S&T Policy are:

1. Foster a science, technology and innovation culture that effectively reaches all citizens of the country
2. Enhance science and technology capability for national development, make use of science and technology expertise in the national planning process, and strengthen governance and policy implementation mechanisms
3. Build up, and progressively expand and improve the resource base of scientists and technologists necessary to respond to the developmental needs of the country
4. Promote basic, applied and developmental research, particularly in areas of national importance and priority
5. Develop, or acquire and adapt, scientific knowledge and technologies for transfer, to achieve progressive modernization of all sectors and to enhance the country's competitiveness in the world economy
6. Ensure sustainable use of natural resources for development, while protecting the environment
7. Document, research into the scientific basis of, and promote indigenous knowledge-based technologies
8. Develop a culture of innovation and IP, and ensure the protection of Intellectual Property Rights (IPRs).
9. Ensure quality standards of S&T institutions, products and services to achieve national and international recognition
10. Promote the application of S&T for human welfare, disaster management, adaptation to climate change, law enforcement and defence, to ensure human and national security

The National S&T Policy declares ambitious targets to increase investment for S&T up to 1.5 per cent of GDP by 2016. This value was just 0.17 per cent in 2006 and is in fact the highest allocation in post-independence history (highest being 0.4 per cent in 1975). The target is ambitious even when compared with the globally recommended value for developing countries of 1 per cent.

Source: Witharana, D., (2010), "Innovation Sustainability and Development: A New Manifesto", accessed via http://anewmanifesto.org.

nanotechnology. High-tech industrial parks with requisite modern physical infrastructure facilities will be established" (p.70).

Meanwhile, the Ministry of Technology and Research has under its wing many science and research institutions engaged in R&D and technology development and transfer. Some of these are, the Arthur C. Clark Institute for Modern Technologies (ACCIMT), the National Science Foundation (NSF), and the Industrial Technical Institute (ITI, formerly the CISIR). The ITI, in particular, supports the industry sector though scientific and industrial research and provision of training, consultancy, technology transfer, design, fabrication, calibration, trouble-shooting, and quality assurance services.

7.6 Concept of the National Innovation System

Frameworks aimed at supporting science, technology and innovation have evolved from so-called 'linear' models of innovation into models based on the concept of the NIS. Lin-

ear models imply that there is a direct causal relation from initial impulse to final outcome, which is innovation; the initial impulse can be either of a 'supply push' nature; that is, it originates from government initiatives to set up institutions and policies to encourage R&D, or of a 'demand pull' nature; that is, the initial impulse comes from the demands and needs existing in the markets. Linear models of the 'push' category tends to emphasize supply-side policies (e.g., investment in training, R&D, and national ICT infrastructures), while 'pull' models imply demand-side policies (e.g., market stimulation, user training, or the establishment of uniform standards). In practice, national policies have often been volatile mixtures of technology push and demand pull models, reflected in swings of emphasis between interventionist and laissez-faire policies.

The concept of a NIS is not new to the world, but is still new to developing countries like Sri Lanka. It is largely viewed as a system of interconnected institutions to create, store and transfer the knowledge, skills and artifacts which define new technologies. UNCTAD (2011) notes that, "although there are many definitions of an NIS, in simple terms this concept refers to the network of institutions in the public and private sectors whose activities and interaction initiate, import, modify and diffuse new technologies."[14]

In practice, this is the network of universities, research centres, think tanks, firms, business associations, and more generally, producers and users of knowledge in the country. Meanwhile, supportive government policies are important in fostering NIS. Public policy does have a role to play in cultivating this network. Sri Lanka's recent example of providing tax breaks for private sector firms that utilize public research institutions for their R&D is such an example.

The NIS concept is novel for Sri Lanka, where interaction among various actors and institutions involved in technological innovation remains weak.[15] In this context, it is important to pay attention to how the government policy framework, R&D activities, education system, culture, history, traditions, etc., play their roles in this network system. Developing a robust innovation system in a country requires a robust network, consisting of government institutions, regulators, research institutes, universities, enterprises, consulting firms and professional/business groups. It is not just creating the right environment for this network to operate, but also providing the right government interventions to ensure that a productive nexus develops from this.

A key idea of the NIS perspective is that firms do not engage in innovation in isolation. Innovation depends on the existence of a variety of agents and institutions (much greater in scope than just technology providers and technology users) and on the effectiveness of the interactions between these agencies and institutions. The ability and propensity of an enterprise to innovate not only depends on its access to knowledge from research institutes or technology services centres, but also on many other factors including, access to finance, human resources, adequate basic physical infrastructure, firm-level capabilities (design, operation, maintenance, managerial),[16] in-

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[14] UNCTAD, (2011), Key Aspects of Entrepreneurship and Innovation Policy Framework for Enhancing Local Productive Capacities, UNCTAD.

[15] Wickremasinghe, S. (2006), "National Innovation System: A Way Forward to Stimulate Innovation," *Vidya Newsletter*, Vol.8, No.2, National Science Foundation, Colombo.

[16] Sri Lanka lacks a national institution to help improve firm-level capabilities. Although the National Institute of Business Administration(NIBM) was started with that objective, it has since lost that focus and currently engages almost entirely in running vocational training programmes in business /management, IT, and English, which are perhaps more lucrative.

ter-firm linkages and collaboration partnerships in R&D among academic and commercial entities, general business services, and demand conditions.

Thus, a broad range of matters need to be considered in formulating appropriate policies:[17]

- Increasing the supply of knowledge in the system by reinforcing education, particularly science education, as well as building a deep pool of human capital in scientific research, engineering, managerial, etc. Supply-side policies should be complemented with demand-side incentives.
- Promoting stronger linkages between various players in the national innovation system, for example, by supporting research networks, providing incentives for inter-firm collaboration, and facilitating linkages between public research institutions and private enterprises, as well as between national firms and foreign companies. Policies to encourage public-private partnerships, the development of technology clusters, and the promotion of technology parks are other examples of policies in this broad area.
- Dealing with FPRs may have an important role in facilitating transfer of technology from academia to the productive sector and from international to domestic markets.
- Creating avenues for commercializing and financing innovation, for example by exploring the suitability of venture capital models of some developed countries, as well as fiscal incentives to support innovation.

7.7 National Innovation System in Sri Lanka: Reviewing Performance

While innovation policy discussions, and the NIS, point to a plethora of indicators and areas for consideration, this Chapter limits itself to discussing selected areas when assessing Sri Lanka's performance, owing mainly to data unavailability.

7.7.1 Research and Development

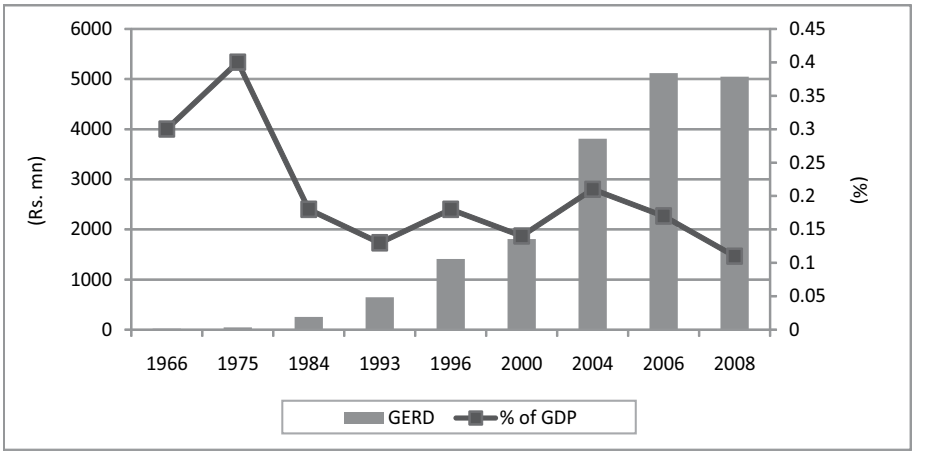
Sri Lanka displays a very low level of national R&D investment as a proportion of GDP - a characteristic that has not changed over time. The number of R&D scientists have also decreased over time. Indeed, the Budget 2012 notes that Sri Lanka's "universities as well as research and technology institutes have around 4,000 researchers at present. This number should be increased to about 20,000 by the year 2020."

Public R&D institutions form the bulk of the NIS in Sri Lanka, along with universities. The National R&D Survey (2008) conducted by the National Science Foundation (NSF) reveals that dedicated R&D institutions account for 29.4 per cent of the total R&D scientists in the country, while universities account for 61 per cent and the private sector around 9.6 per cent. Creating mutual confidence and motivation between the public sector (public research institutions and universities) and the private sector is the need of the hour. It is noted that "R&D scientists (both in universities and research organizations) are distancing themselves from the industry. Unfortunately, most of the industrialists are not fully aware of the potential and capabilities of the scientists at universities and (public) R&D organizations. Such a situation highlights the importance of networking R&D institutions."[18]

[17] Adapted from UNCTAD (2011).

[16] Wickremasinghe, S.I., (2011), "The Status of SMEs in Sri Lanka and Promotion of their Innovation Output: Through Networking of S&T Institutions," *Asia-Pacific Tech Monitor,* Jul-Aug2011, UN-ESCAP Asian and Pacific Centre for Transfer of Technology, pp.17.

Figure 7.1
Gross Expenditure on R&D (1966 – 2008)



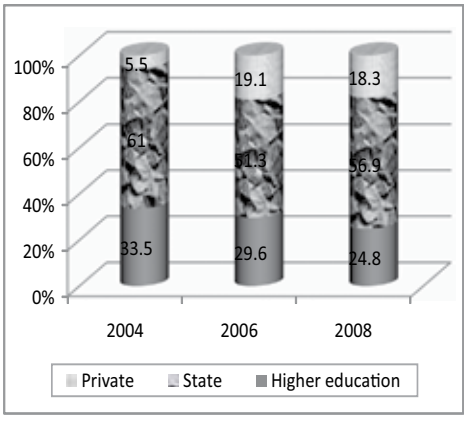
Note: GERD = Gross Expenditure on R&D.
Source: National Science Foundation, Science and Technology Policy Research Division.

Performance on Innovation Inputs

Gross expenditure on R&D has recorded a significant increase over time, particularly after 2000. During the four-year period between 1996 and 2000, the expenditure has marked a growth of 28 per cent, which has increased to 33 per cent between 2004 and 2008 (Figure 7.1).

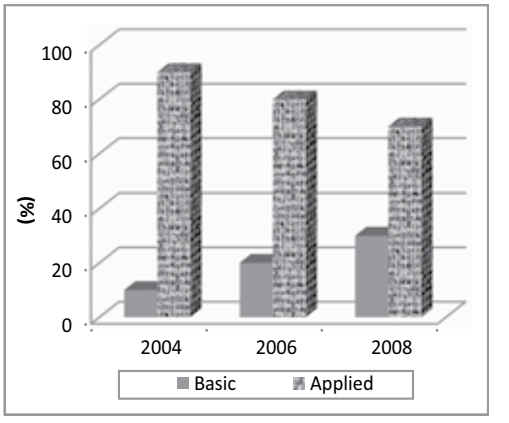
However, the investment on R&D does not seem to have improved proportionate to the growth of national output. The R&D expenditure-to-GDP ratio has declined from 0.4 per cent in 1975 to 0.11 per cent in 2008, recording a diminishing trend over the years.

Figure 7.2
R&D Expenditure by Sector (2004-2008)



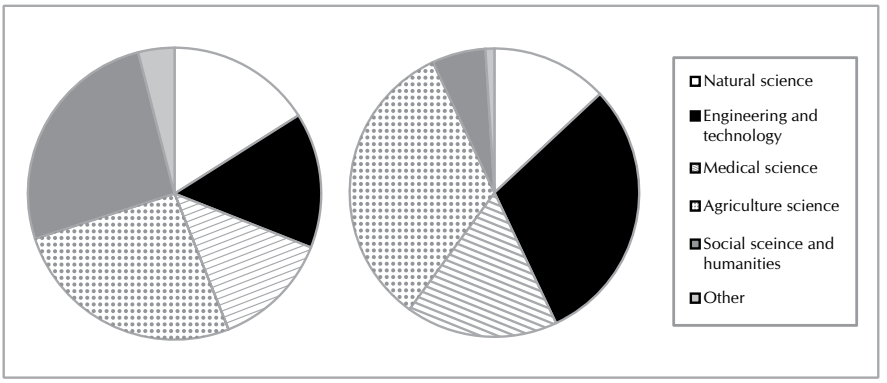
Source: National Science Foundation, *R&D Survey 2008*.

Figure 7.3
R&D Expenditure by Nature of Research Activities



Source: National Science Foundation, *R&D Survey 2008*.

Figure 7.4
Gross Expenditure on R&D by Discipline

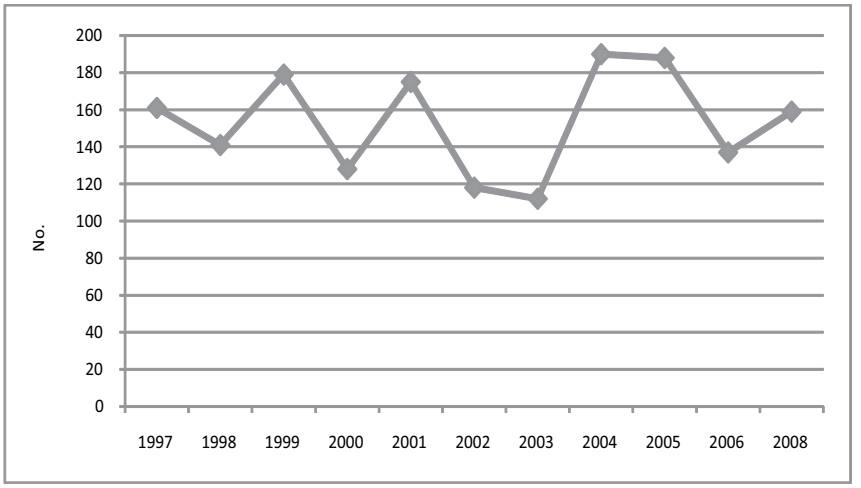


Source: National Science Foundation, *R&D Survey 2008*.

Although the total allocation for R&D has risen over time, the composition by sector shows an interesting trend. The share by higher education and the state sectors have declined over time whereas the reverse has been recorded for the share of the private sector. Out of the total expenditure, the shares for applied research and basic research seem to have moved in opposite directions. The share of allocation for basic research has risen from around 10 per cent to 30 per cent between 2004 and 2008, while that for applied research has fallen from nearly 90 per cent to 70 per cent.

The composition of investment by discipline over the years shows a notable trend. The shares of investment in the fields of natural science and social science have declined, where the latter has marked a significant fall from around 26 per cent to 6 per cent between 2004 and 2008. The remaining three

Figure 7.5
Number of Patents Registered in Sri Lanka (1997-2008)



Source: National Science Foundation, *R&D Survey 2008*.

fields have improved, where the share of expenditure in engineering and technology has doubled.

Meanwhile, the expenditure on R&D by the private sector, out of total R&D expenditure, is low. As Figure 7.2 demonstrates, unlike in most developed countries where much of the R&D expenditure is by the private sector (over 65 per cent in most cases), in Sri Lanka it is a mere 18 per cent. The bulk of R&D expenditure in Sri Lanka is by the state sector (57 per cent). This has strong implications on the rate of commercialization of S&T research.

Performance on Innovation Outputs

The registration of patents in the country has fluctuated over time, resulting in the figures from 1997 and 2008 to be nearly the same. During the 11 years considered, the highest number of patents has been recorded at 190 in 2004, while the lowest has been 112 in 2003.

A significant feature of the trend is that before 2002, the majority of patents have been registered by non-resident scientists, while the pattern has reversed since then. This could be an indication of improved conditions within the country for scientists to carry out research, but more analysis is required before drawing any conclusions.

Dissemination of research carried out by Sri Lankan scientists through publishing in journals has been gradually improving, including the numbers of publications per scientist which has improved marginally over time.

A country's high-tech exports are another significant output measure of the ability to innovate and commercialize their findings effectively. In Sri Lanka, the value of high-tech exports have fluctuated over the years, where it increased from 2002 but drastically declined after 2008, recording over a two-fold drop from US$ 102 million in 2008 to US$ 45 million in 2009, and yet managing to improve by 25 per cent in 2010 (Figure 7.6). The share of high-tech exports out of the total manufactured exports has followed the same trend, recording 2.2 per cent in 2001 and falling to 1 per cent by 2010. The highest high-tech exports in recent years were recorded in 2007 at US$ 108 million while the highest share has been recorded at 2.3 per cent in 2005. While Sri Lanka recorded an average 1.8 per cent of high-tech exports share each year in the last decade, South Korea recorded 75 per cent, Thailand 27 per cent, and Singapore and Malaysia over 50 per cent.[19]

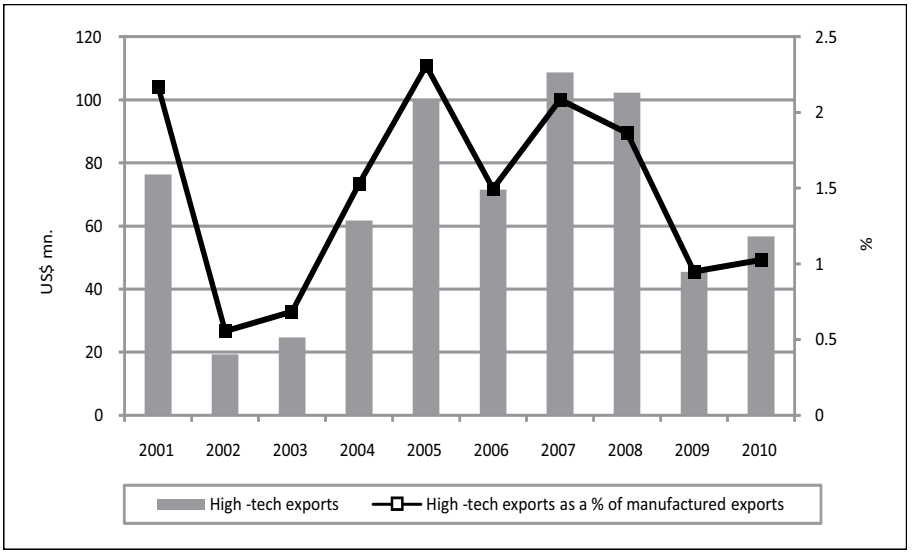
Table 7.1
Publication Trends in Science Citation Index (SCI) Journals by Sri Lankan Scientists

Year	No. of Publications
2004	231
2005	239
2006	233
2007	269
2008	303

Source: National Science Foundation, *R&D Survey 2008*.

[19] *Ministry of Technology and Research, Science, Technology and Innovation Strategy (2011-2015).*

Figure 7.6
Performance of High Technology Exports from Sri Lanka (2001-2010)



Note: High-tech products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery

Source: Online World Bank Database, http://data.worldbank.org/.

7.7.2 Moving from Research to Innovation: Industry Linkages, Financing, and Commercialization

As articulated earlier, innovation is distinct from research and does not automatically result from it. The nexus of industry-research collaborations, appropriate financing options, and support for commercialization are vital drivers to move research towards innovation.

Industry-research linkages

Unlike in most developed countries, many universities in developing countries like Sri Lanka have not established sufficiently strong linkages with industry. Such collaborative efforts have become quite pronounced in the developed world, providing benefits to both parties. Industry obtains access to university laboratories, talented research scientists, and a pool of potential recruits. In turn, universities receive industry's financial support, necessary to conduct their work and expand their resources, and they also get feedback from industry to adapt research to the needs of the economy.

The Five Year Strategy of the Ministry of Technology and Research observes that, "at present very few knowledge intensive companies and very little R&D that is required for innovation, is taking place in the private sector. On the other hand, most of the R&D undertaken by Sri Lankan scientists end up as mere publications in scientific journals, with very few research outputs yielding a commercial product or a process. As such, the contribution of R&D to the growth of our GDP at present is negligible." (p. 31)

Currently in Sri Lanka, very few examples of significant industry-research linkages exist. The most prominent one is SLINTEC, which is a first-of-its-kind initiative bringing together leading private sector firms together with leading Sri Lankan nanotechnology scientists. SLINTEC, established in 2008 as a private

company is a Rs. 420 million venture with the shareholding owned by the government (50 per cent) and five private sector founder promoters (50 per cent collectively). The government shares are held through its nominee, NSF, and the five private sector founder promoters are Brandix Lanka Ltd., Dialog Axiata PLC, Hayleys PLC, Loadstar (Pvt.) Ltd., and MAS Capital (Pvt) Ltd. In its first full year of operations alone, SLINTEC was able to secure five international patents on nanotechnology products, including carbon nanotubes, nano fertilizer and nano rubber. This is impressive when compared with Sri Lanka's historic average of 1.8 total international patents per year.[20]

More recently, a leading private enterprise Laugfs Holdings Limited, set up a joint venture with SLINTEC to set up the country's

Box 7.4
Ceramics Council Attempts Research-Industry Collaboration

During 'The Competitiveness Programme' funded by the USAID, the ceramics industry cluster (Ceramics Council) established the Center of Technical Excellence in Ceramics (CENTEC) through a partnership among Sri Lankan ceramic manufacturers, suppliers, the government and universities. CENTEC, opened in 2007, was aimed primarily to be a lab which will investigate ways in which the industry can cut costs, improve production efficiencies and enhance quality of ceramics products.

The Centre, modeled as a PPP, was funded by several ceramics industry firms through both cash contributions as well as donations of equipment. Additionally, the USAID funded a few pieces of expensive testing equipment. The Centre was set up as a limited liability company with a Board of Directors (comprising mostly of the heads of the ceramics industry firms), was housed as a small unit within the government Industrial Technology Institute (ITI) premises, and had links to the universities of Moratuwa and Peradeniya in Sri Lanka and Alfred University in the US.

Although initially hailed as a model for industry-research collaboration that other sectors could emulate, there does not appear to have been a significant contribution of the Centre to enhancing performance in the ceramic industry. However, this cannot be conclusively judged as no evaluation has been conducted. The critical constraint to its operations is the lack of a full-time manager. The Centre has found it difficult to attract and retain a dynamic manager due to the limited scope of the Centre's work. Moreover, the staff of the Centre (mostly ITI technicians on secondment) had not sought to actively engage with the industries, seek projects, offer testing services, etc., and rather waited for them to approach the Centre.

Although the performance has been lackluster so far, the ceramics companies had been satisfied with the few testing projects that had been undertaken by the Centre in the past. It appears that the ceramics industrialists recognize the importance of the establishment, and discussions are underway to restructure and revive it again. As part of the restructuring process, appointment of a second tier of directors is being mooted, which will comprise of the most senior technical officers of each firm. This aims to ensure that each firm takes a greater interest in the Centre, and engage it in research and testing.

Source: Interview with former President of Ceramics Council and current Board Director of the CENTEC, and Lanka Business Online (LBO), 'Lab Edge - Sri Lanka opens ceramics R&D lab *to enhance competitiveness', 5th April 2007 http://www.lankabusinessonline.com/fullstory.php?nid=1326052179 [accessed on June 13th 2012].*

[20] *Ministry of Technology and Research, Science, Technology and Innovation Strategy (2011-2015).*

first plant to produce titanium oxide from mineral sand. The new venture would allow value to be added to mineral sands, which have so far been exported from the country in raw bulk form. The setting up of the plant will allow production of titanium oxide from ilmanite, obtained from mineral sands extracted from Sri Lanka's Pulmoddai region. SLINTEC is also spurring international collaborations. Recently, a partnership was formed between SLINTEC and Nagarjuna Fertilizers and Chemicals Ltd. of India to develop nanotechnology-based plant nutrition solutions with an estimated investment of Rs. 800 million. SLINTEC is set to carry out research while Nagarjuna will develop the product.

Similar industry-research partnerships in areas aside from nanotechnology need to be cultivated, drawing encouragement from SLINTEC's successes. There are some limited examples of this, for example in the ceramics industry and in the mobile communications industry (see Boxes 7.4 and 7.5). Sri Lanka can learn from other country experiences as well. For example, Taiwan Province of China has used R&D consortia to foster cooperation between laboratories in the government-funded Industrial Technology Research Institute and local private enterprises. This joint effort has resulted in technology transfer and innovative processes and products.

Box 7.5
Telco Giant Dialog Axiata Partners with Moratuwa University for Research Lab

The first ever research lab for Telecommunication Technologies Research was opened at the Moratuwa University, which is acclaimed to be one of the best in Sri Lanka for engineering and telecommunication programmes. The first of its kind in Sri Lanka, the laboratory, which specializes in Applied Mobile Telecommunication Technologies Research, was set up as a part of Dialog's social investment towards uplifting and facilitating R&D and higher learning in Sri Lanka.

Applied research projects and product development initiatives that are beneficial to the industry, and are academically challenging are undertaken by the laboratory, whilst providing for technology transfer with similar research bodies. New ideas in wireless communication, which encompass the spheres of designing, prototyping, testing, and training are explored, with the objective of developing new products and services that will serve the purpose of taking Sri Lanka to the forefront of mobile technologies, thereby ensuring Sri Lanka's place in the challenging and evolving world of mobile technology.

Two creations of the laboratory – a remotely activated GSM alarm device and a learning management system – are being used in two Dialog-supported national initiatives, namely the Disaster and Emergency Warning Network (DEWN) and the Digital Bridge, respectively.

"The Dialog-University of Moratuwa Mobile Communications Research laboratory is a realization of the University's dream to actively interact with the private sector for mutual benefit, through the development of relevant and innovative technologies" - Prof. Dileeka Dias, Director, Dialog-University of Moratuwa Lab

Source: Dialog Axiata website, available at http://www.dialog.lk/about/responsibility/outreach-cr/research-lab/.

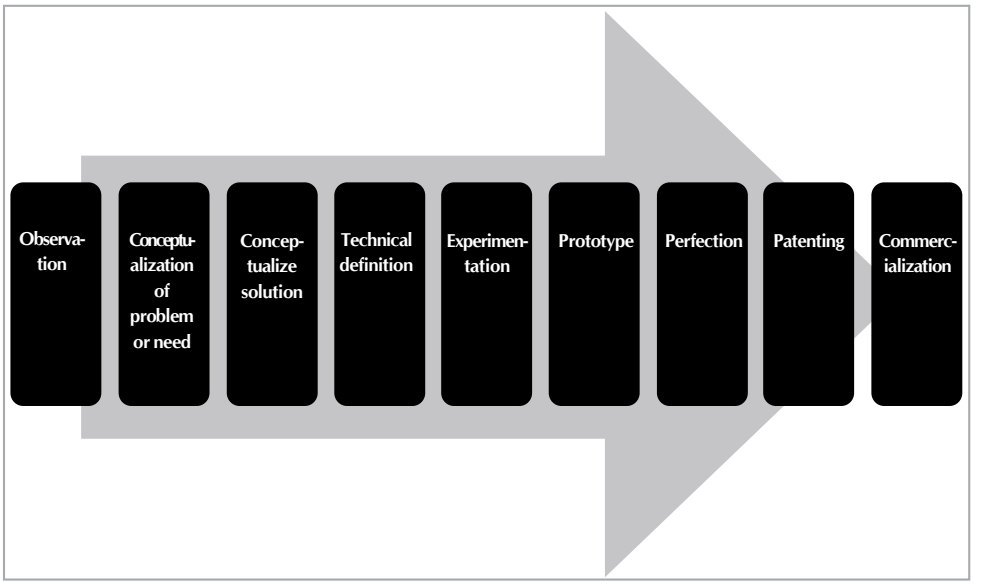
Commercialization

Commercialization is the final stage of a process of innovation where a product has come from a R&D stage to a market-ready product (Figure 7.7). This is the most challenging part of technology-based innovation. Support for commercialization (in terms of product development, patent applications, and finance for business spin-offs), which is essentially the pinnacle of an innovative process, is lacking in Sri Lanka.

According to the Sri Lanka Inventors Commission (SLIC), several inventors in the country have been able to commercialize their inventions, noting that at present there are 14 commercialized inventors in the category of Rs. 1 million capital or less, six with Rs. 1-5 million, two between Rs. 5-10 million, and five with a capital of over Rs. 10 million.[21] In Sri Lanka, independent inventors have limited options to build and refine prototypes in preparing for commercialization. University facilities are already resource-constrained and may not be able to offer free or concessionary-rate services to build prototypes, while private firms are unlikely to provide these services unless the technology can be ex-ante acquired from the inventor and owned.

A recent example of efforts to support commercialization through 'techno-entrepreneurship' by the government is the unique 'Technology Marketplace' hosted by the Ministry of Technology and Research held in late 2011. The initiative, hailed as a success for a first-time event, brought together all of the government research institutions together with interested private sector parties, to see if productive partnerships to commercialize research can be forged.[22]

Figure 7.7
The Process of Innovation



Source: Sri Lanka Inventors Commission Strategic Plan (2012-2014).

[21] http://www.sundaytimes.lk/120415/BusinessTimes/bt018.html.

[22] 'Technology Marketplace Hailed as Great Success', *Daily FT*, available at http://www.ft.lk/2011/10/26/ %E2%80%98technology-marketplace%E2%80%99-hailed-as-a-great-success/.

Financing

Financing innovations is a key challenge in Sri Lanka. The challenge is particularly true for SMEs in the country. In an environment where general access to finance for SMEs are a severe constraint,[23] finding finance for innovations maybe tricky, as banks are already risk-averse when it comes to SME lending. While some efforts are being made to address this, for example by the SLIC (in allocating funds to support patent applications and inventions labs for prototype building) as well as the NSF (particularly in funding start-ups), this needs scaling up and made accessible to more individuals and institutions.

Venture Capital (VC) is an important financing source for tech start-ups globally, and was a critical success factor in creating the booming IT industry in 'Silicon Valley,' California. Previous attempts at VC showed mixed results, with some trailblazing firms emerging as a result of it, but also a sudden decline in VC-led activity (see Box 7.7). Currently, VC activity in Sri Lanka is very tempered and the government would need to revisit the past experience and see how best to stimulate the VC industry in Sri Lanka once more, with a particular focus on aiding innovation.

Box 7.6
National Science Foundation Launches Grant Scheme Supporting Tech Start-ups

The National Science Foundation (NSF) has recently called for applications for a new technology grant scheme called "Support for Start-up Businesses Based on Novel Technologies." It states as its rationale, "having considered the fact that many research and experimental development projects are confined to laboratories without progressing into commercial applications and also with a view to develop an entrepreneurial culture among researchers/scientists/engineers in the research institutes and universities..." The scheme aims to provide an opportunity for start-up companies or spin-offs using university/institute-based new technologies. This grant programme rightly identifies that entrepreneurs often find it difficult to obtain necessary seed funding in financial markets given the financial risks involved in establishing technology-based start-up companies or corporate spin-offs stemming from novel technology research and development.

The objectives stated by the NSF for this grant scheme are:

- Convert university and research institute research outputs into marketable products/ services
- Encourage scientists, researchers, and engineers to become successful entrepreneurs
- Encourage establishment of new technology-based firms by state and non-state organizations and individuals
- Promote technology transfer and commercialization of new technologies

Source: www.nsf.lk

[23] 'Wijesinha, A. (2010), "Post-Conflict Sri Lanka's Enterprises Struggle to Grow", 'In Asia', The Asia Foundation Blog available at http://asiafoundation.org/in-asia/2010/10/13/post-conflict-sri-lankas-enterprises-struggle-to-grow/.

Box 7.7
Previous Efforts at Venture Capital in Sri Lanka and the Banker's Trap

The VC industry in Sri Lanka emerged in the early 1990s, resulting from a government decision to provide fiscal incentives for VC funds (tax deductability for investment in approved VC funds and a 10-year tax holiday for VC profits). Prior to 1990, no VC firms existed in Sri Lanka. However, by 1992 there were seven.

The two development banks at that time, National Development Bank (NDB) and Development Finance Corporation of Celyon (DFCC), one state bank - People's Bank, one private bank – Commercial Bank, two investment banks – DCIC and Asia Capital, and one finance company jointly with another private bank – Central Finance/Hatton National Bank (HNB) floated VC subsidiaries, launching seven VC funds. By the end of 1992, all seven funds were qualified and in the years 1993-1996 they made 76 investments, an average of just over three investments per year, per fund. The average in 1997-1999 dropped dramatically to less than one investment per year per fund. This drop reflects that the funds had invested much of their capital by 1997. The per-investment average (for the decade) was about Rs. 10 million.

The total funds base of all seven VC companies was around Rs. 1.5 billion. All seven VC companies collectively invested Rs. 1 billion in 101 projects during the 9 years from 1991 to 1999. A study funded by USAID revealed that the performance of only 1 out of the 101 investments truly qualified as a 'successful VC investment' in terms of a return equal to a significant multiple of the value of the original investment.

The successful VC investment was Millennium Information Technologies (MIT). The VC fund PVIC was the only company to invest in MIT when it first bid for the computerization contract at the Colombo Stock Exchange and required expansion. PVIC invested Rs. 7.5 million in 1996. In 1999, PVIC sold its stake to a foreign fund for Rs. 43 million, a 573 per cent return on investment. Subsequently, MIT sold out to the London Stock Exchange for US$ 30 million.

The defining feature of all these VC companies, as clear from the list of VCs given above, was that they were all subsidiaries of banks. The Boards of Directors of these companies were filled largely by veteran bankers. Moreover, even much of the senior management positions of the VC funds were taken up by bankers seconded from the parent companies. An important feature of banking is 'downside protection.'- Bankers are, by training, keen to minimize the overall risk of an investment portfolio by diversifying across the different variables such as the sector, stage of growth, and size of investment. This was in line with the standard investment theory of hedging against the downside risks of an investment portfolio by investing in assets whose movements are negatively correlated with each other.

Essentially, the funds were managed by bankers with a 'banker's mindset' rather than by venture capitalists with a 'venture capital/risk capital mindset.' In deciding on the investments, they chose 'moderate risk, moderate return' projects, with a heavy focus on 'downside protection' as highlighted earlier. As the VC companies rarely had industry experts, enterprise experts, and those with strategic business development expertise, these funds did not really pick 'winning firms,' i.e., firms with high intellectual capital and extremely strong upside potential if the right guidance and hand-holding was provided. Furthermore, as the VC companies employed predominantly bankers, the firms that received the investments received little or no management, operational, and strategic input from the VC Company. By the early 2000s, many of the companies invested in by the VC funds had either returned only modest returns, or had underperformed completely; and consequently, many of these VC funds themselves failed.

Source: Wijesinha, A. (2011), 'Introducing Venture Capital for Traditional and Small Enterprises in Sri Lanka', Briefing Paper, Policy Strategy Committee, Ministry of Traditional Industries and Small Enterprise Development, April 2011.

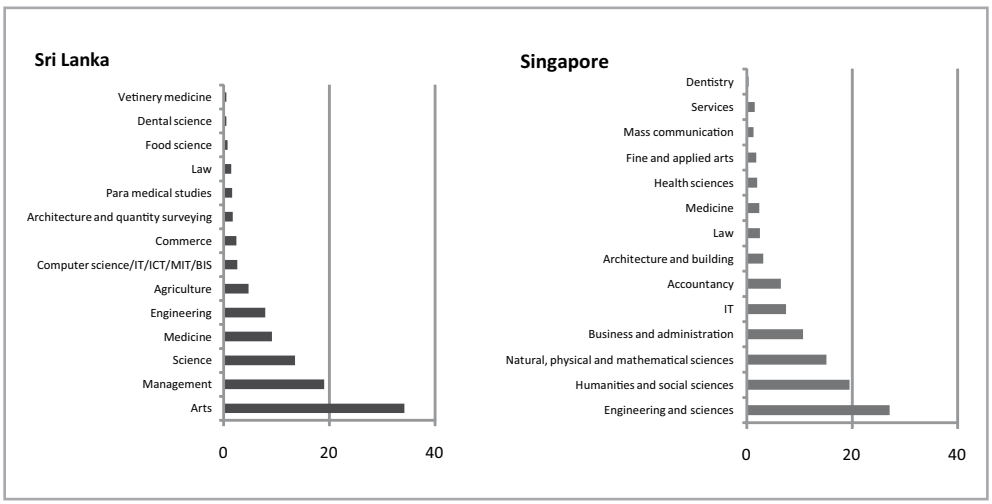
7.7.3 Talent Pool for Innovation: Investing in S&T Education

Limited Supply of Relevant Talent Pool

Building a qualified pool of individuals geared towards S&T and R&D will be critical to Sri Lanka's innovation ambitions. Education -- especially science education at all levels -- is important not only for increasing general science and technology literacy, but also to build up a critical mass of scientists, researchers and engineers. While these are indicated as priorities for Sri Lanka under the 'knowledge-hub' initiative, several supply-side bottlenecks need to be overcome. Although in the higher education section of 'Sri Lanka: Emerging Wonder of Asia' document, it states that, "...higher education policy will focus on "fostering a culture of research and innovation...," it is clear that this will be a major challenge by virtue of the fact that very few students are engaged in science and engineering courses at Sri Lankan universities.[24] Compared to a distinct knowledge-led economy like Singapore, where the majority enrolment is in engineering sciences with nearly 30 per cent, in Sri Lanka the majority enrolment is in Arts, with over 30 percent (Figure 7.8).

Yet, this cannot be only attributed to A/L students preferring arts and humanities streams over science and engineering. It is, more critically, a reflection of the limited number of schools that offer science stream classes at A/Ls, thus constraining those interested from undertaking it. Only 10 per cent of all secondary schools in the country have a science stream at the A/L (Grades 12-13). This naturally restricts the number of students who are able to gain admission to science and engineering programmes in university. Moreover, there are significant spatial disparities as well. Even schools that do offer science education are not rationally located, with the majority located in the Western Province. The School Census (2008) of the Department of Census and Statistics reveals that there was one school with A/L science

Figure 7.8
Tertiary Education Enrolment by Subject Area - Sri Lanka vs Singapore



Source: Arunatilake, N., (2011), "Making Everyone Work for Growth: Creating a Winning Workforce", presentation at IPS Annual National Conference, October 2011.

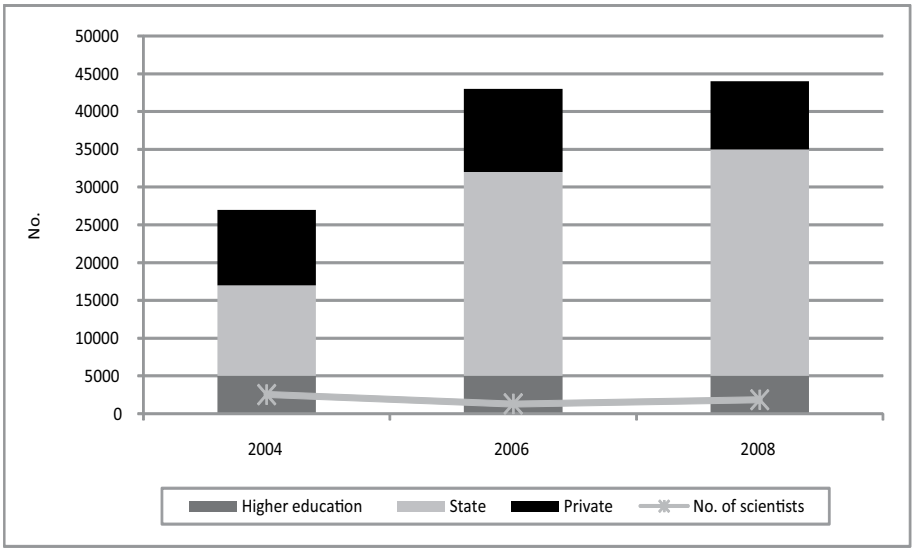
[24] This is, of course, aside from the broader challenge of expanding tertiary education in Sri Lanka, where at present, of more than 100,000 deserving students with the necessary A/L qualification, only around 15 per cent gain entrance into university (IPS, *Sri Lanka: State of the Economy 2011*).

stream for every 400 km^2 in Mullaitivu and Vavuniya, and for every 200 km^2 in Mannar; while there was one for every 10 km^2 in Colombo, 25 km^2 in Gampaha and 45 km^2 in Kandy. It also revealed that 80 per cent of schools in Killinochchi did not have science labs, while only 11 per cent of schools in Colombo and 10 per cent of schools in Gampaha suffered the same problem. These issues become especially pertinent in Sri Lanka's post-conflict context where inclusive growth and equity in economic opportunities need to be central concerns.

At the qualified-professional end of the spectrum too, Sri Lanka fairs poorly but has been showing improvement. Sri Lanka records only 237 researchers per million people, well below the developing country average of 374.[25] However, the total number of S&T personnel has increased from around 27,000 in 2004 to around 44,000 in 2008, recording a 60 per cent increase (see Figure 7.9). This stems mainly from the expansion in the state sector, recording over two-fold increase, with the higher education and private sectors expanding only marginally. However, the number of scientists has marked a declining trend over time, where the number between 2004 and 2008 recorded a significant fall of around 700. Scientists in the state and private sectors have improved in numbers, while those in the higher education sector have dropped considerably. Comparison of 2006 and 2008 status, nevertheless, indicates that all three sectors are improving in terms of the strength of scientists.

Sri Lanka produced just 2.5 PhDs per year on average during 1991-2000 in 7 universities (Colombo - 5 per year and Peradeniya - 6 per year).[26] Meanwhile, qualification levels of

Figure 7.9
Science and Technology Personnel by Sector (1966 - 2008)



Note: S&T personnel include all scientists, technicians and supporting staff involved in S&T research, service and management activities.

Source: National Science Foundation, *R&D Survey 2008*.

[25] World Bank (2008), 'Building Sri Lanka's Knowledge Economy'.

[26] Gamage, S. (2008), "Sri Lanka's Innovation System According to the 2008 Building the Knowledge Economy Document of the World Bank: A Critique', presentation at LirneAsia, March 25, 2008.

university faculties remain poor, with 23 per cent of humanities and social science teachers having only a Bachelors degree and 33 per cent having a Masters degree from the same university.

Addressing Not Only Supply but also Demand

The improvement of higher education will not be fully effective at stimulating innovation unless it is also accompanied by an expansion of opportunities for graduates to apply their skills and talents. With a significant amount of R&D activity occurring in the private sector, business enterprise serves as a primary source of demand for S&T specialists. By providing employment opportunities and career paths for scientists and technologists, enterprises encourage students to enroll in scientific and technological fields. As more students graduate with relevant skills and motivation, this growing pool of human capital will, in turn, attract more enterprises to the region, thus creating a virtuous, self-reinforcing circle of technological capacity development and R&D activity. Governments could review whether firms, particularly SMEs, face negative or positive incentives when hiring university graduates. Possible positive incentives could include tax breaks or financial aid, to support internships or offset the initial cost of hiring and training new employees. Enterprises could also be encouraged to employ students as interns or part-time researchers, laying the foundation for later employment.

7.7.4 Incentives for Innovation

Incentives for innovation in Sri Lanka are mainly in the form of tax concessions and tax breaks for R&D, and this too particularly through the most recent 2012 Budget proposals announced in November 2011. The tax incentives announced were:

- Reduction of income tax on research income from 24 per cent to 16 per cent.
- Reduction in personal income tax of all those engaged in research and technology from 24 per cent to 16 per cent.
- Reduction in income tax on all institutions engaged in research and technology to 20 per cent and such institutions are exempt from VAT.
- Triple deduction in relation to R&D expenditure undertaken by enterprises through government institutions, to promote private institutions to use government research facilities.
- Government institutions to extend research facilities to SMEs at a nominal fee.
- Allocation of 50 per cent of research related income earned by government institutions carrying out research for the private sector, to be shared among such researchers as a promotional allowance.
- Allocating Rs. 300 million to the National Research Council to encourage special research that would facilitate economic development.

These measures have been commended by private sector groups.[27] However, interviews with leading industrialists revealed that several key challenges may constrain the aforementioned incentives: (i) the small number of suitable government research institutions capable of catering to industry needs (the ITI was the only one mentioned by those interviewed); and (ii) limited capacity in, and low-industry orientation of, government research facilities. However, this is a vicious cycle and needs to be broken. Government research institutions cannot develop greater industry-orientation without kick-starting this process. Meanwhile, Sri Lanka's private sector needs to be given confidence in the abili-

[27] "National Chamber Commends the 2012 Budget Proposals", *The Island*, November 22, 2011 http://www.island.lk /index.php?page_cat = article-details& page = article-details&code_title = 39577 [accessed on 1 May 2012].

ties of government research institutions, and for this their financial and human resource capacities need to be expanded.

Budget 2011 too had announced the granting of a research allowance to university staff and researchers to incentivize them to conduct more research. However, the scheme has only been in place for less than a year, and it is unclear as to the impact this incentive has had in terms of spurring more research among university academics. Moreover, the budget proposal did not specify which areas of research this would be applicable to, and it is likely that it is not a focused measure meant just for S&T research. Additionally, the element of innovation has not come in, where commercializing research is incentivized through this allowance.

7.8 Importance of International Openness and International Cooperation for Innovation

Much of the literature on innovation points to the importance of 'international openness' as an important element in spurring innovation. The literature emphasizes that domes-

Box 7.8
Staying Linked with Innovation Leaders - US, Germany, China and India

As Sri Lanka's innovation capacity is at a nascent stage, it will be important to develop linkages with the technology and innovation leaders of the global economy. In the midst of the antagonism stemming from the issues surrounding the end to the armed conflict, Sri Lanka must find a strategic balance with the West, particularly with innovation leaders like the US. Despite its current economic troubles, the strength of the US economy lies in its capacity to invent and innovate. These inventions are converted into commercial or military products at a rate much faster than in other countries. Many social factors and flexibility in economic policies contribute to this innovative dynamism. America's gross domestic expenditure on R&D is the second highest in the world (next to Japan) and has consistently been higher than the OECD and EU average. It accounts for a significant 43 per cent of all pharmaceutical patents, half of all medical patents and almost 20 per cent of all environmental patents. In addition, it publishes nearly 280,000 scientific articles each year, the highest in the world.

Meanwhile, Europe has its own leaders, especially Germany. Products with the insignia 'Made in Germany' still command an unrivaled global position, renowned for their high quality and cutting-edge technology. In 2008, Germany spent around 2.6 per cent of its GDP on R&D, well above the EU average of 1.9 per cent. In 2009, firms based in Germany registered the third highest number of patents in the world. In an analysis of the world's leading innovation hubs, five German cities featured in the top 15 – Frankfurt, Hamburg, Berlin, Stuttgart, and Munich. The country boasts over 750 publicly-funded research institutions, the highest in Europe. Yet, it is the German private sector that leads the way in R&D. Of the 62 billion Euros spent on R&D in 2009, more than two-thirds were by the private sector. Germany's leadership in innovation and its sustained focus on developing a highly skilled workforce is what will help it adapt its economy well to the changing tides.

Closer to home, the Asian innovation leaders are China and India, but China is the clear frontrunner. While the economic relationships between Sri Lanka and China appear strong at the moment, much of the partnerships are related to infrastructure (ports, airports, railways, and roads). Sri Lanka can capitalize on the friendly economic ties on another, possibly equally important front, technology and knowledge transfer for innovation. China has 708 researchers per million people compared to 119 in India. By 2009, China had over 16,000 PhDs in science and engineering, while India had around 6,400. In 2007, the Chinese filed 245,000 patents compared to 35,000 in India. China is set to overtake Japan as the second largest spender on R&D after the US in the next two years.

Source: Wijesinha, A., 'Sri Lanka in a Changing Global Economic Landscape', Public Lecture at the American Centre, 22 September 2011, Colombo.

tic innovation cannot be achieved without greater openness to international trade and investment and greater access to international markets.[28] Technology transfer through heightened trade and investment linkages is a key way in which the level of domestic innovation gets upgraded. Sri Lanka has not moved fast enough on international trade and investment treaties. It is yet to agree on a CEPA with India, and no ambitious treaties with other nations are in the pipeline. Sri Lanka needs to consider moving more aggressively on technology partnership agreements at least like that between India and the US, for example, in its thrust to become a knowledge hub (see Box see 7.9). For this, looking both East as well as West will be necessary (Box 7.8).

7.9 Reversing 'Brain Drain' and Leveraging the Diaspora to Strengthen Innovative Capacity

'Brain drain' was first used to describe the outflow of scientists and technologists to the US and Canada in the 1950s and early 1960s. Now it is used more generally to imply the outflow of technologically, professionally and academically qualified persons towards developed countries and to other fast-developing countries. As such, 'brain drains' between home and host nations are perhaps the most widely recognized demography of scientific and technical human capital diffusion trends.

The problem of scarcity of human capital for innovation is exacerbated in many developing countries by serious problems of 'brain drain.' By some estimates, up to one-third of R&D professionals from the developing world reside and work in OECD countries.[29] With decades of conflict, security and political uncertainty, and the resultant laggard economic growth, Sri Lanka has faced significant 'brain drain' over the past couple of decades. Consequently, academic and research institutions in the country have not sufficiently expanded to absorb graduates in S&T, and sufficient employment opportunities in commercial sectors have been slow to emerge. The conditions of work are less attractive in Sri Lanka than in developed countries, where professional opportunities are more enticing, funding is more forthcoming, and there is a consequent lack of a critical mass of researchers required to create active research communities.

Box 7.9
India Partners with US for R&D Center

The agreement to initiate a Joint Clean Energy R&D Center in India was one major outcomes of US President Barack Obama's visit to India in 2010. India and the US pledged to make an effort to promote clean energies through the initiation of this Joint Clean Energy R&D Center. The Joint R&D Center will focus mainly on solar energy, energy efficiency, bio-fuels, clean coal technology and an integrated gasification combined cycle project that turns coal into synthesis gas. Apart from its contribution to sustainable economic development, the joint venture is also projected to contribute to the Indian economy by creating a number of new jobs in India.

Source: http://www.ens-newswire.com/ens/nov2010/2010-11-08-02.html.

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[28] UNCTAD (2011), "Key Aspects of Entrepreneurship and Innovation Policy Framework for Enhancing Local Productive Capacities", UNCTAD.

[29] *Ibid*.

[30] Anas, M.U.M. and Wickremasinghe, S., (2010), "Brain Drain of Scientific Community from Developing Countries: The Case of Sri Lanka", *Science & Public Policy Journal*, 38(5):381-388.

A study using a database of 220 expatriate scientists and technologists, available in the expatriate scientists' database of the Science and Technology Management Information System of the NSF, reveal that the most commonly cited reason by expatriate scientists for leaving Sri Lanka was to gain further qualifications and/or develop skills (71.3 per cent), followed by better career advancement opportunities (59.4 per cent agreed).[30] The study further reveals that expatriate scientists were also concerned about issues such as lack of intellectual leadership, suitable role models, recognition and incentive schemes, and excessive bureaucracy. However, on the question of returning to Sri Lanka, the study was equally revealing. An overwhelming majority (96 per cent) of the scientific community surveyed noted that, if their needs are adequately met they would be willing to return to Sri Lanka. Of them, nearly a half would prefer to work permanently in Sri Lanka. Better working environment or working conditions, as well as adequate salaries and benefits were the main needs they would consider for returning. The study quotes a qualitative interview with a senior manager of a well-established private company who observes "that many private sector industries in Sri Lanka have overlooked the issue of creating job opportunities for science graduates and there is a very weak university-industry institute partnership. Since we offer better salaries to them than the government sector, making use of them towards a knowledge-based economy should help reduce the brain drain of the country."

While providing a dynamic environment for graduates to engage in innovative activities and thereby stem the brain drain, it is also important to encourage expatriate scientists to return to their native country. Returning expatriates bring with them much-needed tacit knowledge about new scientific methods, equipment and promising areas of enquiry, as well as collaborative networks that they have built which can help in national innovation efforts in their country of origin.

Several countries have useful schemes aimed at this. For example, India's Council for Scientific and Industrial Research provides temporary employment to highly qualified Indian scientists and technologists returning from aboard as a means of eliminating the uncertainty and economic problems faced by potential returnees from abroad.[31] Establishment of 'science parks' could also be useful to provide a dynamic environment for expatriate scientists to return for regular periods and conduct collaborative research with local partners, and teach or undertake specific projects at 'home.' Such science parks are currently established in India, China, Korea, and Thailand, among other countries. The 'Sri Lanka Emerging Wonder of Asia' document states that such projects will be initiated in Sri Lanka too, noting that "two science parks will be established in the Southern and North-Western Provinces with a view to facilitating high-tech industries to operate in a dynamic environment that enables them to nurture ideas, innovate and develop. These science parks will contain fully equipped laboratories and office spaces, innovation centres to bridge designers and industries and convenient amenities for both local and overseas companies alike." (p.122)

7.10 Way Forward for Sri Lanka

With technological transformations continuing at a rapid pace, and the emergence of a globalized market place, all countries are under pressure to become more innovative. For Sri Lanka too, adopting existing technolo-

[31] Krishna, V.V. and B. Khadria (1997), 'Phasing Scientific Migration in the Context of Brain Gain and Brain Drain in India', *Science, Technology & Society*, Vol. 2, No. 2.

gies and best practices, while gradually developing new ones, is the quickest way for its products to move up the value chain and for its economy as a whole to move up the development ladder. If Sri Lanka is truly aspiring to be a knowledge-hub, it needs to take the creation of an innovation culture and an innovation system more seriously. Fostering a forward-looking innovation system that supports knowledge-interaction among various parties and commercialization is critical. In Sri Lanka, the general underdevelopment of the individual components of the innovation system, as well as the nexus between them, is a symptom of the low priority given to S&T and R&D investment over the past several years. This may be largely attributed to the distraction of the country's long conflict. In post-conflict Sri Lanka, reversing this will be a key determinant of the country's competitiveness in the coming decades.

This Chapter stresses weaknesses on several fronts, which highlight the need for holistic policy action. Greater investment in R&D is a must, but prioritizing the fields to which the funding needs to be directed should be carefully planned. The R&D undertaken, without limiting to publications, should be taken forward to research outputs with a commercial value so that there will be a contribution to the growth of national production. Instead of the present context where the bulk of R&D expenditure is by the state, creation of an enabling environment for greater private sector involvement is essential to better commercialize S&T research. In moving from research to innovation, improving industry-research association is key in order to adapt research to the needs of the economy. Focus on generating means to finance innovation, scaling it up as well as making it accessible to more people/institutions. Expanding and deepening the talent pool is another area calling for urgent attention. Creation of more space in the science stream in the education sector is essential. in addition, attracting enterprises, both local and foreign, that will demand the knowledge and skills of scientists also needs to be addressed. Although Sri Lanka is in an advance position in terms of incentivizing innovation by way of tax concessions, to ensure full utilization of these, upgrading the research capacity of state institutes will have to be seriously looked into, particularly in areas such as industrial research, which have a direct contribution towards GDP growth.

A key point made in this Chapter is that innovation goes beyond just research. Innovations come from the entrepreneurs who make them happen and ultimately depend on a society's responsiveness and ability to transform research into something that adds value to people's lives, as well as, to the economy. Encouraging these entrepreneurs with appropriate policy support for 'techno-entrepreneurship' is important, for example, by setting a conducive business environment, providing better access to capital through VC, incentivizing commercialization of inventions, etc.

For a successful innovation policy to kick-in, it will need firm political backing to give credibility to the vision, and facilitate the adoption of key measures for removing bureaucratic hurdles. It is also important to have efficient mechanisms that facilitate cross-departmental cooperation, as by its very nature, innovation policy concerns parts of government that usually work independently. Therefore, this Chapter calls for a powerful National Innovation Council chaired by the President or Prime Minister which can drive the innovation policy agenda at a national, strategic level.Sri Lanka could consider incorporating the term 'innovation' in the official name of the relevant ministry mandated to overlook this area, as it would further demonstrate the government's commitment to the concept and its recognition of its importance.

Several countries already have this. For example, the Ministry of Economic Development and Innovation in Canada, the Ministry of Economy, Innovation and Development in Portugal, the Ministry of Science, Technology and Innovation in Malaysia, the Ministry of Science, Technology and Innovation in Denmark, the Ministry for Innovation and Technology in Austria, the Ministry of Economic Affairs, Agriculture and Innovation in the Netherlands, the Ministry of Science and Innovation in New Zealand, and the Ministry for Innovation, Science, Research and Technology in the state of North Rhine-Westphalia, Germany.

Meanwhile, rewarding and recognizing innovations is also important. In an environment where there are numerous award schemes in Sri Lanka, a Presidential National Innovation Awards scheme introduced to promote and recognize successful innovations, particularly those that have resulted from industry-research collaborations, will be of immense value. This should go beyond the currently operational Presidential Awards for Inventors, that takes a much narrower focus.

While much of the literature on the importance of innovation to economic development focuses almost exclusively on its impact on building more productive and competitive firms and products, Sri Lanka needs to look at the innovation imperative more holistically -- on how it matters to society as a whole. Innovations would be important not just for firm-level progress, but also social development. Innovations can lead to better ways of delivering public health care, safer and more efficient public transport, better disaster warning systems, etc.

In summary, Sri Lanka needs to take a holistic approach to innovation if it is to succeed in building a competitive economy capable of growing at a sustained, fast rate. Sri Lanka's competitor countries are moving forward at a rapid pace in this regard. Making innovation policy a key priority in the coming decades will determine how the country places itself in a rapidly changing global economic environment, delivering high growth and increased prosperity for its people.

8. Reinforcing Growth with Better Institutions

8.1 Introduction

Achieving and sustaining a high level of inclusive socio-economic growth is a core policy priority in Sri Lanka, particularly in its post-conflict phase of development. The most crucial foundation that underpins all facets of socio-economic growth is the nature and quality of a country's institutional framework. Whilst the role of institutions in stimulating and sustaining growth is summarily referred to in Sri Lanka's domestic policy discourse, the primacy of the institutional framework has not received due attention in the policy process. Moreover, there are significant gaps in knowledge on the contours and dynamics of institutions as they relate to the Sri Lankan policy space. This Chapter addresses crucial questions including, what are institutions; how are institutions situated in the policy process; what is the link between institutions and socio-economic growth; which institutions matter and why; and, how do you build high quality institutions that are sustainable over time.

> ***"Political commitment and the nature of the political leadership are central to the building of high quality institutions; institutions that foster sustainable socio-economic growth"***

Mapping out and unpacking complex phenomena such as a country's institutional framework is not a linear exercise, given the web of interdisciplinary threads that underpin it. As such, this Chapter will specifically focus on four key policy areas that are crucial for Sri Lanka to stay on the growth trajectory and discuss the underlying institutional framework that needs to be in place for development to be sustainable. The four areas that will be analyzed in detail are: state capacity and taxation; the role of land titles in enhancing agricultural sector productivity; public and private investment in physical infrastructure development; and, building institutions to enhance industrial sector productivity through the development of SMEs. It is argued that unpacking the institutional underpinnings of each of these four areas will help understand the nature and contours of

institutions required to get to a sustainable level of growth in these specific policy subsectors, whilst also bridging at least some component of the existing knowledge gap on institutions as they relate to the policy process in Sri Lanka.

The next section of this Chapter provides a conceptual framework for the analysis of institutions and growth. This section sets out the analytical basis for the exploration of the four specific policy areas in the Sri Lankan context in Section 5.3. Policy conclusions and the way forward are discussed in Section 8.4.

8.2 Institutions and Socio-economic Growth: A Conceptual Framework

Understanding the role of institutions in socio-economic growth is now recognized by development thinkers and practitioners as being crucial in shaping the policy process and outcomes. The centrality of institutions in the development process is evidenced by the vast and growing literature on this subject. The complexity of the subject is seen in the web of multidisciplinary threads that are woven together to define, explain and operationalize institutions and their interactions in the broader socio-economic growth process. However, whether it is the 'old institutional economics' strand of thinking propagated by scholars such as John Commons and Thomas Veblen, 'new institutional economics' associated with works by Douglass North and Oliver Williamson, or 'institutionalist political economy' as coined by authors such as Ha-Joon Chang, the debate is no longer whether institutions matter or not in the policy process.

As demonstrated by the awarding of the Nobel Prize in Economics to numerous scholars in new institutional economics over the years -- Ronald Coarse (1991), Douglass North and Robert Fogel (1993), and Elinor Ostrom and Oliver Williamson (2009) -- institutions are firmly ensconced in any meaningful discourse on development. The relevant questions for policy makers are how to define institutions and their dynamics in the policy process,[1] how to determine which institutions matter to stimulate and sustain socio-economic growth, and how to acquire and embed high quality institutions that promote sustainable development.

8.2.1 Conceptualizing Institutions and Institutional Dynamics in the Policy Process

Institutions as discussed in this Chapter follow the definition adopted by North (2005),[2] which emphasises and distinguishes between the role of both individuals and organizations as well as both formal and informal institutions in the policy process:

> 'Institutions are the rules of the game - both formal rules, informal norms and their enforcement characteristics. Together they define the way the game is played. Organizations are the players. They are made up of groups of individuals held together by some common objective.' (p.22)

A schematic depiction of North's conceptual framework is illustrated in Figure 8.1. This framework provides a useful template to understand the dynamics of institutions in the policy process. For instance, entities such as the state and the market are con-

[1] See Chang, Ha-Joon (ed.), (2007), *Institutional Change and Development*, United Nations University Press, New York; Rodrik, D., (2007), *One Economics Many Recipes: Globalization, Institutions and Economic Growth*, Princeton University Press; Shirley, M., (2008), *Institutions and Development*, Edward Elgar, U.K.

[2] North, D., (2005), "Institutions and the Performance of Economies over Time," in C. Menard and M. Shirley (eds.), *Handbook of New Institutional Economics*, Springer, Netherlands.

ceived as organizations that continuously interact with both formal institutions such as the Constitution, laws and property rights structures of a country, and informal institutions such as the level of trust, power and corruption - what scholars refer to as 'social cohesion.'[3]

What is important to note is that more often than not, social cohesion or the nature of informal institutions are key determinants of the efficacy of a country's institutional framework as a whole. A noteworthy feature in post-conflict societies for example, is that whilst formal institutions such as the legal framework maybe solid, informal institutions or factors of social cohesion, such as trust, may well be eroded and power relationships maybe inimical to sustainable growth -- further emphasising the fact that informal institutions play a more important role in shaping policy outcomes.

A second crucial feature set forth in North's framework is that there is a mutually reinforcing causal link between individuals/ organizations and institutions. Constructs such as path dependence and mental models/cognitive perceptions of individuals' interpretation of real world phenomena influence the nature and contours of institutions and the manner in which institutions relate to the policy process.[4] Figure 8.2, adapted from the writings of Jenkins (1993) and Hill (2009) on the policy process, while incorporating North's conceptualisation of institutions, provides a useful framework to understand the dynamics of institutions in the policy process -- in this instance, the devising and implementation of pro-growth policies.

Although this schematic is a stylized portrayal of the complex and multi-layered nature of the policy process, it provides a number of useful insights that help to unpack the 'black box' of public policy. The diagram sets out the key components and configurations of the policy space -- a socio-economic and political arena where institutions, organizations and individuals interact in a dynamic fashion to influence public policy.

First, the policy space as illustrated in Figure 8.2 includes both the 'internal' policy process consisting of the chain of interactions from policy objectives to policy outcomes as well as what is termed the policy 'environment,' which consists of the broader social, economic, political and cultural context within which the policy process is embedded. This 'external' environment and the 'internal' policy process are complex constructs that mutually re-inforce one another over time, with path dependence playing a vital role in these interactions. Moreover, institutions -- both formal and informal - can be a part of both the external environment and the internal policy process as shown in Figure 8.2.

Second, the political system consists of two non-transparent, interrelated mechanisms: the decision system and the organizational network. The decision system comprises authoritative actors -- for example an Executive President -- who have the capacity or power to make direct policy choices. These actors in turn operate within the parameters of institutional and organizational layers such as the electoral system, legislative and judiciary branches of the state, and bureaucratic networks. As such, any policy decision made within the 'black box' of the po-

[3] Easterly, W., Ritzan, J. and Woolcock, M., (2006), "Social Cohesion, Institutions and Growth", Working Paper No. 94, Center for Global Development, Washington D.C.

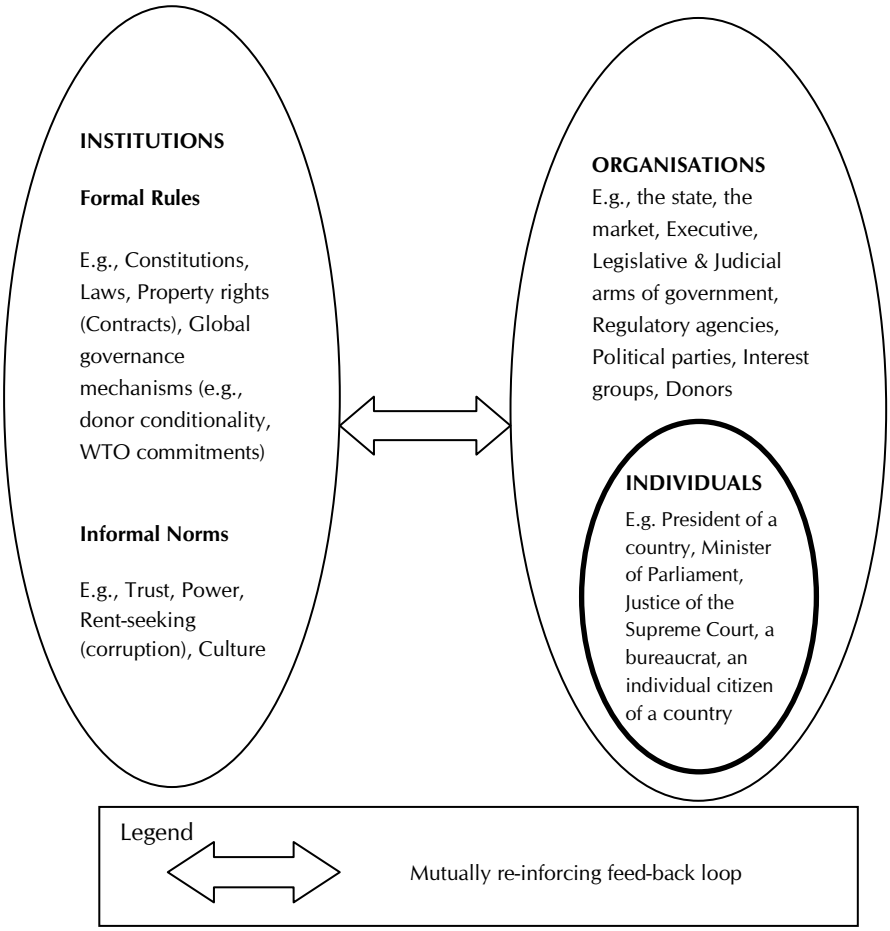
[4] See Jenkins, B., (1993), Policy Analysis: Models and Approaches, in M.Hill (ed.), *The Policy Process: A Reader*, U.K: Prentice Hall, UK.; Hill, M.,(2009), *The Public Policy Process*, Pearson Education Limited, UK.

litical system rests on the outcome of a dynamic interaction between the decision system and organizational networks.

Third, there is a bi-directional flow between the political system and policy objectives such as the demand for inclusive and sustainable socio-economic growth, for instance through various individuals and organizations defined here as 'mediating variables.' Further, these policy objectives impact on, and are in turn impacted upon by the institutions that make up the external environment.

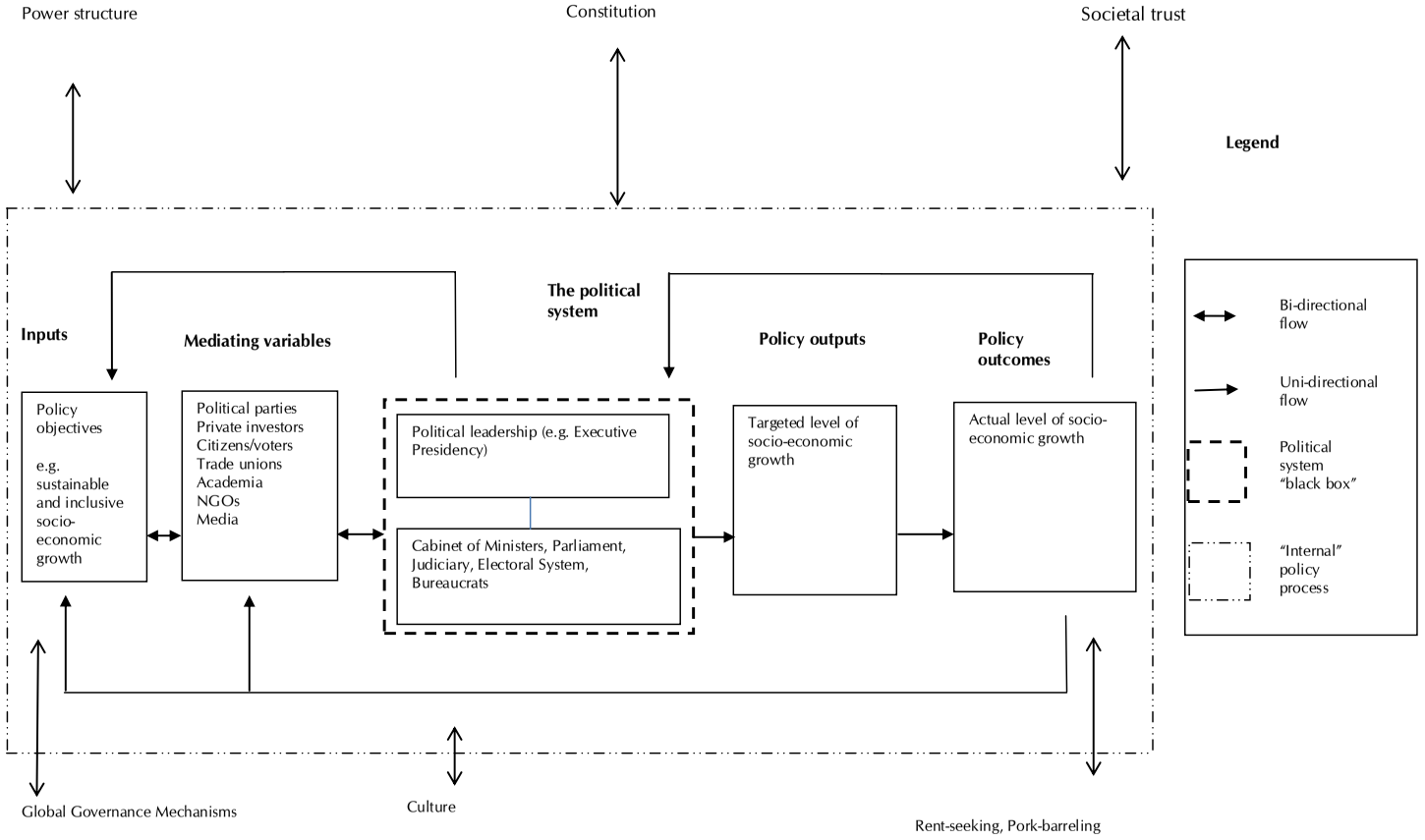
Fourth, policy decisions and choices coming out of the political system result in policy outputs - or the direct outputs of political choices. These policy outputs then have real world consequences or policy outcomes (both intended and unintended) - including those that arise from political inaction. In this context, the 'policy gap' is conceptualized as the gap between policy outputs and policy outcomes. What is clear from this depiction of public policy and of the interactions between institutions and the policy process is that context matters; the socio-

Figure 8.1
Defining an Institutional Framework



Source: Knight-John, M., (2011), "Privatization, Competition and Regulatory Governance: A Case Study of Sri Lanka's Telecommunications Sector", PhD Thesis, University of Manchester.

Figure 8.2
Situating Institutions in the Policy Process: A Schematic



Source: Knight-John, M., (2011), "Privatization, Competition and Regulatory Governance: A Case Study of Sri Lanka's Telecommunications Sector", PhD Thesis, University of Manchester.

political and economic characteristics of a particular country matters. In light of the analysis in this Chapter, there is no universal recipe for sustainable socio-economic growth, and a policy transfer of any kind needs to take note of the formal as well as informal institutional structures that prevail in a particular society.

8.2.2 Understanding the Role of Institutions in Socio-Economic Growth

A straightforward application of basic economic principles would indicate that socio-economic growth is linked to the ability of a country to increase its human and physical capital and improve its technology. However, this leaves open the question as to why some countries have less human and physical capital and technology and also make less effective use of their factors and opportunities. The development literature is replete with debates on the differences in socio-economic growth amongst countries. Why have countries such as Brazil, Russia, India, and China recorded impressive growth rates whilst other countries in Sub-Saharan Africa, Latin America and South Asia have stagnated? How are differences between the industrialized and newly industrialised countries (NICs) and poorer lagging regions explained? What are the fundamental causes for these significant cross-country variations?

Geography and initial resource endowments are recognized in the literature as being necessary conditions for socio-economic growth; and, cross-country differences in these variables are considered to be important explanatory factors in determining whether a particular society is rich or poor. However, how a society uses favourable geographical factors and its resource endowments relate again to a country's institutional framework. Additionally, whilst the importance of growth engines such as sound macro-economic policies, investment and innovation, and education is acknowledged, it is argued that these factors are proximate and not the ultimate causes of growth. In the final instance, there is general agreement across the development literature, that institutions are the fundamental cause of socio-economic growth and that differences in the nature and quality of institutional frameworks explain cross-country variations in growth.[5]

In contrast to Acemoglu and Robinson (2012) who argue very strongly that particular forms of institutions are clearly linked to specific outcomes, economists such as Ha-Joon Chang (2007) suggest that there is a considerable knowledge gap in the understanding of which institutions and in what form, are necessary and sufficient for sustainable development. This gap broadens in view of the fact that the contours and dynamics of institutions are context-specific and that blue-prints are often futile in development practice, emphasizing the need for more country case studies to enhance understanding on the subject. The argument posited by Acemoglu and Robinson (2012) is fundamentally that 'inclusive' economic and political institutions are essential for sustainable development. They argue that it is these types of institutions -- in contrast to 'extractive' socio-economic and political institutions -- that enforce property rights, create level playing fields, encourage investments in new technologies and skills, and facilitate innovation. Interestingly, the Chinese success story in this analysis is not a sustainable one; it is only a matter of time before social cohesion shaped by an authoritarian political regime undermines the growth process.

[5] See Acemoglu, D. and J. Robinson (2007), "The Role of Institutions in Growth and Development," Commission on Growth and Development, Working Paper No. 10, World Bank, Washington D.C; Acemoglu, D. and J. Robinson (2012), *Why Nations Fail: The Origins of Power, Prosperity and Poverty,* Crown Publishers, New York.

Whilst there is consensus in the institutional literature on the centrality of political institutions in shaping and sustaining the growth process, the position adopted by Acemoglu and Robinson (2007, 2012) in advancing the case that democratic political systems are crucial for sustainable development is debatable. The political system, whilst central to the policy process, is only one element in the dynamic web of interactions amongst institutions, individuals and organizations that shape policy choices and outcomes (see Figure 8.2). It is conceivable therefore, that a 'democratic political system' can co-exist with informal institutions of rent-seeking and power that are 'extractive' in the way they function; or alternatively that an 'authoritarian political system' can be constrained by forces of social cohesion that are 'inclusive.'

Box 8.1
Whither State Capitalism?

The notion of state capitalism, associated with the British East India Company, has over recent years been resurrected and reengineered in emerging economies with remarkable success. The high levels of growth achieved by countries such as China, Brazil and Singapore over several decades for instance, point to the sustainability of this model of development.

What in essence is state capitalism and what needs to be in place for this approach to work well? As described in "The Special Report," *The Economist*, January 21st, 2012, p.3, state capitalism:

> "....tries to meld the powers of the state with the powers of capitalism. It depends on government to pick winners and promote economic growth. But it also uses capitalist tools such as listing state-owned companies on the stock market and embracing globalization."

The critical factor for success in this model is a competent state. A state that has the capacity to use capitalist tools to achieve sustainable economic growth – as in the case of China where the state has been successful in converting industries into companies run by professional managers and avoiding the pitfalls of crony capitalism. The Chinese success story with the commanding heights of the economy directed by a one party state (Chinese Communist Party) does not fit the recipe for sustainable growth propounded by scholars such as Acemoglu and Robinson (2012). However, China's GDP has grown at an average of 9.5 per cent over the past 30 years with international trade recording 18 per cent growth in volume terms. This is no mean achievement. What this does imply is that the manner in which institutions function are not necessarily linked to their form, as assumed in the orthodox development literature. In Chinese SOEs for example, the government exercises control through ownership of shares rather than through the traditional mode of reporting directly to government ministries. Brazil, which has a democratic political system, has a different albeit successful version of state capitalism – acquiring minority shares in a broad spectrum of SOEs and channelling resources into a handful of national champions in natural resources and telecommunications.

Whilst state capitalism has its flaws – for instance, principal agent problems associated with regulating companies that it also owns and manages – the evidence from around the world suggests that this model is here to stay. Moreover, the pitfalls associated with 'extractive' institutions – such as corruption, nepotism and political capture inimical to sustainable growth – are not alien to liberal capitalism. As such, it is up to individual nations to foster 'inclusive' institutional structures and processes that will lay the foundation for sustainable socio-economic growth.

The questions remain as to which institutions matter to stimulate and to sustain growth, and how a society can acquire and embed a sound institutional framework that will facilitate stable, inclusive and sustainable socio-economic development. Two important caveats highlighted in this regard is that whilst high quality institutions may well be a result of economic prosperity, as they are their cause,[6] a growing body of empirical research suggests that institutions are very strong determinants of aggregate incomes. For instance, a society that is able to establish rules of the game that strengthen the property rights of investors and entrepreneurs, has a greater chance at achieving a long term increase in productive capacity.

As argued in Chang (2007), the problem arises from the fact that the mainstream development literature fails to distinguish between the forms and functions of institutions. As such, forms of institutions such as democracy, independent judiciary, and absence of state ownership, for example, are confused with the functions they perform -- such as the rule of law, respect for private property, enforceability of contracts and restraints on corruption. This confusion has resulted in reductionist thinking that preempts the reality of the type of state capitalism practiced in China and Brazil for instance, that has undoubtedly shown results for over two decades (see Box 8.1). The rise and success of state capitalism has also exposed the futility of maintaining intellectual divisions between the constructs of states and markets -- a case in point being the rather narrow conceptualization of institutions set forth in the 2002 World Development Report on "Building Institutions for Markets."[7] As will be further evidenced by the Sri Lankan case studies analyzed in Section 8.3, states and markets play an inherently complementary role in the development process.

However, as noted in Rodrik (2004) and reiterated in Chang (2007), there is a tendency towards what they term 'property rights reductionism' in the mainstream development literature. In response to which institutions matter to stimulate and sustain socio-economic growth, the orthodox literature has tended towards over-simplifying what is meant by the institutional framework by focusing almost entirely on formal institutions of property rights. The problem with this approach is that at an empirical level, it cannot accommodate real world cases such as China's development story -- where high and sustained levels of growth have been achieved with a complex assortment of private, public and hybrid ownership patterns and with relatively unclear property rights structures. What is important to note is that property rights, in terms of sustainable socio-economic growth, need not necessarily be the Western-style structures propounded in works such as the World Bank (2002). In essence what matters is the manner in which these institutions function to create incentives that facilitate growth and development.

Extending this line of thinking further to the question of what type of institutions are important to achieving and sustaining socio-economic growth and reflecting on the discussion above on forms and functions, it is argued that informal institutions in a given society, such as trust, power, corruption and culture, play a more important role than formal institutions such as laws and property rights in shaping policy outcomes. This line of thinking can lead to rather sticky policy insights which are context specific and not

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[6] Rodrik, D., (2004), *Institutions and Economic Performance - Getting Institutions Right,* CESifo DICE Report, Ifo Institute for Economic Research, University of Munich.

[7] World Bank (2002), *Building Institutions for Markets: World Development Report 2002*, World Bank, Washington, D.C.

readily amenable to generalization, given that local values and norms shape informal institutions and their dynamics. However, on a positive note, getting to a deeper understanding of the local context provides for a far better chance at getting institutions right -- which in turn lays a more solid foundation for inclusive, stable and sustainable growth. Once again, this reiterates the need for specific country cases, such as the four policy issues in the Sri Lankan context, analyzed in detail in Section 8.3.

8.3 Institutional Requirements for Sustained Growth in Sri Lanka

As set out in Sections 8.1 and 8.2, the drivers of growth cannot be generalized across all economies. Case specific studies of individual economies are important as the ground realities of different countries vary from each other. What follows is a discussion of the institutional imperative in terms of the Sri Lankan economy. Four distinct areas for discussion are selected, given the significant role played by each in the overall economy and their potential to contribute to the envisaged growth momentum in the country.

8.3.1 Taxation and State Capacity in Sri Lanka

Post-conflict Sri Lanka has seen an increasing role of the state in development oriented activities. The government has taken the lead role in many economic activities such as the provision of physical infrastructure through programmes like 'Gama Naguma' and 'Maga Naguma' and livelihood development schemes such as 'Divi Naguma.' This has resulted in a sharp rise in government expenditure in recent years (Table 8.1).

To sustain this investment drive and to provide the high quality formal institutional framework required to sustain targeted levels of growth, the state requires resources. Taxation is the main process through which a government raises revenue. Any force which hinders this process undermines state capacity for resource mobilization, thereby limiting the ability of the state to provide capital for development programmes as well as desirable formal institutions for the public. State capacity to mobilize resources to meet the growing demand for capital and the provision of high quality institutions for sustained growth is a key issue in Sri Lanka. Issues of revenue collection and public service delivery need to be addressed in order to achieve and sustain the targeted level of growth. Current weaknesses in revenue generation can be attributed to three major reasons: the limited tax base, poor decentralization of revenue collection authority, and weak tax administration.

A key reason for declining government revenue is its limited tax base. Tax evasion among corporates, traders and professionals by means of non-filing of returns, under-reporting of income or over-statement of expenses is a common phenomenon in the

Table 8. 1
Government Investment in Infrastructure (as % of GDP)

	2008	2009	2010	2011
Total	5.2	6.4	6.0	5.8
Physical infrastructure	3.8	5.3	5.0	4.8
Social infrastructure	1.4	1.1	1.0	1.0

Source: CBSL, *Annual Report 2011*.

country.[8] As the World Development Report (2002) indicates, developing countries have a:

'...disproportionate reliance on tax revenue from large firms, which are more visible and easier to tax...High tax burdens, along with harassment by tax officials and unnecessary cost of compliance can contribute to a firm's decision to exit the formal economy.'(p110)

In Sri Lanka, weak corporate disclosure can be observed due to the above reasons. Out of over 30,000 registered companies, only 255 are listed in the share market.[9] A similar trend can be seen among professionals such as doctors and lawyers with private practices.

Successful lobbying by powerful stake holders to deter or subvert taxes is another source of revenue loss for the government. This also harms the doing-business environment by sending negative signals to investors as such actions signify state capture at the hands of a few successful companies. In other words, this is an instance where Sri Lanka has fallen victim to crony capitalism unlike China (see Box 8.1). Sri Lanka has also seen ad hoc tax exemptions by the Board of Investment (BOI) to attract foreign investors. While this only led to a marginal improvement in FDI, the loss of government revenue due to these exemptions is calculated to be as much as 1 per cent of GDP per annum.[10]

The 13th Amendment to the Constitution of Sri Lanka, enacted in 1987, is widely recognized as the first attempt at decentralizing administrative authority. It instituted Provincial Councils (PCs) which were delegated the authority to take administrative and fiscal decisions at the provincial level. Devolution of power at the local level can be beneficial as it enables authorities at the grass roots level to provide development programmes and public services tailor made for a particular locale. Thus, Sri Lanka at least has nominal formal institutions in place for sustained local level development.

Table 8.2
Fiscal Operations of Provincial Councils

	2007	2008	2009	2010	2011
Tax revenue as a percentage of total expenditure	18.9	21.6	19.1	21.3	23.2
Central government transfers as a percentage of total expenditure	78.1	74.1	72.1	73.5	74.8
Current expenditure as a percentage of total expenditure	82.0	85.9	85.4	81.9	81.8
Capital expenditure as a percentage of total expenditure	18.0	14.0	14.5	18.1	18.1

Source: Based on data from CBSL, *Annual Report 2011*.

[8] Waidyasekera, D. D. M., (2009), "The Role and Importance of Taxation", *Daily News*, URL: http://www.dailynews.lk/2009/03/05/bus15.asp (accessed on May 1, 2012).

[9] Kelegama, S., (2011), "Political Economy of Taxation in Sri Lanka", paper presented at the "International Conference on Taxation and State Building", November 3-4, 2011, Colombo.

[10] Kelegama S., "Tax Issues - Current System Not Delivering Needed Revenue", *The Sunday Times*, URL: http://sundaytimes.lk/101121/BusinessTimes/bt10.html (accessed on May 1, 2012).

However, the role played by the PCs in the country's provincial development has been limited. As Table 8.2 indicates, these institutions have over the years been dependent on central government grants for their expenditure. It also shows that the share of capital expenditure at the provincial level has been very low compared to current expenditure.

The 2011 Budget restructured revenue allocation, reassigning their main source of revenue -- the Turnover Tax (TT) -- to the central government, and allowing other transfers to be made from the central government to local authorities to compensate for the loss of TT. These include (i) one-third of revenue collected from the Nation Building Tax (NBT) by the central government; (ii) entire stamp duty collected; and (iii) 70 per cent of revenue generated from motor vehicle registration fees.

These recent changes have left the PCs weaker in terms of their power to make any meaningful contribution to the economic development of the provinces. This is an instance where forms differ from functions; although the formal institution of local authorities has been set up, its functions have been curtailed, leaving the PCs ineffective.

The failure on the part of PCs to enhance their capacity for greater revenue mobilization also lies in the fact that they are not sufficiently incentivized to exhibit better performance. For example, empowering local governments would encourage local authorities to perform better, leading to better provision of public goods. However, as pointed out above, local level authorities are increasingly deprived of their autonomy to engage in better provision of public goods. Also, performance is not naturally guaranteed by delegating authority; the necessary checks and balances also need to be there. Authorities would not be incentivized if they are not held accountable to the public. In this regard, developing a state-citizen nexus at the local level is crucial. However, this is lacking in Sri Lanka, especially at the local level.

Local government expenditure should ideally be tied to their revenue collection, thus creating a transparent fiscal process. As stated above, authorities should be held accountable to the public. In Sri Lanka though, this process is hindered by the dependence of PCs on the central government. Moreover, societal apathy can be observed among the public towards the operations of the PCs. While PCs themselves do not actively engage in information sharing with the public, agencies responsible for the provision of information, such as the media, show similar apathy. This is largely created by the disconnect between the internal policy environment and the external political environment as portrayed in Figure 8.2. Citizens lack a sense of social cohesion which leaves public involvement minimal in the political process. Also, much of the political attention in Sri Lanka is held by the centre, which is becoming increasingly powerful. Both these factors leave PCs with no real commitment to greater revenue generation at the local level. As indicated in Box 8.2, this fact contrasts with the practice of a country like South Africa where the citizens 'felt' a direct link between revenue collection and public service delivery. As such, increasing the revenue pool by expanding the tax base, proper incentivizing of tax administration and greater decentralization of authority remain the challenges in expanding state capacity for better provision of institutions and public services for sustained development.

Box 8.2
Political Economy of Tax Administration - The South African Success Story

Since 1960, South Africa has maintained the ratio of tax collection to GDP above 20 per cent. It was the highest among middle income countries in the period from 1960 to 2000. The period between 1997 and 2002, saw average tax revenue of over 25 per cent compared to the middle income country average of 15 per cent. What factors led to this remarkable performance in revenue collection?

- Firstly, tax reforms have been supported by two of the most significant stake holders; the state and 'upper-income white groups, especially because these segments were made to understand the benefits that can be delivered through a greater revenue pool.
- Secondly, automation of tax collection facilitated more efficient tax administration at all levels.
- The introduction of a pay-as-you-earn (PAYE) tax, the collection of which was facilitated by employers.
- Revenue collection bodies, the Inland Revenue, Customs, and Excise Department were integrated to form one revenue collection authority – the South African Revenue Services (SARS).
- Lastly, greater information sharing occurs between the fiscal management authorities, namely, the Finance Ministry, Central Bank, and SARS.

This scenario is in direct contrast to developing countries like Sri Lanka where tax administration has failed to garner stakeholder support, is infested with cumbersome and extended procedures, has minimal information sharing, and has been stagnant in its revenue structure.

Source: Chang, Ha-Joon (2007), *Institutional Change and Development*, United Nations University Press, New York.

8.3.2 Land Titling and Agricultural Productivity

Although Sri Lanka's agricultural sector contribution to GDP has been dropping consistently, a significant share of the population is still employed in this sector. Therefore, enhancing productivity in the agricultural sector has strong implications on sustaining the country's growth momentum.

The literature suggests that establishing well-functioning agricultural markets are especially significant in relation to productivity. Property rights and land titling is a key determinant of dynamic agricultural markets, and establishing secure land titles leads to increasing agricultural productivity. It creates opportunities for easy access to credit, thus increasing the level of investment in agriculture. This process, as argued for instance, in the World Development Report (2002), also enables land transfers from inefficient parties to more efficient ones. Moreover,

> 'Land is considered as the basic asset of the poor and in theory secure property rights to land are identified as the key to the realization of economic and non-economic benefits through greater

investment, increased access to credit markets, increased transferability and transactions, decreased risk and fear of expropriation and sustainable management of resources.'(pp. 103-104)[11]

In Sri Lanka, nearly 82 per cent of land is controlled by the state, while close to 27 per cent of peasants suffer from landlessness.[12] Land allocation in Sri Lanka occurs both through formal and informal institutions. Formal land distribution is mainly governed by the state under the State Land Ordinance, Land Development Ordinance and Land Grant (Special Provisions) Act. However, poor targeting of land distribution by the authorities has led to the neglect of poor farmers who are interested in agriculture; it is common practice for land to be distributed among cronies of officials, who have no interest in agricultural activities. Absentee landlords have acquired land through corrupt practices of regulatory agencies. There are numerous authorities which control land in Sri Lanka. These include the Forest Department, Department of Wildlife Conservation, Mahaweli Authority, Plantation Companies, Southern Area Development Authority, Coast Conservation Department and Urban Development Authority. The lack of a clear mandate for these individual institutions has led to overlapping functions, allowing space for malpractice in land distribution and ineffective governance of land in Sri Lanka.

While formal property arrangements and land markets can be seen in the urban and plantation sectors, informal arrangements in land transfers and land use are highly prevalent in rural agriculture. This is due to inflexible legal restrictions imposed by the state on rural agricultural land with regard to inheritance, sub-division and transfer. As a result, informal institutions have developed in the above transactions as well as in land mortgages, leases and sales. This is a prime example of where both informal and formal institutions are at play. However, instead of leading to the efficacy of formal institutions, these informal arrangements have emerged because formal institutions have failed to guarantee agricultural sector growth.

As argued earlier, well-functioning land markets lead to increased agricultural productivity. Indeed, studies have shown that non-functional formal land markets are positively related to the reduction of the extent of paddy cultivated in Sri Lanka.[13] The key drawback is in not establishing proper land titling, especially with regard to alienated and encroached land.[14] Rigidities in property rights in Sri Lanka are (i) segmentation of the land sales market; (ii) reduced access to land by the poor; (iii) prevention of land sales even when the current owner fails to succeed at farming; and, (iv)reduced access to credit as such land is not accepted by the formal financial system as collateral. All

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[11] Samaratunga, P., (2008), "Achieving Economic Efficiency and Equitable Distribution of Land Use through Reforms and/or Market Discipline", in S. Kelegama and D. Gunewardena (eds.), *Economic and Social Development under a Market Economy Regime in Sri Lanka: Buddhadasa Hewavitharana Felicitation Volume II,* VijithaYapa Publications, Colombo.

[12] IPS, (2004), "Land Policy in Sri Lanka", in *Sri Lanka: State of the Economy 2004*, Institute of Policy Studies of Sri Lanka, Colombo.

[13] Samaratunga, P., and D. Marawila (2006), "Rural Land Sector in Sri Lanka: Major Characteristics, Determinants and Implications for Land Policy", Institute of Policy Studies of Sri Lanka, Colombo.

[14] A "Land Titling and Related Services Project" implemented from 2001 to 2006 aimed at building the institutional framework by improving titling methods and identifying the legal constraints to the operation of efficient land administration and making necessary recommendations. Although it failed to achieve the intended outcome within the duration of the project, it made draft recommendations to the Registration of Title Act (1998) which can be adopted to improve the legal basis for title registration, and was successful in linking title and deed registration through the Registrar General's office. A total of 19,458 land parcels were surveyed and given titles under this project [Centre for Poverty Analysis, (2006), "Putting Land First: Exploring the Links between Land and Poverty", Colombo].

these factors eventually lead to productivity issues in the agricultural sector.

Informal land rental markets have emerged in rural areas as an alternative to this issue. These informal arrangements have led to the creation of larger operational holdings, higher investment, greater use of technology, more commercialization of production, and increased displacement of inefficient cultivators.[15] Perhaps a possible policy measure would be to adopt and legalize the existing informal land market arrangements which are obviously better suited for local needs.

As suggested by the literature pertaining to Sri Lanka, land titling in itself is not a concern of the rural agricultural sector. However it can certainly be seen as a means to an end in overcoming the drawbacks prevalent in agricultural land markets that are outlined above, which adversely affect productivity in the sector.

8.3.3 Public-Private Partnerships in Physical Infrastructure

Post-conflict Sri Lanka has seen a heightened infrastructure development drive. Government involvement in infrastructure, both at the national and rural level, is being driven by various programmes, with a sharp rise in public investment in infrastructure. With total public investment in infrastructure hovering in the range of 5 per cent of GDP, Sri Lanka appears to be in line with suggested investment requirement in infrastructure for a developing country, estimated to be around 5.5 per cent of GDP.[16] In Sri Lanka, nearly all requirement of investment in infrastructure is being provided by the government.

While infrastructure development is crucial for sustaining high growth, the current infrastructure drive is mainly financed through foreign grants and loans which come with a hefty price tag. Therefore, promoting private participation in infrastructure development remains crucial for Sri Lanka. In fact, the CBSL states:

> 'In 2011, policy measures were initiated by the government to improve the performance of SOEs to increase their return on investment through the development of an economically feasible cost reflective pricing structure, and thereby reducing the reliance on the government budget. SOEs are also expected to explore innovative Public-Private Partnership (PPP) strategies and attract private investments to catalyze the development process.' (p.60)[17]

The case for private investment in infrastructure is also justified by the fact that like many developing countries, public monopolies in infrastructure provision in Sri Lanka has led to poor service quality and drain of public finance. The CPC made a loss of Rs. 94 billion in 2011 compared to Rs. 27 billion in 2010 and the CEB saw a financial downturn with a loss of Rs. 25.5 billion from a profit of 4.8 billion the year before. Box 8.3 outlines some of the factors which led to this fiscal drain.

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[15] Jogarathnam, T., (2001), "Allocation of State Land for Peasant Agriculture in Sri Lanka: Towards an Employment Strategy Framework in Sri Lanka", URL: http://ilo-mirror.library.cornell.edu/public/english/region/asro/colombo/download/jogprf01.pdf (accessed on May 1, 2012).

[16] World Bank (2005), *Infrastructure and the World Bank: A Progress Report,* URL: http://siteresources.worldbank.org/DEVCOMMINT/Documentation/20651863/DC2005-0015(E)-Infrastructure.pdf (accessed on April 28, 2012).

[17] CBSL, *Annual Report 2011*.

Box 8.3
Key Issues of Selected SOEs in Sri Lanka

The CEB, CPC, SLR and SLTB have been among the main SOEs which are famous for having suffered from chronic financial failure, as the numbers below indicate.

Financial Performance of Selected SOEs (Rs. bn.)			
	2009	**2010**	**2011**
Operating loss of SLR	4.8	3.2	4.1
Operating loss of SLTB	8.0	8.4	3.8
Operating loss of CPC	26.2	27.0	94.0
Operating loss of CEB	11.0	-4.8	25.5

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

While there are many case-specific reasons for this poor fiscal performance from one SOE to another, a few key factors which are common among these can be identified. When it comes to CEB and CPC, they have been victims of price manipulation. As opposed to many countries that let the forces of demand and supply decide the price of utility, energy, and power prices, in Sri Lanka the rates have always been maintained by the state below the cost of supply. This practice, which is fuelled by short term political economy interests, has not allowed state utilities to follow global practices of conducting revisions based on a pricing formula which factors in international prices, exchange rate and various taxes payable at customs. Unlike in the case of the CPC, the Public Utilities Commission of Sri Lanka (PUCSL) introduced such a tariff calculation formula for the CEB to be instituted every six months. However, apart from its initial exercise in January 2011, the PUCSL has failed to continue with the tariff revisions.

In the case of the SLR and SLTB, the two salient factors which are common to both remain the problem of overstaffing and poor maintenance and upgrading of infrastructure. Successive governments in Sri Lanka have used entities such as the SLR, SLTB and even CPC and CEB to absorb surplus workers, leaving them heavily overstaffed with under qualified employees.

In addition, both SLR and SLTB have suffered from a lack of maintenance and upgrading of infrastructure. Although the road network is now improving, the railroad network is yet to be improved and integrated with the road transport network. Moreover, apart from a few *ad hoc* attempts, no regular effort has been made to raise the quality and quantity of the assets of SLR and SLTB, mainly due to capital constraints.

As discussed earlier, an SOE does not necessarily have to be a white elephant. As evidenced in Box 8.1, China has managed to channel its resources to SOEs and sees them making profits. However, this success is largely dependent on the manner in which the institutions function as opposed to the type of institutions (i.e., form versus function), and Sri Lanka does not follow the Chinese footsteps of retaining the public structure while functioning as a competitive firm.

Therefore, many countries, including Sri Lanka now look towards PPPs in attracting the necessary capital for developing these sectors. PPPs allow the government to draw necessary investment and management skills

while maintaining a presence in ownership and strategic policy setting.[18] In terms of institutions, the key areas which need focus in order to establish successful PPPs as indicated in Figure 8.2 are: (i) political and regulatory reform (formal institutions or internal policy framework); and (ii) enhancing credibility by strengthening the external policy environment.

Building effective regulatory agencies is a prime catalyst in attracting private investment in infrastructure. However, Sri Lanka is behind in establishing the required formal institutions for PPPs. Firstly, there seems to be a general lack of understanding of the concept of PPPs and its implementation. This is clearly seen in the failure to set up a one-stop-shop for the assessment and implementation of PPP projects. This is in direct contrast to South Korea which has seen over a decade of successful PPPs in infrastructure. South Korea has set up the necessary judicial framework in the form of the Act on Public-Private Partnerships in Infrastructure, and its PPP projects are governed by a central agency, namely, the Public and Private Infrastructure Investment Management Centre (PIMAC).[19]

Although the BOI is positioned as the premier investment promotion agency of Sri Lanka, with line agencies obtaining necessary clearances to facilitate speedier investment approvals and implementation, no concrete steps have been taken in this regard. However, the enactment of the Strategic Development Projects (Amendment) Act, No. 12 of 2011 can be considered a positive step in setting up the legal framework to bring in investment to key projects. This Act allows the BOI to select and recommend investment projects which are of strategic significance to the economy, for various benefits such as tax exemptions for 25 years. A salient feature of this Act is the fact that instead of a ministry, the power to approve a project lies with the Parliament, thus increasing its public accountability.

Secondly, necessary regulatory agencies need to be established in each of the sectors of physical infrastructure. Currently, only the telecommunications sector and electricity sector have 'independent' regulatory agencies, namely, the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) and the PUCSL. Although two utilities, petroleum and water, are assigned to the PUCSL on paper, they do not come under the regulatory purview of the Commission in practice. The National Transport Commission (NTC) regulates the transport sector although it has not been instituted as an independent regulator.

Thirdly, capacity building in regulatory agencies for efficient regulatory governance is equally important. Most regulatory agencies in Sri Lanka lack the necessary human resources as well as the technical know-how for implementing regulatory mechanisms. A prime example is the fact that despite a greater degree of private investment in electricity generation, Sri Lanka has failed to guarantee cost effective prices to the consumer owing to the initial power purchase agreements (PPAs) signed with power producers. These PPAs were initially negotiated at a high price. As such, currently one of the largest items of expenditure for the CEB is the power purchase bill of independent power producers (IPPs). The gross generation of electricity by IPPs as a percentage of the total was 40 per cent in 2010.[20] There has been a failure as yet to establish reasonable

[18] D. Jeffery (2009), *Private Sector Investment in Infrastructure: Project Finance, PPP Projects and Risk*, Kluwer Law International, Netherlands.

[19] "Knowledge Sharing on Infrastructure Public-Private Partnerships in Asia - PPPI Series" (2009), Post-event Statement URL: http://www.adbi.org/event/2965.korea.ppp/ (accessed on April 30, 2012).

[20] The Ceylon Electricity Board, *Statistical Digest 2010*.

PPAs with the IPPs despite numerous discussions.

Apart from setting up the formal institutions, enhancing the credibility of the political and regulatory framework is equally important for attracting private investment. Creating investor confidence in the political and regulatory regime is perhaps the single most important factor which brings in private investment. The re-nationalization of some key entities in recent years -- for instance, Shell Gas, Sri Lanka Insurance, and Apollo Hospitals -- and the Revival of Underperforming Enterprises and Underutilized Assets Act of 2011 (more commonly known as the Expropriation Bill), which brought in 37 'underperforming' enterprises within government purview, are some measures which can hinder investor confidence.

The doing-business environment of a country is a key concern for investors in making investment decisions. Sri Lanka moved up the ranking in the World Bank Doing Business Index, from 98 in 2011 to 89 in 2012.[21] However, it ranks fairly low in the Corruption Perceptions Index (CPI), where Sri Lanka ranked at 86 in 2011 with a CPI score of 3.3.22 Similarly, local opinion polls conducted by a leading business magazine (LMD) indicate a drop in the LMD-Nielsen Business Confidence Index (BCI), from 170 a year ago to 135 by April 2012.[23] Policy actions such as the Expropriation Bill had some bearing on investor confidence, especially in view of perceived lack of transparency in policy decisions within the 'black box' of the political system, which results in policy gaps.

Independence of regulatory agencies is of equal significance for improving the business environment as well as investor confidence. Several instances of regulatory failure and lack of regulatory independence can be observed in Sri Lanka. As pointed out above, there has been a failure to assign the petroleum and water utilities to the independent regulator (PUCSL) specifically set up for that purpose. Moreover, arbitrary political decisions often seem to over-ride regulatory independence in the country. For example, the PUCSL has drawn up a Roadmap for Tariff Rebalancing which was to be implemented from 2011. This requires the PUCSL to revise electricity tariffs every six months to eventually move to cost reflective prices by 2015. However, apart from its initial exercise in January 2011, the PUCSL has refrained from revising tariffs mainly due to political expediency. Electricity consumers, especially the household category, constitute a solid voting bloc. The TRCSL has performed equally poorly. The Telecom Regulatory Environment (TRE) Survey, a multi-country study assessing the perceived regulatory efficacy of telecommunications regulation, indicates that Sri Lanka has failed to reach even the average of the five-point scale of assessment. The survey results cite the lack of workable independence and transparency in regulatory procedures to be among the main regulatory bottlenecks in the telecommunications sector.[24]

Addressing the above issues remains a crucial policy challenge for Sri Lanka in attracting more private participation in infrastructure development. More often than not, creating competition by bringing in private in-

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[21] The World Bank, (2012), *Doing Business in Sri Lanka*, URL: http://www.doingbusiness.org/data/exploreeconomies/sri-lanka?topic = getting-credit (accessed on April 30, 2011).

[22] Transparency International (2011), *Corruption Perception Index 2011*, URL: http://cpi.transparency.org/cpi2011/ results/#CountryResults (accessed on May 5, 2012).

[23] Lanka Monthly Digest (2012), "Biz Confidence Index Plummet", URL: http://lmd.lk/2012/04/01/business-sentiment-8/(accessed on April 30, 2012).

[24] Brahmanage, B. and H. Weerasekera (2011), "ICT Sector Performance Review for Sri Lanka",URL: lirneasia.net/wp-content/uploads/2010/07/LK_SPR_Final_Draft.pdf (accessed on April 29, 2012).

vestment in infrastructure leads to high quality service delivery. According to the World Bank (2002), countries such as Argentina, Brazil, Chile, and Peru, enjoy the benefits of competition in electricity transmission. Sri Lanka's own telecommunications sector is another example for this where increased private investment has provided users with high quality service delivery combined with the latest technology.

8.3.4 Increasing Industrial Productivity through SME Development

The significance of the SME sector in any country is evidenced by the major role played by these entities in many successful economies. For example, the SME sector in South Korea, which was in fierce competition with China, found innovative ways of surviving by exporting to China; by 2003, South Korea managed to emerge as the second leading exporter to China. A similar significant role was played by SMEs in the development of Taiwan and post-World War II Japan.

The SME sector in Sri Lanka is a significant development thrust area for several reasons. SMEs constitute the bulk of the industrial sector in Sri Lanka, with around 91 per cent of industries in the country identified as SMEs. They account for 26 per cent of industrial employment. Therefore, given the significance of the sector, it is imperative that the institutional set up for its smooth functioning be strengthened to boost the contribution to Sri Lanka's economic growth.

Numerous benefits to the SME sector have been provided by the government (Box 8. 4). However, several key areas still remain

Box 8.4
Existing Incentives Granted to the SME Sector in Sri Lanka

Incentives granted by Budget 2012:

- Reduce expenses of the pre-establishment year from the income of the first year in which tax becomes payable (for SMEs with an annual turnover of less than Rs.500 mn.)
- Four year tax holiday for small scale enterprises in selected activities with a minimum investment of Rs. 25 mn.
- Tax holiday of up to six years for medium scale enterprises depending on the size of the investment.
- Three year tax holiday for existing enterprises in selected activities with a minimum investment of Rs. 50 mn., on or before March 31, 2015.
- Exemption from Economic Service Charge (ESC) up to Rs. 100 mn. for SMEs with a quarterly turnover of less than Rs. 500 mn.
- Reductions and exemptions from custom duties on imports, value added tax (VAT), and NBT.

Other Incentives:

- Initiation of the Technology Development Fund (TDF) for SMEs, to facilitate commercialization of research activity by the Ministry of Industry and Commerce and National Enterprise Development Authority (NEDA).
- Provision of support services to selected industrial clusters such as the Moratuwa Wood Cluster, Wewaldeniya Cane Cluster and Batticaloa Handloom Cluster.
- Provision of research services from state institutions at a nominal fee for SMEs.

Source: Wijesinha, A., (2011), "Strong Steps, but Tax Relief is Half the Story," *Talking Economics Digest*, July-December 2011, Institute of Policy Studies of Sri Lanka, Colombo.

neglected, in order to transform SMEs in Sri Lanka to a similar growth engine as in countries such as Japan and South Korea.

The chief deficiency in the SME related policy space is the lack of a formal definition for SMEs in Sri Lanka. Different political and financial institutions have their own definitions which vary from each other, making it difficult to implement comprehensive policies related to SMEs. For example, categorizing enterprises as small and medium is a difficult task as the scale would differ based on the industry; while a particular enterprise may fall into the 'medium' category based on investment, the same enterprise would not fall into the medium category based on the number of employees.

While definitional issues render it difficult to set up a broad policy framework, the lack of a comprehensive policy framework itself remains a crucial policy gap in the current SME scenario. Several institutions in the country are mandated to implement SME related policies. These include the Ministry of Industry and Commerce, Ministry of Traditional Industries and Small Enterprise Development, Ministry of Economic Development, Ministry of Local government and Provincial Councils, Ministry of Finance and Planning and the CBSL. The existence of concurrent jurisdiction among these various institutions has compelled entrepreneurs to consult several agencies in enterprise set-up and operation. This drives up the cost of production as entrepreneurs have to deal with the bureaucratic red tape of several agencies in obtaining approvals.

The ill effects of the lack of clear mandates for different institutions can be mitigated by establishing a comprehensive, all-encompassing SME policy which clearly demarcates the specific functions of the institutions involved in SME development. However, apart from an SME White Paper in 2002 and the 'Draft SME Policy 2010,' no substantial steps have been taken toward this goal. Moreover, the draft of the policy document in 2010 appears to be largely overlapping with the recommendations of the SME White Paper in many areas, and is in essence a 'reinvention of the wheel.'

Sri Lanka is also lagging behind in setting up specialized financial institutions and strengthening the existing institutions that cater to the needs of SMEs.[25] More often than not, banks and other financial institutions lack the technical know-how in dealing with SME-related financial needs which are different from those of big corporate firms. Similarly, information sharing and awareness about various financial instruments available, such as those outlined in Box 8.4, remains low. Empirical evidence emerging from public-private dialogues held with the cut-flower industry in Nuwara-Eliya, for example, reveal that not a single PPD participant was aware of the special loan schemes offered by the CBSL to the SME sector.[26]

Another need highlighted by the same focus group was the need for holistic support for market and business development. Many of them are unaware of the function of value chains both locally and regionally and how to plug into them. While a few champions find their way into the markets, many struggle with the inability to do so. Therefore, the selected institutions mentioned above should be clearly mandated to provide the required support services in finding markets and mov-

[25] As per Budget 2005, the SME Bank was set up in Sri Lanka with a view to addressing the need for a specialized financial institution. This was amalgamated with the Lankaputhra Bank in 2007. In 2010, six rural regional development banks around the country were merged to form the Regional Development Bank, mandated to assist rural SMEs as well as microenterprises.

[26] Wijesinha, A., (2011), "Strong Steps, but Tax Relief is Half the Story", *Talking Economics Digest,* July-December 2011, Institute of Policy Studies of Sri Lanka, Colombo.

ing up the value chain. The same applies to business development as well. Sri Lanka needs to set up institutions or mandate the existing ones to promote better business practices such as improving management and accounting practices and technology upgrading.[27]

As set out previously, apart from getting the above formal institutions right for the development of the SMEs, informal institutions are of equal significance, if not more so. Improving the overall business climate by establishing anti-corruption and anti-rent seeking practices is of great importance for the development of SMEs. Indeed, it is perhaps more crucial for the SME sector as it is more vulnerable to the risks emerging from a negative business climate.

8.4 Policy Conclusions

The discussion in this Chapter has focused on crucial policy issues relating to Sri Lanka's institutional framework. The Chapter has analyzed key policy questions pertaining to the definition of formal and informal institutions in the policy space, and the manner in which institutions are embedded in the policy process. The four case studies selected to unpack the complex dynamics of institutional forms and functions in Sri Lanka -- taxation and state capacity; land titles and agriculture sector productivity; PPPs in infrastructure development; and SME development -- provide rich insights on the link between institutions and socio-economic growth, and on the type of institutions that matter for sustainable growth.

The case studies build on and elaborate the specific ramifications of the conceptual framework -- reiterating the point that context matters and that there is no universal blue print solution to address institutional gaps. As such, whilst understanding the workings of formal institutions in other countries is useful for policymakers, the prevalence of informal institutional forces renders policy transfer a difficult exercise. Addressing the policy question of how to build high quality institutions that are sustainable over time requires in-depth analysis of specific case studies, each providing useful lessons for policymakers. Whilst the specific facts gathered from case studies may not be generalizable across time and space, the accumulation of empirical knowledge constitute extremely useful insights for the policy community.

The specific policy conclusions coming out of the analysis are as follows. In enhancing state capacity to attain the growth objectives of the country, policy measures such as increasing the tax base, creating effective decentralization for local economic development, as well as adopting efficient methods of tax administration, are significant. In relation to policy measures to increase agriculture productivity, setting up formal institutions with clear mandates as well as establishing proper land titling matter will facilitate more efficient allocation of resources in the sector. Similarly, in order to attract private investment, understanding PPPs as well as creating PPP-oriented institutions in the country is the need of the day. The SME sector of the country requires a holistic policy and institutional framework to be put in place to facilitate its growth. More importantly, the theme highlighted in the discussion is the need to promote informal institutions such as accountability and the doing-business environment for promoting growth in all these sectors. This will lead to establishing the missing link between the external and internal policy environments in Sri Lanka, and consequently lead to a solid

[27] *Ibid.*

institutional set-up which will help sustain the growth targets for the country.

At a more general level, the analysis emphasises some key ingredients critical to the process of building high quality institutions that are sustainable over time. Policy continuity underpinned by strong political commitment and transformational political leadership is vital to foster inclusive formal and informal institutions. However, this does not imply that particular forms of political systems -- such as democracy for example -- would necessarily facilitate institutional structures that are amenable to inclusive and sustainable socio-economic development. Neither, as seen in the case of state capitalism in China, is it necessarily the case that one-party states are prone to dismal levels of socio-economic development.

The nature of informal institutions or social cohesion matters; it may well be the case that the prevalence of perverse interest group dynamics and rent-seeking behaviour undermines and offsets expected functional outcomes. What is important is to identify policy levers to enhance social cohesion in a society; to build an inclusive informal institutional framework. Whilst this exercise is not an easy one, or one that can be instituted over the short term, it is crucial for sustainable policy outcomes. Further, given the prevalence of path dependence, once a 'virtuous policy cycle' is set in motion and embedded in the policy space, it is likely that it will continue over time.

Building informal institutional structures that are conducive to inclusive and sustainable growth requires the presence of a vibrant and informed civil society; a bottom-up social force that engages actively in the policy space. Moreover, the state has a crucial role to play in shaping the context and milieu within which civil society is organized. In the final instance, therefore, political commitment and the nature of the political leadership are central to the building of high quality institutions -- institutions that foster sustainable socio-economic growth.

Talking Economics Insights

9. Leveraging Migration for Development

9.1 Introduction

International migration is considered to be a consequence of disparities in development among countries, resulting from the combined effects of supply-push and demand-pull factors. Given the rising trend of global migration, migration and development nexus has taken centre stage in the research and policy agenda of developing countries in recent years. This link between migration and development can be discussed in two ways: how development affects migration and how migration affects development. Indeed, it is argued that the migration and development link can be understood to revolve around three Rs: Recruitment, Remittances and Return.[1] Recruitment includes both motivation and facilitating factors which in turn includes low economic growth, high underemployment or unemployment rate, population growth, income inequality, pressure on land and urban environment and poor governance, etc. There is a direct link between remittances and the development of sending countries, and it has both micro and macro level impacts. Return, which is the end product of the migration cycle, is expected to bring saved capital and acquired skills from overseas that can be productively invested in the home country. With more than 1 million estimated Sri Lankans working abroad as migrants, this discussion aims to examine the impact of migration on economic development in Sri Lanka. It will identify barriers which hinder the developmental impact of migration in Sri Lanka, and provide policy implications for maximizing the development benefits of migration to the country.

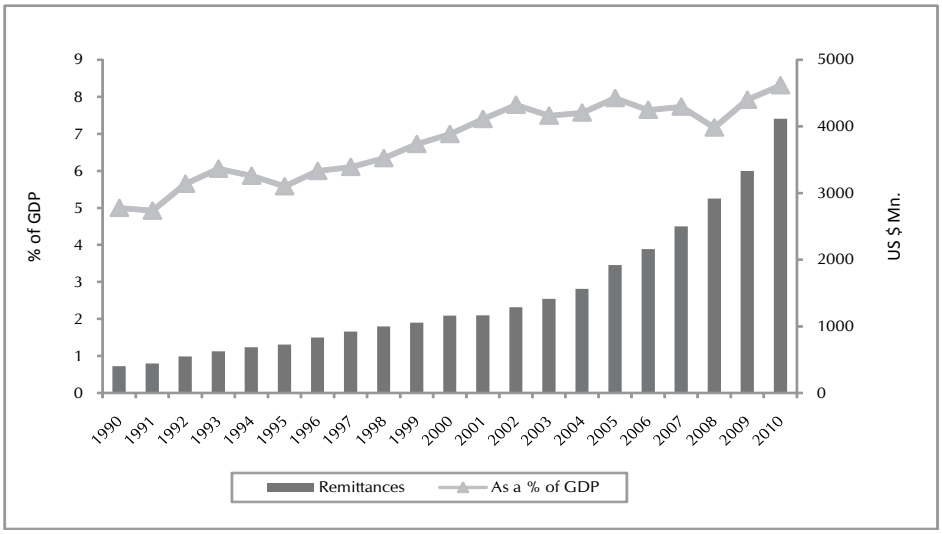
> ***'The search for new skilled employment opportunities, while taking in to consideration local labour markets, is key to enhancing the development benefits of migration'***

9.2 Impact of Migration on the Sri Lankan Economy

In this section, of the three 'Rs' mentioned above, only recruitment and remittances will be discussed due to the data limitations available in the return stage.

[1] Sorensen, N.N., N. V. Hear and P. E. Pedersen (2002), *The Migration-Development Nexus: Evidence and Policy Options*, International Organization for Migration.

Figure 9.1
Trends in Remittance Inflows



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

Under recruitment, only the labour market impacts will be discussed as this discussion is limited to the impact of migration on economic development in Sri Lanka.

9.2.1 Impact of Remittances

Sri Lanka has witnessed a steady increase in the inflow of remittances from US$ 9 million in 1975 to US$ 5,145 million in 2011. The impact of these increased remittances can be divided broadly into two categories: macro level impact and micro level impact.

Compared to ODA, FDI and other portfolio flows, remittances are a steady flow of capital for Sri Lanka, which also goes directly to the community. Apart from being a steady source of capital, remittances often play a counter-cyclical role when a country faces a downturn. As such, the contribution of re-

Table 9.1
Worker Remittances in Relation to Selected Macro Variables (1990-2010)

	Remittances	Exports Earnings	Imports Payments	Total Current Receipt in BOP	GDP	Exports Earnings	Imports Payments	Total Current Receipt in BOP	GDP
1990	401	1984	2686	3096	8033	20.21	14.9	12.9	4.9
1995	727	3807	5311	5822	13030	19.10	13.7	12.5	5.6
2000	1160	5522	7320	7811	16596	21.01	15.9	14.8	6.9
2005	1918	6347	8863	9,983	24406	30.22	21.6	19.2	7.8
2009	3330	7085	10207	12,500	42068	47.00	32.6	26.6	7.9
2010	4116	8307	13512	15,266	49551	49.55	30.5	26.9	8.3

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

mittances to macroeconomic stability, BOP support and national savings can be immense.

As can be seen in Table 9.1, Sri Lanka's import expenditure has continuously outstripped export earnings, placing pressure on the country's trade balance. In this context, remittances have played an important role in bridging the gap in the external current account. In 2010, remittances contributed to 49 per cent of export earnings, 30 per cent of import expenditure and 27 per cent of total current receipts in the BOP.

Sri Lanka has also managed to maintain a much higher rate of national savings and investment as a result of private current transfers.[2] While remittances lead to increased investment and are likely to have an effect on economic growth, a good investment climate including the presence of a well-developed financial system will partly determine the extent to which remittances are able to be used productively in physical and human capital.

At the micro level, the impact of remittance occurs through several channels such as; easing deprivation in meeting basic needs of households, increasing their ability to cope with adverse shocks, allowing them to purchase land and other productive assets, releasing them from indebtedness, promoting small scale enterprise development, and increasing investment in education and health. Studies have shown that migrant households spend more on food, non-food, education, health, durable goods and housing compared to non-migrant households.[3] The difference in expenditure on durable goods is found to be more significant compared to the difference in spending on health, education and food. Other studies support these findings to suggest that remittances have been used mainly for education, health and improving lifestyle through the purchase of consumer durables, rather than spending on productive assets.[4] In fact, remittance receiving households are found to enjoy better quality housing compared to non-remittance receiving households. Though the expenditure on health and education is higher among migrant households, the return on this expenditure is low, with no difference between migrant and non-migrant households in terms of school enrolment and morbidity levels. However, the impact of remittances depends on the characteristics of remittance users. Characteristics such as education background,

Table 9.2
Contribution of Remittances to National Savings and Investment

% of GDP	1991-1994	1995-1999	2000-2004	2005-2010
Domestic savings	16.5	17.3	16.0	17.2
National savings	20.5	21.4	21.0	22.6
Total investment	19.9	25.4	23.7	27.1

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

[2] In Sri Lanka's national accounts, worker remittances are treated as a component of national savings and therefore, national savings are equal to the sum of domestic savings and net private current transfers from abroad.

[3] Arunatilaka, N., P. Jayawardena, and D. Weerakoon (2011), "Sri Lanka" in Kelegama, S., (ed.), *Migration, Remittances and Development in South Asia*, Sage, New Delhi; Jayaweera, R., "Migration Profile: Sri Lanka 2011", Institute of Policy Studies of Sri Lanka (forthcoming).

[4] Samaratunga, P., R. Jayaweera and N. Perera (2011), "Impact of Migration and Remittances on Investment in Agriculture and Food Security in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo.

skills in financial management, and consumption and savings patterns affect the use of remittances received.

9.3 Impact of Migration on the Labour Market

Migration has many impacts, both negative and positive, on the labour market in a country, such as on the labour force, employment level, unemployment level and wage rates. Though there is no available data on net migration in Sri Lanka, departures for foreign employment have increased over the last two decades and a significant stock of Sri Lankan migrants are working abroad. At the same time, the rate of unemployment in Sri Lanka has dropped persistently to 4.2 per cent by 2011. Indeed, foreign employment has in part contributed to this significant reduction in unemployment.

So far, Sri Lanka has been able to maintain a relatively healthy growth rate at a time when the country was witnessing a rise in labour out-migration. It suggests that economic growth has not been constrained by a lack of labour supply resulting from an increased number of migrants. This could be related to the high numbers of unskilled migration, which is a prominent feature in Sri Lanka's migration trends. Indeed, around 67 per cent of the workers departing for foreign employment in 2011 were identified as unskilled workers.[5] As the majority (60 per cent) are housemaids – who worked as unpaid family workers or were unemployed before they migrated – the impact of their departure on the overall domestic labour market would have been marginal.

The impact of migration on wages is harder to measure as the required data is not available. However, available evidence in certain sectors suggests that the impact can be quite significant. For instance, daily wages for carpenters and masons in the construction sector recorded increases of 11.9 per cent and 10.3 per cent respectively in 2011, following increases of 6.7 per cent and 6.9 per cent respectively in 2010, due to the continued high demand for workers for construction activities – exacerbated by the shortages of such workers due to migration for foreign employment.[6] The lack of labour due to migration is found to be an issue in agricultural activities, where family members left behind also cannot engage in agriculture activities as they have to look after migrants' children.[7] This partly contributes to increased wages in agriculture labour.

Apart from the impact of migration of unskilled labour, high-skilled migration may adversely affect some sectors in Sri Lanka, such as the health sector. In the health sector, compared to other countries in the region, Sri Lanka has the highest expatriation rate of doctors and the third highest expatriation rate of nurses to OECD countries. In a database of 157 countries, Sri Lanka had the 37th highest expatriation rate of doctors and the corresponding rank for nurses was 66.[8]

9.4 Barriers that Hinder the Development Impacts of Migration and Remittances

Discussion on the barriers that hinder the impact of migration can be divided into two

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[5] CBSL, *Annual Report 2011*.

[6] *Ibid*.

[7] Samaratunga, P., R. Jayaweera and N. Perera (2011), "Impact of Migration and Remittances on Investment in Agriculture and Food Security in Sri Lanka", Institute of Policy Studies of Sri Lanka, Colombo.

[8] Arunatilaka, N., P. Jayawardena, and D. Weerakoon (2011), "Sri Lanka" in Kelegama, S., (ed.), *Migration, Remittances and Development in South Asia*, Sage, New Delhi.

categories: issues that discourage individual migration and country level issues.

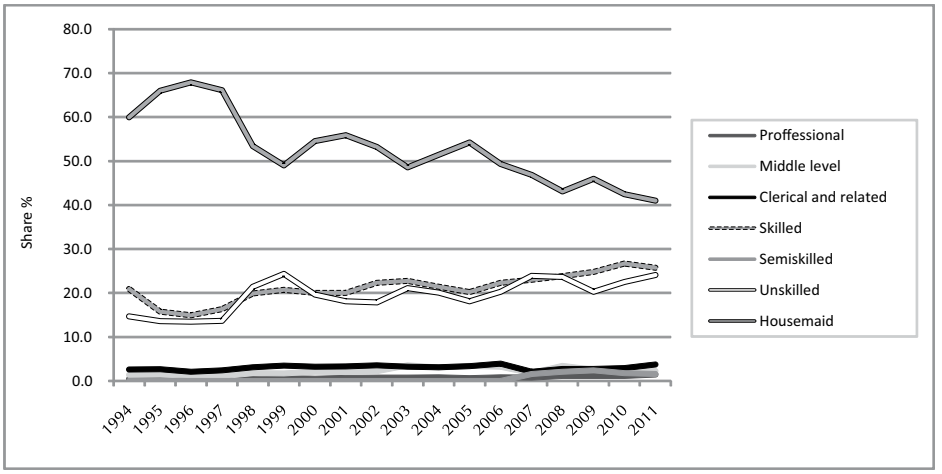
9.4.1 Issues Faced by Individual Migrants

With the objective of earning more foreign exchange, Sri Lanka promotes migration through different ways such as bilateral agreements and Memorandums of Understanding (MOUs). However, even with such agreements in place, migrants face many issues related to stages of the migration process; pre-departure, destination, and return.

Lack of access to information is one of the major issues in the pre-departure stage. Most migrant workers rely on informal networks to seek information on job placements. Most potential migrant workers develop networks of returned migrants, as well as with migrants still abroad, to search for information on job opportunities.[9] In fact, migrant women are found to prefer informal channels rather than registered recruitment agencies because of the high cost involved in preparing for migration. However, informal networks pose significant risks because of the presence of bogus recruitment agencies in the country. The other issue faced by migrants is financing the costs involved with migration, including that of child care arrangements, especially for female migrants. Studies have shown that a majority of migrants mortgaged their agricultural lands to cover their migration cost.[10]

There are different issues faced by migrant workers at the destinations such as violation of human rights, including labour rights, harassment, and abuse at the work place. According to data from the Sri Lanka Bureau of Foreign Employment (SLBFE), in 2010, the majority of complaints related to breach of employment contract (21 per cent) followed by the non-payment of agreed wages (20 per cent). The non-payment of the agreed wage is the most common complaint among female migrant workers (9 per cent) while the breach of employment contract is the most common complaint among male migrant workers (39 per cent). In addition, a consid-

Figure 9.2
Departures for Foreign Employment by Manpower Groups (1994-2011)



Source: SLBFE, *Annual Statistics Handbook of Foreign Employment 2010*; CBSL, *Annual Report 2011*.

[9] Ukwatta, S.,(2010), "Economic and Social Impact of the Migration of Sri Lankan Transitional Domestic Workers on Families and Children Left Behind", PhD Thesis, Universtiy of Adelaide.

[10] Samaratunga, P., R. Jayaweera and N. Perera (2011), "Impact of Migration and Remittances on Investment in Agriculture and Food Security in Sri Lanka," Institute of Policy Studies of Sri Lanka, Colombo.

erable number of complaints are related to being stranded without employment, sickness, lack of communication, etc. Overall, the percentage of complaints received from male migrant workers are lower than those received by female migrants, which further confirms that females are more vulnerable to risks at destination compared to their male counterparts.

9.4.2 Country Level Issues

Unskilled labour migration is prominent in Sri Lanka's migration patterns. Figure 9.2 shows that both skilled and unskilled labour categories have recorded significant increases in migration for foreign employment. The share of professional and clerical related categories to total departure still remains at very low levels.[11] As mentioned earlier, around 67 per cent of total migrants fall in to the unskilled labour category, where there is a higher probability of vulnerability and lower wages.

Female migrants who seek foreign employment as housemaids overseas are still dominating, although the share has declined sharply from 60 per cent in 1994 to 41 per cent in 2011. The most important point with regard to the gender decomposition of migration is that, in 2010, male migrants dominated all manpower categories, except in the case of housemaids. Male domination is more significant in skilled categories such as professionals, skilled and semi-skilled groups. Contributing to the decline in female migration, besides the higher probability of risks faced by female migrants, is also social issues such as child care arrangements, family breakdowns, and increased alcohol usage by such male-headed migrant households.

The Middle East region continues to dominate the foreign employment market, accounting for more than 90 per cent of total departures from the country. Within the Middle East region Saudi Arabia, Qatar, Ku-

Table 9.3
Supply Gap by Skills Level, 2009

Occupation Category	Demand	Supply	Supply Gap	% of Unutilized
Professional	4,798	2,820	1,978	41
Middle level	7,043	6,392	651	9
Clerical & related	16,237	6,706	9,531	59
Skilled	265,453	61,230	204,223	77
Semi-skilled	12,501	6,036	6,465	52
Unskilled	120,034	50,158	69,876	58
Housemaid	356,157	113,777	242,380	68
Total	784,232	247,119	537,113	68

Notes: Supply = Total Departures. There are major limitations in the data pertaining to the demand for jobs from overseas – i.e., the number of vacancies has been artificially increased as the same job order is distributed among a number of recruitment agents in Sri Lanka. Thus, the analysis on supply gap may be an overestimate.

Source: Compiled using data from SLBFE, *Annual Statistics Handbook of Foreign Employment 2009*.

[11] It is important to point out that the data pertaining to professional/high skilled categories are underestimated due to the fact that most such migrants tend to migrate on self-and-settlement bases, as opposed to registering with the SLBFE.

wait, and the United Arab Emirates (UAE) account for 80 per cent of such departures. Saudi Arabia is the major importer of Sri Lankan migrants, compared to the other countries in the region.

The mismatch between the international demand for jobs and its supply capabilities is one of the major issues in Sri Lanka related to the international migration. As depicted in Table 9.3, this mismatch is more significant with regard to skills that are demanded by foreign countries.[12] The highest percentage of unutilized employment opportunities is observed in the skilled level (77 per cent), whilst the lowest is observed in the middle level (9 per cent). It further explains that current demand from overseas is mainly for skilled labour, while Sri Lankan labour migration is concentrated on housemaids and low skilled categories. It is also significant to note that even as the majority of Sri Lankan migrant workers are made up of housemaids, 68 per cent of employment opportunities remained unutilized in this sector.

9.5 Way Forward

To address the issue of skills mismatch, the skills of potential migrant workers should be enhanced. The key solution for this is the initiation of training programmes. The 2012 Budget proposals clearly acknowledged the lack of formal training institutes for migrant workers in Sri Lanka. In response, it proposed the enhancement of selected hotel schools and technical colleges into special foreign employment institutes. However, policymakers should consider the local labour market conditions, especially the demand for some skills, when promoting high-skilled migration with the objective of earning more foreign exchange.

Due to the unskilled nature of migrant labour, limited destinations, and demand and supply mismatches, there is scope for Sri Lankan migrant workers to look into new labour markets. Penetration into new labour markets is twofold: searching for new geographical labour markets and searching for employment opportunities, with enhanced skills, in the existing markets. Therefore, both existing and emerging markets should be explored. Existing markets are mainly in the Middle East. Though they have been tapped for a long time, they are not yet saturated. In addition, there are emerging markets in countries like Canada, Italy, Cyprus, Israel, Malaysia, Singapore, and South Korea. Direct government involvement is an important way of penetrating into new labour markets through MOUs and bilateral agreements. Strengthening organizational linkages is another way, whereby Sri Lankan embassies overseas can play a role in promoting Sri Lankan labour in those countries, as well as engaging in the provision of information on job placement and skills requirements in relevant countries.

Protection and welfare of Sri Lankan migrants is a responsibility of the government as there are a number of human rights violation cases recorded. Human rights at the destination countries can be ensured through bilateral agreements between sending and receiving countries. In this aspect, it is important to identify where migrants face the most problems. In 2010, 47 per cent of the complaints were from Saudi Arabia, followed by Kuwait (21 per cent). Comparative figures for total departures for foreign employment reflect the high share with Saudi Arabia and Kuwait carrying about 45 per cent of the total. In Jordan, although the complaints constituted a high share of total complaints (about 9 per

[12] These data have to be read with caution as the demand figures are based on what recruitment agencies provide and there can be duplication of the same job by the provider.

cent), the total departures to Jordan were only 3.5 per cent of total departures. Also, 3 per cent of complaints received are from Lebanon where only around 2 per cent of total departures are recorded. It is important to note here that only around 7 per cent of complaints are recorded in U.A.E where almost 15 per cent of total departures are recorded. In addition to human rights at the destinations, social welfare of the returnee migrants should be ensured as the majority of migrant workers do not contribute to a formal social protection scheme in the domestic economy.

One of the major barriers in planning and management of migration in Sri Lanka is the limited or incomplete statistics on migration. The SLBFE is the most reliable data source, but there are problems. Only those who register with the SLBFE are captured in the statistics for temporary labour migration on contract basis, leading to significant underestimates.[13] Therefore, a strengthening of databases should be undertaken through a more integrated data collection mechanism, in association with the Department of Immigration and Emigration and other stakeholders. In addition, developing a data base of trained labour in different vocational training programmes, who are willing to migrate will be valuable. It will allow employers to get an idea of the potential labour supply. The present database of SLBFE captures only departing migrants. However, returnee details should also be collected as a requirement for proper assessment of net migration stock, and for the planning of productive reintegration programmes.

[13] They are mostly unskilled workers – housemaids, and semi-skilled workers primarily focusing in the Middle Eastern region for employment. As most of the workers in professional, and high skilled categories seek job opportunities directly, and migrate under the general emigration laws of the receiving country, mostly on settlement basis, they do not register with the SLBFE.

10. Supporting Growth through Enhanced Foreign Direct Investment

10.1 Introduction

With the return of peace, Sri Lanka is at a threshold of economic growth and development. Whilst the country has already made a rapid recovery in GDP growth, sustaining this growth momentum into the long term will require a substantive increase in investment. Sri Lanka is currently bridging its savings-investment gap by resorting to higher volumes of foreign borrowing. A more satisfactory means, however, is to tap into other sources of external finance such as FDI. Indeed, FDI brings cumulative benefits in the form of skills, knowledge, and technology-transfer that are critical to sustaining productivity growth for an economy aiming to sustain an accelerated growth momentum in the long term. Since embarking on a liberal economic policy platform from the late 1970s, Sri Lanka's efforts to attract high volumes of FDI have been hampered by political instability as a consequence of the country's separatist conflict. With the ushering in of peace, the country is in an ideal position to harness the gains from FDI towards its national development effort. The aim of this discussion is to explore and shed light on the opportunities and constraints that Sri Lanka faces in aiming to attract more FDI in the current global environment.

> ***Sri Lanka has potential to sustain and enhance its growth by attracting export-oriented FDI, in light of current changes in the international organization of production and its comparative advantage in labor-intensive manufacture***

10.2 The Changing Role of FDI in Developing Countries

FDI can be defined broadly as 'the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another country.'[1] FDI could be categorized broadly into import-substituting FDI and export-oriented FDI. The former (also referred to as 'market-seeking FDI') is undertaken by multinational enterprise (MNE) affiliates with the objective of serving the domestic market in the host

[1] IMF (1993), *Balance of Payments Manual (5th Edition)*, International Monetary Fund, Washington D.C.

country. Export-oriented FDI (or efficiency-seeking FDI) on the other hand, refers to cross-border investments undertaken in MNE affiliates engaged in production to service the wider global market.

Historically, FDI flows to developing countries have been dominated by import-substituting FDI. In the face of increased trade protection, MNEs, in their bid to uphold former export markets, resorted to undertake tariff-jumping FDI. Over the last two decades, in light of the role of export-oriented FDI in the 'Asian Tiger' economies, the discussion on FDI in developing economies revolved extensively around export-oriented FDI. Export-oriented MNEs disperse production activities geographically across national boundaries, with the fundamental premise of exploiting differences in the availability and relative cost of traditional factor endowments in different geographic regions in the pursuit of maximizing profits.

Export-oriented FDI is, however, not a homogenous phenomenon. Rather, it is a complicated and finely differentiated means of globalization of production.[2] Opportunities available for a particular host-country to attract export-oriented FDI are largely dependent upon the appropriate typological characteristics, the investment climate and the changing patterns of international production in the global context. Three important distinctions could be drawn in relation to the different categories of export-oriented production activities, namely; (i) resource-based manufacturing, (ii) labour-intensive final consumer goods, and (iii) assembly processes within vertically integrated global production systems; each having its unique determinants in terms of site-selection. MNE involvement in a host country is primarily reliant upon the existence of the relevant natural resources. For the second and third product categories, the abundance of low cost labour is more the pertinent factor. It is generally considered that the natural starting point for a typical developing country in the process of export-oriented industrialization (EOI), is the production of labour-intensive consumables such as clothing, footwear and sports goods.

Since the late 1960s, the phenomena of international production fragmentation (also referred to as global production sharing) has become a noticeable and important feature of the international division of labour. International production fragmentation refers to the cross-border dispersion of component production/assembly, within vertically integrated production processes. This has witnessed labour-intensive component production and assembly within vertically integrated international industries increasingly being located in developing economies. This practice is now seen in a number of industries where technology permits industries to separate labour-intensive production from other production activities. Component assembly within the electronics industry is still by far the most dynamic. Other industries include electrical appliances, automobile parts, electrical machinery, watches and cameras. Concerns have been raised that as a consequence of rapid advancements in the automation of production processes in industrial economies, the process of international specialization may be reversed. Notably however, in a number of high-tech industries, the pace of cyclical change and obsolesces as a consequence of rapid innovation and continuous technical change, the automation of production processes has proven to be a formidable challenge. In this light, the indications are that global production sharing is set to intensify and continue well into the future.

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[2] Athukorala, P., (2006), "Product Fragmentation and Trade Patterns in East Asia," *Asian Economic Papers*, Vol. 4, No.3.

Furthermore, by the mid-1980s, successful indigenous enterprises of the newly industrialized economies (NIEs) had become key overseas investors in their own right. In their quest to maintain competitiveness in the face of rising cost pressure at home, these so called Third World MNEs have turned to investing in latecomers. The intermediary role played by these 'Third World MNEs' in linking latecomers to the global economy is anticipated to intensify in the future. Unlike MNEs from industrial economies, they are more accustomed and readily adaptable to operating in difficult business environments exhibited in developing countries. It is also argued that these MNEs, having developed specialized knowledge of small-scale labour-intensive production processes in the manufacture of standardized products, possess a competitive advantage over indigenous firms and MNEs from industrial countries operating in latecomer environments.

In essence, globalization has brought about profound changes to the manner in which international production is organized. Considering these developments, Sri Lanka, given its comparative advantage in international production (i.e., labour-intensive manufacture), has ample opportunities to link its economy to the global economy by engaging in labour-intensive component manufacture/assembly within vertically integrated and/or tightly controlled production processes. Export-oriented FDI has surged in importance as the principal channel through which latecomers can exploit these opportunities. Improving the investment climate and revamping the policy-induced incentive structure in order to exploit the opportunities presented is seen as paramount priority for latecomers to support growth through EOI.

10.2.1 Determinants of Export-oriented FDI

Having a comparative advantage in international production may not necessarily guarantee the involvement of MNEs in the export expansion of a host country. Rather, a host of other factors also influence the MNE site selection process. More specifically, it could be argued that 'the relative attractiveness of a given country for export-oriented FDI depends on both its comparative advantage in international production and the investment climate.'[3] The term 'investment climate' entails both the general business environment and the foreign investment policy regime.

The natural starting point for all latecomers is getting the 'fundamentals' right. More explicitly, 'fundamentals' refers to the general business environment. Political stability is deemed fundamental to attract all forms of FDI. Export-oriented MNEs engaged in hi-tech industries compared to 'footloose' export-oriented MNEs, who are engaged in light consumer goods industries, and are particularly sensitive in this regard. Investment undertaken by MNEs in globally integrated hi-tech industries such as electronics and electrical goods involves far greater sunk costs. Furthermore, given that these MNEs most often employ and/or service other MNEs which employ modern production management techniques such as, just-in-time and total quality management which maintain zero inventory systems, disruptions along the value chain would prove detrimental in ensuring timely delivery of the end product to the market. Thus, unlike MNEs involved in the light consumer goods industries (e.g., clothing, footwear and sport goods), MNEs in hi-tech industries place a far greater emphasis on political stability and policy continuity. Thus, MNEs in the hi-tech industry

[3] Athukorala, P., (1995), "Foreign Direct Investment and Manufacturing for Export in a New Exporting Country: The Case of Sri Lanka,' *The World Economy*, Vol. 18, No. 4.

seek far more stable political climates within which to operate.

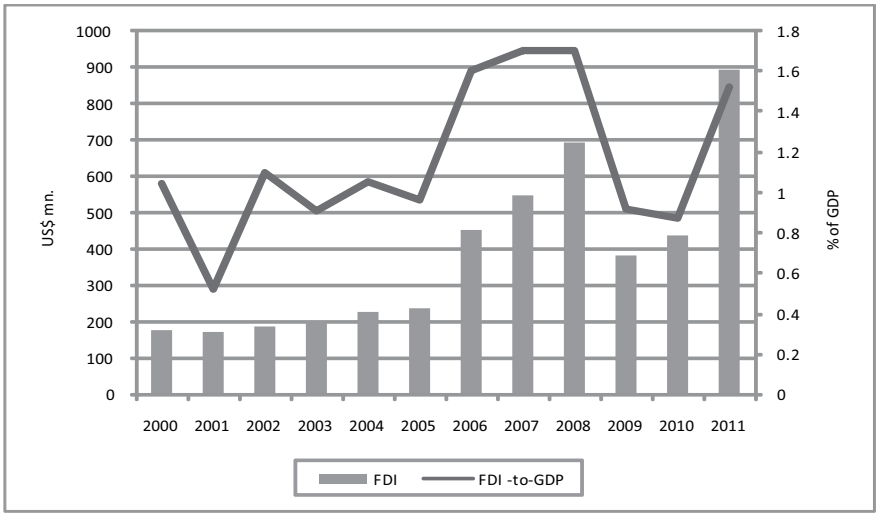
Other factors, which constitute the investment climate, range from macroeconomic stability, the orientation of the trade policy regime, foreign investment policy regime, labour market policies, the strength and quality of judicial and regulatory institutions, and the availability and access to infrastructure.

10.3 Trends and Patterns of FDI in Sri Lanka

Consistent with Sri Lanka's comparative advantage in international production, standard labour-intensive manufacture was the most attractive sector for FDI. Thus, Sri Lanka's initial spurt of FDI was into manufacturing, with a heavy concentration of export-oriented foreign enterprises involvement in the textile and garment industry. Indeed, the uncertainties related to the long separatist conflict tended to reinforce the trend towards more of this 'footloose' type of FDI that did not require significant capital investment nor production process networks. Other notable industries that drew in FDI included footwear, travel goods, plastics, diamond cutting, and jewellery manufacture. From the 1990s, the sectoral distribution of FDI in Sri Lanka started to move away from manufacturing and into services activities with the initiation of moves to de-regulate and privatize SOEs in areas such as utilities. As such, nearly 60 per cent of FDI inflows have been concentrated in the services sector over the last decade. It is also noteworthy that only a handful of major MNE engaged in export-oriented manufacture has setup operations in Sri Lanka over the last decade, and that export-oriented FDIs have remained heavily concentrated in the labour-intensive light consumer goods sector.

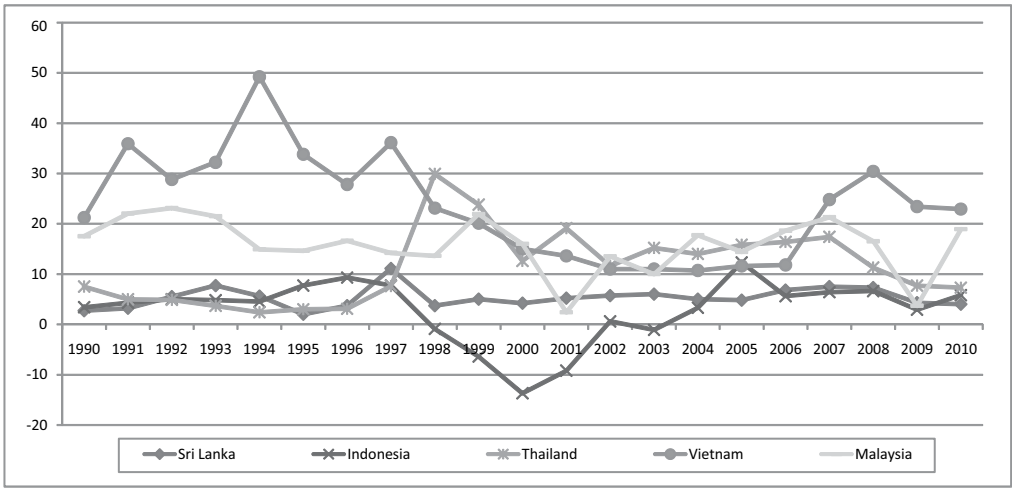
As clear from Figure 10.1, FDI inflows have risen steadily in recent years despite the unfavourable security climate during this time. The major drivers for FDI during 2006-08 were in areas such as energy and telecommunications. In the aftermath of the global financial crisis, FDI flows deteriorated sharply, but picked up in the post-conflict era, with a noteworthy jump in FDI in 2011 mainly as a result of renewed interest in the leisure sector following the revival of tourism prospects in the country.

Figure 10.1
Trends in FDI Inflows to Sri Lanka (1990-2011)



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

Figure 10.2
FDI Flows as a Percentage of Gross Domestic Capital Formation (GDCF)



Source: Based on data compiled from UNCTAD, *World Investment Report 2010: Investing in a Low Carbon Economy*, United Nations, Geneva.

Sri Lanka's performance has been relatively lacklustre when assessed against peer competitors (Figure 10.2). Noticeably, Vietnam, another latecomer to the process of EOI, which reoriented its industrial policy a good three years further down the road than Sri Lanka in 1980, has been far more successful in attracting FDI. When benchmarked against the performance of newly industrialized economies such as Thailand, Malaysia and South Korea, Sri Lanka's track record is even weaker.

10.4 Opportunities for a Latecomer:[4] Sri Lanka

The ensuing section will assess the consistency of Sri Lanka's policy regime for exploiting the opportunities present to attract greater volumes of FDI. The Sri Lankan experience will be compared to countries such as Thailand, Malaysia, Philippines, Bangladesh and Vietnam. India has been left out of the comparative analysis as its attractiveness in terms of FDI has been heavily geared towards investments in services.

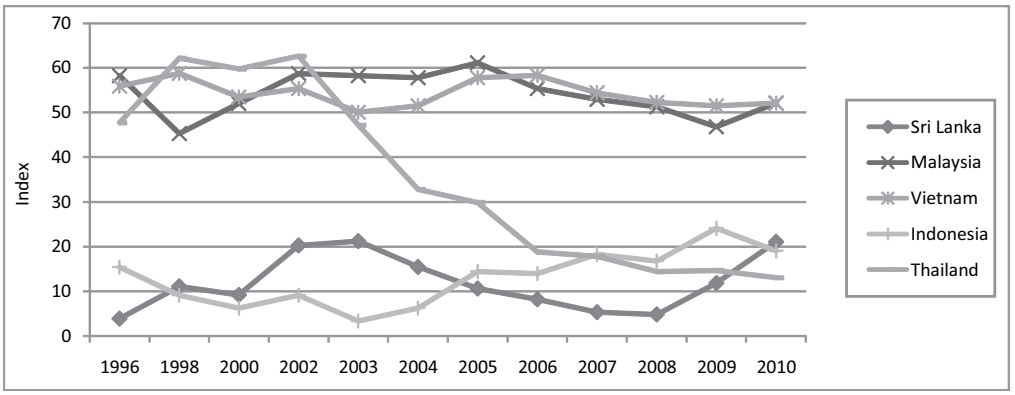
10.4.1 The Political Environment

Political instability was a major impediment to Sri Lanka's prospects for attracting FDI. Prior to the escalation of the separatist conflict in 1983, two MNE giants in the electronics industry, namely Motorola and Harris Corporation, were particularly eager to setup export-oriented ventures within the country, to the extent that both companies had been in the process of establishing the required infrastructure to commence operations. Brewing political instability, as a consequence of the escalation in violence, triggered both companies to abandon their investments, leading to their subsequent withdrawal in search of safer pastures. In the end, Malaysia proved to be the preferred destination.

As can be noted from Figure 10.3, throughout much of the 1990s and up until the end

[4] The term latecomer exporting countries refers to developing countries which are gradually orienting themselves towards specializing in manufactured exports in their attempt to replicate the success of the NIEs of East Asia.

Figure 10.3
Political Stability and Absence of Violence Indicators



Note: a. The index varies between 0 (worst score) and 100 (best score).
Source: Compiled from data obtained from World Bank (2011), World Governance Indicators Database.

of the separatist conflict, the political climate had remained largely unfavourable. With the conclusion of the conflict in May 2009, the political climate has shown signs of stability and improvement. Despite this recent upward trend, the level of confidence in the political environment, compared to other more advanced developing economies such as the NIEs, is moderate and still far from attractive to entice investors in hi-tech industries. With the return of peace, it is envisaged that the renewed confidence in the Sri Lankan political climate will be sustained over the long term to better enhance the country's prospects for attracting export-oriented FDI.

10.4.2 Trade Policy Regime

From around 2001, the relatively liberal trade policies of the preceding decades saw some reversals with the introduction of the unfettered use of para-tariffs. By 2009, in addition to Customs duties -- the principal tariff levied on imports – nine other border charges and fees (i.e., para-tariffs) had been introduced. By January 2011, two of these para-tariffs were withdrawn. However, the average level of tariff protection remains significantly higher than before. The level of para-tariffs imposed on industry increased more than four-fold, from 2.5 per cent in November 2002 to 10.6 per cent by January 2011.[5] Whilst export-oriented ventures under the BOI scheme are exempt from Customs duties, they are still liable to incur border charges and fees on importation of both, capital goods and raw materials, which can erode the competitiveness of exports.

In addition to the levying of para-tariff on imports, the Budget of 2011 saw the introduction of para-tariffs in the form of cess on exports of all commodities in raw and semi processed form. Exports of finished goods are, however, exempt from such levies. The stated rationale behind such a policy stance has been to encourage domestic value addition. However, such requirements suffice as local-content requirements which are deemed inconsistent with attracting export-oriented

[5] Purcell, G., and F.M.Z Ahsan (2011), "Sri Lanka's Trade Policies: Back to Protectionism," Working Paper No.2011/03, Australia South Asia Research Centre, Australian National University. Integrated Learning and Implications for Science and Technology Policy", *Technological Forecasting and Social Change*, Vol. 66, No. 1.

FDI, particularly given the present context and intensity of international production fragmentation.

10.4.3 Labour Market Policy

Sri Lanka is argued to have a long history of trade unionization and worker militancy.[6] These trade unions wield significant political influence and are driven by political agendas. Given the high degree of politicization, historically, governments were of the view that worker protection was a central priority. Labour market policies have remained largely unchanged over the decades and still reflect this view.

Whilst the strength of trade unions threaten to pose obstacles to private investment, the more serious and immediate impediment to investors lie in terms of labour redundancy and associated costs. As per the Termination of Employment of Workmen (Special Provisions) Act (TEWA) of 1971, employers require consent from the Commissioner of Labour, with the exemption of dismissal on serious disciplinary infraction. It is also noted that severance pay associated with redundancy dismissal is highly excessive, particularly considering the levels established by Sri Lanka's peers (see Table 10.1). The above elements of labour market rigidities lead to two forms of difficulties for investors. Firstly, investors lack the flexibility to restructure their labour force in response to future market conditions and technological change, since redundancy costs are too high. Secondly, investors are unable to assess the true cost of labour as restructuring and exit costs are unknown and may be very high. These impediments can be detrimental in attracting export-oriented FDI in labour-intensive manufacture, given that these enterprises operate in a highly volatile global environment and thus require the flexibility to restructure their operations in response to global events in order to remain competitive.

10.4.4 Institutional, Regulatory and Infrastructure Quality

In terms of institutional and regulatory quality indicators, Sri Lanka's position is mediocre. Bureaucratic red tape and corruption are areas of concern. The judicial system in particular is marred by excessive delays, prompting investors to often pursue out-of-court settlements. Obtaining access to essential infrastructure services is subject to considerable delay (see Table 10.1). Considering these and other institutional and regulatory impediments, Sri Lanka's ranking in terms of the 'Ease of Doing Business' index is poor, coming a distant 102 out of 183 countries surveyed by the World Bank.[7]

10.4.5 Foreign Investment Regime and Policy Induced Incentives

Sri Lanka's average measures of openness to foreign equity ownership are comparatively liberal. Another notable area where Sri Lanka has progressed pertains to the strength of laws enacted to safeguard the interests of foreign investors. In other aspects of FDI regulation however, Sri Lanka is lagging well behind its peers. In terms of the time involved in setting up a fully-fledged foreign venture, the ease of establishing a foreign venture, and judicial assistance extended to foreign enterprises in arbitrating commercial disputes, Sri Lanka's standing is markedly poor (see Table 10.1).

The prevailing foreign investment approval process gives preferences to projects investing substantial amounts of capital, are agree-

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[6] Athukorala, P., and S. Rajapatirana (2000), *Liberalisation and Industrial Transformation: Sri Lanka in International Perspective*, Oxford University Press, New Delhi.

[7] World Bank (2012), *Doing Business in a More Transparent World: Comparing Regulation for Domestic Firms in 183 Economies*, World Bank, Washington, D.C.

able to undertake high-levels of domestic value addition and the willingness of investors to locate in difficult regions (i.e., North and East provinces) of the country whilst ignoring a project's capability to generate employment, technology spill-over and its export potential. FDI in services are given prominence over manufacturing with IT, BPO and tourism receiving the greatest prominence in terms of investment promotion and qualification for special incentives. This however, neglects the potential of export-oriented manufacturing in linking Sri Lanka to the global economy.

There can also be other adverse signals to investors. In November 2011, Sri Lanka enacted legislation titled 'Revival of Underperforming Enterprises and Underutilized Assets' in Parliament. Under the Act, the control of underperforming and underutilized assets of 37 private companies is to be transferred to the government. Whilst Sri Lanka currently provides constitutional provisions against expropriation of foreign-owned assets, such legislation is bound to give an undesirable signal, undermining confidence of both, domestic and foreign investors.

Sri Lanka offers a host of fiscal incentives to foreign investors setting up export-oriented ventures through the BOI. These include tax holidays, the duty free importation of project-related capital goods and raw material, and exemption from exchange control requirements for companies engaged in the export of more than 90 per cent of its output. For investors to qualify for BOI concessions, a minimum paid-in capital threshold of Rs. 50 million (approximately US$ 380,000) has been stipulated. Furthermore, access to these incentives also depends on meeting a 35 per cent domestic content requirement.

Considering that Sri Lanka has to compete with other developing nations for FDI, it is crucial that policy-induced incentives are utilized to make the country more attractive to foreign investors. However, the minimum paid-in capital requirement seems excessive given the thresholds established by other developing countries (see Table 10.1). Further, the domestic content requirement of 35 per cent, too, seems inconsistent given the degree of international production sharing, and Sri Lanka's prospects in attracting export-oriented FDI in labor-intensive component assembly/manufacturing within vertically integrated and/or tightly controlled production systems.

10.5 Conclusion and Policy Recommendation

Sri Lanka, in light of on-going changes in the international organization of production and its comparative advantage in international production in labor-intensive manufacture, has the potential to sustain and enhance its growth potential by attracting export-oriented FDI. In order to achieve this objective, it is vital to build on the liberalization reforms carried out and sustained during the past three decades. In this regard, rationalization of the country's external trade policy regime is needed to make exports more competitive. The FDI approval process must be made more accommodative of other considerations such as a potential of a project to generate employment and technology spill-over, whilst the process must also be streamlined and made more transparent to minimize hindrances to foreign investors. Further, eligibility criteria for investors to qualify for BOI concessions must be re-assessed to more appropriate levels. In other aspects of the investment climate, any constraints posed by regulations pertaining to labour laws, bureaucratic red tape and corruption must be addressed to enhance the ease of doing business, in order to make Sri Lanka a more attractive destination for foreign investors

Table 10.1
Key Indicators for an Attractive FDI Destination

Indicator	Bangladesh	Sri Lanka	Vietnam	Philippines	Thailand	Indonesia	Malaysia
Labour Market Indicators							
Severance pay for redundancy dismissal (weeks of salary)	26.3	54.2	23.1	23.1	31.7	57.8	17.2
Notice period for redundancy dismissal (weeks of salary)	4.3	4.3	0.0	2.4	1.3	0.0	6.7
Third party approval if 1 worker is dismissed?	No	Yes	Yes	No	No	Yes	No
Governance Indicators							
Corruption Perception Index (0-Worst Score, 10 – Best Score)	2.4	3.2	2.7	2.4	3.5	2.8	4.4
Rule of Law (0-Worst Score, 10 – Best Score)	26.5	52.6	38.9	34.6	49.8	31.3	65.4
Government effectiveness (0-Worst Score, 10 – Best Score)	21.5	49.3	44.0	57.1	58.4	47.8	82.3
Regulatory quality (0-Worst Score, 10 – Best Score)	21.5	45.5	31.0	44.0	56.5	39.7	71.3
Access to Essential Infrastructure							
Dealing with construction permits [No. of procedures/ (Time –Days)]	11/(201)	18/(217)	10/(200)	30/(85)	8/(157)	13/(158)	22/(260)
Obtaining electricity [No. of procedures/ (Time –Days)]	7/(372)	4/(132)	5/(142)	5/(50)	9/(35)	7/(108)	6/(51)
Registering property [No. of procedures/ (Time –Days)]	8/(245)	8/(83)	4/(47)	8/(39)	2/(2)	6/(22)	5/(48)
Establishing a Foreign Venture							
Starting a foreign business [No. of procedures/ (Time –Days)]	55/(9)	6/(65)	94/(12)	17/(80)	9/(34)	12/(86)	11/(14)
Ease of Establishment Index (0-Worst Score, 100 – Best Score)	55.3	47.9	57.9	57.9	60.5	52.6	60.5
Strength of Laws index (0-Worst Score, 100 – Best Score)	84.9	95.4	84.9	95.4	84.9	95.4	94.9
Ease of Process Index (0-Worst Score, 100 – Best Score)	67.5	71.9	81.8	87	81.8	81.8	81.8
Extent of Judicial Assistance index (0-Worst Score, 100 – Best Score)	55.3	38.0	57.5	33.7	93.5	41.3	66.7
Minimum paid in capital requirements (~US$)	0	380,000	0	200,000	92,800	N/A	N/A

Source: Transparency International (2011), *Corruption Perception Index: 2011*; World Bank (2010), *Investing Across Borders 2010: Indicators of Foreign Direct Investment Regulation in 87 Economies*; World Bank (2011), *World Governance Indicators Database*; World Bank (2012), *Doing Business in a More Transparent World: Comparing Regulation for Domestic Firms in 183 Economies*.

11. Looking Beneath Global Rankings and Sri Lanka

11.1 Introduction

An online search of global rankings of countries brings up a dizzying array of indices. From government and gender to competitiveness and corruption, there is an index for nearly everything. Some are relatively obscure and infrequent, while others receive global attention, are published annually, and feature prominently in the policy discourse. Some, like the 'Doing Business Index', are especially relevant to Sri Lanka and their findings particularly important to take note of, and address the challenges that they bring to light. Others, like the 'Most Expensive Cities in the World Survey,' may not be especially relevant for a country like Sri Lanka. Many indices provide room for governments and policymakers to take action to improve a country's rankings, while others use fairly abstract information and measure characteristics of a national economy which are harder to address. There are also differences in the information sources used to compile the rankings. Some indices use annual perceptions surveys which are standardized across countries, while other indices are composites of further indices. The 'Global Competitiveness Index,' for example, uses executive opinion surveys with structured questionnaires standardized across all countries the survey is carried out in. Meanwhile, indices like the 'Index of Economic Freedom' and 'Economic Freedom of the World' are compiled mostly by using existing secondary data sources from organizations like the World Bank, IMF, and Economist Intelligence Unit (EIU).

> ***"Exploring the mainsprings of global ranking indices would expose important policy handicaps, while giving policymakers a clearer insight to help boost Sri Lanka's performance in global rankings"***

11.2 Global Indices - Take With a Pinch of Salt?

Compiling global indices that are free of controversy or contention is not easy. Using, for example, measures of economic freedom in comparisons across countries is questionable given various concerns regarding their reliability. On the theoretical side, in the final analysis, many indices are not very sensitive to substantial variations in the weights of different components. Comparisons are also marred by differ-

ences in collecting statistical data across countries, on which these indices are based. The data collection processes themselves have come under severe criticism.[1]

However, it must be stated that while the appropriateness of a particular index or the credibility and accuracy of its findings deserve questioning, and politicians and bureaucrats often do have serious contentions with these indices (particularly when the country performs poorly on certain indicators), it cannot be denied that many of these global indices are widely published and gain global attention. This makes it crucial that they are duly recognized by national governments and are taken seriously. Particularly for a country like Sri Lanka, with a small open economy competing for trade and investment with other dynamic players in the region, these indices ought to matter. Often, when investors arrive in a country to arrange investment deals, they cite the country's performance on these indices, and negotiate based on them. This is a particular challenge for investment promotion agencies, like the BOI, where investors would negotiate tax breaks and generous fiscal and other concessions, based on the country's good or weak performance on global indices. This was a particular challenge during the conflict era in Sri Lanka.

Yet, despite domestic media featuring quite heavily several of the indices relevant to contemporary Sri Lanka when they are released globally, and with government officials and politicians frequently citing Sri Lanka's improvements on them, there is very little debate and discussion on these indices; their appropriateness, their accuracy, their relevance, their measurement, or indeed how best to address the policy challenges that they pose. This discussion is a preliminary attempt at drawing out these issues using a selected set of global indices, in the hope that it stirs a deeper debate.

11.3 Doing Business Index

The 'Doing Business Index' (DBI) prepared by the World Bank, is an index that ranks countries according the 'ease of doing business,' within their borders. A fundamental premise of the DBI is that economic activity requires good rules, including well defined property rights, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse.[2] The DBI looks at domestic, primarily small and medium-sized companies, and measures the regulations applying to them.

Data for the DBI is collected in a standardized way, and the countries are evaluated according to various aspects related to the ease of doing business -- starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. One of the key features of the DBI is that it not only highlights the extent of specific regulatory obstacles to business, but also identifies their source and points to what might be reformed.

In 2012, Sri Lanka was ranked at 89 out of 133 countries, just above China (91) and Vietnam (98), and well above Bangladesh (122), Indonesia (129) and India (132). Singapore, Hong Kong and New Zealand were ranked as the top three countries in the DBI for that year.

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[1] Anecdotal evidence in the past suggests instances where surveys are conducted by foreign consultants at the departure lounge of the Sri Lankan airport, with interviews being carried out fleetingly with one locally-based consultancy firm.

[2] World Bank and IFC (2012), *Doing Business 2012*, World Bank and International Finance Corporation, Washington D.C.

Box 11.1
Issues with the DBI Methodology

The methodology of the DBI is claimed to be transparent; using factual information about what laws and regulations say, and allowing multiple interactions with local respondents to clarify any possible misinterpretations of questions. However, a World Bank (2008) report titled "Doing Business: An Independent Evaluation," found issues in its transparency as the DBI makes ongoing changes to previously presented data that would affect already ranked countries. The report recommended that the DBI web site "disclose all data corrections and changes as they are made, explaining their effect on the rankings to rectify this error" (p. xvii).

Another problem in the DBI methodology is that it assumes that a business has full information on what procedures are required and does not waste time when completing procedures. However, in reality, completing a procedure may take longer if the business lacks information or is unable to follow up promptly. Likewise, the business may choose to disregard some burdensome procedures or may find informal ways of side-stepping them. For both reasons the time delays reported in the DBI would differ from surveys based on perception.

Despite the fairly good data collection methodology discussed above, the DBI does have a few limitations that Sri Lankan stakeholders must be cognizant of when interpreting the data. These have, in fact, been acknowledged in the report itself. One of its major drawbacks is that the collected data refers to the businesses in the 'economy's largest business city' and may not be representative of regulations in other parts of the country.[3] This is particularly relevant to a country like Sri Lanka as the differences between the business environment in Colombo and the rest of the country can be quite significant. Local government regulations pertaining to business registration, trade licenses, etc., can be tedious, and can also vary widely according to the capabilities and business-friendly nature of each local authority. This was clearly revealed in an assessment conducted by The Asia Foundation (TAF) – the Economic Governance Index[4] which evaluated the business environment for private enterprises in the regions through perceptions surveys of stakeholders at the local level.

A particular indicator on which Sri Lanka might be unfairly penalized for is in the 'taxes, incentives and paying taxes' pillar. In Sri Lanka, the statutory contributions to the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) pension funds have been counted as separate payments – a total of 24 payments. It is reported that the CBSL is negotiating the status of these payments with the International Finance Corporation (IFC) to consider these payments as one per year, per fund.[5] The same is true of VAT payments, for which the Inland Revenue Department allows payments every quarter (considering cash flow issues of smaller firms), but the DBI has assumed these are excessive multiple tax payments and it results in lower scores on the 'paying taxes' pillar.

Time lags are also an issue, as reforms made in the current year may not be captured in

[3] *Ibid*.

[4] The EGI, thus ranks 48 Municipal and Urban Council localities across 7 of the 9 provinces in Sri Lanka. The survey spans 4,969 firms within 48 Local Authority boundaries, consisting of 15 Municipal Councils and 33 Urban Councils. See TAF (2007), *Economic Governance Index: A Measure of the Local Enabling Environment for Private Enterprise in Sri Lanka*.

[5] 'Improving the Business Climate in Sri Lanka', *The Island*, available at http://www.island.lk/index.php? pagecat = article-details&page = article-details&code_title = 41627

that year's report. For instance in Sri Lanka, in 2011, the Ministry of Finance reduced rates of a number of direct and indirect taxes as well as eliminated some. However, these did not get reflected in the 2011 DBI report.

Through a high-level government task-force, efforts are underway to address weaknesses highlighted in the DBI with the goal of improving Sri Lanka's ranking, in turn with the intention to improve Sri Lanka's attractiveness to foreign investors. Yet, there is a critical flaw in this approach because the DBI is based on the ease of doing business for domestic, particularly small and medium-sized businesses, as clearly articulated in methodology sections of DBI reports. In other words, the benchmark firm of the DBI is not a foreign firm, but a domestic one. Therefore, business regulation issues that particularly impact foreign investors may not get captured. Also, the issues faced by larger firms may also be missed.

Therefore, focusing exclusively on rising up the DBI rankings and assuming that it is the complete remedy to the country's business regulation bottlenecks may not be prudent.

11.4 Network Readiness Index

The 'Network Readiness Index' (NRI) measures the degree to which developed and developing countries across the world leverage ICT to enhance competitiveness. It is a part of the Global Information Technology Report (GITR) produced by the World Economic Forum (WEF) in collaboration with the INSEAD Business School.

NRI comprises of three sub-indices that measure the environment for ICT in a country. These three sub-indices are; the environment sub-index, the readiness sub-index and the usage sub-index. Under these sub-indices, NRI covers a total of nine pillars and 71 variables. The final NRI score is a simple average of the three composing sub-index scores, while each sub- index's score is a simple average of those of the composing pillars. In doing this, the index assumes that all components contribute equally to national 'network readiness.'

In the latest rankings, out of the 133 countries listed in 2012, Sri Lanka is ranked 71st with a score of 3.88. However, its position among the South and South East Asian countries appears to have improved considerably. It is now ahead of Thailand (77) and Indonesia (80), and just behind India (69). But it is important to point out that these latest rankings of the index cannot be compared with previous years as the index has now been "radically reworked" for the 2012 report.[6] Therefore, it can only be used as a figure to identify Sri Lanka's position against the rest of the world for 2012 and not for measuring improvement in, or deterioration of, the ICT environment in the country.

Among ICT-related global indices, the NRI has the most number of indicators and uses a combination of survey, quantitative and qualitative data. Since the indicators cover a wide array of ICT-related dimensions, as well as other dimensions that are not directly related to ICTs but may impact ICT environment, usage and readiness, the NRI is considered to be fairly comprehensive in its coverage.

11.5 Indices of Economic Freedom

There are a number of indices that measure economic freedom, but the 'Economic Freedom of the World Index' (EFW) is the most widely recognized due to its coverage of a

[6] http://lirneasia.net/2012/04/revamped-network-readiness-index-for-2012-out/.

Box 11.2
Key Concerns with the NRI

The NRI also has a few weaknesses. Even though the NRI is credited for having a fairly comprehensive coverage, as it includes indicators directly and indirectly related to ICT, it does not have a weighted system in which the indicators are weighed according to their relevance. For example, state of cluster development, number of utility patents, subsidies for R&D, administrative burden, efficiency of tax system, overall infrastructure quality, extent of staff training are factors common to a number of industries and may have little direct connection with the ICT environment, readiness, or usage per se. However, these indicators are also given the same weight, resulting in a country that would score higher on the aforementioned indicators, even though other direct indicators that are directly related to ICT are weaker.[7] The reverse is also true. This poses a challenge for national apex ICT bodies, like Sri Lanka's ICTA, who are constantly under pressure to improve country performance on global ICT-related rankings. However, due to the aforementioned nuances, which officials may not always be aware of, such ICT agencies may receive undue criticism of failing to deliver improved performances on these indicators.

Another problem that arises is that although the NRI is said to use 53 indicators in total to calculate the figures, the report only provides the scores for the main nine sub-indices. Under each of these sub-indices, there are other indicators that are indirectly or directly related to the ICT environment. However, as the report only gives the scores of the overall sub-indices (political and regulatory framework, business and innovation, infrastructure and digital content, affordability, skills, etc.) it is difficult to determine whether the direct indicators had more of an impact on the overall NRI score or whether it is a result of the indirect indicators. For example, variables like effectiveness of law-making bodies, efficiency of the legal system in settling disputes, laws relating to ICT, intellectual property protection fall under political and regulatory framework and are all given the same weightage, but in reality they have varying degrees of relevance to the ICT environment of the country. Since the report does not go beyond the 9 sub-indices, it is difficult to fully dissect which of the 53 indicators had more of an impact on determining the country's NRI score.

While the NRI includes several indirectly related indicators, it is also criticized for missing out some key indicators that are more directly related to the ICT environment. For example, it does not have an indicator that looks at market concentration (with measures like the Herfindahl-Hirschman Index, for instance) or degree of competition in ICT markets. A potential investor would be interested to know if the barriers to entry into a market, for example the telecoms market, are high or low. There are no indicators to measure mobile, fixed line, and internet growth. These areas undergo continuous, rapid change and this makes accurate and up-to-date measurement difficult, if not impossible. Nevertheless, these are critical forces shaping the ICT sector and should be considered as important components. Likewise, measuring the total investment in ICTs by businesses in a country may provide a better picture of usage than the current indicators, but the NRI does not include such components.

longer time period.[8] The EFW is an attempt by the Fraser Institute, based in Canada, to measure the degree of economic freedom in countries around the world. Another popular index that measures the same concept is the 'Economic Freedom Index' (EFI) by the

[7] Goswami, D., (2006), "A Review of the Network Readiness Index", < http://www.regulateonline.org/content/view/823/74/1/.

[8] Dawson, John W., (2007), "The Empirical Institution-Growth Literature: Is Something Amiss at the Top?", *Econ Journal Watch*, Vol. 4, No. 2, pp. 184-196.

Heritage Foundation, a US-based conservative think-tank and the Wall Street Journal, a news agency.

The EFW uses 42 data points to formulate a summary index and to measure the degree of economic freedom in terms of size of government (expenditures, taxes, and enterprises), legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labour, and business. The index rarely uses domestic data sources within the country and tends to rely primarily on external sources such as the IMF, World Bank, and WEF.[9]

The EFI is a series of 10 economic measurements created by the Heritage Foundation which touch on various aspects of economic freedom in a country. These areas are business freedom, trade freedom, government spending, fiscal freedom, monetary freedom, investment freedom, financial freedom, freedom from corruption, and labour freedom.[10] Each of the 10 areas is scored out of 100 with 100 being the highest level of economic freedom. The methodology however, has changed over time as various new data sources become available. For example, in 2007, labour freedom was given its own indicator with the increased availability of labour data.

In the latest reports of the EFW (2009), Sri Lanka is ranked 107 with a score of 6.12 (scored from 1 to 10), and for the EFI (2012) ranked 97 with a score of 58.3 (scored from 1 to 100) for the EFI. In the EFW index, Sri Lanka is ranked below most other South Asian and South East Asian countries, but in the EFI Sri Lanka is ranked above India, Pakistan and China.

However, there are a few concerns one should be mindful of. One main issue that arises is related to comparisons between countries. Such country comparisons are flawed to some extent because the differences in collecting data across countries are not accounted for. This can be particularly observed in the Sri Lankan context, in the pillar of labour freedom. Indeed, "the EFW index depicts Sri Lanka as doing well, above both the regional and developing country averages. However, this is hard to explain, given rigid labour market regulations in the country. Sri Lanka's TEWA requires that firms with 15 or more employees must justify layoffs and provide generous benefits to displaced workers. The redundancy cost in terms of number of weeks of salary that is required to be paid in Sri Lanka is a staggering 217, compared to 56 and 87 in India and Vietnam respectively."[11]

11.6 Global Competitiveness Index

The 'Global Competitiveness Index' (GCI) is an annual index, covering 142 economies around the world, constructed by the WEF that aims to rank countries according to the level of competitiveness of their economies.

The GCI identifies 12 pillars that drive productivity and competitiveness in an economy. These pillars include institutions, infrastructure, health and primary education, labour market efficiency, technological readiness, and innovation. These pillars are given a weighted average, depending on their impact on the country's competitiveness. The index consists of over 100 different variables; two-thirds of it comes from the executive opinion survey carried out by various partner institutions in each country, and one-third comes from other publicly available sources.

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[9] Gwartney. J, R. Lawson and J. Hall (2011), *Economic Freedom of the World: 2011 Annual Report,* Fraser Institute, Canada.

[10] The Heritage Foundation website, available at http://www.heritage.org.

[11] Abeysekera, A., and A. Wijesinha (2011), Talking Economics, IPS Blog, available at http://www.ips.lk/talkingeconomics/ 2011/07/economic-freedom-involving-stakeholders-in-improving-the-business-regulatory-environment-in-sri-lanka/.

Box 11.3
Economic Freedom - Imposing Ideology?

These indices are considered as important indicators of growth in a country as the literature posits that economic freedom is positively correlated with economic growth. However, with the developmental-state model followed in the dynamic East Asian economies, and the emergence of heterodox economic ideologies that challenge mainstream, neo-liberal economic thinking that advocates little to no government role in the economy and free markets, the suitability of examining economic freedom as measured by these indices and its relationship to economic growth has come in to question. In fact, many have gone to the extent of referring to the EFI, which is a product of the Heritage Foundation and the Wall Street Journal, as being a measurement that enforces liberal policy thinking as the measures used to determine economic freedom, and are very selective and often considered debatable. The problem here arises when the level of economic freedom of a country is used to make assumptions regarding its growth and development. Although there is a positive relationship between these two factors, it can be argued that the effect of business regulations is more important than reduced government consumption, for instance. In fact, some of the countries ranked highest in the EFW are Nordic states like Finland, Sweden, and Denmark which have extensive, publicly-funded welfare policies. Therefore, it is safe to assume that the various paths taken by countries to achieve growth and development are far more complex and intricate than what is indicated by these indices and that it is a vital aspect that needs to be taken into account.

Sri Lanka is ranked at 52 out of a 142 countries in the latest GCI report with an overall score of 4.33. It is above all the South Asian countries listed in the 2011-2012 rankings, including India (56). Switzerland, Singapore and Sweden are the top three countries ranked in this index.

Box 11.4
GCI - Contentions on 'Competitiveness'

Although the GCI is widely known as a well crafted measure of a country's level of competitiveness, there are some contentions regarding the concept of 'competitiveness' and its usefulness. The concept originates mainly from business school literature in which the competitiveness of companies is measured relative to their market share and profitability.[12] When this concept is transferred to a national economy, questions arise regarding its relevance and necessity. For instance, if country A produces textiles and its textile market share increased in 2012, it is meaningful to say that country A has become more competitive in producing textiles but would it be as meaningful to say that country A is less or more competitive as an economy in 2012? The answer may vary according to individual interpretations of the issue, but it is still an interesting question worth probing further, when using indices such as the GCI, to make judgments about a country's economy. However, assuming that the answer would be 'yes' to the above, the GCI is still problematic as it only looks at competitiveness from the macro-level and fails to provide insights into the competitiveness of separate sectors (i.e., textiles, computers, etc.) that impact the level of competitiveness of the economy as a whole.

[12] Lall, S., (2001), "Competitiveness and Developing Countries: An Economic Evaluation of the Global Competitiveness Report", *World Development*, Vol.29.

The GCI is also often used as a tool to measure the yearly performance of a country but it is important to keep in mind that a country accelerating its rankings may not necessarily be a reflection of the country's improved competitiveness; rankings are relative to other countries. For example, Sri Lanka's improvement in terms of rankings could be due to an increase in competitiveness in Sri Lanka or a decrease in competitiveness of other countries. For the purpose of analysis, however, it would be more useful to look at the score rather than the ranking as this would give a better indication of the level of, and changes in, competitiveness indicators in a particular country.[13] Sri Lanka for instance, leaped to 52nd in 2011-2012 from its previous rank of 62nd in 2010-2011. While much attention is given to this increase in rankings, in terms of scores, Sri Lanka has only increased by 0.08 from 4.25 in 2010-2011 to 4.33 in 2011-2012. This is a significant area that needs to be considered when using the index for analysis and decision-making.

11.7 Corruption Perception Index

The CPI is a measurement of the degree of corruption in countries, covering 182 of them. It looks into corruption which involves the public sector of a country -- public officials, civil servants and politicians. Created by Transparency International (TI), a global good governance watchdog, the index is an aggregate indicator that combines different sources of information about corruption. The countries assessed must have three or more data sources for it to be included in the index. Initially the CPI used a wide range of indicators such as experts' assessments as well as surveys of households and firms, but since 2002, it has dropped the surveys of the general public. In 2011, the index used 17 data sources from 13 institutions.

The data sources used to compile the index include responses to questions involving bribery of public officials, kickbacks in public procurement, embezzlement of public funds, and on questions that explore the strength and effectiveness of anti-corruption efforts by the public sector. Through this method, it strives to cover both the administrative and political aspects of corruption. TI notes that perceptions are used to measure corruption in this index because corruption is largely a hidden activity and therefore is difficult to measure.

Sri Lanka is currently ranked 86 in the latest list of rankings (2011) with a score of 3.3. New Zealand, Denmark and Finland are the top three countries with the lowest levels of corruption with scores of 9.5, 9.4 and 9.4, respectively. Serbia, Bulgaria, Panama and Jamaica are also ranked 86 with the same score as Sri Lanka, while India, Vietnam, Bangladesh, and Indonesia, are ranked lower down.

The CPI has been widely praised for bringing the issue of corruption to the global policy agenda and raising international awareness regarding corruption in the public sector. However, there are a few limitations that need to be considered.

11.8 Conclusion

It is clear from the preceding discussion that many of these indices are by no means perfect and sans-contention. While this 'brief' has only considered a select set of global indices to highlight this challenge, it speaks

[13] Wijesinha, A. and D. Hirimuthugodage (2011),"Sri Lanka Continues its Rise Up Global Competitiveness Index," *Talking Economics*, available at http://www.ips.lk/talkingeconomics/2011/09/sri-lanka-continues-its-rise-up-global-competitiveness-index-jumps-10-ranks-in-2011-12-world-economic-forum-report/.

Box 11.5
Corruption - Too Multifaceted to Measure?

Corruption is most often a phenomenon that is difficult to measure due to its concealed nature. This has resulted in the CPI using perceptions as its tool of measurement. However, perceptions are often subjective and are affected by various external factors such as media attention; and while external factors could influence perceptions, the index itself could also affect perceptions. Therefore, the overall level of influence over its main tool of measurement would vary from country to country and person to person. The CPI has taken measures to make this index as objective as possible by removing the use of public opinion and using professional data sources and institutions to obtain data. However, even though this may reduce the degree of subjectivity, it cannot be completely eliminated. In addition to this, the index indicates that it distinguishes between the 'perception' and the 'experience' of corruption, but studies have shown that the 'distance' between perceptions and experiences varies greatly from country to country.[14] Therefore, there is a large gap between objective and subjective data, and this has been one of the major sources of controversy in corruption indices like the CPI.[15]

Moreover, there are many ways in which corruption can occur, and the different types of corruption will cause different problems, depending on the circumstances resulting in the 'degree of corruption' being somewhat ambiguous. For example, the information from the Gallup International survey (used in the 1997-99 CPIs) refers to the 'number of corrupt acts.' The International Crime Victim Survey (2000 CPI), Global Competitiveness Report, and World Bank Private Sector Survey are directed toward the 'amount of bribes paid.' The Asian Intelligence Issue and World Bank Private Sector Survey question the 'damage done by corruption.' The other sources of corruption ratings do not indicate which definition of the 'degree of corruption' that they attempt to measure.[16] As these sources measure various aspects of corruption and CPI uses these sources to form a composite, it becomes difficult to clearly distinguish what the CPI is really measuring.

The CPI is also said to use, for the most part, expert assessments of expatriates of the country in question. However, this can be considered problematic as the longer these expatriates live outside of their country of origin, the less likely they are to have a good understanding of the real situation in the country.

These drawbacks in the CPI could have undesirable effects. Countries that are ranked high in the list would be discouraged from taking measures to minimize corruption in the public sector because the high score (lower level of corruption) would conceal or disregard corruption in that country. While others with significantly low scores (higher level of corruption) would be less attractive to potential foreign investors resulting in harmful effects to that country's economy.

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[14] Byrne, K. (2010), *Building Public Support for Anti-Corruption Efforts*, World Bank, Washington D.C.

[15] Urra, F., (2007), "An Analytical Review of Corruption Measurements and its Problems: Perception, Error and Utility", George Town University.

[16] Thompson, T. and Shah, A. (2005), "Transparency International's Corruption Perception Index: Whose Perceptions are they Anyway?" Discussion Draft (unpublished), available at http://www.acb.gov.jm/pdf/TransparencyInternationalCorruptionIndex.pdf [accessed on 2nd May 2012].

to a broader issue emphasized in the introduction – that closer examination of the construction, relevance, and biases of global indices is essential; particularly when taking policy and/or economic decisions based on them.

Yet, however much these indices are criticized on various grounds in the domestic economic arena, they are a key element in the basket of factors that foreign investors and business partners look at when considering doing business with and in Sri Lanka. Therefore, ignoring them would be to the country's peril. At the same time, taking them at face value is also imprudent. Peeling a few layers and exploring what lies beneath the surface of these indices would not only expose important caveats and reveal the limitations, but also provide a better understanding to governments and policymakers on what they can do to boost Sri Lanka's performance in global rankings, and improve how the country is perceived in the global arena.

Prospects

12. Prospects

The outlook for global economic prospects remains subdued with the most recent growth forecast for the world economy seeing a slight reduction to 3.5 per cent in 2012 and 3.9 per cent in 2013. The slowdown in GDP growth is being felt across the world, including in the emerging economic giants, China and India (Table 12.1). With a GDP growth rate of 7.2 per cent in the first half of 2012, Sri Lanka too is expected to see a slowdown in growth for the year overall, after two consecutive years of meeting its 8 per cent target. Whilst the slowdown is in part related to global economic outcomes -- i.e., weak global demand conditions for Sri Lanka's exports – policy interventions to correct underlying macroeconomic misalignments are exerting the greater influence.

The performance of Sri Lanka's export sector in recent times is troubling, losing global market share as well as recording a declining contribution to GDP. Given the greater uncertainty pervading global economic conditions, the lackluster performance in export earnings growth adds to Sri Lanka's vulnerability to periodic BOP stresses. Indeed, in the first half of 2012, export earnings did poorly, contracting by 2.2 per cent to US$ 5 billion, relative to a much healthier growth in earnings of 35 per cent in the corresponding period in 2011 (see Figure 12.2).

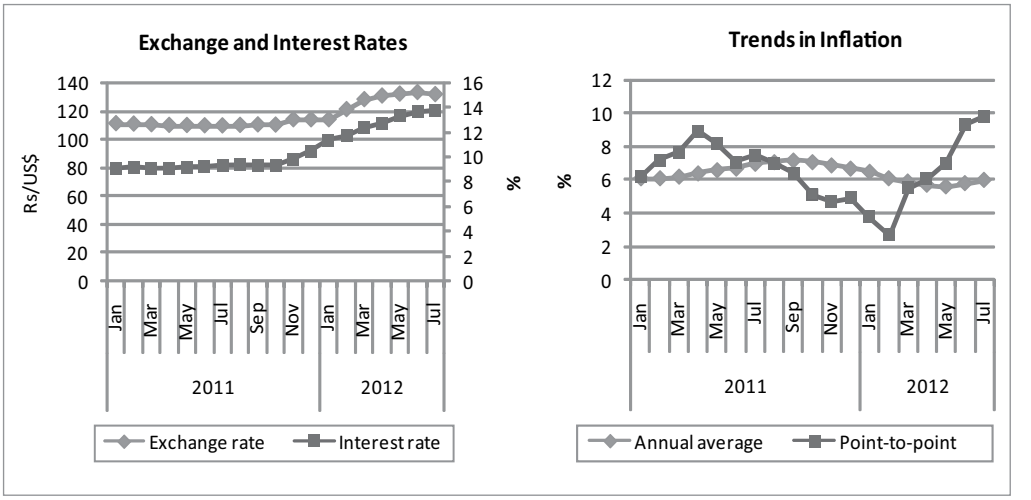
> ***"The prospects for a rapid recovery will depend on investor confidence in macroeconomic stability and enabling institutional environment pervading economic management"***

Table 12.1
World Economic Outlook

	2010	2011	2012[a]	2013[a]
World output (%)	5.3	3.9	3.5	3.9
US	3.0	1.7	2.0	2.3
Euro Zone	1.9	1.5	-0.3	0.7
China	10.4	9.2	8.0	8.5
India	10.8	7.1	6.1	6.5
World trade volume (%)	12.6	5.9	3.8	5.1
Oil prices (US$)	79.0	104.0	101.8	94.2

Notes: a: Projections.
Source: IMF, *World Economic Outlook*, July 2012.

Figure 12.1
Trends in Exchange Rate, Interest Rates and Prices



Notes: Interest rate refers to the average weighted prime lending rate.
Source: CBSL, *Monthly Economic Indicators*, various issues.

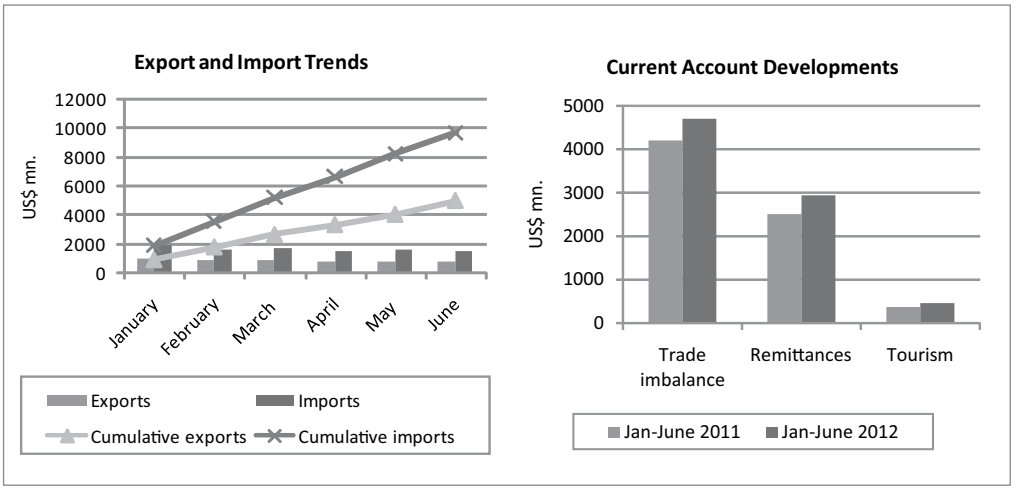
As argued previously, domestic macroeconomic policy management has a strong bearing on Sri Lanka's export performance. Sri Lanka's exchange rate policy in recent years has not helped, ensuring that an overvalued real exchange rate hindered the competitiveness of the country's exports in international markets. Whilst the realignment of exchange rate policy in February 2012 provided welcome relief, the hike in interest rates, raising the cost of working capital for exporters, created another constraint (Figure 12.1). Thus, stability and predictability in the macroeconomic environment has been a missing element in promoting sustained export sector growth.

The rapidly deteriorating trade balance -- driven by a surge in import expenditure on the back of an overvalued currency, import duty reductions and access to easy credit -- prompted a direct policy intervention in the form of a sharp reversal of import duties on the main import item, i.e., motor vehicles in March 2012. Indirect policy measures of allowing the exchange rate to float and a ceiling on commercial bank lending also helped curb import expenditure. Indeed, total import expenditure growth in the first half of 2012 declined 4.2 per cent to US$ US$ 9.7 billion, relative to a growth rate in excess of 46.5 per cent in the corresponding period in 2011.

Primarily as a result of the curb on imports, an expanding trade deficit is being reined in. Sri Lanka's trade deficit stood at US$ 4.7 billion in the first half of 2012, slightly above the US$ 4.2 billion deficit recorded in the comparative period in 2011 (Figure 12.2). The trade deficit is likely to narrow further in the second half of 2012, as the anticipated slowdown in economic growth reinforces a declining demand for imports. The forecast trend for international oil prices -- US$ 101.8 per barrel in 2012 with a decline to US$ 94.2 per barrel in 2013 -- will also help ease pressure on the trade balance.

The relatively healthy growth in earnings from workers' remittances and tourism receipts -- 17.4 per cent and 24.3 per cent respectively during the first half of 2012 -- will also help to moderate the country's external current

Figure 12.2
Trends in the Trade Balance and Current Account (January-June 2012)



Source: CBSL, *Monthly Economic Indicators*, various issues.

account deficit from a high 7.8 per cent of GDP in 2011. Indeed, by June 2012, remittances and tourism earnings absorbed 72 per cent of the trade deficit in comparison to a much lower figure of 60 per cent in the course of 2011.

Nonetheless, Sri Lanka's external current account balance will remain under stress in 2012. The outcome for the overall BOP position will depend on capital account inflows. To this end, available data suggest gross inflows of FDI have improved -- estimated to be US$ 452 million in the first half of 2012, relative to an inflow of US$ 393 million over the same period in 2011.[1] In July 2012, Sri Lanka received the final tranche of US$ 415 million under the SBA from the IMF, and raised US$ 1 billion by placing the country's fifth US dollar benchmark offering in international bond markets.

In view of the stresses on the BOP, the recovery of gross official reserves from a peak of US$ 8 billion in July 2011 (sufficient for 5.7 months of imports) has been slow. In February 2012, official reserves stood at US$ 5.5 billion after the aborted attempt to prop up the currency. By end July 2012, reserves had risen to US$ 7 billion, sufficient for 3.5 months of imports. The foreign currency generated through the US$ 1 billion Sovereign Bond helped to add to the country's gross official reserves bringing reserves to US$ 7 billion by end July 2012. However, it is building up the share of non-borrowed reserves that Sri Lanka needs to focus on if it is to ensure a sustainable BOP position in the medium to long term.

Under the circumstances, it is not surprising that the inflow of foreign capital in July 2012 by way of the IMF drawings and the Sovereign Bond helped to calm the foreign exchange market only temporarily. Pressure on the currency continued to be exerted with the rupee at Rs. 131 to the US dollar at end July 2012, relative to Rs. 113 per US dollar

[1] CBSL, *A Summary of External Sector Performance*, various issues.

in January 2012. In line with expected developments in the current account of the BOP, pressure on the rupee will ease in the second half of 2012. This will come about as a result of compressed import demand, as opposed to the more desirable path of a robust export earnings trajectory.

The initial compression on import demand through tax hikes, exchange rate adjustments and interest rates will align with a general slowdown in the economy. Indeed, the full impact of the tighter monetary policy environment on output will begin to manifest more clearly in the second half of 2012 as dampened investments and consumer demand drags down economic growth. However, the trade-off between growth and macroeconomic stability should not be viewed as a permanent set-back. It is a necessary adjustment for past policy misalignments and can pave the way for a resumption of steady growth in the medium term.

The lagged effects of a spiral of credit growth, adjustments to administered prices, and a depreciating currency have consequences on price stability. Inflation will begin to edge up, as evident from movements in point-to-point inflation rate from a low of 2.7 per cent in February 2012 to 9.8 per cent by July 2012 (see Figure 12.1). As the lagged effects work through, the annual average rate of inflation has begun to climb from May 2012. Whilst the annual inflation rate still remains fairly moderate at 6 per cent by July 2012, there is limited room to ease the current monetary policy stance in the coming months.

Developments on the fiscal front do not support an easing of monetary policy in the immediate future. The forecast fiscal deficit of 6.2 per cent of GDP for 2012, down from 6.9 per cent of GDP in 2011, is likely to come under pressure in view of the post-Budget 2012 policy changes, particularly with regards to import duties and the exchange rate. Already, in the first five months of 2012, Sri Lanka has seen a sharp deceleration in revenue collection, with revenue growth dropping to 9.1 per cent, as opposed to revenue growth of 23.8 per cent in the same period in 2011 (Table 12.2). The upward revision on excise duties on motor vehicles from March 2012 has had a dampening effect on revenue collection as the volume of imported vehicles dropped sharply. Indeed, in the first five months of 2012, growth of excise duties collected on petroleum and motor vehicles dropped to 13.8 per cent, from a rapid increase of over 118 per cent in the corresponding period of 2011. The general downturn in economic activities will further erode revenue generation in the coming months.

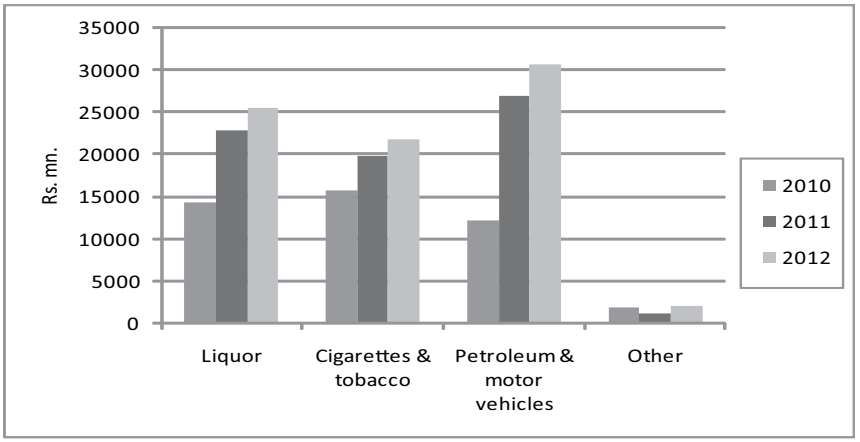
Table 12.2
Fiscal Outcomes (January-May 2011 and 2012)

	Growth (%)		Share of Approved Estimate (%)	
	2011	**2012**	**2011**	**2012**
Total revenue	23.8	9.1	36.8	34.9
Tax revenue	19.8	11.9	36.6	35.3
Current expenditure[a]	10.2	23.6	35.4	40.2
Public investment	16.6	46.6	25.1	30.6

Notes: a: Expenditure estimates are for January-April.

Source: Ministry of Finance and Planning, *Mid-year Fiscal Position Report*, various years.

Figure 12.3
Revenue from Excise Duties (January-May)



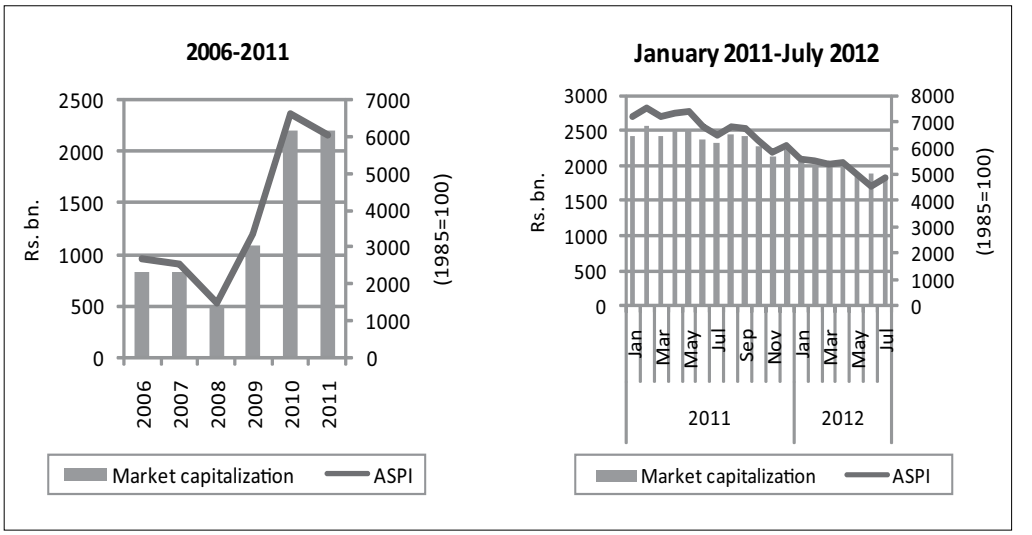
Source: Ministry of Finance and Planning, *Mid-year Fiscal Position Report*, various years.

Even as revenue growth has declined in 2012, expenditure growth on both current and public investment spending has risen relative to 2011. Current expenditure growth of 23.6 per cent in the first five months of 2012 is far in excess of the 10.2 per cent growth recorded for 2011 (Table 12.2). With the depreciation of the currency and rising interest rates, Sri Lanka's interest payments on both its domestic and foreign debt is on the rise. Despite heavier current spending, the momentum on public investment has been maintained, with expenditure growth at 46.6 per cent during January-May 2012, accounting for nearly a one-third of the allocated expenditure for the year. Whether the public investment programme will continue at the forecast level in the second half of 2012 will clearly depend on overall revenue generation efforts. Should revenue fall short of expectations, the temptation to slow public investment will be a factor in efforts to ensure a manageable fiscal deficit.

Even temporary interruptions to planned investment programmes can be costly. More critically, as economic growth slows in 2012, a cutback in public investment will prolong the recovery to the targeted 8 per cent growth for 2013. The most likely outcome is that public investment will remain around the same as that for 2011 (around 6.0 per cent of GDP), as opposed to a higher target of 6.6 per cent of GDP set out in Budget 2012 forecasts, leaving some room to adjust fiscal deficit outcomes. Thus, if as expected, the actual public investment-to-GDP ratio continues relatively unchanged, and the overall fiscal deficit remains below 7 per cent of GDP, Sri Lanka can weather a downturn in economic growth in 2012 and anticipate a reversal of fortunes in 2013. Indeed, if fiscal conditions are not allowed to get out of hand, and global demand conditions continue to remain relatively subdued in 2013, it will allow Sri Lanka an opportunity to reset interest rates at a lower level once again, without heightened risks of igniting inflationary pressures.

Much of the prospects for a rapid recovery will depend on investor confidence, not only on the outlook for macroeconomic stability in the medium term, but also on the enabling legal, institutional and regulatory environment pervading economic management. In this context, volatility in Sri Lanka's stock market performance has been an area drawing the attention of both domestic and foreign investors. The All Share Price Index

Figure 12.4
Equity Market Trends



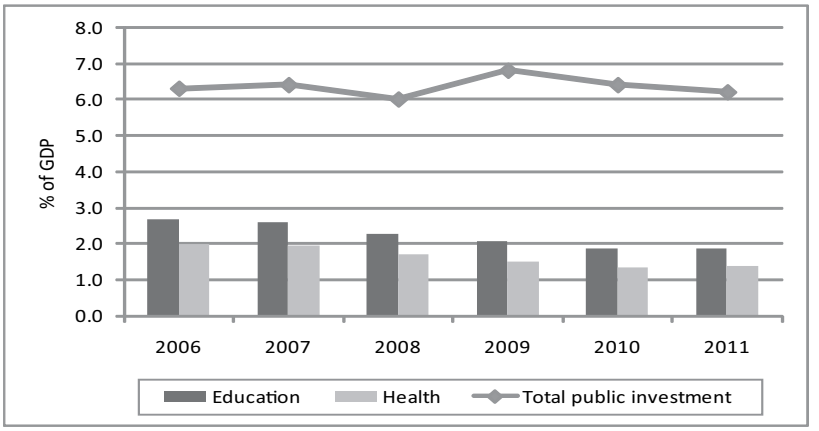
Source: CBSL, *Weekly Economic Indicators*, various issues.

(ASPI) has shown significant volatility, surging upwards from 2008 before beginning a sharp reversal from 2011. Indeed, the ASPI peaked at 7,798 in February 2011 before regulatory intervention to restrict credit extended by brokers halted the upsurge (Figure 12.4). More damaging to investor perception has been regulatory concerns that have beset activities in Sri Lanka's share market in recent months.

Whilst the activities of the CSE have limited bearing on the country's long term development objectives, it is an important -- albeit imperfect – barometer of private investor activity in the country. Regulatory lapses can have damaging consequences in efforts to build up Sri Lanka's debt and equity markets, identified as key areas for development to generate long term private investment in the Sri Lankan economy. Such investment is critical if Sri Lanka is to generate GDP growth in excess of 8 per cent to sustain its long term development efforts. Active private sector investment participation -- be it in infrastructure development or investment in health and education -- needs to be encouraged to allow government finances to play a supportive role in critical areas such as provision of effective social security and safety nets for the vulnerable. Already, it is clear that even as public finances have been focused on facilitating private investment in economic activity through enhanced infrastructure services, public investment in improving Sri Lanka's health and education outcomes have fallen behind (Figure 12.5).

As discussed extensively in preceding chapters of this report, gearing Sri Lanka's shrinking labour force with the necessary skills to be productively employed is a must to sustain long term growth and related development objectives that the country has set for itself. This requires investments, particularly to strengthen Sri Lanka's tertiary education sector. Indeed, in the absence of productivity gains, and more savings and investment, some of the sources of Sri Lanka's faster growth of recent years – especially the heavy outlay on physical infrastructure -- will exhaust itself. The greater reliance on costlier

Figure 12.5
Public Investment Trends



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

sources of foreign borrowing that has underpinned Sri Lanka's development efforts, also means that the country has to generate sufficient foreign exchange earnings to service its debt repayments in the coming years. If Sri Lanka is to do this comfortably, the country must move from demand-induced growth that relies heavily on foreign savings to growing its real economy, i.e., that part of the economy that is concerned with actually producing goods and services. This requires sound monetary, fiscal and regulatory policies that will encourage private investment spending to improve productivity, and allow the country to build on what has already been achieved in its post-conflict phase of development.

Appendices

Appendix A: Macroeconomic Indicators (Statistical Base)

Table A1: Socio-Economic Indicators

1. Basic indicator	**Unit**					
Area:	Sq. km.	65,610				
Mid year population (2011)	('000)	20,869				
Population growth rate (2011)	%	1.0				
Life expectancy at birth (2011)	years	74.9				
Infant mortality rate (2007)	per 1000 live births	8.5				
Gross school enrolment ratio (2005)(a)	%	62.7				
Adult literacy rate (2010)	%	91.9				
Human development index (HDI) (2011)	Value	0.691				
Human poverty index (HPI) (2005)	Value	17.8				
		2007	**2008**	**2009**	**2010**	**2011(e)**
2. Output, labour force and employment						
GNP at current market prices	Rs. bn.	3,540.0	4,306.0	4,779.0	5,534.0	6,471.0
GDP at current market prices	Rs. bn.	3,579.0	4,411.0	4,835.0	5,604.0	6,543.0
GDP at current factor cost prices (k)	Rs. bn.	3,578.7	4,410.7	4,835.3	5,604.1	6,542.7
GDP per capita at current market prices	US$	1,634.0	2,014.0	2,057.0	2,400.0	2,836.0
Labour force	mn.	7.5(b)	8.1(h)	8.1(h)	8.1(h)	8.2(h)
Labour force participation	%	49.8(b)	49.5(h)	48.7(h)	48.1(h)	48.2(h)
Unemployment	%	6.0(b)	5.4(h)	5.8 (h)	4.9(h)	4.2(h)
3. Real output growth						
GDP	%	6.8	6.0	3.5	8.0	8.3
Agriculture, forestry, and fishing	%	3.4	7.5	3.2	7.0	1.5
Mining and quarrying	%	19.2	12.8	8.2	15.5	18.5
Manufacturing	%	6.4	4.9	3.3	7.3	7.9
Construction	%	9.0	7.8	5.6	9.3	14.2
Services	%	7.1	5.6	3.3	8.0	8.6
4. Prices & wages						
CCPI (2006/07 = 100)	% change	-	-	3.5	6.2	6.7
New CCPI (2002 = 100)	% change	15.8	22.6	3.4	5.9	-
WPI (annual average)	% change	24.4	24.9	-4.2	11.2	10.6
Implicit GNP deflator	% change	14.0	16.3	5.9	7.3	7.8
Real wage rates						
Workers in wages boards trades	% change	4.1	2.7	1.5	24.3	-2.0
Government employees	% change	5.0	-12.4	5.7	-2.7	0.0
5. Consumption, investment, and savings						
Consumption	% of GDP	82.4	86.1	82.1	80.7	84.6
Gross domestic capital formation	% of GDP	28.0	27.6	24.4	-	29.9
Gross domestic savings	% of GDP	17.6	13.9	17.9	19.3	15.4
Gross national savings	% of GDP	23.3	17.8	23.7	25.4	22.1
Net imports of goods and services	% of GDP	10.4	13.7	6.5	8.3	14.6
6. Government finance						
Revenue	% of GDP	15.8	14.9	14.5	14.6	14.3
Expenditure & net lending	% of GDP	23.5	22.6	24.9	22.9	21.4
Current expenditure	% of GDP	17.4	16.9	18.2	16.7	15.4
Capital expenditure & net lending	% of GDP	6.1	5.7	6.7	6.1	6.0
Current a/c balance	% of GDP	-1.6	-2.0	-3.7	-2.1	-1.1
Budget deficit						
Primary deficit	% of GDP	-1.8	-2.2	-3.5	-1.7	-1.4
Overall deficit (before grants)	% of GDP	-6.9	-7.0	-9.9	-8.0	-6.9
Public debt						
External	% of GDP	37.1	32.8	36.5	36.1	35.6
Domestic	% of GDP	47.9	48.5	49.8	45.8	42.9

	Unit	2007	2008	2009	2010	2011(e)
7. External trade						
Terms of trade	% change	-1.0	3.0 (j)	-2.7 (j)	27.5 (j)	-9.3 (j)
Import price index	% change	5.9	5.2 (j)	5.3 (j)	10.2 (j)	22.0 (j)
Export price index	% change	4.8	8.4 (j)	2.4 (j)	40.4 (j)	10.9 (j)
Import volume index	% change	4.1	18.6 (j)	-31.2 (j)	19.6 (j)	23.5 (j)
Export volume index	% change	7.3	-2.0 (j)	-14.7 (j)	-13.3 (j)	10.4 (j)
8. External finance						
Trade balance	% of GDP	-11.3	-14.7	-7.4	-9.7	-16.4
Current account balance (g)	% of GDP	-4.3	-9.5	-0.5	-2.2	-7.8
Capital & financial account balance	% of GDP	6.5	4.4	6.2	5.7	7.0
Foreign direct investments	% of GDP	1.7	1.7	0.9	0.9	1.5
Foreign portfolio investments	% of GDP	0.3	0.1	0.0	-0.5	-0.3
Import capacity	months of imports (d)	5.3	3.1	8.3	7.7	4.7
External debt (g)	% of GDP	51.0	43.7	49.7	50.1	48.8
Debt-service ratio	% of exports	13.1	15.1	19.0	15.9	12.6
9. Exchange rates (year end)						
U.S.A.	Rs./US$	108.7	113.1	114.4	111.0	113.9
U.K.	Rs./UK Pound	217.2	163.3	181.7	171.4	175.4
Japan	Rs./Yen	1.0	1.3	1.2	1.4	1.5
European Union	Rs./Euro	160.3	159.5	163.7	147.6	147.4
India	Rs./Rs. Indian	2.8	2.4	2.5	2.5	2.2
SDR	Rs./SDR	171.6	174.3	178.7	170.8	174.9
10. Money supply						
Narrow money supply (M1)	% change	2.7	4.0	21.4	20.9	7.7
Broad money supply (M2)	% change	16.6	8.5	18.6	15.8	19.1
Domestic credit	% change	16.3	18.0	0.5	18.6	34.3
External banking assets	% change	33.2	-65.9	417.2	-6.1	-74.0
11. Interest rates						
Treasury bill yeild rates						
3 month	% per annum	21.3	17.3	7.7	7.2	8.7
12 months	% per annum	20.0	19.1	9.3	7.6	9.3
Call money rates	% per annum	25.0	14.7	9.1	8.0	9.0
Average prime lending rate	% per annum	18.0	18.5	10.9	9.3	10.8
Commercial banks saving	% per annum	16.5	16.5	10.5	9.5	8.5
NSB saving	% per annum	5.0	5.0	5.0	5.0	5.0
Commercial banks fixed deposits	% per annum	20.0	20.3	19.0	17.0	11.0
NSB fixed deposits	% per annum	15.0	15.0	9.5	8.5	8.5
12. Share market indicators						
Annual turnover	Rs. bn.	105.0	110.5	142.5	570.3	546.3
Companies listed	No.	235	235	232	242	272
Market capitalisation	Rs. bn.	820.7	488.8	1092.1	2210.5	2213.9
Net purchases by non-nationals	Rs. mn.	11254	13951	-789	-26335	-19039
Share price indices						
CSE share	(Index, 1985 = 100)	2,541.0	1,503.0	3385.6	6,635.9	6,074.4
CSE sensitive(f)	(Index, 1985 = 100)	3,291.9	1,631.3	3849.4	7,061.5	5,229.2

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): Based on CCPI (1952 = 100)
(j) Estimates from 2006 onwards are based on national accounts data of the Dept. of Census and Statistics.

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, 1989-2011

	Constant Prices (c)			Growth Rates		
	GDP	PGDP	POP(b)	GDP	PGDP	POP
	Rs. mn.	Rs.mn.	('000)			
1989	486,140.6	28,893.9	16,825	2.3	0.9	1.4
1990	516,152.7	30,335.2	17,015	6.2	5.0	1.1
1991	539,954.8	31,270.9	17,267	4.6	3.1	1.5
1992	563,061.9	32,311.6	17,426	4.3	3.3	0.9
1993	602,171.5	34,125.1	17,646	6.9	5.6	1.3
1994	636,061.5	35,552.0	17,891	5.6	4.2	1.4
1995	670,742.2	36,984.0	18,136	5.5	4.0	1.4
1996	695,934.0	37,954.5	18,336	3.8	2.6	1.1
1997	739,763.0	39,840.7	18,568	6.3	5.0	1.3
1998	774,796.0	41,247.7	18,784	4.7	3.5	1.2
1999	808,340.0	42,419.2	19,056	4.3	2.8	1.4
2000	857,035.0	44,866.2	19,102	6.0	5.7	0.3
2001	843,794.0	44,889.8	18,797	-1.5	0.1	1.6
2002	877,284.0	46,365.6	18,921	4.0	3.3	0.7
2003(d)	1,733,222.0	90,399.1	19,173	5.9	4.6	1.3
2004	1,827,597.0	94,036.4	19,435	5.4	4.0	1.4
2005	1,941,671.0	98,843.0	19,644	6.2	5.1	1.1
2006	2,090,548.0	105,274.9	19,858	7.7	6.5	1.1
2007	2,232,656.0	111,415.5	20,039	6.8	5.8	0.9
2008	2,365,501.0	117,005.5	20,217	6.0	5.0	0.9
2009	2,449,214.0	119,766.0	20,450	3.5	2.4	1.2
2010	2,645,432.0	128,089.5	20,653	8.0	6.9	1.0
2011(a)	2,863,854.0	137,230.1	20,869	8.3	7.1	1.0

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, 2003-2011

	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011(a)	2003-2011 (b)
1. Structure of output											
Agriculture, forestry, and fishing	% of total output	13.7	13.0	12.5	12.3	11.9	12.1	12.0	11.9	11.2	12.3
Agriculture	% of total output	12.3	11.7	11.7	11.3	10.8	10.9	10.9	10.7	9.9	11.1
Tea	% of agriculture	12.3	12.5	12.1	11.4	11.0	10.7	9.5	10.2	10.1	11.1
Rubber	% of agriculture	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.5	2.5	2.2
Coconut	% of agriculture	12.7	13.1	11.9	12.3	12.6	12.4	12.7	10.2	10.5	12.0
Paddy	% of agriculture	16.2	13.9	16.0	15.9	14.6	16.8	15.5	17.1	15.7	15.7
Mining and quarrying	% of total output	1.3	1.3	1.5	1.7	1.9	2.0	2.1	2.3	2.5	1.9
Manufacturing	% of total output	18.1	18.1	18.1	17.7	17.7	17.5	17.4	17.3	17.3	17.7
Export processing	% of manufacturing	4.1	4.1	3.9	3.7	3.6	3.6	3.5	3.5	3.2	3.7
Factory industry	% of manufacturing	89.7	89.7	89.9	90.0	90.2	90.2	90.3	90.5	90.7	90.1
Small industry	% of manufacturing	6.2	6.2	6.2	6.3	6.2	6.2	6.2	6.1	6.0	6.2
Construction	% of total output	6.0	6.0	6.2	6.3	6.4	6.5	6.6	6.7	7.1	6.4
Services	% of total output	58.6	59.3	59.4	59.5	59.6	59.5	59.3	59.3	59.5	59.3

	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011(a)	2003-2011 (b)
2. Real output growth											
Agriculture, forestry, and fishing	% Growth	1.7	0.0	1.8	6.3	3.4	7.5	3.2	7.0	1.5	3.6
Agriculture	% Growth	2.6	-0.1	6.9	3.5	2.3	7.3	2.8	6.4	-0.1	3.5
Tea	% Growth	-2.2	1.6	3.0	-2.0	-1.8	4.2	-8.4	13.8	-0.9	0.8
Rubber	% Growth	1.6	2.9	10.2	4.6	4.2	10.3	7.9	12.7	1.8	6.3
Coconut	% Growth	4.3	3.7	-2.9	6.4	5.1	5.2	5.3	-14.3	3.0	1.8
Paddy	% Growth	7.4	-14.5	23.6	2.9	-6.2	23.1	-5.1	17.5	-8.4	4.5
Mining and quarrying	% Growth	16.4	5.5	17.8	24.2	19.2	12.8	8.2	15.5	18.5	15.4
Manufacturing	% Growth	3.9	5.2	6.2	5.5	6.4	4.9	3.3	7.3	7.9	5.6
Export processing	% Growth	-4.7	4.5	1.4	0.8	2.4	5.3	0.7	5.8	0.9	1.9
Factory industry	% Growth	4.3	5.2	6.4	5.7	6.7	5.0	3.4	7.5	8.3	5.8
Small industry	% Growth	5.1	5.7	6.3	5.7	5.6	4.5	3.3	5.5	7.0	5.4
Construction	% Growth	3.7	5.9	9.0	9.2	9.0	7.8	5.6	9.3	14.2	8.2
Services	% Growth	7.6	6.7	6.4	7.7	7.1	5.6	3.3	8.0	8.6	6.8
GDP	% Growth	5.9	5.4	6.2	7.7	6.8	6.0	3.5	8.0	8.3	6.4

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 Department of Census and Statistics.

Source: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A4: Value Added in Industry and Industrial Production, 1999-2011

	1999	2000	2001	2002	2003 (b)	2004	2005	2006	2007	2008	2009	2010	2011 (a)
1. Value added, current prices (Rs. mn.)													
Food, beverages and tobacco	44,503	49,031	54,282	61,550	136,058	158,229	202,785	241,854	282,843	348,358	397,244	458,151	537,691
Textile, wearing apparel and leather products	55,263	69,451	71,263	77,028	76,511	85,179	103,198	113,956	131,522	147,822	155,409	172,726	207,578
Wood and wood products (including furniture)	1,390	1,554	1,639	1,736	1,085	1,121	1,143	1,245	1,353	1,447	1,585	1,786	2,580
Paper and paper products	2,664	2,808	3,103	3,124	1,669	2,079	2,963	3,998	4,857	5,789	6,631	7,653	8,466
Chemicals, petroleum, coal, rubber and plastic products	13,832	17,771	19,245	22,653	46,133	58,912	72,089	95,346	112,915	135,447	142,935	170,000	207,654
Nonmetallic mineral products (except petroleum and coal)	13,817	14,240	16,010	17,273	11,388	13,432	15,805	17,930	20,352	22,776	24,653	27,865	32,167
Basic metal products	777	959	1,131	1,306	970	998	1,061	1,292	1,521	1,638	1,659	1,826	2,119
Fabricated metal products, machinery and transport equipment	7,367	7,714	8,731	9,698	28,339	30,217	34,480	38,872	47,947	55,185	62,013	72,990	82,852
Manufactured products n.e.s.	3,799	3,965	4,154	4,695	1,307	1,350	1,446	1,879	2,208	2,508	2,903	3,410	3,149
Total	143,412	167,493	179,558	199,063	303,460	351,517	434,970	516,372	605,518	720,970	795,032	916,407	1,084,256
2. Composition of industrial production (%)													
Food, beverages and tobacco	31.0	29.3	30.2	30.9	44.8	45.0	46.6	46.8	46.7	48.3	50.0	50.0	49.6
Textile, wearing apparel and leather products	38.5	41.5	39.7	38.7	25.2	24.2	23.7	22.1	21.7	20.5	19.5	18.8	19.1
Wood and wood products (including furniture)	1.0	0.9	0.9	0.9	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Paper and paper products	1.9	1.7	1.7	1.6	0.5	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Chemicals, petroleum, coal, rubber and plastic products	9.6	10.6	10.7	11.4	15.2	16.8	16.6	18.5	18.6	18.8	18.0	18.6	19.2
Nonmetallic mineral products (except petroleum and coal)	9.6	8.5	8.9	8.7	3.8	3.8	3.6	3.5	3.4	3.2	3.1	3.0	3.0
Basic metal products	0.5	0.6	0.6	0.7	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Fabricated metal products, machinery and transport equipment	5.1	4.6	4.9	4.9	9.3	8.6	7.9	7.5	7.9	7.7	7.8	8.0	7.6
Manufactured products n.e.s.	2.6	2.4	2.3	2.4	0.4	0.4	0.3	0.4	0.4	0.3	0.4	0.4	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, 1989-2011

	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)
1989	207.0	52.16	66.91	110.7	22.63	36.18	2,484	3.36	2,063	80.00
1990	233.2	65.72	91.78	113.1	22.93	35.50	2,532	3.63	2,538	110.00
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	234.65	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(e)	328.6	360.68	510.41	157.9	508.80	535.40	2,808	39.15	3,875	-

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, 2001-2011

	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)	-	-	-	-	-	-	-

Notes: Up to 4th quarter 2002, data excludes both Northern and Eastern Province
(a) Including Eastern province but Excluding Northern province
(b) Excluding Vavunia, Mulathivu, 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 the 4th quarter of 2011

Source: Department of Census and Statistics, *Quarterly Report of the Sri Lanka Labour Force.*

Table A7: Gross Domestic Fixed Capital Formation, 1989-2011

	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)	
1989	39,943	14,306	15.9	5.7	4160.7	1490.2	28.8	33.8
1990	57,910	12,507	18.0	3.9	2895.5	625.4	-30.4	-58.0
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(d)	1,402,217	370,298	21.4	5.7	179,771.4	47,474.1	16.3	7.0

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 and 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, 1997-2011

	1997	1998	1999	2000	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010	2011(a)
(As % of GDP)															
Gross domestic capital formation	24.4	25.1	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
Gross domestic savings	17.3	19.1	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
Net imports of goods and non-factor services (b)	7.1	6.5	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
Net factor income from abroad	-1.1	-1.1	-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
Net private transfers	5.2	5.4	5.6	5.9	6.2	6.6	6.4	6.5	7.1	6.7	6.8	6.3	7.0	7.3	7.7
Gross national savings	21.5	23.4	23.5	21.5	20.3	19.5	21.5	22.0	23.8	22.3	23.3	17.8	23.7	25.4	22.1
Foreign savings	4.2	4.3	4.0	4.1	4.5	5.1	5.5	5.6	5.9	5.3	5.7	3.9	5.8	6.1	6.7

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, 1999-2011

(As % of GDP)	1999	2000	2001	2002	2003 (c)	2004	2005	2006	2007	2008	2009	2010	2011 (b)
Revenue	17.7	16.8	16.7	16.5	15.7	15.4	16.1	16.3	15.8	14.9	14.5	14.6	14.3
Grants	0.6	0.4	0.4	0.4	0.5	0.4	1.4	1.0	0.9	0.7	0.5	0.3	0.2
Expenditure													
Current expenditure	18.7	20.2	21.6	20.9	19.0	19.2	18.7	18.6	17.4	16.9	18.2	16.7	15.4
Capital & net lending	6.5	6.5	5.9	4.6	4.7	4.3	6.0	5.6	6.1	5.7	6.7	6.1	6
Current account balance	-1.0	-3.4	-4.9	-4.4	-3.3	-3.9	-2.7	-2.4	-1.6	-2.0	-3.7	-2.1	-1.1
Primary deficit	-1.9	-4.2	-4.1	-1.6	-0.9	-2.2	-3.6	-2.9	-2.6	-2.2	-3.5	-1.7	-1.4
Overall deficit (before grants)	-7.5	-9.9	-10.8	-8.9	-8.0	-8.2	-8.7	-8.0	-7.7	-7.7	-9.9	-8.0	-6.9
Financing budget deficit													
Foreign financing	0.1	0.0	1.0	0.1	2.4	1.8	2.0	1.4	2.8	-0.1	4.8	4.4	3.4
Domestic financing	6.8	9.4	8.8	8.0	4.5	5.8	5.2	5.6	3.6	7.1	5.1	3.6	3.5
Market borrowings	6.8	9.2	8.7	8.0	4.5	5.5	5.0	5.6	3.6	7.0	4.9	3.4	3.6
Bank	2.5	4.5	3.5	-0.3	-1.2	2.1	1.1	2.7	0.4	4.4	1.0	-	2.9
Non-bank	4.4	4.7	5.3	8.3	5.7	3.4	3.9	2.9	3.1	2.6	3.8	3.5	0.7
Other borrowings	-0.1	0.3	0.1	-0.1	-	0.2	0.2	-	-	0.1	0.2	0.2	-0.1
Privatization 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, 1992-2011

	Unit	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1. Financial depth											
Narrow money supply	M1/GDP	11.8	11.9	12.2	11.3	10.2	9.6	9.5	9.8	9.4	8.7
Broad money supply	M2/GDP	30.5	32.1	33.1	34.2	33.0	32.4	31.1	32.4	32.2	32.0
2. Monetary expansion/contraction											
Narrow money supply	% growth	7.4	18.6	18.7	6.7	4.0	9.8	12.1	12.8	9.1	3.2
Broad money supply	% growth	17.4	23.4	19.7	19.2	10.8	13.8	9.7	13.3	13.0	11.4
3. Causal factors											
3.1 External banking assets	Rs. mn.	20,940.0	48,119.0	64,467.0	66,532.0	61,861.0	89,292.0	93,724.0	83,892.0	59,448.0	80,019.0
	% growth	70.8	129.8	34.0	3.2	-7.0	44.3	5.0	-10.5	-29.1	34.6
3.2 Domestic credit	Rs. mn.	167,997.0	179,361.0	206,047.0	262,670.0	292,395.0	323,046.0	369,517.0	432,888.0	549,927.0	638,876.0
	% growth	17.2	6.8	14.9	27.5	11.3	10.5	14.4	17.1	27.0	16.2
3.2.1 Government	Rs. mn.	33,946.0	29,766.0	31,362.0	38,662.0	47,131.0	45,250.0	64,618.0	93,915.0	147,304.0	201,311.0
	% growth	-5.0	-12.3	5.4	23.3	21.9	-4.0	42.8	45.3	56.8	36.7
3.2.2 Private sector	Rs. mn.	110,877.0	134,181.0	163,278.0	210,703.0	229,773.0	263,198.0	294,868.0	325,927.0	364,369.0	396,754.0
	% growth	26.3	21.0	21.7	29.0	9.1	14.5	12.0	10.5	11.8	8.9
3.3 Other liabilities	Rs. n.	-38,168.0	-40,739.0	-50,501.0	-67,974.0	-66,813.0	-79,874.0	-97,425.0	-106,660.0	-136,035.0	-163,867.0
	% growth	-17.3	-6.7	-24.0	-34.6	1.7	-19.5	-22.0	-9.5	-27.5	-20.5

Contd...

	Unit	2002	2003(b)	2004	2005	2006	2007	2008	2009	2010	2011
1. Financial depth											
Narrow money supply	M1/GDP	8.8	8.9	9.0	9.4	8.8	7.4	6.3	7.0	7.3	6.7
Broad money supply	M2/GDP	32.3	31.9	32.9	33.6	33.8	32.1	29.1	31.8	32.4	33.5
2. Monetary expansion/contraction											
Narrow money supply	% growth	14.0	16.0	16.6	22.4	12.6	2.7	4.0	21.4	20.9	7.7
Broad Money Supply	% growth	13.2	13.8	18.5	19.6	20.7	15.6	11.7	19.9	18.0	20.9
3. Causal factors											
3.1 External banking assets	Rs.mn.	101,717.0	129,487.0	129,152.0	167,147.0	185,005.0	225,989.0	88,760.0	358,554.0	390,284	150,916
	% growth	27.1	27.3	-0.3	29.4	10.7	22.2	-60.7	304.0	8.8	-61.3
3.2 Domestic credit	Rs. mn.	680,396.0	731,872.0	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
	% growth	6.5	7.6	22.4	19.1	29.5	16.3	18.0	0.5	18.6	34.3
3.2.1 Government	Rs.mn.	192,994.0	176,236.0	220,462.0	249,565.0	357,289.0	374,100.0	582,907.0	640,326.0	627,185.0	833,610
	% growth	-4.1	-8.7	25.1	13.2	43.2	4.7	55.8	9.9	-2.1	32.9
3.2.2 Private sector	Rs.mn.	444,371.0	519,444.0	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
	% growth	12.0	16.9	22.1	26.3	24.0	19.3	7.0	-5.8	24.9	34.5
3.3 Other liabilities	Rs. mn.	-168,544.0	-181,111.0	-207,515.0	-246,438.0	-348,644.0	-431,759.0	-452,423.0	-503,460.0	-548,895	-644,287
	% growth	-2.9	-7.5	-14.6	-18.8	-41.5	-23.8	-4.8	-11.3	-9.0	-17.4

Notes: Data have been reclassified starting from 1990. For more information, see Central Bank of Sri Lanka, 1995, *Annual Report*.
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, 1998-2011

(%, end of period)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bank rate	17.0	16.0	25.0	18.0	18.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Treasury bills, yield rates														
3 Month	12.0	11.8	17.8	12.9	9.9	7.4	7.3	10.1	12.8	21.3	17.3	7.7	7.2	8.7
12 Month	12.6	12.8	18.2	13.7	9.9	7.2	7.7	10.4	13.0	20.0	19.1	9.3	7.6	9.3
Repurchase rate	11.3	9.3	17.0	12.0	9.8	7.0	7.5	8.8	10.0	10.5	10.5	7.5	7.3	7.0
Call money rate														
Maximum	16.5	14.3	32.0	13.0	10.9	8.3	10.6	11.0	15.1	40.0	20.0	9.1	8.4	9.1
Minimum	11.3	9.8	20.3	12.5	10.3	7.4	9.5	10.5	12.8	16.0	13.3	8.0	7.8	8.8
Weighted average prime lending rate	15.1	15.2	21.5	14.3	12.2	9.0	10.2	12.1	14.7	17.0	19.2	11.1	9.3	10.5
Commercial bank saving														
Maximum	10.0	10.0	11.0	12.0	11.0	7.3	7.8	10.3	10.5	16.5	16.5	10.5	9.5	8.5
Minimum	2.0	2.0	2.0	4.0	3.5	2.1	3.0	3.0	3.0	3.0	3.0	1.5	1.5	1.0
NSB saving	10.5	9.2	8.4	8.4	6.0	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	13.0	12.5	15.0	14.5	11.0	7.8	9.8	11.5	14.0	20.0	20.3	19.0	17.0	11.0
Minimum	9.0	9.0	9.0	9.5	7.5	5.0	5.0	5.5	5.5	8.5	8.5	7.3	5.1	5.6
NSB fixed deposit (one year, paid on maturity)	11.5	11.5	15.0	13.0	10.0	7.0	8.0	9.0	11.0	15.0	15.0	9.5	8.5	8.5

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, 1991-2011

	CCPI (1952 = 100)	% change	CCPI (2002 = 100)	% change	WPI (1974 = 100)	% change	GDPD (1996 = 100)	% change
1991	1,131.5	12.2			710.8	9.2	62.5	11.0
1992	1,260.4	11.4			773.0	8.8	68.8	10.0
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	3,653.6	24.9	298.3	16.3
2009			206.8	3.4	3,500.9	-4.2	315.8	5.9
2010			219.1	5.9	3,893.0	11.2	338.9	7.3
2011(a)			226.5	6.9	4,306.5	10.6	365.4	7.8

Notes: (a) Provisional.

CCPI : Colombo Consumers' Price Index.
GCCPI : Greater 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, 1990-2011
(December 1978 = 100)

	Workers in wages boards trades(a)		Government employees(b)	
	Nominal	Real	Nominal	Real
1990	453.5	107.6	476.8	113.2
1991	518.8	109.7	534.6	113.2
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(c)	2996.1	93.3	4964.5	154.7

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, 1994-2011

	Unit	1994	1995	1996	1997	1998	1999	2000	2001	2002
1.Exports to selected countries and groupings										
U.S.A	US$ mn.	1115	1354	1396	1666	1890	1792	2193	1926	1764
U.K.	US$ mn.	285	345	389	525	530	604	737	576	590
Germany	US$ mn.	223	254	239	230	232	216	230	199	199
Japan	US$ mn.	165	200	256	234	196	159	230	186	140
EC	% of total exports	31.3	31	29.4	35	33.6	35.3	33.4	26.1	29.0
Germany	% of exports to EC	22.2	21.6	19.8	17.1	17.9	16.2	15.2	15.8	14.6
UK	% of exports to EC	28.4	29.3	32.2	39	41	45	48.5	45.8	43.3
ASEAN	% of total exports	3.9	3.7	2.8	3.4	3	3.1	3.5	2.9	2.6
singapore	% of exports to ASEAN	60.6	52.3	52	43.7	38.1	37.9	38.7	51.4	63.6
Malaysia	% of exports to ASEAN	4.6	15.7	23.5	16.6	10.1	6	5	5.9	8.4
SAARC	% of total exports	2.7	2.7	2.6	3.1	3	3.8	4.2	3.3	5.5
India	% of exports to SAARC	27.2	31.3	39.6	37	33.2	33.7	30.6	45.6	66.5
NAFTA	% of total exports	36.8	37.3	35.6	45.5	51.5	49.8	50.5	42.1	39.6
USA	% of exports to NAFTA	94.4	95.4	95.6	95.3	95.4	95.1	95.4	95.1	94.6
Canada	% of exports to NAFTA	4.3	3.5	3.1	3.2	3.1	3.1	3.1	3.4	3.3
APEC	% of total exports	49.6	50.1	48.7	59.8	58.9	56.3	57.8	59.5	54.6
USA	% of exports to APEC	70.1	71	69.8	72.4	83.4	84.1	83.5	83.1	82.5
Japan	% of exports to APEC	10.4	10.5	12.8	10.2	8.6	7.5	8.7	8.0	6.6
Singapore	% of exports to APEC	0.2	0.1	0.1	0.1	1.9	2.1	2.3	2.5	3.1
2. Imports from selected countries and groupings										
Japan	US$ mn.	527	499	497	479	556	561	646	337	355
India	US$ mn.	404	469	562	560	539	512	600	709	853
Hong Kong	US$ mn.	317	357	354	411	411	459	516	500	491
U.S.A	US$ mn.	285	173	198	187	230	216	255	266	219
U.K.	US$ mn.	248	243	252	282	305	251	311	221	263
Taiwan	US$ mn.	250	286	288	372	379	347	390	323	288
EC	% of total imports	16.3	15.3	15.4	17.6	23.3	19.4	18.8	14.2	14.6
Germany	% of imports from EC	21.8	20.5	18.4	20.5	20.2	15.8	16.5	16.3	13.6
UK	% of imports from EC	31.8	29.8	30.1	31.6	30.3	29.1	32.8	26.0	29.5
ASEAN	% of total imports	13.2	12.8	12.6	14.7	19.6	21.1	21	19.4	19.1
Singapore	% of imports from ASEAN	37.2	36.6	37.7	38.3	36.8	48.2	46.7	44.8	46.0
Malaysia	% of imports from ASEAN	28.8	31.1	26.7	22.3	22.8	18	20.5	22.7	21.7
SAARC	% of total imports	10.3	10.2	11.9	13.1	15.1	14.2	14	11.9	15.6
India	% of imports from SAARC	82.7	86.1	86.9	83.9	83.3	81.4	84.8	84.4	89.4
NAFTA	% of total imports	6.3	3.6	4.3	5.7	7.1	5.5	6	4.9	3.8
USA	% of imports from NAFTA	95	91.3	84.6	64.7	75.0	89	84.1	91.5	93.8
Canada	% of imports from NAFTA	4.6	7.9	10	19	13.6	9.3	15.6	8.2	5.8
APEC	% of total imports	55.4	50.2	50.4	61.9	45.9	53.4	54.9	55.6	52.1
USA	% of imports from APEC	10.8	6.5	7.3	5.9	11.6	9.1	9.2	10.1	8.5
Japan	% of imports from APEC	11	9.4	9.2	9.4	28.1	23.6	23.2	12.8	13.8
Singapore	% of imports from APEC	8.8	9.3	9.5	9.1	15.7	19	17.8	15.6	16.8

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	Unit	2003	2004	2005	2006	2007	2008	2009	2010	2011(a)
1. Exports to selected countries and groupings										
U.S.A	US$ mn.	1777	1869	1988	2006	1970	1869	1576	1701	2145
U.K.	US$ mn.	640	779	777	880	1018	1090	1024	990	1112
Germany	US$ mn.	232	274	272	329	438	405	347	400	510
Japan	US$ mn.	162	158	145	164	160	159	139	171	223
EU	% of total exports	30.0	32.5	30.9	33.7	37.6	37.4	38.5	33.3	33.9
Germany	% of exports to EU	15.1	14.6	13.9	14.2	15.2	13.4	12.7	13.9	14.3
UK	% of exports to EU	41.6	41.6	39.6	37.9	35.4	35.9	37.6	34.4	31.1
ASEAN	% of total exports	2.5	2.6	2.9	3.4	3.0	3.2	3.9	8.8	7.0
Singapore	% of exports to ASEAN	61.8	67.9	52.2	39.0	34.8	29.7	31.2	67.1	55.5
Malaysia	% of exports to ASEAN	11.7	7.1	9.5	12.9	15.7	17.2	16.9	9.6	13.3
SAARC	% of total exports	6.8	8.8	10.3	8.7	8.5	6.9	6.2	7.2	6.6
India	% of exports to SAARC	70.0	77.3	86.7	81.6	79.8	74.5	73.0	76.8	74.1
NAFTA	% of total exports	36.6	34.4	33.3	30.9	27.6	24.9	24.1	21.6	22.4
USA	% of exports to NAFTA	94.6	94.5	94.1	94.2	93.3	92.4	92.2	91.5	90.5
Canada	% of exports to NAFTA	3.4	3.6	3.7	3.6	3.7	4.4	4.3	5.0	5.4
APEC	% of total exports	52.2	47.8	46.2	44.0	38.8	37.0	37.0	39.6	38.7
USA	% of exports to APEC	80.6	81.4	82.3	81.5	66.4	62.3	60.1	49.8	52.5
Japan	% of exports to APEC	7.4	6.9	5.9	6.6	5.4	5.3	5.3	5.0	5.5
Singapore	% of exports to APEC	3.0	3.8	3.3	3.0	2.7	2.5	3.3	14.9	10.0
2. Imports from selected countries and groupings										
Japan	US$ mn.	448	412	380	450	413	426	224	584	1025
India	US$ mn.	1073	1439	1835	2173	2610	3447	1820	2570	4431
Hong Kong	US$ mn.	560	619	648	659	725	695	517	580	632
U.S.A	US$ mn.	198	240	205	201	412	279	259	168	266
U.K.	US$ mn.	273	312	277	303	230	250	254	267	304
Taiwan	US$ mn.	276	291	279	275	264	251	201	264	352
EU	% of total imports	16.5	15.7	14.5	13.7	12.4	12.5	12.6	10.9	9.2
Germany	% of imports from EU	13.0	15.4	13.9	15.8	16.4	16.0	19.3	17.2	18.3
UK	% of imports from EU	24.8	24.8	21.6	21.5	16.5	14.2	19.8	18.2	16.4
ASEAN	% of total imports	19.8	20.0	20.5	21.7	17.0	15.8	18.7	18.9	18.6
Singapore	% of imports from ASEAN	46.2	51.2	48.2	52.9	58.4	55.8	55.8	61.8	56.4
Malaysia	% of imports from ASEAN	25.6	24.1	25.7	23.7	14.8	16.1	15.1	15.2	18.2
SAARC	% of total imports	17.6	19.7	22.4	22.9	24.9	26.0	20.1	21.4	23.7
India	% of imports from SAARC	91.5	91.4	92.6	92.4	92.7	94.0	88.6	89.3	92.1
NAFTA	% of total imports	3.5	3.6	3.2	4.1	4.4	4.7	5.2	3.3	3.2
USA	% of imports from NAFTA	85.4	84.4	71.2	48.0	83.5	42.4	48.4	37.6	41.3
Canada	% of imports from NAFTA	14.3	15.3	28.0	51.5	16.1	57.6	51.6	62.4	58.7
APEC	% of total imports	49.2	46.4	44.0	43.8	46.1	43.0	47.8	46.3	46.6
USA	% of imports from APEC	7.1	7.6	6.2	5.3	7.9	4.6	5.3	2.7	2.8
Japan	% of imports from APEC	16.0	13	11.6	11.9	7.9	7.0	4.6	9.4	10.9
Singapore	% of imports from APEC	18.7	20.5	22.4	26.2	21.5	20.6	21.9	25.2	22.5

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, 1992-2011

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1. Consumer goods										
Value (US$ mn.)	734.6	774.5	930.6	982.0	1,030.0	1,084.0	1,128.0	1,131.0	1,261.0	1,126.0
Growth	-6.1	5.4	20.1	5.5	4.9	5.2	4.1	0.3	11.5	-10.7
% of total imports	21.0	19.3	19.5	18.5	18.9	18.5	19.2	18.9	17.2	18.8
1.1 Food										
Value (US$ mn.)	419.7	415.9	483.9	522.0	597.0	642.0	596.0	551.0	566.0	545.0
Growth	3.7	-0.9	16.4	7.9	14.4	7.5	-7.2	-7.6	2.7	-3.7
% of total imports	12.0	10.4	10.2	9.8	11.0	10.9	10.1	9.2	7.7	9.1
1.2 Other										
Value (US$ mn.)	314.9	358.7	446.6	461.0	433.0	442.0	532.0	581.0	696.0	581.0
Growth	-16.5	13.9	24.5	3.2	-6.1	2.1	20.4	9.2	19.8	-16.5
% of total imports	9.0	8.9	9.4	8.7	8.0	7.5	9.0	9.7	9.5	9.7
2. Intermediate goods										
Value (US$ mn.)	1,884.4	2,154.4	2,425.0	2,900.0	2,971.0	3,235.7	3,108.0	3,168.0	3,916.0	3,430.0
Growth	21.3	14.3	12.6	19.6	2.4	8.9	-3.9	1.9	23.6	-12.4
% of total imports	53.8	53.7	50.9	54.6	54.6	55.2	52.8	53.0	53.5	57.4
2.1 Petroleum										
Value (US$ mn.)	318.0	309.2	296.3	386.9	479.9	539.5	345.0	500.0	901.0	731.0
Growth	2.1	-2.8	-4.2	30.6	24.1	12.4	-36.1	44.9	80.2	-18.9
% of total imports	9.1	7.7	6.2	7.3	8.8	9.2	5.9	8.4	12.3	12.2
2.2 Textiles										
Value (US$ mn.)	765.5	865.1	1,038.1	1,158.5	1,168.8	1,386.9	1,397.0	1,320.0	1,471.0	1,320.0
Growth	53.7	13.0	20.0	11.6	0.9	18.7	0.7	-5.5	11.4	-10.3
% of total imports	21.9	21.6	21.8	21.8	21.5	23.7	23.7	22.1	20.1	22.1
3. Investment goods										
Value (US$ mn.)	850.9	1,046.8	1,366.5	1,189.0	1,203.0	1,324.0	1,477.0	1,565.0	1,737.0	1,081.0
Growth	18.2	23.0	30.5	-13.0	1.2	10.1	11.6	6.0	11.0	-37.8
% of total imports	24.3	26.1	28.7	22.4	22.1	22.6	25.1	26.2	23.7	18.1
4. Total imports										
Value (US$ mn.)	3,503.4	4,011.3	4,767.3	5,311.1	5,439.0	5,864.0	5,889.0	5,979.0	7,320.0	5,974.0
Growth	14.5	14.5	18.8	11.4	2.4	7.8	0.4	1.5	22.4	-18.4

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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011(a)
1. Consumer goods										
Value (US$ mn.)	1,189.0	1,344.0	1,440.0	1,503.0	1,782.0	1,665.0	2,006.0	1,565.0	2,476.0	3,654.0
Growth	5.6	13.0	7.1	4.4	18.6	-6.6	20.5	-22.0	58.2	47.6
% of total imports	19.5	20.1	18.0	17.0	17.4	14.7	14.2	15.3	18.4	18.0
1.1 Food										
Value (US$ mn.)	566.0	564.0	596.0	611.0	757.0	803.0	1,089.0	933.0	1,322.0	1,567.0
Growth	3.9	-0.4	5.7	2.5	23.9	6.1	35.6	-14.3	41.7	18.5
% of total imports	9.3	8.5	7.5	6.9	7.4	7.1	7.7	9.1	9.8	7.7
1.2 Other										
Value (US$ mn.)	623.0	780.0	844.0	891.0	1,024.0	862.0	918.0	632.0	1,155.0	2,087.0
Growth	7.2	25.2	8.2	5.6	14.9	-15.8	6.5	-31.2	82.8	80.7
% of total imports	10.2	11.7	10.6	10.1	10.0	7.6	6.5	6.2	8.6	10.3
2. Intermediate goods										
Value (US$ mn.)	3,622.0	3,948.0	4,828.0	5,458.0	6,161.0	6,983.0	9,019.0	6,158.0	8,054.0	12,275.0
Growth	5.6	9.0	22.3	13.0	12.9	13.3	29.2	-31.7	30.8	52.4
% of total imports	59.3	59.2	60.4	61.6	60.1	61.8	64.0	60.3	59.9	60.6
2.1 Petroleum										
Value (US$ mn.)	789.0	838.0	1209.0	1,655.0	2,070.0	2,516.0	3,392.0	2,184.0	3,041.0	4,795.0
Growth	7.9	6.2	44.3	36.9	25.1	21.5	34.8	-35.6	39.2	57.7
% of total imports	12.9	12.6	15.1	18.7	20.2	22.3	24.1	21.4	22.6	23.7
2.2 Textiles										
Value (US$ mn.)	1,321.0	1,372.0	1,514.0	1,531.0	1,546.0	1,724.0	1,788.0	1,529.0	1,812.0	2,321.0
Growth	0.1	3.9	10.3	1.1	1.0	11.5	3.7	-14.5	18.5	28.1
% of total imports	21.6	20.6	18.9	17.3	15.1	15.3	12.7	15.0	13.5	11.5
3. Investment goods										
Value (US$ mn.)	1,169.0	1,320.0	1,670.0	1,869.0	2,246.0	2,597.0	2,852.0	2,093.0	2,758.0	4,286.0
Growth	8.1	12.9	26.5	11.9	20.2	15.6	9.8	-26.6	31.8	55.4
% of total imports	19.1	19.8	20.9	21.1	21.9	23.0	20.2	20.5	20.5	21.1
4. Total imports										
Value (US$ mn.)	6,105.0	6,672.0	8,000.0	8,863.0	10,254.0	11,296.0	14,091.0	10,207.0	13,451.0	20,269.0
Growth	2.2	9.3	19.9	10.8	15.7	10.2	24.7	-27.6	31.8	50.7

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, 1992-2011

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1. Agricultural exports										
Value (US$ mn.)	604.7	655.3	702.1	829.0	961.0	1060.0	1088.0	947.0	1005.0	932.0
Growth	-5.7	8.4	7.1	18.1	15.9	10.3	2.6	-13.0	6.1	-7.3
% of total exports	24.6	22.9	21.9	21.8	23.5	22.8	22.7	20.5	18.2	19.3
1.1 Plantation crops										
Value (US$ mn.)	491.52	534.61	572.73	695.00	829.00	916.00	918.00	783.00	850.00	796.00
Growth	-8.7	8.8	7.1	21.3	19.3	10.5	0.2	-14.7	8.6	-6.4
% of total exports	20.0	18.7	17.8	18.3	20.2	19.7	19.1	17.0	15.4	16.5
1.1.1 Tea										
Value (US$ mn.)	339.8	412.7	424.2	481.0	615.0	719.0	780.0	621.0	700.0	690.0
Growth	-21.3	21.4	2.8	13.4	27.9	16.9	8.5	-20.4	12.7	-1.4
% of total exports	13.8	14.4	13.2	12.6	15.0	15.5	16.3	13.5	12.7	14.3
1.1.2 Rubber										
Value (US$ mn.)	67.5	64.0	72.5	111.0	104.0	79.0	44.0	33.0	29.0	24.0
Growth	5.8	-5.3	13.3	53.1	-6.3	-24.0	-44.3	-25.0	-12.1	-17.2
% of total exports	2.7	2.2	2.3	2.9	2.5	1.7	0.9	0.7	0.5	0.5
1.1.3 Coconut kernel products										
Value (US$ mn.)	60.8	38.3	50.1	69.0	81.0	82.0	56.0	84.0	77.0	41.0
Growth	42.2	-37.0	30.9	37.7	17.4	1.2	-31.7	50.0	-8.3	-46.8
% of total exports	2.5	1.3	1.6	1.8	2.0	1.8	1.2	1.8	1.4	0.9
1.2. Minor agricultural crops										
Value (US$ mn.)	113.1	120.7	129.2	134.0	132.0	145.0	170.0	165.0	155.0	136.0
Growth	37.3	6.7	7.0	3.7	-1.5	9.9	17.2	-2.9	-6.1	-12.3
% of total exports	4.6	4.2	4.0	3.5	3.2	3.1	3.5	3.6	2.8	2.8
2. Mineral exports										
Value (US$ mn.)	62.7	75.7	86.9	87.0	96.0	90.0	60.0	64.0	97.0	86.0
Growth	1.3	20.7	14.7	0.2	10.3	-6.3	-33.3	6.7	51.6	-11.3
% of total exports	2.5	2.6	2.7	2.3	2.3	1.9	1.3	1.4	1.8	1.8
3. Industrial exports										
Value (US$ mn.)	1,763.2	2,102.3	2,398.9	2,870.0	3,006.0	3,436.0	3,607.0	3,551.0	4,283.0	3,710.0
Growth	42.5	19.2	14.1	19.6	4.7	14.3	5.0	-1.6	20.6	-13.4
% of total exports	71.7	73.4	74.8	75.4	73.4	74.1	75.2	77.0	77.6	77.0
3.1 Textile & garments										
Value (US$ mn.)	1,214.0	1,412.4	1,551.9	1,853.0	1,902.0	2,274.0	2,460.0	2,425.0	2,982.0	2,543.0
Growth	51.0	16.3	9.9	19.4	2.6	19.6	8.2	-1.4	23.0	-14.7
% of total exports	49.3	49.3	48.4	48.7	46.4	49.0	51.3	52.6	54.0	52.8
3.2 Petroleum products										
Value (US$ mn.)	63.2	78.8	80.1	85.0	104.0	97.0	73.0	74.0	98.0	68.0
Growth	-20.5	24.6	1.7	6.1	22.4	-6.7	-24.7	1.4	32.4	-30.6
% of total exports	2.6	2.8	2.5	2.2	2.5	2.1	1.5	1.6	1.8	1.4
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	2,460.8	2,863.7	3,208.6	3,806.6	4,095.0	4,639.0	4,798.0	4,610.0	5,522.0	4,817.0
Growth	23.8	16.4	12.0	18.6	7.6	13.3	3.4	-3.9	19.8	-12.8
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	2,397.6	2,784.9	3,128.5	3,721.6	3,991.0	4,542.0	4,725.0	4,536.0	5,424.0	4,749.0
Growth	25.7	16.2	12.3	19.0	7.2	13.8	4.0	-4.0	19.6	-12.4

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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011(a)
1. Agricultural exports										
Value (US$ mn.)	938.0	965.0	1065.2	1,153.8	1,292.7	1,507.2	1,854.8	1,690.3	2,306.4	2,527.80
Growth	0.6	2.9	10.4	8.3	12.0	16.6	23.1	-8.9	36.4	9.6
% of total exports	20.0	18.8	18.5	18.2	18.8	19.7	22.9	23.9	26.7	23.9
1.1 Plantation crops										
Value (US$ mn.)	771.00	815.00	903.30	970.40	1,098.20	1,275.80	1,567.60	1,449.90	1,779.60	1,963.30
Growth	-3.1	5.7	10.8	7.4	13.2	16.2	22.9	-7.5	22.7	10.3
% of total exports	16.4	15.9	15.7	15.3	16.0	16.7	19.3	20.5	20.6	18.6
1.1.1 Tea										
Value (US$ mn.)	660.0	683.0	738.9	810.2	881.2	1,025.2	1,271.5	1,185.1	1,440.6	1,490.90
Growth	-4.3	3.5	8.2	9.6	8.8	16.3	24.0	-6.8	21.6	3.5
% of total exports	14.0	13.3	12.8	12.8	12.8	13.4	15.7	16.7	16.7	14.1
1.1.2 Rubber										
Value (US$ mn.)	27.0	39.0	51.3	46.9	93.1	109.4	125.1	98.6	173.2	206.4
Growth	12.5	44.4	31.5	-8.6	98.5	17.5	14.4	-21.2	75.7	19.2
% of total exports	0.6	0.8	0.9	0.7	1.4	1.4	1.5	1.4	2.0	2.0
1.1.3 Coconut kernel products										
Value (US$ mn.)	41.0	48.0	58.6	48.8	52.8	60.3	82.4	58.2	55.4	-
Growth	0.0	17.1	22.1	-16.7	8.2	14.2	36.7	-29.4	-4.8	`
% of total exports	0.9	0.9	1.0	0.8	0.8	0.8	1.0	0.8	0.6	-
1.2. Minor agricultural crops										
Value (US$ mn.)	168.0	150.0	161.9	183.4	194.6	231.5	287.3	240.4	71.6	88.7
Growth	23.5	-10.7	7.9	13.3	6.1	19.0	24.1	-16.3	-70.2	23.9
% of total exports	3.6	2.9	2.8	2.9	2.8	3.0	3.5	3.4	0.8	0.8
2. Mineral exports										
Value (US$ mn.)	90.0	84.0	120.0	143.3	119.9	127.8	97.8	88.7	24.2	32.9
Growth	4.7	-6.7	42.9	19.4	-16.3	6.6	-23.5	-9.3	-72.7	36.0
% of total exports	1.9	1.6	2.1	2.3	1.7	1.7	1.2	1.3	0.3	0.3
3. Industrial exports										
Value (US$ mn.)	3,631.0	3,977.0	4,506.1	4,948.4	5,401.1	5,967.3	6,158.0	5,305.4	6,096.1	7,991.70
Growth	-2.1	9.5	13.3	9.8	9.1	10.5	3.2	-13.8	14.9	31.1
% of total exports	77.3	77.5	78.3	78.0	78.5	78.1	75.9	74.9	70.7	75.7
3.1 Textile & garments										
Value (US$ mn.)	2,424.0	2,575.0	2,808.9	2,894.5	3,080.4	3,339.6	3,468.7	3,274.2	3,356.0	4,191.20
Growth	-4.7	6.2	9.1	3.0	6.4	8.4	3.9	-5.6	2.5	24.9
% of total exports	51.6	50.2	48.8	45.6	44.8	43.7	42.8	46.2	38.9	39.7
3.2 Petroleum products										
Value (US$ mn.)	73.0	65.0	99.6	130.9	188.4	168.9	254.9	134.7	263.4	552.7
Growth	7.4	-11.0	53.2	31.4	43.9	-10.4	50.9	-47.2	95.5	109.8
% of total exports	1.6	1.3	1.7	2.1	2.7	2.2	3.1	1.9	3.1	5.2
4. Total commodity exports inc. petroleum										
Value (US$ mn.)	4,699.0	5,133.0	5,757.2	6,346.7	6,882.7	7,640.0	8,110.6	7,084.5	8,625.8	10,558.80
Growth	-2.4	9.2	12.2	10.2	8.4	11.0	6.2	-12.7	21.8	22.4
5. Total commodity exports excl. petroleum										
Value (US$ mn.)	4,626.0	5,068.0	5,657.6	6,215.8	6,694.3	7,471.1	7,855.7	6,949.8	8,362.4	10,006.1
Growth	-2.6	9.6	11.6	9.9	7.7	11.6	5.1	-11.5	20.3	19.7

Notes: (a): Provisional.

Sources: Central Bank of Sri Lanka, *Annual Report,* various issues; IPS database.

Table A17: Tourism, 1992-2011

	Unit	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Tourist arrivals	No.	393,669	392,250	407,511	403,101	302,265	366,165	381,063	436,440	400,414	336,794
Excursionist arrivals	No.	5,651	6,093	8,413	10,556	12,863	18,265	27,629	28,335	44,518	60,084
Tourist nights	000	4,055	4,148	4,251	4,024	2,947	3,680	3,944	4,479	4,056	3,342
Earnings	Rs. mn.	8,825.6	10,036.8	11,401.6	11,551.6	9,559.1	12,980.0	14,868.0	19,297.3	19,162.2	18,863.3
	US$ mn.	201.4	208.0	230.7	225.4	173.0	216.7	230.5	274.9	252.8	211.1
Receipts per tourist per day	US$	49.7	50.1	54.2	56.1	57.9	58.6	59.5	61.4	62.3	63.1
Average duration	Nights	10.3	10.6	10.4	10.0	9.8	10.1	10.4	10.3	10.1	9.9
Accommodation											
Rooms	No.	10,214	10,365	10,742	11,255	11,600	12,370	12,770	12,918	13,311	13,626
Beds	No.	19,907	20,242	20,929	21,680	22,040	22,944	23,373	24,216	24,953	25,595
Occupancy rate, graded	%	55.3	57.0	56.6	52.6	40.3	49.1	52.8	57.6	52.3	42.1
Sri Lanka nationals											
Arrivals	No.	339,109	375,740	422,367	459,441	488,055	482,850	481,793	521,073	514,448	487,356
Departures	No.	420,749	416,246	448,437	504,420	494,258	530,712	518,050	496,963	524,212	505,341
Employment											
Direct	No.	28,790	30,710	33,956	35,068	31,963	34,006	34,780	36,560	37,943	33,710
Indirect	No.	40,306	42,994	47,538	49,095	44,748	47,608	48,692	51,184	53,120	47,194

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	Unit	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011(a)
Tourist arrivals	No.	393,171	500,642	566,202	549,308	559,603	494,008	438,475	447,890	654,476	855,975
Excursionist arrivals	No.	63,560	82,066	110,000	119,618	128,719	98,432	87,695	89,526	112,497	119,875
Tourist nights	000	3,989	5,093	5,742	4,754	5,793	4,940	4,166	4,075	6,548	8,560
Earnings	Rs. mn.	24,202.0	32,810.0	42,666.3	36,377	42,586	42,519	37,094	40,133	65,018	91,926
	US$ mn.	253.0	340.0	416.8	362.3	410.0	384.4	319.5	349.3	575.9	838.9
Receipts per tourist per day	US$	63.4	66.8	72.2	74.6	83.4	79.1	76.7	81.8	88.0	98.0
Average duration	Nights	10.1	10.2	10.1	8.7	10.4	10.0	9.5	9.1	10.0	10.0
Accommodation											
Rooms	No.	13,818	14,137	14,322	13,162	14,218	14,604	14,793	14,461	14,714	14,653
Beds	No.	25,956	26,511	26,854	24,740	27,117	27,500	28,698	28,344	28,978	28,844
Occupancy rate, graded	%	43.1	53.2	59.3	45.4	47.8	46.2	43.9	48.4	70.1	77.1
Sri Lanka nationals											
Arrivals	No.	493,947	560,602	646,990	683,169	734,421	817,524	900,815	914,584	1,081,417	1,210,951
Departures	No.	533,565	561,126	680,248	727,301	756,735	862,011	966,337	962,786	1,122,212	1,239,290
Employment											
Direct	No.	38,821	46,761	53,766	52,085	55,649	60,516	51,306	52,071	55,023	57,786
Indirect	No.	54,349	65,465	75,272	72,919	77,909	84,722	71,828	72,899	77,032	80,899

Notes: (a): Provisional.
Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues.

Table A18: Monthly Tourist Arrivals, 2000-2011

	2000		2001		2002		2003		2004		2005	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	43,311	-2.4	44,187	2.0	28,296	-36.0	40,647	43.6	49,950	22.9	38,187	-23.5
February	43,287	4.2	46,575	7.6	31,683	-32.0	39,081	23.4	43,584	11.5	36,645	-15.9
March	40,110	-2.2	44,290	10.4	33,084	-25.3	40,818	23.4	38,418	-5.9	50,418	31.2
April	33,642	-2.3	36,906	9.7	27,057	-26.7	33,714	24.6	30,672	-9.0	42,261	37.8
May	23,404	-7.2	26,924	15.0	26,661	-1.0	30,048	12.7	30,162	0.4	40,878	35.5
June	21,825	-16.6	28,323	29.8	26,355	-6.9	31,836	20.8	32,119	0.9	45,699	42.3
July	33,267	-0.1	28,566	-14.1	35,742	25.1	43,743	22.4	50,525	15.5	56,745	12.3
August	34,422	-11.9	15,717	-54.3	35,475	125.7	42,111	18.7	48,675	15.6	51,216	5.2
September	31,035	-8.5	11,758	-62.1	32,982	180.5	36,054	9.3	51,525	42.9	43,536	-15.5
October	26,658	-24.1	12,904	-51.6	36,258	181.0	49,922	37.7	59,442	19.1	44,095	-25.8
November	32,469	-22.6	17,344	-46.6	37,395	115.6	54,946	46.9	64,971	18.2	48,457	-25.4
December	36,984	-8.3	23,300	-37.0	42,183	81.0	57,722	36.8	66,159	14.6	51,171	-22.7
Total	400,414	-8.3	336,794	-15.9	393,171	16.7	500,642	27.3	566,202	13.1	549,308	-3.0

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	2006		2007		2008		2009		2010		2011(a)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
January	52,103	36.4	56,553	8.5	56,916	0.6	38,468	-32.4	50,757	31.9	74,197	46.2
February	52,687	43.8	43,051	-18.3	40,551	-5.8	34,169	-15.7	57,300	67.7	65,797	14.8
March	54,746	8.6	35,031	-36.0	38,049	8.6	34,065	-10.5	52,352	53.7	75,130	43.5
April	49,776	17.8	33,039	-33.6	29,747	-10.0	26,054	-12.4	38,300	47.0	63,835	66.7
May	43,825	7.2	26,307	-40.0	31,140	18.4	24,739	-20.6	35,213	42.3	48,943	39.0
June	44,066	-3.6	30,810	-30.1	27,960	-9.3	30,234	8.1	44,730	47.9	53,636	19.9
July	55,354	-2.5	44,142	-20.3	32,982	-25.3	42,223	28.0	63,339	50.0	83,786	32.3
August	52,931	3.3	44,742	-15.5	30,672	-31.4	41,207	34.3	55,898	35.7	72,463	29.6
September	38,485	-11.6	37,104	-3.6	29,529	-20.4	37,983	28.6	47,339	24.6	60,219	27.2
October	38,815	-12.0	37,011	-4.6	35,103	-5.2	37,575	7.0	52,370	39.4	69,563	32.8
November	37,591	-22.4	45,102	20.0	36,901	-18.2	44,311	20.1	72,251	63.1	90,889	25.8
December	39,224	-23.3	61,116	55.8	48,925	-19.9	56,862	16.2	84,627	48.8	97,517	15.2
Total	559,603	1.9	494,008	-11.7	438,475	-11.2	447,890	2.1	654,476	46.1	855,975	30.8

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.

Table A19: Tourist Arrivals by Country of Residence, 2000-2011

	2000		2001		2002		2003		2004		2005	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	17,319	-6.3	15,983	-7.7	19,866	24.3	25,110	26.4	29,759	18.5	46,457	56.1
Canada	7,503	-5.1	7,609	1.4	8,301	9.1	11,164	34.5	14,633	31.1	21,185	44.8
U.S.A.	9,816	-7.2	8,374	-14.7	11,565	38.1	13,946	20.6	15,126	8.5	25,272	67.1
Western Europe	260,824	-5.4	203,984	-21.8	200,295	-1.8	255,169	27.4	284,440	11.5	227,191	-20.1
Germany	70,584	-8.6	60,405	-14.4	55,170	-8.7	58,908	6.8	58,258	-1.1	46,350	-20.4
United Kingdom	84,693	4.7	67,830	-19.9	67,533	-0.4	93,278	38.1	106,645	14.3	92,629	-13.1
France	25,992	-24.6	20,949	-19.4	19,989	-4.6	28,585	43.0	29,996	4.9	26,653	-11.1
Italy	16,833	-15.0	12,074	-28.3	12,177	0.9	15,654	28.6	18,862	20.5	10,192	-46.0
Netherlands	22,618	-23.8	12,569	-44.4	11,748	-6.5	18,197	54.9	21,455	17.9	15,156	-29.4
Asia	91,521	-20.0	89,732	-2.0	143,064	59.4	177,351	24.0	198,068	11.7	223,351	12.8
Japan	10,226	-37.4	9,237	-9.7	13,602	47.3	17,115	25.8	19,641	14.8	17,148	-12.7
India	31,860	-24.7	33,924	6.5	69,960	106.2	90,603	29.5	105,151	16.1	113,323	7.8
Pakistan	10,005	-12.4	8,562	-14.4	6,756	-21.1	9,704	43.6	9,638	-0.7	11,029	14.4
Australasia	18,228	20.2	13,105	-28.1	13,209	0.8	22,965	73.9	26,540	15.6	29,738	12.0
Australia	16,443	24.4	11,457	-30.3	11,217	-2.1	19,958	77.9	23,247	16.5	25,986	11.8
Other(a)	12,522	-0.9	13,990	11.7	16,737	19.6	20,047	19.8	27,395	36.7	22,571	-17.6
Total	400,414	-8.3	336,794	-15.9	393,171	16.7	500,642	27.3	566,202	13.1	549,308	-3.0

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	2006		2007		2008		2009		2010		2011(b)	
	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth	No.	Growth
North America	35,323	-24.0	28,355	-19.7	24,311	-14.3	24,948	2.6	40,216	61.2	49,057	22.0
Canada	14,623	-31.0	11,869	-18.8	10,258	-13.6	10,707	4.4	21,123	97.3	24,671	16.8
U.S.A.	20,700	-18.1	16,486	-20.4	14,053	-14.8	14,241	1.3	19,093	34.1	24,386	27.7
Western Europe	228,445	0.6	194,448	-14.9	167,187	-14.0	170,123	1.8	256,861	51.0	315,210	22.7
Germany	47,402	2.3	35,042	-26.1	30,625	-12.6	29,654	-3.2	45,727	54.2	55,882	22.2
United Kingdom	88,306	-4.7	94,060	6.5	81,331	-13.5	81,594	0.3	105,496	29.3	106,082	0.6
France	22,693	-14.9	8,091	-64.3	10,594	30.9	15,886	50.0	31,285	96.9	48,695	55.6
Italy	12,424	21.9	11,451	-7.8	9,126	-20.3	7,514	-17.7	11,423	52.0	13,527	18.4
Netherlands	19,360	27.7	17,526	-9.5	13,030	-25.7	11,291	-13.3	17,861	58.2	23,966	34.2
Asia	242,132	8.4	202,480	-16.4	173,039	-14.5	174,534	0.9	244,124	39.9	333,841	36.8
Japan	16,189	-5.6	14,274	-11.8	10,075	-29.4	10,926	8.4	14,352	31.4	20,586	43.4
India	128,370	13.3	106,067	-17.4	85,238	-19.6	83,634	-1.9	126,882	51.7	171,374	35.1
Pakistan	11,145	1.1	10,204	-8.4	7,885	-22.7	7,373	-6.5	9,148	24.1	14,724	61.0
Australasia	25,127	-15.5	22,924	-8.8	21,839	-4.7	26,068	19.4	37,290	43.0	46,467	24.6
Australia	21,849	-15.9	20,241	-7.4	19,536	-3.5	23,239	19.0	33,456	44.0	41,728	24.7
Other(a)	28,576	26.6	45,801	60.3	52,099	13.8	52,217	0.2	75,985	45.5	111,400	46.6
Total	559,603	1.9	494,008	-11.7	438,475	-11.2	447,890	2.1	654,476	46.1	855,975	30.8

Notes: (a): Latin America & the Caribbean, East Europe, Africa, and Middle East.
(b): Provisional.

Source: Ceylon Tourist Board, *Annual Statistical Report,* various issues.

Table A20: Balance of Payments, 2000-2011

	Unit	2000	2001	2002	2003(c)	2004	2005	2006	2007	2008	2009	2010	2011(a)
1. Trade balance	US$ mn.	-1,798.0	-1,157.0	-1,406.0	-1,539.0	-2,243.0	-2,516.0	-3,370.0	-3,657.0	-5,981.0	-3,122.0	-4,825.0	-9,710.0
	% of GDP	-10.8	-7.3	-8.5	-8.2	-10.9	-10.3	-11.9	-11.3	-14.7	-7.4	-9.7	-16.4
2. Services Balance	US$ mn.	38.0	204.0	295.0	399.0	419.0	338.0	257.0	302.0	401.0	391.0	707.0	1099.0
	% of GDP	0.2	1.3	1.8	2.1	2.0	1.4	0.9	0.9	1.0	0.9	1.4	1.9
3. Income, net	US$ mn.	-305.0	-267.0	-252.0	-172.0	-204.0	-299.0	-389.0	-358.0	-972.0	-488.0	-617.0	-647.0
	% of GDP	-1.8	-1.7	-1.5	-0.9	-1.0	-1.2	-1.4	-1.1	-2.4	-1.2	-1.2	-1.1
4. Net private transfers	US$ mn.	974.0	984.0	1,097.0	1,205.0	1,350.0	1,736.0	1,904.0	2,214.0	2,565.0	2,927.0	3,608.0	4,583.0
	% of GDP	5.9	6.2	6.6	6.4	6.5	7.1	6.7	6.8	6.3	7.0	7.3	7.7
5. Net official transfers	US$ mn.	24.0	22.0	31.0	36.0	30.0	93.0	101.0	97.0	101.0	77.0	52.0	60.0
	% of GDP	0.1	0.1	0.2	0.2	0.1	0.4	0.4	0.3	0.2	0.2	0.1	0.1
6. Current account balance	US$ mn.	-1,066.0	-215.1	-236.5	-71.0	-648.0	-650.2	-1,499.0	-1,402.0	-3,886.0	-214.4	-1,075.0	-4,615.4
	% of GDP	-6.4	-1.4	-1.4	-0.4	-3.1	-2.7	-5.3	-4.3	-9.5	-0.5	-2.2	-7.8
7. Capital and financial a/c	US$ mn.	443.0	562.0	444.0	722.0	631.0	1,224.0	1,808.0	2,097.0	1,773.0	2,594.0	2,877.0	4,262.0
	% of GDP	2.7	3.6	2.7	3.8	3.1	5.0	6.4	6.5	4.4	6.2	5.8	7.2
Capital account	US$ mn.	50.0	198.0	65.0	74.0	64.0	250.0	291.0	269.0	291.0	233.0	164.0	164.0
8. Financial account	US$ mn.	393.0	364.0	379.0	648.0	567.0	974.0	1517.0	1828.0	1483.0	2,361.0	2,713.0	4,097.0
Long-term	US$ mn.	304.0	163.0	326.0	722.0	680.0	798.0	907.0	1251.0	1016.0	1,304.0	2,379.0	3,292.0
Foreign direct investment	US$ mn.	173.0	82.0	181.0	171.0	217.0	234.0	451.0	548.0	691.0	384.0	435.0	896.0
Private long-term (net)	US$ mn.	82.0	-257.0	-21.0	-33.0	14.0	11.0	-35.0	31.0	74.0	79.0	149.0	153.0
Government long-term	US$ mn.	47.0	249.0	162.0	554.0	439.0	553.0	491.0	672.0	252.0	840.0	1,796.0	2,244.0
9. Short-term	US$ mn.	88.0	201.0	53.0	-75.0	-112.0	176.0	610.0	577.0	466.0	1,058.0	334.0	805.0
Foreign portfolio investment	US$ mn.	-45.0	-11.0	25.0	2.0	11.0	60.0	51.0	101.0	60.0	-6.0	-230.0	-171.0
10 Other (b)	US$ mn.	101.0	-127.0	38.0	-148.0	-189.0	-72.0	-105.0	-165.0	728.0	346.0	-881.0	-707.0
11. Overall balance	US$ mn.	-522.0	220.0	338.0	502.0	-205.0	501.0	204.0	531.0	-1385	2,725.0	921.0	-1061.0
	% of GDP	-3.1	1.4	2.0	2.7	-1.0	2.1	0.7	1.6	-3.4	6.5	1.9	-1.8

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, 2000-2011

Currency	Unit	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nominal exchange rates													
U.S.A.	S.L. Rs. per US$	80.06	93.16	96.73	96.74	104.61	102.12	107.71	108.72	113.14	114.38	110.95	113.90
Japan	S.L. Rs. per Yen	0.70	0.71	0.82	0.90	1.02	0.87	0.91	0.97	1.25	1.24	1.36	1.47
U. K.	S.L. Rs. per Pound	119.37	135.06	155.12	172.20	201.37	175.94	211.29	217.15	163.28	181.75	171.41	175.45
Europeon Union	S.L. Rs. per Euro	74.32	82.27	101.38	121.60	142.32	120.96	141.58	160.27	159.45	163.72	147.56	147.42
India	S.L. Rs. per Ind. Rs.	1.71	1.93	2.02	2.12	2.40	2.27	2.44	2.77	2.36	2.46	2.48	2.15
24 currency													
Nominal effective exchange rates (NEER)	NEER 2006 = 100 (a)	-	-	-	113.75	104.32	104.06	110.94	98.96	100.06	99.85	100.00	99.83
Real effective exchange rate (REER)	REER 2006 = 100 (a)	-	-	-	92.82	90.60	97.43	81.02	80.92	95.51	97.65	100.00	102.07

Notes: (a): From 2006 onwards, NEER 2010 = 100.

Sources: Central Bank of Sri Lanka, *Annual Report*, various issues.

Table A22: Recent Developments in the Share Market, 2003-2011

			2003	2004	2005	2006	2007	2008	2009	2010	2011
1.	**Number of companies listed**		244	242	239	237	235	235	231	241	272
	New listings		8	5	6	2	-	3	3	10	31
	De-listings		2	7	-	4	2	2	6	1	-
2.	**Number of companies traded**		236	241	242	232	231	232	231	238	265
3.	**Market capitalization**	Rs. bn.	263	382	584	835	821	489	1,092	2,211	2,214
		US$ bn.	2.7	3.8	5.8	8.0	7.4	4.5	9.5	19.6	20.0
4.	**Price -earnings ratio times, year end**		11.1	10.8	12.4	14.0	11.6	5.4	16.6	25.2	15.8
5.	**Number of shares traded**	No. mn.	2,255	2,752	5,128	3,912	2,952	3,155	4,763	18,489	24,544
	Domestic	No. mn.	1,932	2,479	4,313	3,178	2,050	1,935	3,784	16,685	23,152
	Foreign	No. mn.	323	272	815	734	903	1,220	978	1,805	1,392
6.	**Trades**	No. '000	481.3	645.1	1,100.4	952.4	876.9	776.2	1,266.0	3,355.0	4,579.4
	Domestic	No. '000	459.2	611.7	1,038.5	908.2	831.7	730.4	1,190.8	3,225.0	4,463.4
	Foreign	No. '000	22.0	33.4	61.9	44.2	45.3	45.8	75.5	130.1	115.9
7.	**Turnover:**	Rs. bn.	73.8	59.0	114.6	105.1	105.0	110.5	142.5	570.3	546.3
		US$ bn.	0.8	0.6	1.1	1.0	0.9	1.0	1.2	5.0	4.9
	Domestic	Rs. bn.	59.9	48.3	90.0	70.7	63.8	50.8	99.0	464.7	487.0
	Foreign	Rs. bn.	13.8	9.8	24.6	34.5	41.2	59.7	43.5	105.6	59.3
8.	**Liquidity-turnover / market capitalization ratio (%)**		28.1	15.4	19.6	12.6	12.8	22.6	13.0	25.8	24.7
9.	**No. of new issues**	(No.)	4	–	–	–	–	–	–	–	–
10.	**Total no. of shares issued**	(mn.)	–	–	–	–	–	–	–	–	–
11.	**Value of shares issued**	(Rs. bn.)	–	–	–	–	–	–	–	–	–
12.	**Central depository:**										
	Domestic	(Rs. bn.)	98.2	140.4	179.8	248.7	260.5	162.3	387.7	942.0	1,245.2
	Foreign	(Rs. bn.)	37.8	54.7	80.0	121.4	157.6	108.0	231.2	431.3	438.0
	Total	(Rs. bn.)	136.0	195.1	259.8	370.1	418.1	270.3	618.9	1,373.3	1,683.3
	Percentage of market cap.		51.8	51.0	44.5	44.3	50.9	55.3	56.7	62.1	76.0
13.	**Non-national activity**										
	Net purchases	Rs. mn.	209.3	1,106.3	6,144.5	5,377.4	11,254.3	13,950.5	(789.0)	(26,335.4)	(19,039.2)
	Purchases	Rs. mn.	13,943.9	11,278.0	27,712.4	37,167.3	46,796.8	66,632.2	43,057.3	92,425.5	49,776.8
	Sales	Rs. mn.	13,734.6	10,171.7	21,567.9	31,789.9	35,542.5	52,681.7	43,846.3	118,760.9	68,816.0
14.	**Price indices**										
	All share	1985 = 100	1,062.1	1,506.9	1,922.2	2,722.4	2,541.0	1,503.0	3,385.60	6,635.90	6,074.4
	Growth	% change	30.3	41.9	27.6	41.6	-6.7	-40.8	125.3	96.0	-8.5
	Sensitive	1985 = 100	1,897.8	2,073.7	2,451.1	3,711.8	3,291.9	1,631.3	3,849.40	7,061.50	5,229.2
	Growth	% change	38.1	9.3	18.2	51.4	-11.3	-50.4	136.0	83.4	-25.9

Note: 1000 Million = 1 Billion.

Source: Colombo Stock Exchange, *Fact Book*, various issues.

Table A23: Market Concentration
(% of total market capitalization)

	2011 (%)
JKH	6.47
Carsons	4.80
Bukit Darah	4.75
Ceylon Tobacco	4.15
SLT	3.91
Commercial Bank	3.46
Dialog	2.87
Aitken Spence	2.21
Nestle	2.13
HNB	2.13
Total	36.86

Note: As at 2011 the top ten of the 272 listed companies accounted 36.86% of total market capitalization.

Source: Colombo Stock Exchange , *Annual Report*, various issues.

Table A24: New Equity Listings - 2006-2011

Company	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
1. New listings - 2006					
Vallibel Power Erathna Ltd	50,000,000	8.00	50,000,000		16-May-06
Seylan Merchant Bank Ltd	100,000,000	1.00	100,000,000		22-Sep-11
2. Right issues - 2006 by sector	**No.of issues**	**No. of shares**	**Value (Rs.)**		
Banks, Finance & Insurance	6	161,724,510	2,122,643,100		
Chemicals & Pharmaceuticals	1	10,530,000	587,250,000		
Hotels & Travels	1	38,882,344	388,823,440		
Land & Property	2	72,457,212	1,086,858,180		
Motors	1	1,100,000	55,000,000		
Manufacturing	3	84,890,952	405,279,972		
Power & Energy	1	2,981,250	59,625,000		
Total	15	372,566,268	4,705,479,692		
3. **New listings-2007**	**No. of shares offered**	**Issue price Rs.**	**No. of shares subscribed by public**	**No. of shares devolved to underwriters**	**Date listed**
–	–	–	–	–	–
4. **Right issues - 2007 by Sector**	**No.of issues**	**No. of shares**	**Value (Rs.)**		
Banks, Finance & Insurance	5	106,068,277	9,504,919,448		
Beverage Food & Tobacoo	1	6,300,000	113,400,000		
Hotels & Travels	4	680,574,890	3,411,990,781		
Healthcare	1	67,119,651	1,006,794,765		
Manufacturing	4	406,718,580	1,004,844,420		
Diversified Holdings	3	185,581,292	13,829,272,340		
Land & Property	1	5,809,758	116,195,160		
Stores & Supplies	1	216,000,000	87,571,714		
Telecommunication	1	740,343,492	15,547,213,332		
Total	21	2,414,515,940	44,622,201,960		
5. New listings-2008	**No. of shares offered**	**Issue price Rs. by public**	**No. of shares subscribed underwriters**	**No. of shares devolved to**	**Date listed**
Janashakthi Insurance Company Ltd.	33,000,000	12.00	33,000,000		21-Jul-08
Ceylinco Insurance PLC	8,500,000	175.00	6,414,480		14-Aug-08
6. Right issues - 2008 by sector	**No.of issues**	**No. of shares**	**Value (Rs.)**		
Banks Finance & Insurance	3	46,519,739	1,136,239,907		
Chemicals & Pharmacuticals	2	21,000,000	1,335,856,107		
Healthcare	2	76,502,766	165,000,000		
Manufacturing	1	1,464,044	14,640,440		
Investment Trust	1	1,366,667	27,333,340		
Total	9	146,853,216	2,679,069,794		
7. New listings-2009	**No. of shares offered**	**Issue price Rs. by public**	**No. of shares subscribed underwriters**	**No. of shares devolved to**	**Date listed**
Capital Reach Leasing PLC	3,100,000	18.00	3,100,000		22-Jan-09
Hemas Power PLC	31,300,000	20.00	31,300,000		8-Oct-09
8. Right issues - 2008 by sector	**No.of issues**	**No. of shares**	**Value (Rs.)**		
Banks Finance & Insurance	4	80,111,050	1,095,457,600		
Beverage Food & Tobacco	2	33,500,000	1,375,000,000		
Construction & Engineering	1	900,000	9,000,000		
Healthcare	1	2,352,272	118,431,789		
Hotels & Travels	2	20,421,050	153,421,000		

Contd...../-

Right issues - 2008 by sector	No.of issues	No. of shares	Value (Rs.)
Investment Trust	1	2,500,000	50,000,000
Trading	2	121,702,560	2,434,051,200
Total	13	261,486,932	5,235,361,589

9. **New listings-2010**

	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Renuka Agri Foods	120,000,000	2.25	120,000,000		4-Jan-10
Ceylon Tea Brokers	14,000,000	2.00	14,000,000		16-Mar-10
Raigam Wayamba Salterns	80,000,000	2.50	80,000,000		29-Apr-10
Vallibel Finance	5,200,000	22.00	5,200,000		4-May-10
Odel	16,700,000	15.00	16,700,000		4-Aug-10
PC House	57,233,300	11.00	57,233,300		26-Aug-10
Hydro Power Free Lanka	35,000,000	10.00	35,000,000		25-Nov-10
Laugfs Gas (Voting)	75,000,000	23.00	75,000,000		8-Dec-10
Laugfs Gas (Non- Voting)	52,000,000	15.00	52,000,000		9-Dec-10

10. Right issues - 2010 by sector	No.of issues	No. of shares	Value (Rs.)
Banks Finance & Insurance	5	822,860,428	2,613,168,938.60
Beverage Food & Tobacco	2	20,799,500	1,059,965,000.00
Construction & Engineering	1	3,585,096,339	3,585,096,339.00
Hotels & Travels	4	407,206,283	7,114,053,860.00
Investment Trust	1	69,544,320	2,086,329,600.00
Plantations	3	39,821,988	727,572,875.00
Chemicals & Pharmaceuticals	2	144,428,286	382,285,457.40
Land & Property	2	290,070,253	4,751,949,795.00
Motors	1	1,013,813	50,690,650.00
Manufacturing	5	137,119,330	821,614,389.00
Footware & Textiles	1	12,500,000	912,500,000.00
Power & Energy	1	54,109,700	216,438,800.00
Total	28	5,584,570,240	24,321,665,704.00

11. **New listings-2011**

	No. of shares offered	Issue price Rs.	No. of shares subscribed by public	No. of shares devolved to underwriters	Date listed
Singer Finance Lanka PLC	26,666,667	15.00	26,666,667		17-Jan-11
Panasian Power PLC	200,000,000	3.00	200,000,000		7-Jan-11
HVA Foods PLC	19,928,598	16.00	19,928,598		15-Feb-11
Union Bank of Colombo PLC	15,000,000	25.00	15,000,000		29-Mar-11
Free Lanka Capital Holdings PLC	300,000,000	5.00	300,000,000		18-Apr-11
Expo Lanka Holdings PLC	172,000,000	14.00	172,000,000		13-Jun-11
Vallibel One PLC	21,311,870	25.00	21,311,870		8-Jul-11
Softlogic Holdings PLC	139,000,000	29.00	139,000,000		12-Jul-11
Browns Investments PLC	50,000,000	5.00	50,000,000		26-Jul-11
Textured Jersey Lanka PLC	80,000,000	15.00	80,000,000		9-Aug-11
Central Investment and Finance PLC	40,000,000	10.00	40,000,000		18-Aug-11
Trade Finance and Investments PLC	6,000,000	20.00	6,000,000		27-Oct-11
People's Leasing Company PLC	390,000,040	18.00	390,000,040		24-Nov-11

12. Right issues - 2011 by sector	No.of issues	No. of shares	Value (Rs.)
Banks Finance & Insurance	9	789,428,608	20,409,212,876.00
Beverage Food & Tobacco	1	2,160,000	648,000,000.00
Construction & Engineering	1	103,500,000	2,587,500,000.00
Diversified	2	27,696,663	896,417,230.00
Hotels & Travels	4	80,405,159	2,932,263,130.00
Investment Trust	1	25,162,800	503,256,000.00
Chemicals & Pharmaceuticals	1	4,155,621	228,559,155.00
Land & Property	2	177,662,430	1,850,606,730.00
Manufacturing	1	8,038,800	305,474,400.00
Total	22	1,218,210,081	30,361,289,521.00

Notes: New companies were not listed on the CSE during the year 2007.

Source: Colombo Stock Exchange, *Fact Book*, Various Issues.

Table A25: Listed Debentures, 2007-2011

Issuer	Issued (No.)	Par value (Issue price Rs.)	Interest (p.a.)	No.of debt subscribed	Date listed
1. Listings 2007					
Commercial Bank of Ceylon Ltd	Issue of 1,000,000 with an	1,000	13.50%	527,800	23.01.07
	option to issue up to a further	1,000	Floating	131,020	23.01.07
	500,000	1,000	13.75%	250	23.01.07
		1,000	Floating	300	23.01.07
	Unsecured subordinated	1,000	14.00%	467,260	23.01.07
	redeemable debenture	1,000	Floating	400	23.01.07
Seylan Merchant Bank PLC	950,000	100	16.00%	321,390	08.01.07
		100	17.00%	628,260	08.01.07
	Unsecured subordinated	100	Floating	350	08.01.07
	redeemable debenture				
	Issue of 1,000,000 with	100	16.00%	588,080	01.06.07
	an option to issue	100	16.50%	352,300	01.06.07
	upto a further 950,000	100	16.25%	9,000	01.06.07
		100	16.75%	6,300	01.06.07
	Unsecured subordinated	100	16.50%	11,120	01.06.07
	redeemable debenture	100	17.00%	8,500	01.06.07
		100	17.00%	8,600	01.06.07
		100	17.50%	16,100	01.06.07
Seylan Bank PLC	Issue of 5,000,000 with	100	15.75%	2,916,200	18.06.07
	an option to issue	100	16.75%	4,275,450	18.06.07
	upto a further	100	Floating	302,350	18.06.07
	5,000,000				
	Unsecured subordinated				
	redeemable debenture				
Sampath Bank Ltd	Issue of 10,000,000	100	15.50%	222,650	04.10.07
	with an option to	100	17.50%	5,206,725	04.10.07
	issue up to a	100	Floating	9,570,625	04.10.07
	further 5,000,000				
	Unsecured subordinated				
	redeemable debenture				
Nation Trust Bank PLC	Unsecured	100	14.10%	1,650,000	25.05.07
	redeemable debenture	100	Floating	1,650,000	25.05.07
		100	Floating	1,700,000	25.05.07
Hatton National Bank PLC		100	Floating	2,625,000	13.06.07
	Unsecured subordinated	100	Floating	2,500,000	13.06.07
	redeemable debenture	100	Floating	3,000,000	13.06.07
		100	Zero coupon	5,143,445	13.06.07
		100	Zero coupon	13,628,000	13.06.07
	Unsecured subordinated	100	16.00%	5,000,000	28.11.07
	redeemable debenture	100	16.75%	7,000,000	28.11.07
Nationla Development Bank PLC	Unsecured subordinated	1,000	17.50%	250,000	24.12.07
	redeemable debenture				
2. **Listings 2008**					
Seylan Bank PLC	Up to 10,000,000	100	17.00%	2,089,550	14.01.08
		100	Floating	107,550	14.01.08
	Unsecured subordinated	100	Floating	433,350	14.01.08
	redeemable debentures	100	18.00%	2,962,400	14.01.08
LB Finance PLC	Up to 450,000	1000	21.00%	149,480	21.10.08
		1000	24.00%	296,570	21.10.08
	Unsecured subordinated	1000	Floating	2,500	21.10.08
	redeemable debentures	1000	Floating	1,450	21.10.08
Singer (Sri Lanka)	Up to 6,000,000	100	Floating	280,000	28.10.08

Contd.../

Issuer	Issued (No.)	Par value (Issue price Rs.)	Interest (p.a.)	No.of debt subscribed	Date listed
PLC		100	19.75%	2,720,000	28.10.08
	Unsecured redeemable listed rated A+				
Bank of Ceylon	Up to 50,000,000	100	19.00%	3,451,900	19.12.08
		100	Floating	36,993,900	19.12.08
	Unsecured subordinated redeemable debentures	225	Zero	5,125,280	19.12.08
Nations Trust Bank PLC	10,000,000	100	21.00%	10,000,000	06.11.08
	Unsecured subordinated redeemable debentures				
3. Listings 2009					
Seylan Bank PLC	Up to 10,000,000	100	20.50%	3,954,450	10.02.09
		100	21.50%	2,316,100	10.02.09
	Unsecured subordinated	100	Floating	33,900	10.02.09
	redeemable debentures	100	Floating	1,200	10.02.09
Nations Trust Bank PLC	500,000	1000	20.53%	500,000	14.05.09
	Rated Unsecured redeemable debentures				
4. Listings 2010					
Bank of Ceylon	50,000,000	100	11.5	10,747,700	15.07.10
		100	Floating	39,252,300	15.07.10
	Unsecured subordinated redeemable debentures				
Urban Development Authority	100,000,000	100	11.00%	97,211,600	20.10.10
		100	Floating	7,300	20.10.10
	Fully secured redeemable	100	10.00%	2,781,100	20.10.10
5. Listings 2011					
Bartleet Finance PLC	2,040,000	100	13.00%	2,040,000	30.06.11
	Rated Unsecured redeemable debentures				
DFCC Vardhana Bank PLC	8,333,333	100	11.50%	8,333,330	28.11.11
	Unsecured subordinated redeemable debentures				
	1,666,667	100	Floating	1,666,670	28.11.11
	Unsecured subordinated redeemable debentures				
Lanka Orix Leasing Company PLC	6,100,000	100	11.70%	6,100,000	15.11.11
	Senior Unsecured redeemable rated				
	1,400,000	100	11.90%	1,400,000	15.11.11
	Senior Unsecured redeemable rated				
Hatton National Bank PLC	20,000,000	100	11.50%	20,000,000	23.12.11
	Unsecured subordinated redeemable debentures				
Merchant Bank of Sri Lanka PLC	7,318,800	100	11.60%	7,318,800	2.12.11
	Rated Unsecured redeemable debentures				
	2,680,800	100	11.80%	2,680,800	2.12.11
	Rated Unsecured redeemable debentures				
	400	100	Floating	400	2.12.11
	Rated Unsecured redeemable debentures				

Source: Colombo Stock Exchange.

Themes of the "Sri Lanka: State of the Economy Reports"

1992	Macroeconomic Policy
1993	Export Sector
1994	Agriculture Sector
1995	Poverty Alleviation
1996	Workers' Charter
1997	Private Sector Expansion
1998	Demographic Change and Social Safety Nets
1999	Free Trade in South Asia
2000	Plantation Sector
2001	Competition Policy and Regulations
2002	Agriculture Sector
2003	Garment Sector
2004	Land Policy
2005	Post-Tsunami Economic Issues
2006	Agriculture Reforms: Irrigation Water Charges and Land Policy
2007	Empowerment of the Poor
2008	Political Economy Dilemma of Reforms
2009	The Global Economic Crisis: Issues, Impacts and Outlook
2010	Growth and Stability in Post-conflict Economic Recovery
2011	Post-Conflict Growth and Recovery
2012	Keeping Sri Lanka on the Growth Expressway

While economic growth alone should not be the sole yardstick by which governments attempt to gain legitimacy, growth does matter. Rapid growth over a period of years allows countries such as Sri Lanka to grow from low income levels to middle-income status. The country has seen a remarkable strengthening of its infrastructure development programmes, underpinning the sources of faster growth in recent years. However, sustaining this momentum in the longer term calls for raising Sri Lanka's total factor productivity growth i.e., the efficiency with which workers and capital are used. With a dwindling working age population, higher long term growth will critically depend, among other factors, on technological innovation and the availability of a skilled, productive and flexible workforce.

For Sri Lanka, the transition to a post-conflict era raises legitimate economic, political and social aspirations that call for a steady and politically harmonious growth process. Policies, the role of government, the state of the market, and regulatory institutions will determine the country's long term growth dynamics. In this context, the *Sri Lanka: State of the Economy 2012* report examines the many opportunities and challenges on the road to sustained and equitable growth for Sri Lanka in the coming years.

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