NEW PERSPECTIVES ON ECONOMIC DEVELOPMENT IN SRI LANKA

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A COLLECTION OF LECTURES

GAMANI COREA FOUNDATION

NEW PERSPECTIVES ON ECONOMIC DEVELOPMENT IN SRI LANKA

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GAMANI COREA FOUNDATION

ISBN: 978-624-6487-00-3

FIRST EDITION 2023.

PUBLISHED BY: GAMANI COREA FOUNDATION
(gamanicoreafoundation@gmail.com)

PUBLISHING COORDINATED BY: BCONNECTED (PVT) LTD.
Colombo, Sri Lanka
www.bconnected.lk

Contents

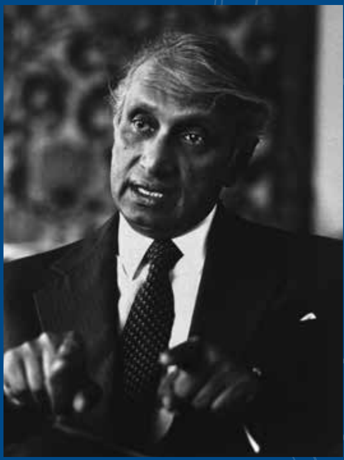
Foreword

The Gamani Corea Foundation was established by Dr. Gamani Corea, the third Secretary General of the United Nations Conference on Trade and Development (UNCTAD), and the first Sri Lankan to hold a doctorate in economics from the University of Oxford, for the promotion of research in economics and the social sciences with a special focus on the development of low-income and middle-income countries. One of the major activities of the Foundation is to promote knowledge in economics and development through the organization of an annual Gamani Corea Memorial lecture. These annual lectures are delivered by eminent economists and development policymakers. This publication presents all five memorial lectures delivered to date. In addition to these, four other public lectures, organized by the Gamani Corea Foundation and presented by well-known academics and development thinkers, are included in this volume.

The lectures cover a wide and varied range of topics concerning Sri Lanka's economic development, and offer a wealth of information of historical significance on the country's journey through this process since 1948. The range and content of topics reflect the broad and deep interest and influence of Dr. Gamani Corea on economics and development policy. Dr. Corea played a leading role in the formulation of economic policy and planning in Sri Lanka in the first two decades after Independence. On the world stage, he was instrumental in the establishment of the Group of 77, the largest intergovernmental organization of developing countries in the United Nations, and the South Centre, an intergovernmental policy research and analysis institution of developing countries. He introduced the Integrated Programme for Commodities, commonly known as the Corea Plan, that led to the formation of the Common Fund for Commodities. He also chaired the Expert Group of the Non-Aligned Movement on Third World Debt, which prompted the initiative for debt forgiveness for Highly Indebted Poor Countries (HIPC). He was a strong advocate of a New International Economic Order (NIEO) to promote the interests of developing countries in international trade in goods and services and global financial flows.

The lectures contain state-of-the-art thinking in each of their specialist areas and propose many novel and innovative ideas for development. The publication of the lectures is intended to benefit academics, researchers, policymakers, politicians, development practitioners, and students of development.

Dr. Harsha Aturupane
Vice Chairman
Gamani Corea Foundation
4th November, 2023



Dr. Gamani Corea

Deshamanya Dr. Gamani Corea (4th November, 1925 – 3rd November, 2013) had a career of extraordinary achievements. At various times, he was the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) and Under-Secretary-General of the United Nations, Chairman of the South Centre in Geneva, a founding member of the Third World Forum, Ceylon's Ambassador to the European Economic Community (EEC), Belgium, Luxembourg and the Netherlands, the Permanent Secretary of the Ministry of Planning and Economic Affairs of Ceylon, and the Senior Deputy Governor of the Central Bank of Ceylon. Dr. Gamani Corea was the founder Chairman of the Marga Institute and the Institute of Policy Studies, and the founder President of the Sri Lanka Economic Association, and the Sri Lanka Association for the Advancement of Science. He was also the Chancellor of the Open University of Sri Lanka.

Dr. Corea had an academic career of rare distinction. He was a graduate of two prestigious institutions of higher education, the University of Cambridge and the University of Oxford. He was the first Sri Lankan to obtain a Doctorate in Economics. He was also the first Sri Lankan to obtain a Doctorate from the Oxford University in any subject. Cambridge and Oxford, in his time, had some of the most famous names in economics in their faculties. Associated with Cambridge was perhaps the most influential economist of the twentieth century, John Maynard Keynes.

His passion for the economic interests of the Third World transformed the global economic order in many ways, some anticipated and others unexpected, yet always beneficial to developing countries. He was an ardent proponent of development policies that addressed the global-level disparities and development inequalities which affected developing countries. His strength of conviction on the need for structural change and a new international economic order led to several key accomplishments that include the establishment of the Group of 77 and the South Centre, and the introduction of the Integrated Programme for Commodities (IPC) that led to the formation of the Common Fund for Commodities. Most significant amongst these is the initiative for debt forgiveness for Highly Indebted Poor Countries (HIPC), which was an outcome of his leadership to the expert group of the Non-Aligned Movement on Third World Debt.

He contributed immensely to the advancement of the development goals of the Global South. As such, his legacy to the South is rich and valuable, providing it with its own identity in the global arena. He was tireless in fostering international cooperation and played an active role in reinforcing unity among nations of the Global South while strengthening their position in multilateral negotiations.

The influence of his thinking on development has spanned across continents, from the Asian countries surrounding the Indian Ocean, the Malay Straits and the South China Sea, to the Atlantic coasts of West Africa and Latin America, and the Pacific Coasts of South America and East Asia. His vision for a more just and equitable world order was reflected in his role as the Secretary-General of UNCTAD, steering the organization towards integrity of critical thought in the field of development, offering fair and better development prospects for marginalized countries, and being the voice of the poorest and most vulnerable. His commitment, leadership and policy contributions towards this end were extraordinary. In the words of Dr. Manmohan Singh (former Prime Minister of India and former Secretary-General, South Commission), he was:

"…an outstanding international civil servant and diplomat, a brilliant economist, and above all, a warm and caring human being…"[1]

1. South Centre. (2014). *A Tribute to Gamani Corea: His life, work and legacy.* South Centre, Geneva, Switzerland

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NEW PERSPECTIVES ON ECONOMIC DEVELOPMENT IN SRI LANKA

MEMORIAL LECTURES

Dr. Saman Kelegama

Dr. Saman Kelegama was a reputed Sri Lankan economist, author, and the Executive Director of the Institute of Policy Studies of Sri Lanka (IPS) from 1995 until his sudden demise in 2017. He was a trade policy economist who also worked on industrial economics, public enterprise reform, and macroeconomics.

He served on numerous government commissions and advisory boards, and was at one time the leading official and adviser on trade policy in the Ministry of Development Strategies and International Trade. He played a critical role in Sri Lanka's trade negotiations with India, China and Singapore, and contributed to the formulation of a new national trade policy strategy.

He also served on the boards of many private sector and professional institutions, including the Gamani Corea Foundation. Dr. Kelegama's contribution to academia was substantial. He was a Fellow of the National Academy of Sciences of Sri Lanka and the President of the Sri Lanka Economic Association (SLEA). He was also a visiting fellow and a lecturer at many esteemed seats of learning both in Sri Lanka and abroad, including the Australia-South Asia Research Centre, the International Institute of Social Studies, the Hague, the Netherlands, the University of Colombo, the Postgraduate Institute of Management (PIM), Sri Lanka, and the Bandaranaike Diplomatic Training Institute (BDTI), Sri Lanka, amongst many others.

Dr. Kelegama was the co-editor of the South Asia Economic Journal and served on the Editorial Board of the Sri Lanka Journal of Management (PIM journal). He published a number of books and over 100 articles in referred journals. Most of his writings have been on the Sri Lankan economy, regional integration and World Trade Organization (WTO) issues. A book he edited in 2004 titled: *Economic Policy in Sri Lanka: Issues and Debates* is considered one of the most comprehensive books on the Sri Lankan economy.

He obtained his D.Phil. (Econ) from Oxford University, U.K. in 1990, with an M.Sc. (Econ) from Oxford University and an M.Sc. (Mathematics) first class degree from the Indian Institute of Technology (IIT), Kanpur, India.

Inaugural Gamani Corea Memorial Lecture
Delivered on 3rd November, 2014
at the
Lakshman Kadirgamar Institute of International Relations
and Strategic Studies
Colombo, Sri Lanka

RECENT TRENDS IN INTERNATIONAL TRADE: IMPLICATIONS FOR SRI LANKA

Gamani Corea was a unique person who made a lasting impression both in Sri Lanka and overseas. His outstanding contribution to development policy and practice was recognized in Sri Lanka, evidenced by a number of prestigious awards he was awarded, including Deshamanya (1987), Vishwa Prasadani (1996), Sri Lankabhimanya (2003) and the Sahabdeen Award (2005). The international image that Gamani Corea built over the years was equally powerful and is best described by the following quotation of the late Minister of Foreign Affairs of Sri Lanka, Lakshman Kadirgamar. His reference was to Gamani Corea holding the position of the Secretary-General of the UNCTAD[1]:

> ***"Within weeks of his assuming office, it became clear that he was going to wield significant influence on the development of international economic affairs. His public presentations and speeches were fluent, clear, and elegantly phrased. They drew the admiration of the entire global economic community. They certainly made all the Asian delegations, indeed all Third World delegations extremely proud because in Gamani Corea they had found a man who walked tall, stood his ground and was more than a match for his interlocutors from the developed countries."*** (Kadirgamar, 2002:8).

Gamani Corea was the recipient of a number of international awards too, including the 'Order of Yugoslavia Flag of Ribbon' in 1985 for promoting international understanding on development issues and the Brazilian Celso Furtado Award in 2004 for his enduring struggle for political and economic independence of developing countries.

The breadth and depth of his knowledge on development issues and his concern for finding practical measures and appropriate national and international policies to try to resolve the many problems confronting developing countries have been widely recognized. In particular, he pursued the idea of international economic reforms that could give the world's poorer nations a better chance of long-term development and more effective results from trade, and paid particular attention to the problems and needs of the Least Developed Countries (LDCs), arguing that they had special concerns and warranted special consideration. Accordingly, he focused on achieving better results for poor countries from trade in commodities. The implications of Terms of Trade (TOT) deterioration[2] for the development efforts of commodity-dependent developing countries was a dominant theme throughout his career. It is he who initiated the annual Trade and Development Report of the UNCTAD in the early 1980s to highlight the issues that the developing countries are facing in global trading.

1 The United Nations Conference on Trade and Development.

2 Terms of Trade refer to the price of a country's exports relative to that of its imports. It is calculated by dividing the price of exports by the price of imports, then multiplying the result by 100.

Given his deep passion for trade and development issues, the developments in international trade policy in today's modern world and its implications for developing countries, including, of course, his home country, would have profoundly engaged his interests. Indeed, I have chosen to focus on this very issue in my lecture today, where I will examine the recent trends in international trade and its implications for Sri Lanka.

1. Recent Trends in International Trade

1.1 Historical Overview

A key concern in development circles during the 1950s and 1960s was the rapid decline in TOT for primary commodity exports in developing countries. Decolonization did not automatically bring about a transformation of domestic and international economic structures, and thus developing countries, including Sri Lanka, continued to be heavily dependent on their commodity exports.[3] One important theoretical framework proposed in this context was the Prebisch-Singer thesis on 'TOT pessimism' of exports (Prebisch, 1950 and Singer, 1950).[4] The steep fall in Sri Lanka's TOT following the ending of the tea boom in 1956 did in fact support this thesis. The World Bank's *World Development Review* (1982) has a box on Sri Lanka citing it as a classic example of a country that experienced dramatic TOT declines over 25 years.

However, the dramatic shift in the stance of development policy in the early 1970s, with import- substitution being replaced by manufacturing export-led growth driven by East Asian countries, showed that the 'TOT pessimism' on exports is to some degree unfounded – that primary-exporting developing countries can achieve TOT gains through diversification into manufactured exports. Indeed, with the embracement of export-led industrialization policies in the late 1970s, this was the experience of Sri Lanka too. An empirical analysis conducted by Athukorala (2004) shows that diversification into manufacturing from structurally weak conventional commodities has enabled the country to escape from the unequal exchange relations in world trade.

Over the years, manufacturing exports based on comparative advantage – mainly in East and Southeast Asian economies – have seen changes from low-cost labour to skilled labour to value addition.[5] The increased focus on movements in value-added, rather than trade flows, accounts for a key development in the recent trade environment - the forming of global and regional value chains.

3 At this time, Sri Lanka was almost entirely dependent on the plantation crops of tea, rubber and coconut for its export revenue.

4 This thesis postulates that TOT, between primary products and manufactured goods, deteriorates in time. Therefore (developing) countries that export commodities would in time import fewer manufactured goods relative to a given level of exports.

5 Value-added is the amount by which the value of a product is increased at each stage of production, excluding the value of intermediate inputs to that good.

1.2 Development of Global Value Chains

Since its development in the mid-1990s, Global Value Chains (GVCs)[6] involving the entire process of producing goods, from raw materials to finished products, have become a central feature of the world economy. International trade is becoming increasingly unbundled, with countries now trading in tasks such as design and assembly rather than in goods. Goods are now being 'made in the world' instead of in one country, with parts and components being traded several times across borders before the final product reaches the final consumer.

This development was brought about with the increasing emergence of Multinational Enterprises (MNEs), where they obtained various components of the value chain manufactured by different countries and fully assembled the product. While MNE-organized GVCs account for 80% of global trade, Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO) and UNCTAD (2013) estimate that the contribution of local firms is considerable, in the range of 40%-50% of export value added. At present, about 60% of global trade (over US$ 20 trillion) consists of trade in intermediate goods and services (UNCTAD, 2013). The import content of exports has increased from 20% in the 1990s to a current level of 40%, which the WTO projects would reach 60% by 2030 (WTO, 2013, cited in Standard Chartered Bank, 2014).

A striking feature of GVCs is that they include countries at all levels of development, from the poorest to the most developed. Production of goods and services takes place wherever the required skills and inputs are available at a competitive cost and quality. The wide-ranging nature of GVCs has been possible owing to technological advances – such as container ships and ICT technologies – that have reduced trade and coordination costs. The expansion of operations of MNEs through Foreign Direct Investment (FDI) has also been a major driver of the growth of GVCs. The presence of foreign partners is an important factor influencing both imported contents in exports and participation in international production networks (OECD, WTO and UNCTAD, 2013).

Some important examples of industries that have become a part of GVCs include the electronics and transport equipment industries, which involve long and sophisticated value chains. Besides these two industries, all manufacturing activities and an increasing number of services sectors also depend on imported inputs. For example, in industries such as mining, textiles and apparel or machinery, more than one-third of imported intermediate inputs are used to produce exports, while some services sectors, such as distribution (wholesale and retail trade), transport, and telecommunication also have high shares (OECD, WTO and UNCTAD, 2013).

6 A global value chain refers to the full range of cross-border value-added business activities, which are required to bring a product or service from its conception through design, sourcing raw materials and intermediate inputs, production, marketing, distribution and support to the final consumer.

This growing product fragmentation across borders has important implications for trade and investment patterns and policies, and also offers new prospects for growth, development, and employment (OECD, WTO and UNCTAD, 2013). For instance, the income from trade flows within GVCs doubled between 1995 and 2009 (OECD, WTO and UNCTAD, 2013). For China, the increase has been six-fold; for India, five-fold. Income growth has in turn translated to more job growth: in Germany, jobs associated with GVCs have doubled to about 10 million jobs between 1995 and 2008 (OECD, WTO and UNCTAD, 2013).

It is encouraging to note that a majority of developing countries are increasingly participating in GVCs. The developing-country share in global value-added trade has increased from 20% in 1990 to 30% in 2000 to over 40% today (UNCTAD, 2013a). However, many poorer developing countries are still struggling to gain access to GVCs beyond natural resource exports. Regional value chain links can be easier as well as more important for developing countries to get involved in; but unlike well-developed regional chains in East and Southeast Asia,[7] North America and Europe, less developed regions (South Asia, Latin America, and Africa) are yet to develop value chains.

While GVCs can be an important means of building productive capacity for developing countries, particularly by domestic firms capturing a significant share of the value-added, active participation in GVCs requires technology dissemination, skill building and well-developed infrastructure, which calls for significant investment. It also highlights the need for countries to minimize tariffs and other non-tariff barriers which affect foreign suppliers, investors and domestic producers, and to maintain open, transparent and predictable trade and investment regimes.

1.3 Increased Emphasis on Trade Facilitation

The successful participation of countries in GVCs depends crucially, among many other factors, on Trade Facilitation (TF).[8] Since goods cross borders multiple times, first as inputs and then as final products, fast and efficient customs and port procedures are vital in ensuring the smooth operation of supply chains (OECD, WTO and UNCTAD, 2013). When foreign firms seek to outsource various production stages, a country where inputs can be imported and exported within a quick and reliable timeframe will be a far more attractive location compared to a country with cumbersome trading procedures. OECD, WTO and UNCTAD (2013) show that trade cost reductions from practical and relatively low-cost actions could be as high as 16% for some developing countries.

The importance of TF in international trade is manifest in its entering into the WTO agenda in July 2004, although it was only discussed at the WTO Singapore Ministerial

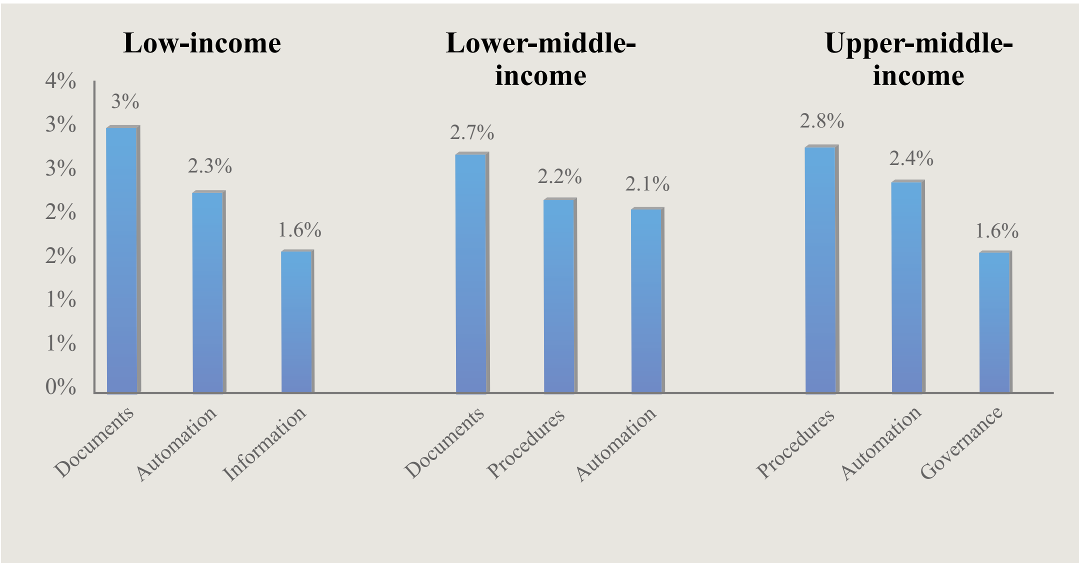
7 Over the past decades, East Asia has been the most successful region in the world in building up cross-border supply chains and has subsequently become described as “Factory Asia”.

8 Trade facilitation has been defined by the WTO as, “the simplification and harmonization of international trade procedures”, where trade procedures are the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”.

Conference in December 1996. Moreover, TF made a major breakthrough at the Bali Ministerial Conference held in December 2013, where WTO members concluded negotiations on a Trade Facilitation Agreement,[9] re-emphasizing its significance in global trade.

In recognition of its importance in promoting more involvement in GVCs, the OECD has developed a set of trade facilitation indicators, covering the full range of border procedures – from advance rulings to transit guarantees – that identify areas for action. Analysis of 133 countries shows that TF measures can benefit all countries as exporters as well as importers, allowing better access to inputs for production and greater participation in GVCs (OECD, WTO and UNCTAD, 2013). In particular, the most beneficial areas for reform for low and low-middle-income countries include minimizing the number of documents involved in the trading process, automation and streamlining of trade procedures and increased availability of trade-related information. As illustrated in Figure 1, harmonizing and simplifying documents would reduce trade costs by 3% for low-income countries and by 2.7% for lower-middle-income countries, while ensuring the availability of trade-related information would generate cost savings of 1.6% for low-income countries and 1.4% for lower-middle-income countries.

Figure 1: Trade Facilitation Measures: Potential Cost Reduction in Goods Trade (%), Most Beneficial Areas for Reform



Source: OECD (2013) cited in OECD, WTO and UNCTAD, 2013.

9 The Trade Facilitation Agreement contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.

1.4 Proliferation of Regional Trade Agreements

Compared to the relatively recent emergence of TF as a crucial element in international trade, trade liberalization efforts have been in force for over half a century, which in turn has seen a gradual reduction in nominal tariffs in both developed and developing countries over the years. However, the cost of protectionism is higher in a world dominated by GVCs, since tariffs become cumulative when intermediate inputs are traded across borders multiple times. Firms pay tariffs on imported inputs and then face tariffs again on their final exports which once again include the same imported inputs. Subsequently, tariffs can amount to a considerable amount when the finished good reaches the customer, thus lowering demand and affecting production and investment at all stages of a value chain (OECD, UNCTAD, WTO, 2013). Koopman *et al.* (2010) (cited in Bruhn, 2014) state that this magnification effect of trade costs has a larger adverse impact on developing countries, given that these countries usually have higher tariffs on intermediate imports compared to developed countries.

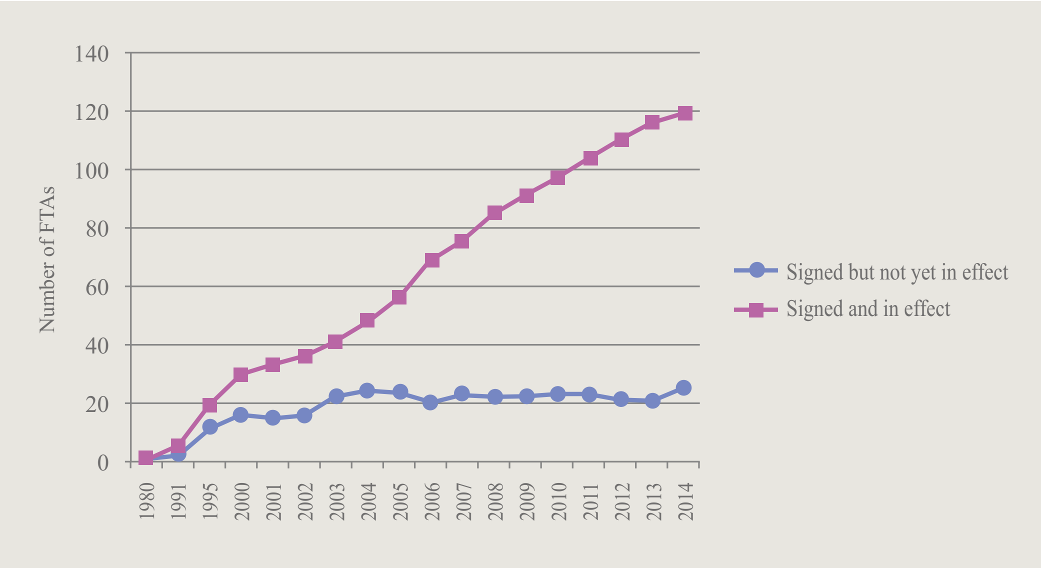
In this context of magnified trade costs and the current standstill of trade liberalization via WTO-headed multilateral negotiations, another key development in international trade has been the increasing proliferation of Regional Trade Agreements (RTAs),[10] primarily in the form of Free Trade Agreements (FTAs).[11] According to the WTO website, as of June 2014, 585 notifications of RTAs (including goods, services and accessions separately) had been received by the WTO, of which 379 were in force (WTO, 2014). That the ever-growing number of RTAs is a prominent feature of today's international trade environment is evident from the fact that 83% of global trade (37% of exports and 46% of imports) flows via RTAs (UNESCAP, 2011).

The Asia-Pacific region, in particular, has witnessed a dramatic rise in FTAs, with every country in the region, except Mongolia and Timor-Leste, being a member of at least one FTA (Figure 2). Most of the agreements are bilateral FTAs, amounting to 203 as of July 2014, and the majority has been negotiated with partners outside the region (Asia Regional Integration Centre, 2014). The major players in the region including China, India, Japan and South Korea are involved in the bulk of the FTAs. Besides India, Pakistan has also been actively involved in negotiating trade deals in the South Asia region; however, compared to East and Southeast Asian economies, most agreements involving South Asian countries are shallow in nature – they are largely limited to tariff reductions and have minimal provisions for addressing non-tariff barriers in goods and services and investment.

10 In the WTO, regional trade agreements are defined as reciprocal trade agreements between two or more partners. They include free trade agreements and customs unions.

11 In the WTO, a free trade agreement is understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce in products are eliminated on substantially all the trade between the partners in such territories.

Figure 2: Number of FTAs in Asia, 1980-2014



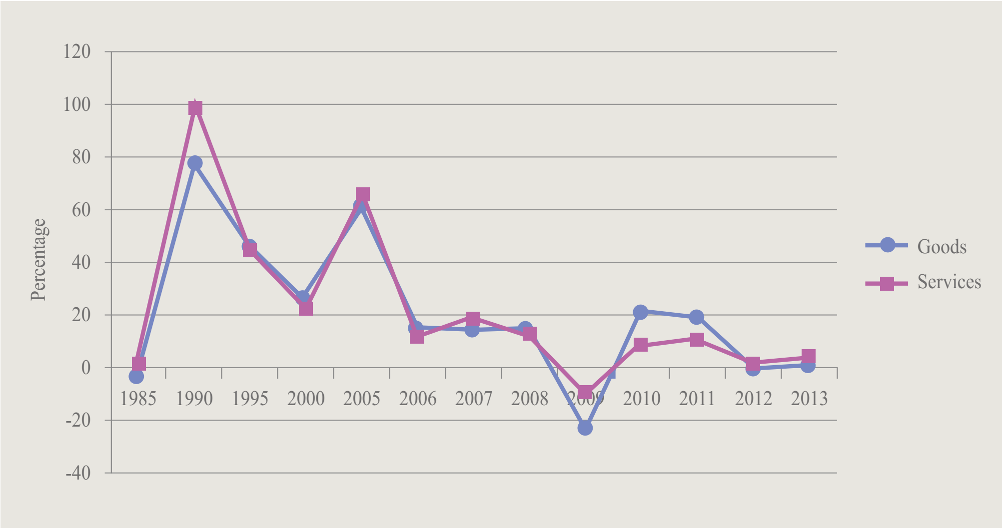
Source: Asia Regional Integration Centre, 2014.

In this context of increasing trade agreements, a common problem which has emerged is the efficient management of the 'spaghetti-bowl' or 'Asian noodle bowl' effect, which refers to complications created by the many overlapping rules and regulations stipulated in different agreements. Inconsistencies such as different schedules for phasing out tariffs, different rules of origin, exclusion lists, conflicting standards, and differences in rules dealing with anti-dumping and other regulations and policies can significantly raise the costs of doing business and trading, especially for small and medium enterprises. Devising appropriate measures to overcome this problem has thus become an important challenge in global trade policy.

1.5 Expansion of Trade in Services

As implied in the preceding section, in addition to the fast-growing volume of RTAs, the depth of these agreements has also expanded in terms of trade coverage. This has been due to the strong emergence of the services sector and an increasing volume of trade in services, facilitated with the ICT revolution that has seen most non-tradables becoming tradables. Today, 20% of global trade is trade in services. While merchandise exports still account for a larger share, the value of services exports has been growing faster than that of goods exports, especially in the last few years (Figure 3). Further, when comparing the fall in growth rates in 2009 following the global financial crisis, the drop in merchandise trade of 22.6% is far greater than the 9% drop in services trade.

Figure 3: Growth Rates of Trade in Goods and Services, 1985-2013



Source: Calculated using data from the UNCTAD, 2014a.

The fastest growing services sectors between 2008 and 2013 have been computer and information services, personal, cultural, and recreational services and other business and professional services. Developing countries in particular have experienced high growth in computer and information services, recording an average annual growth rate of 13% since 2008 compared to a rate of 7.5% for developed countries (UNCTAD, 2014b).

Services are also the largest and most dynamic component of economies in both developed and developing countries, accounting, on average for over 50% of Gross Domestic Product (GDP). In addition to being of increasing importance, they also function as crucial inputs in the production of most goods. As such, services also play a key role in the context of GVCs. While the spread of GVCs is generally greater in industries such as electronics, garments and automotive where activities can be more easily separated, GVCs now increasingly involve activities in services. Although the share of services in gross exports worldwide is only about 20%, almost half (46%) of value added in exports is contributed by services-sector activities, as most manufacturing exports require services for their production (UNCTAD, 2013a).

Consequently, reducing barriers to trade in services has become a key focus in the global trade arena. Whereas services trade entered multilateral trade negotiations under the General Agreement on Trade in Services (GATS) in 2000, with the current deadlock in WTO negotiations, services liberalization has made its way through RTAs, as evident from the increasing number of Comprehensive Economic Partnership Agreements (CEPAs), Comprehensive Economic Cooperation Agreements (CECAs) and Economic Integration Agreements (EIAs) which go beyond standard FTAs to cover a broad spectrum of goods, services and investment liberalization. Currently, 33% of RTAs in force are service agreements (WTO, 2014).

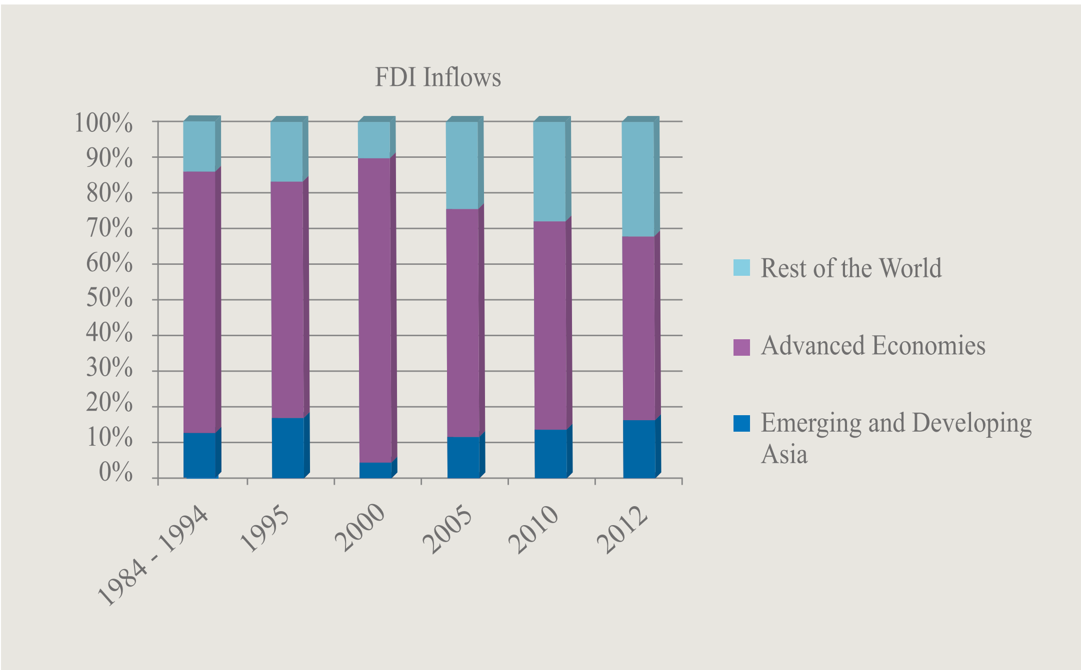
1.6 Changing Patterns of Foreign Direct Investment

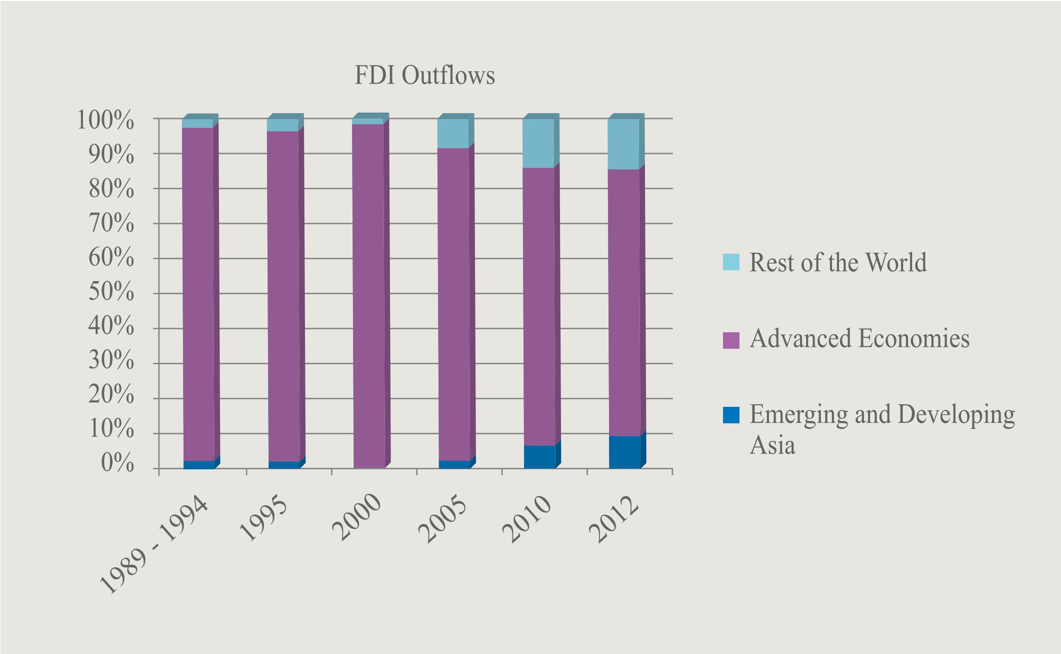
A related development is the changing patterns and structure of international investment, with over 60% of global FDI now being allocated to services (UNCTAD, 2013a). GVCs have also played a key role in the changing trends of FDI, with investments now being largely affiliated to multinationals. As mentioned previously, GVCs are mostly coordinated through MNEs, with cross-border trade of inputs and outputs taking place within their networks of associates, contractual partners, and arm's-length suppliers (UNCTAD, 2013a).

In line with the increasing spread of GVCs in developing countries, FDI inflows to these countries have also been on the rise. As shown in the *World Investment Report 2013,* in 2012 – for the first time ever – developing economies attracted more FDI than developed countries, accounting for 52% of global FDI flows, with four of the five largest recipients of FDI being developing countries. Developing nations also contributed close to one-third of global FDI outflows in 2012, on par with an upward trend in recent years. In contrast, whereas advanced economies accounted for around three-fourths of global FDI inflows during 1989-1994, this share has fallen to half at present. Similarly, their share in global FDI outflows has fallen from 95% to 75% within the same time period (Figure 4).

Attracting higher levels of FDI is especially important for developing countries, as evidence shows that countries with a higher presence of FDI relative to the size of their economies tend to contribute more to GVCs and to generate relatively more domestic value added from trade (UNCTAD, 2013a).

Figure 4: Share of World FDI Flows (Percentage), 1989-2012





Source: UNCTAD, Various Issues, cited in IPS, 2014.

1.7 Shift of Global Trade to Asia and Rising South-South Trade

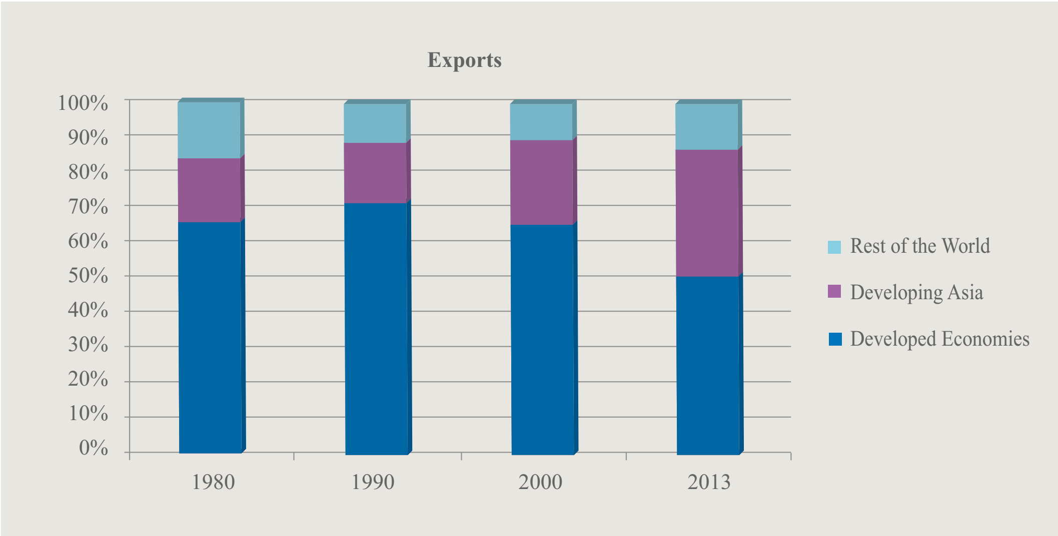
The key driving force behind many of the above-highlighted developments has been the Asian region, which, over the past half-century, has witnessed the most remarkable examples of economic growth and development, spanning from Japan to South Korea, Singapore, and Hong Kong, and more recently to China and India. It is now generally accepted that the 21st century will see Asia continue to emerge as the powerhouse of the global economy, building on the remarkable socio-economic progress seen in the region over the past 50 years.

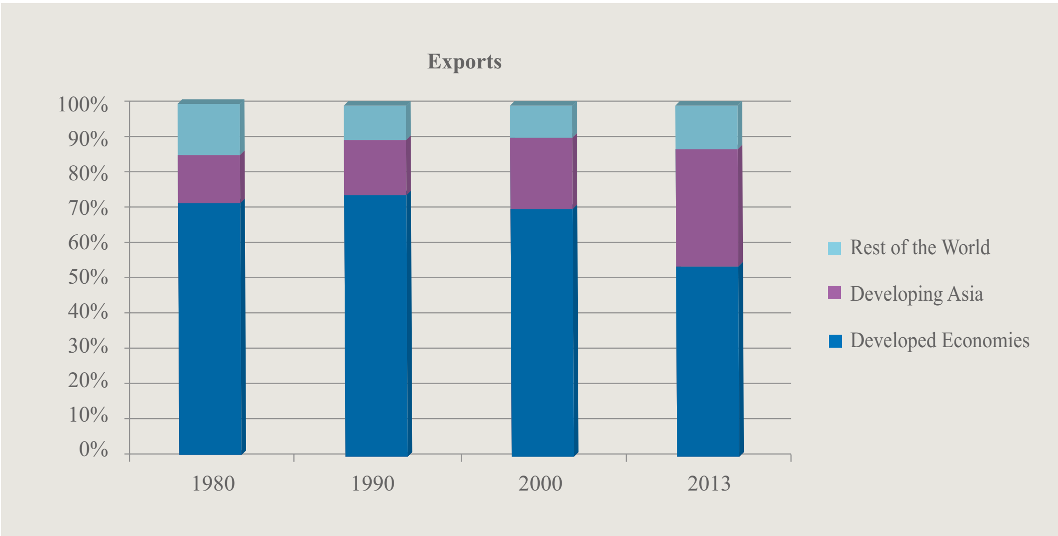
Asia's rise is illustrated by its increasing contribution to the world economy which has grown from one-fifth in 2000 to about one-third of world GDP at present and is expected to increase further to over half by 2050 (ADB, 2011).

Rising Asia's rapid economic growth has not only shifted the global economic centre of gravity away from advanced economies but has also raised the region's importance in world trade (Anderson and Strutt, 2011). In fact, rapid globalization is causing trade to grow much faster than output. Exports and imports from the region have grown at twice the rate of the rest of the world over the past three decades (IPS, 2014). China is now the world's largest exporter, followed by Germany and the United States and it is the second largest importer just behind the United States. China and India now account for around 36% of Asia's total trade (IPS, 2014).

This trend is illustrated in Figure 5 below, which depicts the increase in world trade share by developing Asia and the corresponding decline of the share in developed economies over the years. The share of Asia's exports has doubled from 18% in 1980 to 36% in 2013, while the share of imports has increased from 13% to 33% within the same time period. According to some estimates, developing Asia will continue to increase its share of global trade in the future and account for as much as 40% of world exports and 29% of world imports by 2030 (Anderson and Strutt, 2011).

Figure 5: Share of World Trade Flows, 1980-2013



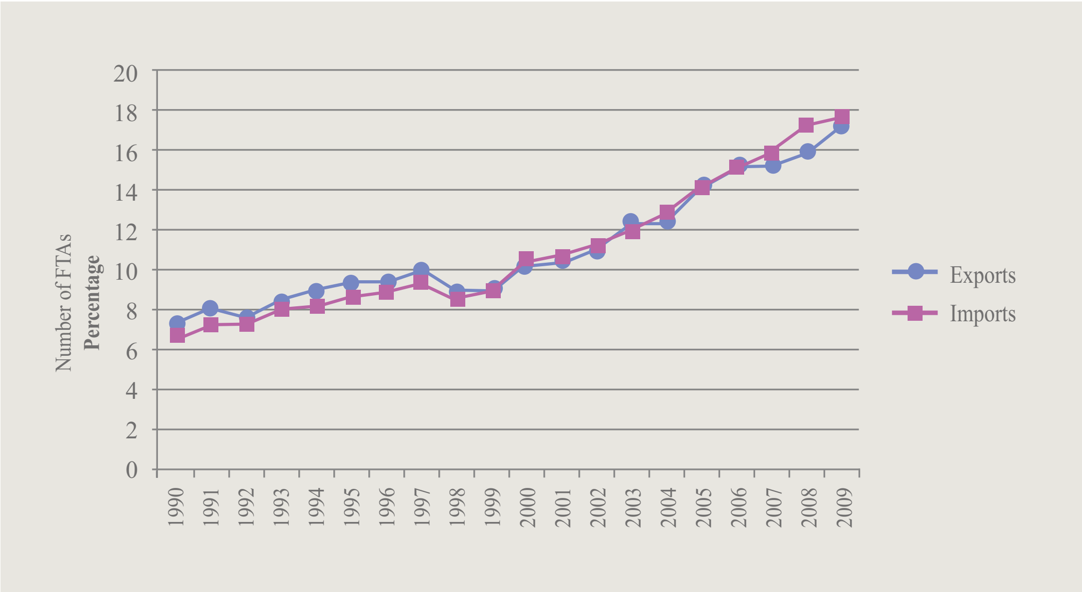


Source: Calculated using data from UNCTAD, 2014.

Asia's growing dominance is not only manifest in its contribution to the world economy; it has also led to a notable rise in South-South trade (S-S trade),[12] as economies have become increasingly integrated through trade, investment, and financial flows. According to the *UNCTAD Handbook of Statistics* (2013b), world merchandise exports have more than tripled over the last two decades to reach US$ 18 trillion in 2012, of which US$ 7.4 trillion, or a quarter comprises exports among developing countries. Figure 6 illustrates the rise of S-S trade in total world trade in both exports and imports over the last two decades.

12 South-South trade refers to trade among developing countries.

Figure 6: South-South Trade in World Trade, 1990-2009



Source: UN Comtrade Database, cited in Athukorala, 2011.

Unsurprisingly, S-S trade has been led by developing Asia, with intra-regional trade within Asia amounting to US$ 3.5 trillion in 2012 (UNCTAD, 2013b). China's exports to other developing countries alone represent more than 20% of developing countries' intra-trade. The increasing integration in the region is, however, mostly confined to East and Southeast Asia. Intra-regional integration in trade as a share of total trade in these two regions has risen from 45.5% in 1990 to 61.5% in 2010, which is almost as much as the integration in the EU and significantly above North American integration (Table 1). High levels of integration in East Asia have been predominantly driven by manufacturing supply chains which are linked to global markets, mainly in the West (Sally, R. 2010 cited in IPS, 2014).

Table 1: Intra-regional Trade Shares (Percentage), 1990-2010

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

Source: Asia Regional Integration Centre, cited in IPS, 2014.

2. Implications for Sri Lanka

The previous section examined recent developments in international trade which have had an important bearing on the global economy and profound implications for countries across the world, including Sri Lanka. In fact, as a small open economy dependent on external demand to sustain domestic growth, the global environment plays a particularly important role in determining Sri Lanka's growth prospects. This section looks at how each of the developments explained above could impact Sri Lanka, and whether Sri Lanka is in a position to reap the maximum benefits that these developments have to offer, while managing the inevitable risks of being a part of the globalized world.

2.1 Participation in Global Value Chains

The exceptional success of East and Southeast Asian countries in better integrating with themselves and with the world has been primarily owing to their active participation in supply chains. Likewise, the persistently low level of trade integration within South Asia is often attributed to the region not yet being part of GVCs.

Sri Lanka's experience in linking with GVCs has been far from satisfactory. However, one important case stands out – that of Sri Lanka's apparel industry. With the abolition of the Multi-Fibre Arrangement (MFA)[13] in 2005, the widespread expectation was that in a quota-free global apparel market, large low-cost countries such as China and India and countries in close proximity to key Western markets such as Mexico and Turkey would expand their market share at the expense of countries whose apparel sector was until then protected by the MFA (Athukorala and Ekanayake, 2014). However, the actual outcome has in fact been very different for many of these quota-protected industries, including Sri Lanka.

In a case study on the post-MFA performance of the Sri Lankan apparel industry, Athukorala and Ekanayake (2014) show that Sri Lanka has emerged as a successful participant in the global apparel value chain in spite of the loss of guaranteed market access provided by export quotas and significant increases in manufacturing wages relative to other low-wage countries. Despite various adverse events that have occurred in the external environment, the Sri Lankan apparel industry has managed to maintain growth dynamism through a niche carved out in fashion-basic products, in particular intimate apparel (lingerie) and up-market casual wear.

A number of large firms in the industry have now become full-package manufacturers and offer a full range of services to customers - product development, pattern making, finishing, sourcing, manufacturing and delivery. According to tentative estimates provided by the Joint Apparel Association Forum (JAAF),[14] full-package manufacturing firms now account for about 60% of total exports (by value), with the rest coming from package contractors (Athukorala and Ekanayake, 2014).

13 The MFA was a complex system of bilateral import quotas, where developed countries negotiated bilateral agreements with individual trading partners in order to restrict the quantity of exports of specific product categories by their trading partners. The intention of the MFA was to protect domestic producers in developed countries from market disruptions. The U.S.A., EU, Canada and Norway were some of the key nations that negotiated bilateral agreements.

14 The Joint Apparel Association Forum is the apex body for all textile and apparel-related associations in Sri Lanka

As pointed out by the authors, while foreign buyers played an essential role in linking Sri Lankan firms to the GVC,[15] a domestic enabling environment, including a highly skilled domestic workforce, an entrepreneurial class, proactive industry associations, and most importantly, the policy reforms in 1977 that removed many barriers to trade and investment, was also of immense importance. Improvement in the human capital base and design capabilities of the industry has enabled the industry to promptly respond to buyers' changing demand patterns. In addition, collaborative actions by the industry and the government greatly eased the burden of adjustment to the abolition of MFA quotas, and helped utilize the opportunities that arose in the post-MFA environment.

Sri Lanka's involvement in GVCs in the apparel industry has thus facilitated its strong and sustainable export performance. Given the importance of GVCs in the current trading environment and the many benefits it can bring to a country in terms of development outcomes, Sri Lanka needs to link with more supply chains both within Asia and globally. As evidenced from the apparel industry experience, in addition to sector-specific policies, a facilitating domestic environment is crucial.

UNCTAD (2013a) highlights some specific policies that developing countries need to implement in encouraging GVC participation, which are important for Sri Lanka too. First, is the need to embed GVCs in industrial development policies (targeting GVC tasks and activities). A conducive environment for trade and investment through developing infrastructural prerequisites is another important factor. Building productive capacities in local firms and skill levels of the labour force is also key. Finally, multilateral cooperation can contribute considerably in ensuring a trade and investment policy setting favourable to sustainable GVC growth (OECD, WTO and UNCTAD, 2013).

2.2 Trade Facilitation

As discussed in the previous section, TF measures are of extreme importance for countries in ensuring active participation in GVCs, whilst also being recognized as a core factor in promoting greater multilateral cooperation. For Sri Lanka, improving connectivity with other countries of close proximity has long been recognized as an important component of promoting greater intra-regional and investment linkages, and there have been some notable efforts directed towards improving TF mechanisms.

Sri Lanka's initiatives at facilitating trade date back to 1980 with the establishment of the National Trade Facilitation Committee. However, this Committee, as well as a Steering Committee on Trade Facilitation appointed in 1996, both died natural deaths, in part due to lack of government commitment, and at present there is no government institution driving TF initiatives. Nevertheless, led by private sector initiatives (such as JAAF), there have been some important developments in recent years, including

15 Their role included, (1) setting up buying offices in Sri Lanka which were instrumental in linking local firms with international markets; (2) the developed-country (mostly European) firms that had set up operations in Sri Lanka had already established direct market links with retailers in their countries of origin; (3) based on market links established with the help of initial joint-venture operations with foreign firms, more recently a number of large local firms have begun to deal directly with lead firms.

the issuance of electronic Certificates of Origin,[16] the adoption of ASYCUDA World in 2012[17] and well-developed online facilities for export and import procedures at the Customs Department, where a one-stop Export Facilitation Centre (EFC), which will streamline the operational aspects of physical cargo aspects, has been set up recently (Masakorala, 2014).[18]

Another key development is the improvement in Sri Lanka's physical infrastructure connectivity, primarily via public investment-led initiatives, in line with its ambitious focus on physical infrastructure development in the post-2005 period. This has included major projects, especially in seaport, airport, and road network development, of which the development of the Colombo Port is perceived to have important implications for the country's TF initiatives, given that it handles over 95% of cargo channelled through ports in Sri Lanka, and plays a key role in providing hub services in the South Asia region (Weerakoon and Perera, 2014).

The effects of these initiatives are reflected in improved TF indicators for Sri Lanka over the years: the number of documents needed to export and import have declined from 21 in 2007 to 12 in 2013, whereas the number of days required for the trading process has dropped from 52 to 39 within the same period (IPS, 2014). In fact, according to several data sources (World Bank, World Economic Forum, OECD), Sri Lanka out-performs other South Asian and some Southeast Asian countries with regard to several TF indicators, although it lags behind countries such as Thailand, Malaysia and Singapore.

In particular, OECD estimates that Sri Lanka performs better than the averages of Asian and lower-middle-income countries in the areas of involvement of the trade community, appeal procedures and simplification and harmonization of documents, while its performance with respect to information availability, automation and internal border agency cooperation is below the averages of this sample of countries (OECD, undated). Accordingly, they show that Sri Lanka can draw considerable benefits in terms of trade volumes and trade costs from significant improvements in information availability (publication of trade information, including on the Internet; enquiry points) and automation (electronic exchange of data; automated border procedures; use of risk management). Moreover, sustained efforts in the areas of streamlining of procedures, governance, and impartiality would yield further benefits (OECD, undated).

Additionally, from a macroeconomic point of view, given the fact that significant improvements in physical infrastructure connectivity has not translated into corresponding progress in strengthening trade and investment links with other South and Southeast Asian economies, Sri Lanka needs to focus on two priority areas: engaging private investment in infrastructure by strengthening the country's

16 The Certificate of Origin is a document declaring in which country a good was manufactured. It contains information regarding the product's destination and country of export and is required by many trade agreements before being accepted into another nation.

17 The Automated System for Customs Data (ASYCUDA) is a computerized system designed by UNCTAD to administer a country's customs. There are three generations of ASYCUDA in use: ASYCUDA 2.7, ASYCUDA++ and ASYCUDA World.

18 http://www.ft.lk/2014/09/09/customs-export-facilitation-centre-a-giant-step-in-trade-facilitation/.

institutional and regulatory environment; and implementing a more strategic trade policy geared to enhance regional integration efforts (Weerakoon and Perera, 2004).

2.3 Linkages to Rising Asia and Regional Trade Agreements

Asia's increasing dominance in world output and trade has profound implications for Sri Lanka. Strategically located in Asia next to the Indian subcontinent and in close proximity to Southeast Asia, coupled with a long history of engagement with the region, Sri Lanka is in an ideal position to foster strong linkages with rising Asia. More importantly, the need to do so is crucial – Sri Lanka's exports continue to be concentrated both in terms of products and markets,[19] and in the context of lacklustre export growth, Sri Lanka should seize new and expanding opportunities in trading goods and services with emerging Asia, which will enable the country to diversify its dependence away from Western economies and reduce its vulnerability to adverse developments in these markets.

Sri Lanka's strategy toward fostering regional connectivity has, in fact, focused on strengthening trade with its neighbours in Asia. Since the mid-1990s, bilateral and regional trade agreements have been pursued, not only as a means of accessing markets and diversifying the export base, but also to attract FDI flows. India is already a major trade and investment partner, while Sri Lanka's trade and investment links with other emerging Asian economies such as China, Malaysia and Singapore are also gaining momentum. However, as shown in Table 2, these trade links are mainly limited to import flows – with the exception of India, exports to other countries are marginal. Further, there has been negligible growth in export shares to these markets between 2000 and 2013.

Table 2: Sri Lanka's Export and Import Shares to Selected Asian Economies, 2000 and 2013

Country	Exports (Percentage)		Imports (Percentage)	
	2000	2013	2000	2013
India	1.05	5.2	8.2	17.6
China	0.09	1.3	3.4	16.4
Malaysia	0.14	0.5	3.0	3.2
Singapore	1.10	1.0	6.8	9.3
Indonesia	0.13	0.4	2.4	2.4

Source: CBSL, Various Years.

19 The U.S. and EU continue to be the major export destinations, accounting for over 50% of total exports; clothing exports continue to dominate with a share of 40% of total exports.

An underlying reason for slow progress is that most of these agreements have been limited in scope, restricted to trade in goods, with large negative lists of products not considered for tariff reductions. One important exception is the India-Sri Lanka FTA (ISFTA),[20] which has led to both increased exports as well as FDI flows as a result of improved business confidence between the two countries. The positive outcomes of the ISFTA led to negotiations of a potential CEPA – which extended coverage to services and investment liberalization between the two countries. However, it is unfortunate that the signing of the CEPA did not take place following forceful lobbying by certain Sri Lankan industrialists engaged in industries directly competing with prospective competitors in India.[21]

An important recent development is the negotiation of a free trade deal with China, driven by Sri Lanka's strong political and economic ties with China in recent years, with China being at the forefront in terms of providing loans for financing key infrastructure development projects.[22] A joint feasibility study on embarking on an FTA which commenced in August 2013 indicates that an FTA would bring substantial economic and trade benefits to both countries. The recent visit of the Chinese President – the first Head of State to visit Sri Lanka in three decades – is likely to accelerate the process (IPS, 2014).

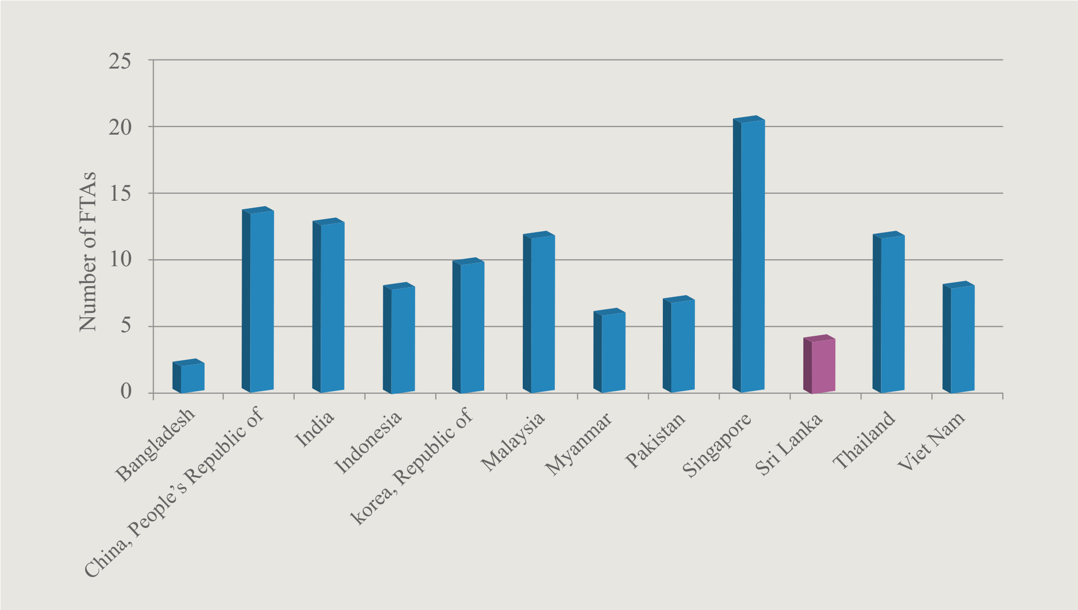
In the context of the increasing proliferation of RTAs in the Asian region, however, Sri Lanka's engagement is still very low (Figure 7). At present, Sri Lanka is party to only four fully effective agreements – the bilateral agreements with India and Pakistan, the South Asian Free Trade Agreement (SAFTA), and the Asia-Pacific Free Trade Agreement (APTA) – which together cover only 41% of Sri Lanka's total trade (8.2% of exports and 33.2% of imports) (UNESCAP, 2011), which is only half of the equivalent world figure of 83% quoted earlier. Moreover, these are all 'shallow' agreements confined to goods liberalization, compared to the heavy involvement of Southeast Asian countries in CEPAs and CECAs (IPS, 2013).

20 The ISFTA was implemented in 2000 to facilitate trade between Sri Lanka and India. The ISFTA covers trade in goods and provides either (i) duty-free access (zero duty) or (ii) duty preferences for products that are not under the Negative list. While India provides 4,227 Sri Lankan products with duty-free access to India, Sri Lanka provides 2,802 Indian products with duty-free access to its economy.

21 This was in the context of Sri Lanka's current economic policy framework with its emphasis on "balanced growth" through rural development and support for small and medium enterprises and focus on ensuring a "level-playing field" for local entrepreneurs.

22 China became Sri Lanka's largest source of bilateral development assistance in 2007, overtaking that historical position held by Japan.

Figure 7: Number of FTAs by Country, 2014

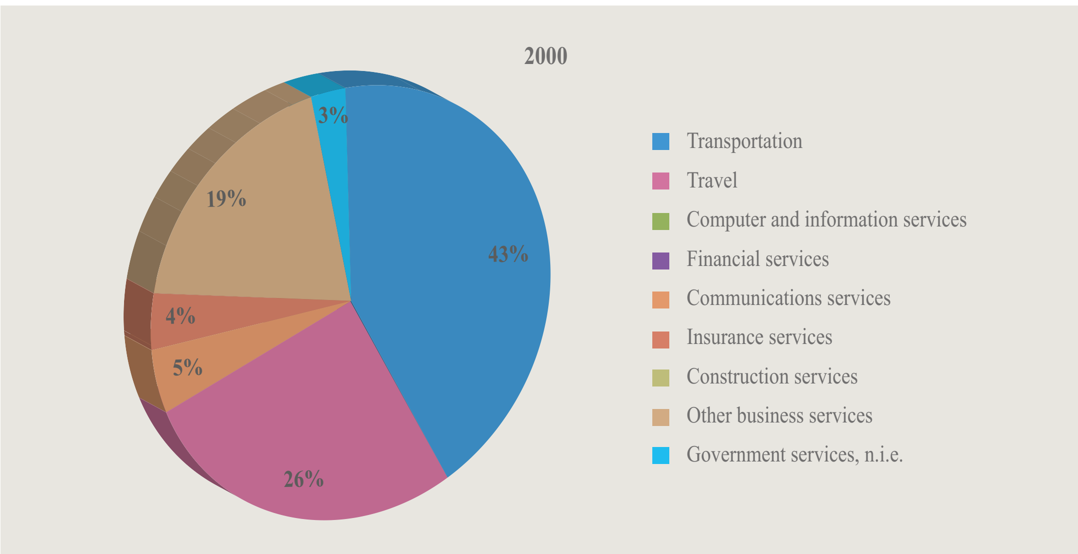


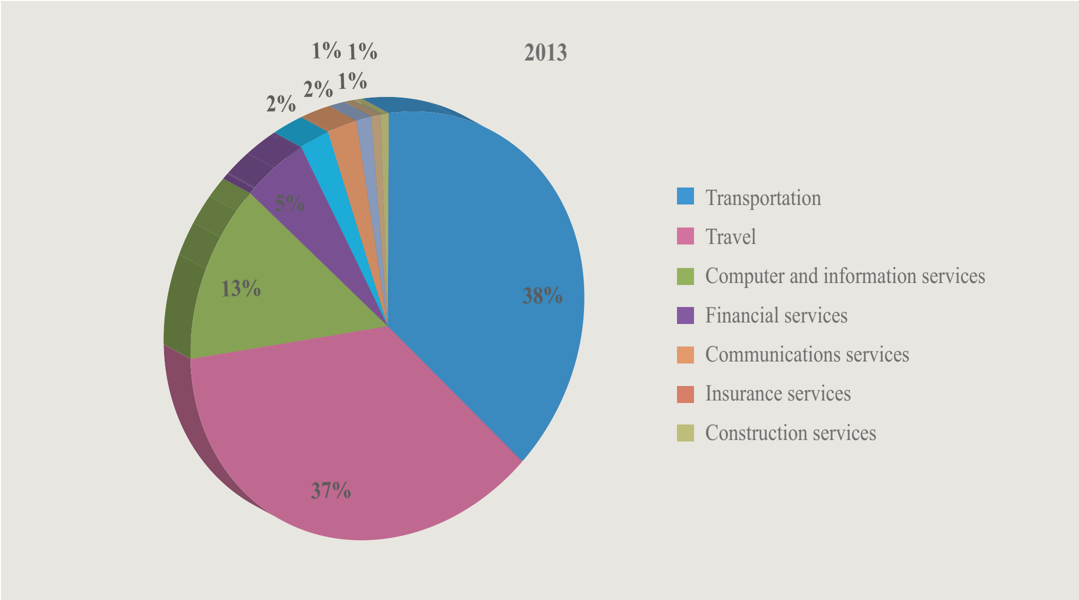
Source: Asia Regional Integration Centre, 2014.

2.4 Trade in Services

Sri Lanka's potential to expand trade within emerging Asia is not confined to trade in goods; services trade also carries significant prospects. Similar to many countries across the world, Sri Lanka's services sector has been steadily growing, and accounted for 58% of GDP in 2013 (CBSL, 2013). As illustrated in Figure 8, Sri Lanka's composition of services exports has changed over the years, with computer and information services and financial services emerging as important exports in 2013, while travel and transportation services continue to account for 75% of total services exports.

Figure 8: Composition of Sri Lanka's Exports of Services, 2000 and 2013





Source: ITC, 2014.

Intra-regional trade in services in Asia is projected to grow significantly from 2010 to 2020, mainly in the financial, computer and information, communication, and travel and transport sectors (IPS, 2014), thus offering considerable potential for Sri Lanka's emerging services exports. The demand for travel and tourism services is also likely to increase within Asia with its growing affluence, as suggested by growing numbers of outbound tourists from the region (IPS, 2014). In fact, 40% of tourist arrivals in Sri Lanka are from Asia; India is the largest source, whereas there has been a dramatic increase in arrivals from China in recent years (IPS, 2014).

The growing importance attached to services trade is also evident in increased services trade liberalization in the region via RTAs, as shown earlier. Sri Lanka's interest in services trade liberalization was seen in the negotiations of a CEPA with India, and technical-level negotiations on a CEPA with Pakistan which commenced in 2008, while negotiations on a SAARC Agreement on Trade in Services (SATIS) was signed in 2010.

Increasing trade liberalization in services is particularly important for Sri Lanka in the context of the government's vision of developing the country into a 'dynamic hub' in the areas of shipping, aviation, commerce, energy and knowledge. A number of countries in East and Southeast Asia (Hong Kong, China, Singapore, South Korea and Malaysia) have already developed into hubs in similar areas, which can be a cause for concern in terms of competing interests. Comparative statistics of Sri Lanka and other countries in the region reveal that Sri Lanka lags far behind its neighbouring countries in terms of all identified areas (Abeyratne, 2014 cited in IPS, 2014). While Sri Lanka's performance in shipping is relatively good owing to recent developments in the Colombo Port which ranks 29th among 125 ports in the world, there are 19 other Asian ports handling larger volumes (American Association of Port Authorities, 2011 cited in IPS, 2014).

Aviation, energy and knowledge are far behind shipping and require major developments in reaching comparable levels to other Southeast Asian economies. Despite infrastructural development in airports, Sri Lanka is ranked low in terms of carrier departures. Similarly, while the government has taken some important initiatives towards developing the country as a knowledge hub,[23] developments in tertiary education have been stagnant and far behind those in other Asian countries. Although the U.S., U.K. and Australia have been the traditional destinations of higher education, Asian countries including Singapore, Malaysia, China, Hong Kong and India have embarked on several reforms to create global educational hubs (IPS, 2014).

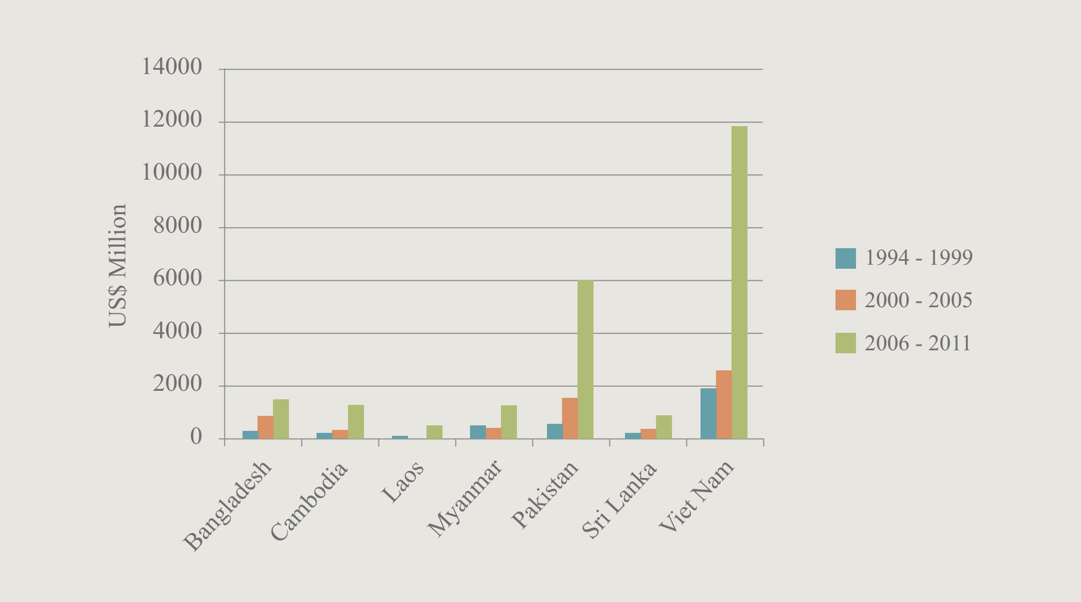
Thus, Sri Lanka faces stiff competition from its neighbouring countries which are already far ahead. Developing the economy as a services hub calls for more aggressive services trade liberalization; given the slow progress of both the SAARC process and bilateral CEPA negotiations, Sri Lanka will have to devise new strategies in liberalizing services trade. One avenue to exploit is the recent increases in services FDI, particularly from India, as shown in the following section.

2.5 FDI Inflows

Amongst the many notable positive developments in its post-war economy, one frustrating factor that stands out is the slow growth in FDI inflows, which were expected to pick up rapidly in a war-free economy. To quote IPS (2014), "…five years on from the end of the war, FDI has been the most conspicuous under-performer in an otherwise bullish economy" (IPS, 2014: 3). FDI has been an under-performer both in terms of quantity and quality. In terms of volume, net FDI inflows have not shown any notable increase in the post-war period, recording US$ 916 million in 2013, which is far short of the government's US$ 2 billion target for 2013. This trend is also worrying in the context of rising global FDI flows to developing countries. Over the last decade, as shown in Figure 9, late-industrializing countries in both South and Southeast Asia such as Bangladesh, Vietnam and Myanmar have been able to attract far greater volumes of FDI compared to Sri Lanka.

23 Such initiatives include establishment of new faculties and higher education institutes, introduction of new degree courses, invitations to foreign universities to set up new campuses etc.

Figure 9: Inward FDI Flows (US$ Mn), 1994-2011



Source: Calculated using data from UNCTAD, 2014.

On the other hand, most of the recent FDI has been in mixed property development projects,[24] which, while spurring growth in the short term through construction and related sectoral growth and in the medium term through related services and employment creation, has minimal impact on technology transfer that is needed for long-term growth through positive spillovers on labour force skills and productivity of local firms (IPS, 2014).

On a more positive note, Sri Lanka's main sources of FDI have seen changes in recent years, with India, China, Malaysia, Hong Kong and Singapore being the largest investors at present (IPS, 2014), suggestive of growing investment linkages with rising Asian powers. Malaysia has been a prominent investor in the country with major investments in Dialog Axiata, the cellular mobile telephone network and Merbok MDF Lanka which manufactures MDF boards. India is also an important FDI source – a positive spillover of the ISFTA – with a highly diversified investment profile. The composition of FDI has shifted from manufacturing in the late 1990s to services such as hospitals, restaurants, retail trade and oil distribution. Some of the most visible investments include the Indian Oil Corporation, Tata, Bhareti Airtel, Aditya Birla Group, Ambuja, CEAT, Ashok Leyland and Hero (IPS, 2014). China is also emerging as an important investor in Sri Lanka, mainly targeting infrastructure development by Chinese state-owned enterprises.

24 These include the 'Altair Tower' set to be Sri Lanka's tallest building, a US$ 600+ million mixed-used development by the country's leading conglomerate, a 5-star Shangri-La Hotel and ITC Hotel.

The importance of FDI is not limited to technology spillovers and related benefits, but is also essential in facilitating more participation in GVCs. In addition, as the most stable form of capital, FDI is assumed to be a stabilizing factor during financial crises in emerging and developing economies, since FDI is motivated by a positive long-term outlook about the recipient country and thus more difficult to reverse compared to other capital flows (Rummel, 2010). Therefore, the need for Sri Lanka to attract more FDI cannot be overemphasized.

Sri Lanka can draw lessons from Southeast Asian countries in designing a more attractive policy package to entice FDI. In Myanmar, for example, political and economic reforms coupled with improved international relations have brought about vast improvements to the country's investment environment. The notable volume of FDI into Bangladesh has been driven by an emerging trend of re-allocation of efficiency-seeking FDI away from China and other emerging markets and towards frontier markets with vast untapped labour pools, low costs and market opportunities (IPS, 2013).

3. Conclusion

The global economy has witnessed many important developments in international trade in the past decade, most importantly the development of GVCs, trade facilitation coming into the global trade agenda, increased regional integration via RTAs in the face of stalled multilateral negotiations, the emergence of trade in services, and the shift of global trade to Asia and a rise in S-S trade amidst the region's seemingly relentless economic rise. As a small open economy dependent on external demand for sustaining long-term growth, the implications of these developments for Sri Lanka are profound.

The above analysis shows that Sri Lanka has indeed been affected by the developments in the global trade arena, while also being an active participant in these developments – the country has made some inroads, albeit minimally, in linking with GVCs; implementing some trade facilitation measures, it has entered into some RTAs in the Asian region, while negotiations are underway for several more; trade in services has demonstrated growth in recent years; and some attempts are being made to shift its trade partners from the West to rising Asia. Nevertheless, it is also clear that Sri Lanka has not fully utilized the tremendous opportunities available in an increasingly globalized world, and has yet a long way to go. There are several areas in which urgent policy action is required, and the most conspicuous being the need to boost export and FDI performance, so that the country can fully reap the benefits offered by these opportunities, whilst also achieving long-term sustained growth in its post-war economy.

As a champion of trade and development issues and with his deep passion for problems facing developing countries, had Dr. Corea been alive, in the absence of interventions such as commodity market stabilization schemes in the modern world, Sri Lanka's attempts to gain more access to growing Asian markets is a stride that he would have welcomed and encouraged. He would have taken full cognizance of Sri Lanka's current standing in the global context, and given valuable advice on devising appropriate strategies to exploit the available opportunities while minimizing inherent risks.

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Second Gamani Corea Memorial Lecture

Delivered on 7th January, 2016

at the

Bandaranaike Memorial International Conference Hall

Colombo, Sri Lanka

ENRICHING AND ACCELERATING HIGHER EDUCATION DEVELOPMENT IN SRI LANKA

1. Introduction

I would like to express my gratitude to the various institutions and individuals who have contributed to this lecture. First, I am grateful to the Chairman and Board Members of the Gamani Corea Foundation, Dr. Godfrey Gunatilleke, Dr. Nimal Sanderatne, Dr. Lloyd Fernando, Dr. Indrajit Coomaraswamy, Dr. Saman Kelegama and Ms. Priyanthi Fernando, for inviting me to deliver this lecture. Second, to my colleagues from the World Bank, Ms. Yoko Nagashima, Dr. Kurt Larsen, Dr. Mohan Aryal, Dr. Benoit Millot, Dr. (Ms.) Mari Shojo, Mr. Abdul Hai Sofizada and Ms. Palwasha Mirbacha, for many ideas and discussions on higher education. Finally, I would like to acknowledge Dr. Gamani Corea himself, who closely influenced my thinking on economics, education and the development of countries. I recall many conversations with him on global and national issues over a long period of time with great affection, and with gratitude for the privilege.

Dr. Gamani Corea, in whose honor and memory we are gathered today, was a man of outstanding gifts of intellect and character. He had a career of extraordinary achievement. The roll call of his accomplishments is astonishing. At various times he was a Secretary- General of the United Nations Conference on Trade and Development (UNCTAD); a Chairman of the South Centre in Geneva; a founding member of the Third World Forum; a Permanent Secretary of the Ministry of Planning and Economic Affairs; a Senior Deputy-Governor of the Central Bank; and Ambassador to the European Economic Community (EEC), Belgium, Netherlands, and Luxembourg. He was the founder Chairman of Marga; a Chairman of the Institute of Policy Studies; a Chancellor of the Open University; a President of the Sri Lanka Economic Association; and a member of the National Academy of Sciences. His passion for the economic interests of the Third World transformed the global economic order in many ways, some anticipated and others unexpected, yet always beneficial to developing countries. The influence of his thinking on development has spanned many continents [South Centre (2014)], from the Asian countries surrounding the Indian Ocean, the Malay Straits, and the South China Sea, to the Atlantic coasts of West Africa and Latin America, and the Pacific Coasts of South America and East Asia. Truly a girdle around the earth!

Dr. Corea had an academic career of rare distinction. He was a graduate of two great and famous institutions of higher education, the University of Cambridge, and the University of Oxford. He was the first Sri Lankan to obtain a Doctorate in Economics. He was also the first Sri Lankan to obtain a Doctorate from Oxford University in any subject. Cambridge and Oxford in his time had some of the most famous names in economics in their faculties. Associated with Cambridge was perhaps the most influential economist of the twentieth century, John Maynard Keynes. The role of the state in stimulating countries out of recession and depression, Lord Keynes' most famous economic contribution, is of enduring importance and highly relevant for us today. The Professor of Economics in Dr. Corea's time as an undergraduate was Sir Denis Robertson, an outstanding monetary economist who coined the term "the Liquidity Trap", an important feature of economies in our own times. There was also Arthur Pigou, who influenced a wide range of fields including welfare economics, public finance and national income accounts, and introduced the concept of "externalities", so important for the economics of education, environmental economics and health economics. There were also academics of the caliber of Richard Kahn, Pierro Sraffa, Maurice Dobb, and Joan Robinson. At Oxford there were famous economists such as Sir John Hicks and Lady Ursula Hicks, the daughter of Sydney and Beatrice Webb (the founders of the London School of Economics) and Dr. Corea's D. Phil thesis supervisor. Later, during his career in government many of these distinguished economists visited Sri Lanka to assist with the preparation of development plans.

In this lecture, delivered to celebrate the life and work of Dr. Gamani Corea, I would like to select one of the most impressive aspects of his many contributions: the forward-looking nature of his thinking on economics and education policy. Higher education was always dear to Dr. Corea's heart. A whole section of his memoirs is devoted to his university days [Corea (2008)]. He often spoke fondly of his memories of university life in post-war Cambridge and Oxford. As always, he had a fund of amusing anecdotes to accompany his narratives. It is appropriate that today's lecture should be on the topic of higher education.

2. The Higher Education Landscape

Higher education is a river that benefits a country through multiple streams and channels. At the macroeconomic level higher education is important for development in the knowledge-intensive global economy of modern times. At the microeconomic level higher education enables individuals to enhance human capital and increase life-cycle earnings. Higher education generates inter-generational economic benefits: increased education achievement in one generation usually results in better education and economic outcomes in the next. Higher education facilitates social mobility by enabling individuals from disadvantaged households to improve their economic and social status over time. Highly educated individuals, especially women, have greater ability to control their fertility and family health: resulting in lower child and infant mortality, reduced morbidity and disease burden, and longer life expectancy. A sound higher education system can contribute to social cohesion by presenting cultural, ethnic, religious, and gender diversity in a favorable light in society. Higher education is also important to create the enlightened citizens needed for a vibrant, modern liberal democracy. The quality of governance is better in countries with more educated representatives in the executive, legislature, and judiciary. Higher education is also associated with lower crime rates and safer communities.

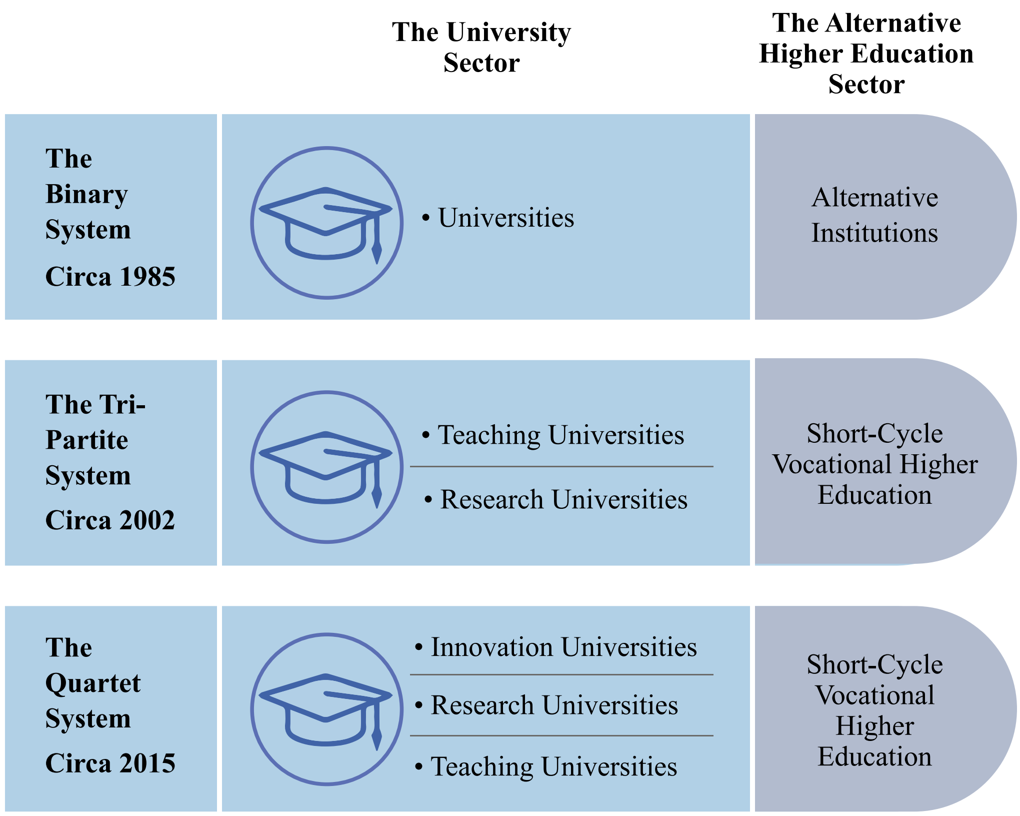
The wide-ranging and varied range of public and private economic, political, and social benefits of higher education are presented in Table 1 below.

Table 1: Benefits of Higher Education

	Economic Benefits	Political and Social Benefits
Public Benefits	More knowledgeable and skilled labor force Greater innovation capacity Faster technology adoption and diffusion Higher national productivity Increased economic output	Higher quality democracy Better governance Good civic participation More political stability Social cohesion Reduced crime Lower state welfare costs
Private Benefits	Greater human capital Better employment Higher earnings More savings and investment capacity	Improved family and personal health Higher life expectancy More responsible citizenship Increased well-being

Source: Author's summary.

Figure 1: The Evolution of Higher Education Institutions, 1985-2015



Source: Author, adapted from Mikhail (2008) and Guimon (2013).

Modern higher education systems are often characterized as containing four groups of institutions. First, teaching universities and degree granting institutions: these normally represent the largest number of higher education institutions in a country. Second, research universities: these are mainly concentrated in wealthy countries and are considered, within the higher education community, as the elite institutions that extend the frontiers of knowledge and generate new ideas and discoveries. Third, entrepreneurial universities which produce commercially viable products and services through research and development activities. Fourth, short-cycle vocational higher education institutions whose mission is to produce highly skilled labor for the economy. This four-way classification of higher education institutions is a relatively recent phenomenon which has evolved over the course of the last three decades [see Figure 1].

There is a clear distinction between universities and short-cycle vocational higher education institutions. Among universities, at least in principle:

- The pursuit of knowledge for its own sake is taken as a worthy occupation.
- Higher education is considered important to cultivate the intellect and enable individuals to contribute constructively to society.
- Education is expected to be guided purely by the goals of knowledge and the principles of intellectual integrity.

Short-cycle vocational higher education institutions, in contrast, are focused purely on producing skilled human resources for the labor market.

Research, teaching, and entrepreneurial universities can and do overlap. Several universities contain elements of two or all three of these types of activities. Many famous research universities engage both in pure academic research as well as in entrepreneurial research and development activities. Universities which are predominantly teaching universities may also have business offices or commercialization centers. Increasingly the lines between these three types of universities are being blurred, especially as universities around the world come under pressure to generate an increasing share of revenue to meet their operating costs and development expenses.

3. Higher Education and Economic Development

The economic returns to higher education have been rising world-wide. Traditionally basic education was seen to enjoy the highest returns. During the last few decades, however, the returns to higher education have been increasing, to the extent that higher education now generates the highest returns [Montenegro and Patrinos (2014)]. In Sri Lanka, too, the economic returns to higher education are substantial [World Bank (2009, 2011), Aturupane *et al* (2014)]. Table 2 provides a fresh illustration. The economic welfare of both male and female headed households rise as the education level of the household head increases.

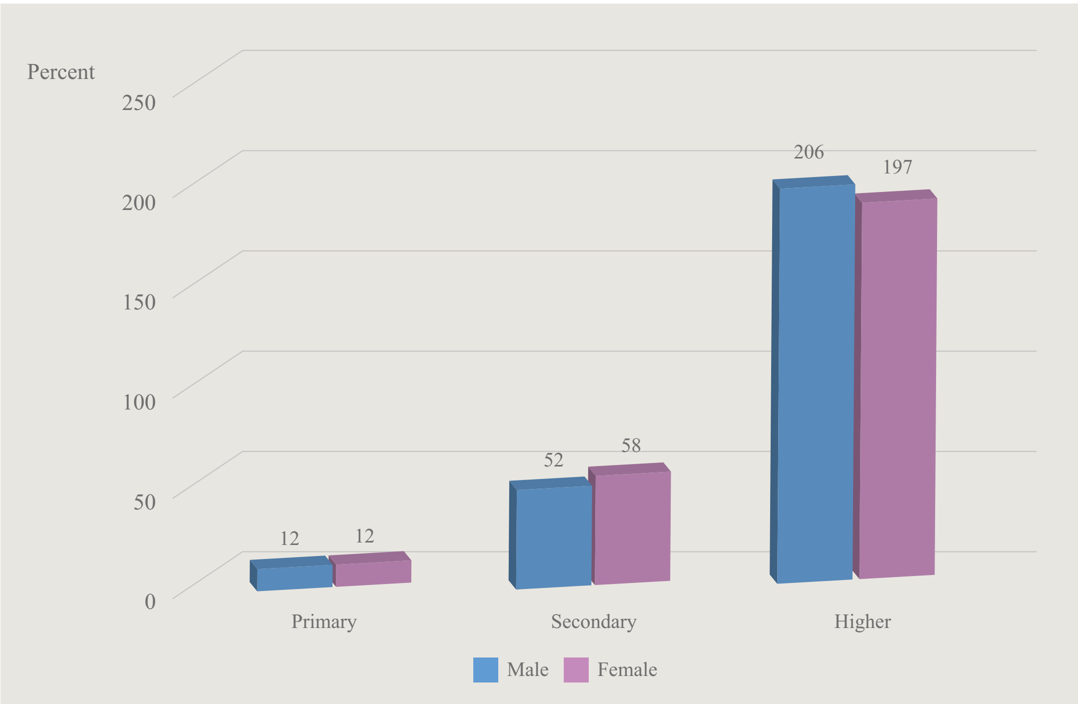
Table 2: Factors Associated with Economic Welfare, 2012/13

Variables		OLS Male Household Head	OLS Female Household Head
Age		0.00429* (0.00259)	0.0131*** (0.00409)
Age-squared		-1.04e-05 (2.45e-05)	-9.81e-05*** (3.72e-05)
Level of education (Base: No education)	Primary education	0.113*** (0.0355)	0.117*** (0.0339)
	Secondary education	0.421*** (0.0355)	0.456*** (0.0347)
	Higher education	1.120*** (0.0541)	1.088*** (0.0906)
Location (Base: Rural)	Urban	0.174*** (0.0187)	0.140*** (0.0272)
Province (Base: North Central)	Western	0.257*** (0.0332)	0.0514 (0.0523)
	Central	-0.00208 (0.0367)	-0.103* (0.0575)
	Southern	0.0399 (0.0356)	-0.134** (0.0539)
	Northern	-0.133*** (0.0400)	-0.268*** (0.0616)
	Eastern	-0.161*** (0.0364)	-0.224*** (0.0542)
	North-Western	0.0542 (0.0399)	-0.00122 (0.0606)
	Uva	-0.152*** (0.0424)	-0.182*** (0.0642)
	Sabaragamuwa	-0.0892** (0.0383)	-0.164*** (0.0595)
	Constant	8.469*** (0.0808)	8.456*** (0.118)
Observations		15,680	4,854
R-squared		0.204	0.140

Note: Dependent variable is log consumption expenditure per capita. Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.
Source: Estimated from the Sri Lanka Household Income and Expenditure Survey 2012/13.

The association between education and economic welfare grows progressively stronger as the level of education of the household head increases [see Figure 2]. Families with primary educated male and female household heads have economic welfare levels that are approximately 12% above the welfare levels of families with uneducated household heads. Families with secondary educated male household heads have economic welfare levels that are about 52% greater than the welfare levels of families with uneducated male household heads. Families with secondary educated female household heads have economic welfare levels that are about 58% higher than the welfare levels of families with uneducated female household heads. Families with higher educated male household heads enjoy economic welfare levels that are around 206% larger than the welfare levels of families with uneducated male household heads. Families with higher educated female household heads have economic welfare levels that are around 197% more than the welfare levels of families with uneducated female household heads. This shows the substantial economic benefits that accrue to households with higher educated heads.

Figure 2: The Association between Higher Education and Economic Welfare, 2012/13



Source: Calculated from Table 2.

The global increase in the returns to higher education reflects the fact that universities and short-cycle vocational higher education institutions can play a vital role in promoting economic development. This requires a higher education system of adequate size and quality to: (a) meet the human, knowledge and intellectual capital needs of industries and services; (b) expand research and development to support increasingly more sophisticated and complex production processes; and (c) generate a continuous stream of discoveries and innovations. The higher education system also needs to provide an environment for students and academic staff to enjoy the higher levels of culture and civilization associated with human advancement.

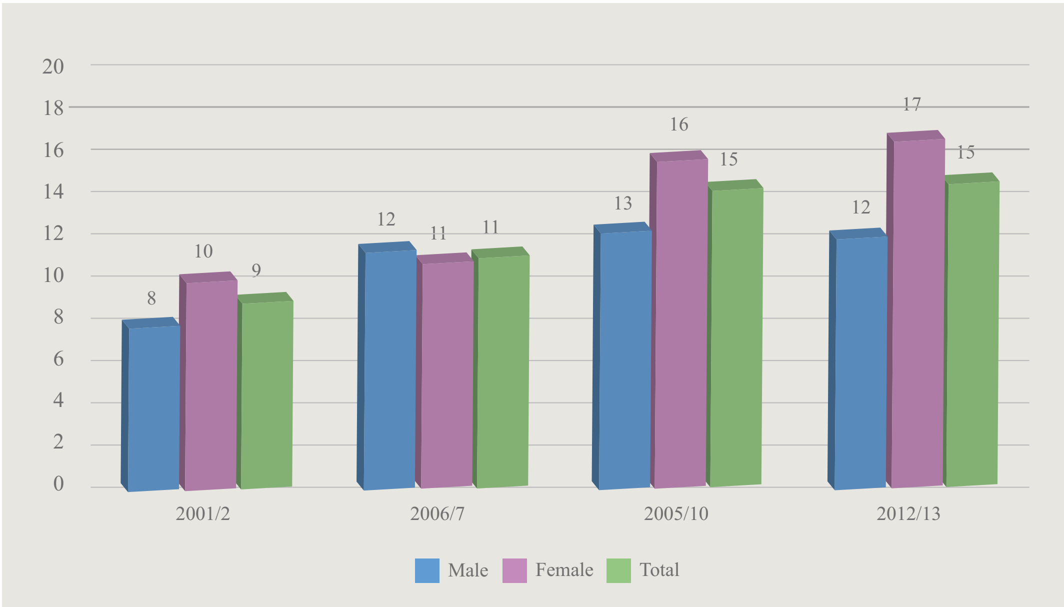
4. Access and Participation in Higher Education

4.1 The Time Trend of Higher Education Attainment

Higher education enrollment has been increasing over time. About 9% of the age group 19-24 years was enrolled in higher education in 2001/2 [see Figure 3]. Higher education enrollment among young women was 10% and among young men 8%.

Over the following decade higher education enrollment increased to 15% in the age group 19-24 years. The gender gap grew over the period, with female higher education enrollment, 17%, now exceeding male higher education enrollment, 12%, by a larger margin than a decade ago.

Figure 3: The Time Trend of Higher Education Enrollment

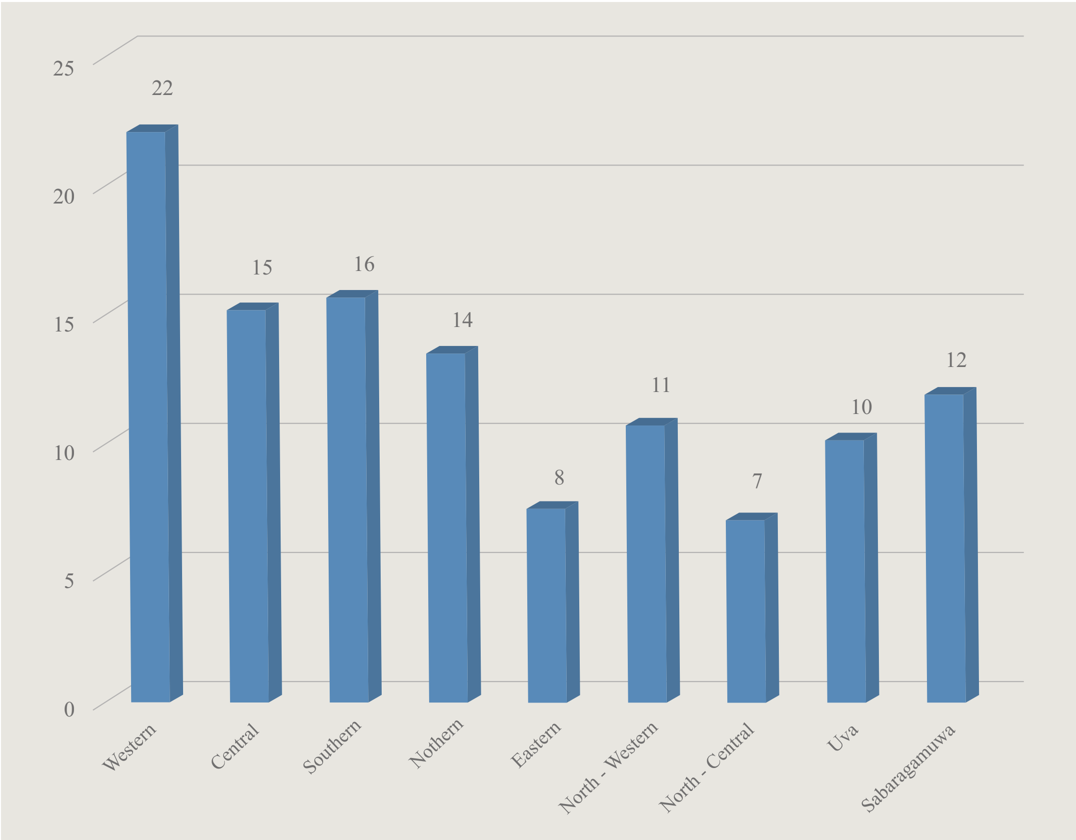


Source: Estimated from Household Income and Expenditure Surveys, various years.

4.2 The Regional Pattern of Higher Education Enrollment

There are considerable geographical variations in higher education enrollment. The largest enrollment is in the Western Province, 22%, followed by the Southern Province, 16%, and the Central Province, 15% [see Figure 4]. The lowest enrollment is in the North-Central Province, 7%, followed by the Eastern Province, 8%. This pattern of regional variations in higher education enrollment partly reflects the relative levels of economic and general education development of the country. The Western, Southern and Central provinces have wealthier and more educated households than the North-Central and Eastern Provinces, and also have more advanced school systems. The regional variations could also reflect the variations in higher education opportunities available in the different provinces, with more higher education institutions located in the Western, Southern and Central provinces and fewer higher education institutions located in the North-Central and Eastern Provinces. This would especially apply to the availability of private higher education institutions.

Figure 4: The Province-Wise Pattern of Higher Education Enrollment

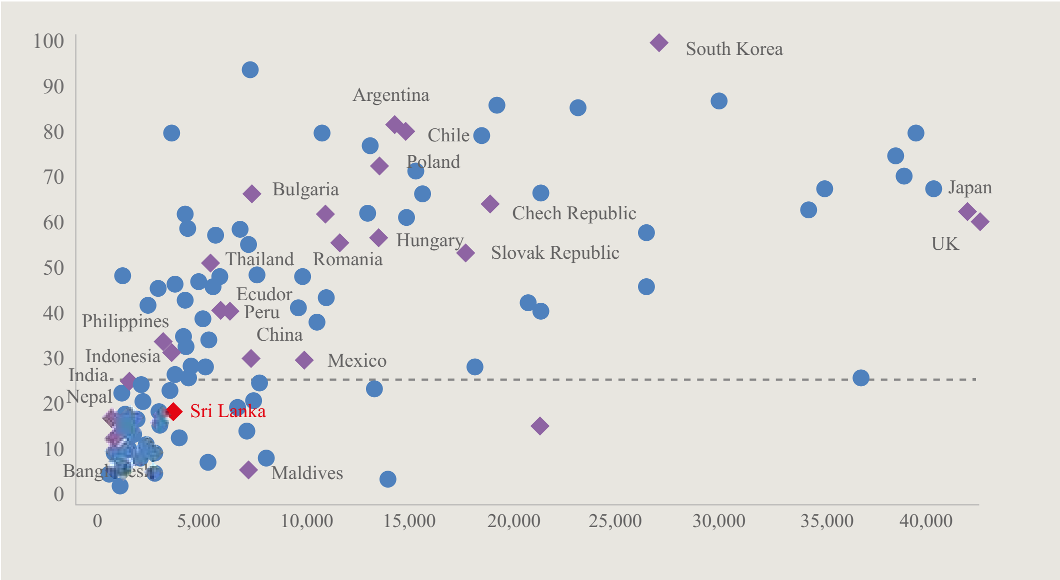


Source: Estimated from Household Income and Expenditure Surveys, various years.

4.3 International Comparisons of Higher Education Attainment

Higher education enrollment in Sri Lanka is low by international standards. This is a point that has been made repeatedly in the recent development literature [Gunatilleke (2015), Aturupane (2015)]. Participation in higher education is considerably below East Asian countries such as China, Indonesia, Philippines, Malaysia, Thailand, and of course Japan, South Korea and Singapore [see Figure 5]. It is also significantly lower than Eastern European countries such as the Czech Republic, Georgia, Hungary, Poland, Romania, the Slovak Republic and Bulgaria; and Central and South American countries such as Argentina, Brazil, Chile, Ecuador, Mexico, Paraguay and Peru. The two main reasons for the low higher education enrollment in Sri Lanka have been the difficulty of financing large scale enrollment in public sector higher education institutions and the cautious approach to private sector provision of higher education.

Figure 5: Higher Education Enrollment in International Perspective, 2012-2014



Source: World Bank Education Statistics. The date is for 2013 or the nearest year.

5. Expansion and Diversification of Higher Education

Participation in higher education can be increased through multiple policy measures. There is considerable pent-up demand for higher education so that increasing the supply of higher education spaces in existing public sector institutions, or setting up new institutions, can increase participation. The scope for such expansion, however, is limited for a resource- constrained government. An additional and important option is to create a favorable climate for private sector investment in higher education. This would require establishing a suitable regulatory framework for the registration, quality assurance and accreditation of private higher education institutions.

Enhanced enrollment in higher education should be strategically oriented towards economic and human development. The economic relevance of higher education is essential when enrollment expands. There are a variety of initiatives to increase the relevance of the higher education system.

a) Enrollment increases can be prioritized for directly labor-market relevant degree programs. These would mainly be in the Sciences, Technology, Engineering, and Mathematics (STEM). In-take capacity in existing degree programs in these STEM areas can be expanded. In addition, new industry relevant degree programs can be introduced.

b) Curriculum reforms can be undertaken by degree programs to increase economic relevance. Employer feedback can be obtained to improve the attributes of graduates for their workplaces. New skills can be taught and new technology introduced into degree programs.

c) The alternative higher education sector or Short-cycle Vocational Higher Education (SVHE) sector can be expanded. SVHE institutions are meant to be labor-market oriented and graduates from these could be employed in industries and high-end service organizations.

d) Fourth, the promotion of private higher education institutions would be relevant for the economy. Private higher education institutions, which are mainly for-profit entities, need their graduates to be employable if they are to thrive and prosper. In consequence, the study programs offered by such institutions are usually directly job-oriented.

6. Innovative Teaching-Learning in Higher Education

The majority of universities and higher education institutions, through history and world-wide, have been predominantly centers for teaching and learning. The main mandate of teaching universities and higher education institutions, the production of high-quality graduates for the economic and social needs of a country, is of vital importance for developing countries including Sri Lanka. This is especially necessary in the context of the world-wide massification of higher education and the increasingly sophisticated demands of the global knowledge economy [Altbach (2015)].

The quality of graduates is multi-dimensional. Graduate quality includes knowledge of their subjects; the skills and capabilities required for the labor market; and the values and behavior needed to be a good citizen in society. The output of high-quality graduates from universities depends on a variety of factors, including the socio-emotional skills and knowledge of the entering students; the quality of curricula, teaching and assessment in higher education institutions; teaching-learning resources such as ICT centers, science and engineering laboratories, libraries and reading material; and the physical facilities of the university.

6.1 Outcome-Based Education and Student-Centered Learning

The global trend in teaching-learning among modern universities and higher education institutions is to move away from input-based education and teacher-centered methods to Outcome-Based Education (OBE) and Student-Centered Learning (SCL). OBE provides a constructive framework for the integration of curricula, teaching-learning activities, and assessment methods to produce the desired outcomes of study programs. SCL is an active learning process where students directly interact with their study material and engage among themselves, with academic staff members mainly playing a guiding role. The impact of SCL on student learning is considered to be stronger and more enduring than traditional teacher-centered methods.

Student-centered learning can be used to implement outcome-based education. SCL could involve, depending on the study program and the outcomes sought, methods such as small group discussions, group work and team exercises, problem-based learning, assignments, case studies, concept mapping or mind mapping, just-in-time learning, inquiry-based learning, computer simulations and games, writing with peer review, group tests and quizzes, random calling, debates, snow balling and syndicate groups, buzz groups, fish bowls, and team learning. Assessment methods would need to be aligned with these teaching- learning approaches.

Student-centered learning is also redefining learning spaces in universities. The traditional large lecture theatres and halls are being complemented and supplemented through a range of learning spaces that seek to promote collaborative and team-oriented learning. Concepts such as greater use of light and air, circular or oval tables, flexible seating, individual and personalized spaces for students and staff, and smaller, open learning spaces for group-based learning are increasingly emphasized.

Box 1: The United Kingdom: National Teaching Fellowship Awards

The U.K. National Teaching Fellowship Awards (NTFS) celebrate outstanding teaching and learning in higher education. Academics from England, Scotland, Ireland and Wales are eligible to apply. Applications are made by individual academics, with support from their institutions. Each higher education institution can nominate up to three academics.

The awards can be used by the winners for professional development in teaching and learning. Award winning individuals receive recognition within the U.K. and overseas, as these are highly competitive. The awards also open new opportunities for career development and progression. Award winners also become part of a community of professionals who are passionate about higher education teaching.

Higher education institutions, too, benefit. The NTFS awards are "increasingly used as a model to develop and extend university-wide schemes, aiming to raise the status of teaching and instill pride in the profession and student learning" and "can enable staff to cross boundaries, collaborating with colleagues in other disciplines and forging links with universities abroad" (NTFS).

The NTFS scheme has been in operation for 15 years. At present there are over 640 NTFS fellows from more than 40 academic disciplines.

Source: The Higher Education Academy, England and Wales.

Some Sri Lankan degree programs do follow OBE and SCL. However, a substantial number of study programs still need to make the transition into these modern teaching-learning methods. A variety of initiatives are needed to implement SCL and OBE universally in the higher education sector. First, academic staff would need to be trained in the concepts and methods of OBE and SCL, and the utilization of SCL to achieve OBE, through appropriate professional development programs. Second, curricula, pedagogy and assessment systems would have to be modernized for OBE and SCL. Third, the teaching-learning material, equipment (particularly ICT) and physical facilities (especially for group projects and team-based work) required for SCL and OBE would need to be developed in the university system.

Fourth, an appropriate quality assurance framework, at both the program level and the institutional level, will have to be developed. In addition, the government could consider setting up an award scheme for high-quality teaching and learning for universities. An example of such a scheme in the U.K. is outlined in Box 1 above.

7. ICT in Higher Education

Information and Communications Technology (ICT) is essential to support and enhance teaching, learning and research in a dynamic and rapidly evolving global environment. Some of the trends in higher education, commencing in high-income countries and flowing down to middle-income countries, include the following:

a) **Mobile Learning and One-to-One Computing.** The swift expansion of mobile telephony has revolutionized ICT technology over the last decade. Smart phones and tablet devices are widespread in higher educational settings. The trend in universities around the world is to create learning environments that assume universal access to ICT and the Internet, including providing every student with IT equipment (or expecting each student to own a personal device that can access the Internet).

b) **Personalized Learning and Open Courseware.** There is an enormous quantity of higher educational resources now available through the Internet. As a result, academics are increasingly providing links to video lectures and texts by which students can build on their level of prior preparation and follow their personal interests. For instance, in the Khan Academy there are lessons in algebra designed to fill gaps in the learning of some students and enable them to reach the level of their peers.

c) **Teacher-generated open content.** Organization for Economic Cooperation and Development (OECD) higher education systems are increasingly empowering academics and university staff teams to identify and create learning resources that are found to be the most effective. Several online textbooks allow teachers to edit, add to and customize material so that their students receive a tailored copy that precisely matches the style and pace of the study program. Such activities are often supported through non-traditional notions of intellectual property and copyright, such as Open Courseware and Creative Commons Licenses.

d) **Teacher Managers or Mentors.** The role of academic staff in the lecture hall is being transformed from a “guru” or “font of knowledge” to an instructional manager whose role is to help guide students through individualized learning pathways, identifying relevant learning resources, creating collaborative learning opportunities, and providing academic insight and learning support both during formal class time and beyond the designated lecture period.

e) **Cloud Computing.** ICT applications are increasingly moving from the stand-alone desktop or laptop computer and onto servers in internet accessible data centers. This enables cheaper devices that do not need the processing power or size of the PC. The main challenge for developing countries is to provide the volume and scale of connectivity required for tens of thousands of staff and students to access the information sitting in the "cloud" in real time.

The Internet and access to digital resources increasingly need to become integral features of teaching and learning in the university system. Globally, even the distinction between campus-based learning and e-learning is losing relevance and becoming "blended" learning, whereby ICT and the Internet are integrated into curriculum development, course management and content delivery for campus-based courses. At international levels, the headlines highlight ground-breaking innovations such as Massive Open Online Courses (MOOCs), the Khan Academy, or Open Courseware (MIT) and Open Learning Initiatives (Carnegie-Mellon). In addition, campus teaching and learning incorporates online video lectures, e-journal access, and searches in engines such as Google Scholar, Bing and Wikipedia. These resources are so extensively used by students that anti-plagiarism software programs have now become a regular tool in assessment processes. Individual students need guidance to access these educational resources. In addition, universities can use technologies like group videoconferencing to bring rare expertise to entire classes of students. The main need for Sri Lankan universities will be resources to transform the campus teaching-learning environments with the required learning spaces, equipment and technology, and internet access. Academics generally are able to use ICT in teaching and learning. However, the widespread use of technology for tens of thousands of students will require substantial investment in ICT equipment and technology, as well as band-with and internet access.

8. Enhancing Socio-Emotional Skills of Graduates

Socio-emotional skills are among the most important determinants of economic performance over the life-cycle. The main socio-emotional skills, also known as soft skills or employability skills, needed in the labor market include problem solving, resilience, achievement motivation, control, teamwork, initiative, confidence and ethics [Guerra *et al* (2014)]. Higher education institutions are increasingly placing emphasis on the development of these socio-emotional skills among students. These skills are especially important in arts, commerce, humanities, management, natural science, and social science degree programs, where students are not trained for a specific occupation, but may work in a wide range of occupations. There are a variety of strategies that can be adopted to develop these socio- emotional skills. These include the following:

National level

- Encouraging universities and higher education institutions to develop and implement strategic plans which encompass and combine curricular, co-curricular and extra- curricular activities to enhance socio-emotional skills.

- Supporting communities of practice and networks of academic staff for socio-emotional skills and employability development at institutional and national level.
- Recognizing and rewarding high impact initiatives and educational practices onsocio- emotional skills and employability of students. This could, for instance, be a set of award schemes.
- Promoting research and evaluation of measures that impact the socio-emotional skills and employability of university students.

Institutional Level

- Integrating the development of socio-emotional skills into curriculum design and pedagogy, promoting assessment of learning outcomes that are aligned with soft skills and employability, and including work-related learning tasks and work-based learning opportunities.
- Creating 'academic champions' for socio-emotional skills and employability development in universities, faculties, and departments.
- Enhancing induction training and continuous professional development of academic staff on pedagogy for socio-emotional skills and employability development. The Staff Development Centers (SDCs) of universities can be used to facilitate such activities.

Table 3: PRACTICE Skills, Sub-Skills, Big Five Traits, and Biological Foundations

PRACTICE: Skills for Success	**Sub-Skills (Skills, Attitudes, Beliefs, Behaviors) identified by employers**	**Related Big Five Personality Traits**	**Neuro-Biological Foundations**
Problem-solving	Social-information processing skills Decision-making Planning skills	Conscientiousness	Executive attention systems—ability to focus attention and to inhibit negative emotionality
Resilience	Stress resistance Perseverance Optimism Adaptability	Conscientiousness (Grit) Neuroticism	Biological system focused on preventing harm

Achievement Motivation	Mastery orientation Sense of purpose Motivation to learn	Conscientiousness (Grit) Openness to experience	Biological tendency to seek out new environments Orienting sensitivity—tendency to respond to sensory stimulation
Control	Delay of gratification Impulse control Attentional focus Self-management	Conscientiousness	Executive attention systems—ability to focus attention and to inhibit negative emotionality Self-Regulatory System—delay of gratification
Teamwork	Empathy/ Prosocial Low aggression Communication skills Relationship skills	Extraversion Agreeableness	Biological system promoting active approach and exploration—tendency to enjoy social interaction and positive moods
Initiative	Agency Internal locus of control Leadership	Conscientiousness Openness to experience	Biological tendency to seek out new environments Orienting sensitivity—tendency to respond to sensory stimulation
Confidence	Self-efficacy Self esteem Positive identity	Neuroticism	Biological system that is focused on preventing harm
Ethics	Honesty Fairness orientation Moral reasoning	Conscientiousness	Biological system promoting active approach and exploration—tendency to enjoy social interaction and positive moods

Source: Guerra *et al* (2014).

9. Research, Innovation and Development

9.1 Pure Academic Research

Basic research or fundamental research is often a public good, generating wide and varied social benefits. These include knowledge creation, new discoveries, international knowledge flows and exchanges, and the rapid acquisition and transmission of new ideas and learning. The development of fundamental research requires a range of norms and practices that are important for good quality research. These include a high degree of autonomy for research, such as ideological neutrality in the selection and pursuit of research themes and problems; scholarly publication based on peer review; and linkages between teaching and research, typically through postgraduate education.

The promotion of academic research is extremely important for Sri Lankan universities to gain international recognition as centers of knowledge excellence. Excellence in research plays an important role in international rankings of universities [Millot (2014), (2015)]. The government has already taken several significant steps to promote academic research. The universities award substantial importance for research publications in the promotion of academic staff. The grant of a research allowance is a further incentive and reward. Within the academic community research records contribute to the esteem and honor in which a lecturer or professor is held, as in most university systems. However, there are also constraints to research, especially a shortage of funds for equipment and material, and physical distance from major global centers of research.

High-speed internet connections and relatively inexpensive IT equipment has transformed the global and national research environment. There is increasingly greater research collaboration among academics across universities, countries and even continents. An example of a high-level initiative to promote research collaboration among Japanese higher education institutes is described in Box 2 below. ICT enables academics from developing countries to collaborate with global peers and access expensive instruments and large data sets. In addition, few universities can afford the high cost of ownership of instruments such as supercomputers, electron microscopes, astronomical telescopes, medical imaging, and simulators. As a result, typically arrangements are made to lease time on such equipment and access them through high-speed networks. These developments have opened up new opportunities for academics from lower-middle income countries to undertake basic research. Over time, it would be encouraging to see rising numbers of Sri Lankan academics making use of such opportunities. The government could encourage such activities, especially by helping academics to network with wealthier universities and engage in research collaborations.

Box 2: The Japanese Inter-University Research Institute Corporation

The Inter-University Research Institute Corporation is an innovative institutional model promoting cutting edge joint research among Japanese academics from both public and private universities. The Corporation provides large-scale facilities, enormous quantities of data and academic material, and a core facility for networked collaborative research and for pioneering new research fields. The four main institutes that constitute the Corporation are:

- The National Institute of Natural Sciences (NINS), containing the National Astronomy Observatory of Japan, the National Institute for Fusion Science, the National Institute for Basic Biology, the National Institute for Physiological Sciences and the Institute for Molecular Science.
- The Research Organization of Information and Systems (ROIS), which contains the National Institute of Polar Research, the National Institute of Informatics, the Institute of Statistical Mathematics and the National Institute for Genetics.
- The Higher Energy Accelerator Research Organization (KEK), containing the Institute of Particle and Nuclear Studies, the Institute of Materials Structure Science, the Accelerator Laboratory and the Applied Research Laboratory.
- The National Institute for Humanities (NIHE), which contains the National Museum of Japanese History, the National Institute of Japanese Literature, the National Institute for Japanese Language and Linguistics, the International Research Center for Japanese Studies, the Research Institute for Humanity and Nature, and the National Museum of Ethnology.

The Corporation seeks to promote research and postgraduate studies, collaborations across universities, and between Japanese universities and overseas universities.

Source: Inter-University Research Institute Corporation, Japan.

9.2 Research for Innovation and Development

Research and innovation are at the heart of economic development in modern advanced countries. The most spectacular success story of university-industry research and innovation linkages is the relationship between Stanford University and Silicon Valley. The innovations produced through this collaboration include the laser, the microprocessor, the personal computer, the integrated circuit, video and sound recording, aerospace and office automation, high-energy physics, video-game technology and recombinant-DNA. Companies located in Silicon Valley and which are now household words include: Apple Inc., Cisco Systems, E-Bay, Facebook, Google, Hewlett-Packard, Intel, Oracle Corporation and Yahoo!

The role of universities in generating growth through research, innovation and development linkages with industry is of major importance for public policy. Typically, the technological sophistication of industries, the capital available to firms, and the governance framework for innovation means that the challenges for greater industry-university collaboration vary between developed and middle-income countries [Table 2].

Table 4: A Typology of University-Industry Links, from Higher to Lower Intensity

High (Relationships)	Research partnerships	Inter-organizational arrangement for pursuing collaborative Research and Development (R&D), including research consortia and joint projects.
	Research services	Research-related activities commissioned to universities by industrial clients, including contract research, consulting, quality control, testing, certification, and prototype development.
Medium (Mobility)	Shared infrastructure	Use of university labs and equipment by firms, business incubators, and technology parks located within universities.
	Academic entrepreneurship	Development and commercial exploitation of technologies pursued by academic inventors through a company they (partly) own (spin-off companies).
	Human Resources training and Transfer	Training of industry employees, internship programs, postgraduate training in industry, secondments to industry of university faculty and research staff, adjunct faculty of industry participants.

Low (Transfer)	Commercialization of Intellectual Property (IP)	Transfer of university – generated IP (such as patents) to firms (e.g., via licensing).
	Scientific publications	Use of codified scientific knowledge within industry.
	Informal interaction	Formation of social relationships (e.g., conferences, meetings, social networks).

Source: Adapted by Guimon (2013) from Perkmann and Walsh (2007).

The degree of intensity of collaboration between universities and industry varies, from high-intensity relationships through medium-intensity linkages to low-intensity relationships [see Table 3]. Sri Lankan universities benefit from some high-intensity relationships such as contract research, consulting, testing and certification; and some medium-intensity relationships such as training of industry employees and internship programs for students. However, this is on a limited scale, and requires considerably greater scale and scope across universities and among industries to make a significant contribution to economic growth.

Table 5: Priorities for University-Industry Partnerships at Different Stages of Economic Development along the three Missions of Universities

	Most developed countries	**Least developed countries**
Teaching University	• Private participation in graduate programs • Joint supervision of Ph.D. students	• Curricula development to improve undergraduate and graduate studies • Student internship
Research University	• Research consortia and long-term research partnerships to conduct frontier research	• Building absorptive capacity to adopt and diffuse already existing technologies • Focus on appropriate technologies to respond to local needs
Entrepreneurial University	• Spin-off companies, patent licensing • Entrepreneurship education	• Business incubation services • Entrepreneurship education

Source: Guimon (2013).

There are several policy initiatives to promote research and innovation, especially through university-industry linkages targeted at growth promoting activities:

- The creation of intermediary organizations, such as science parks, technology transfer offices and business incubators.
- Grants to universities and firms for collaborative research and development projects.
- Support services to match firms and universities for research and development activities.
- Outreach activities to promote networking and create awareness of the benefits of collaboration.

10. Private Higher Education

The private sector has been playing an increasingly important role in the financing and delivery of higher education services in the twenty-first century. Part of this is due to the opening of former communist countries, such as China and many Eastern European nations, to the private sector. Another reason has been the realization of states that the demand for higher education cannot be met only from public funds, and that private resources, too, need to be invested. The country with the largest share of private sector participation in higher education is South Korea [see Box 3]. This has been the result of deliberate government policy over a long period of time.

Private higher education institutions consist of two broad types: non-profit higher education institutions and for-profit higher education institutions [see Figure 6]. Non- profit private higher education institutions own their assets and facilities, and their staff are not government officials: however, they may receive state funding for students and research, and be subjected to government regulation.

Box 3: The Private Higher Education Sector in South Korea

There are about 359 higher education institutions in South Korea, with an enrollment of around 3.3 million students. Out of the country's 222 four-year colleges, 180 are private. Among the 149 two-year and three-year junior colleges, 140 colleges are private. Overall, approximately 85 percent of higher education enrollment is in private institutions.

In South Korea, as in the United States, private higher education institutions are held in high esteem. The oversight, quality assurance and accreditation of South Korea's higher education institutions is the responsibility of the Ministry of Education, Science and Technology. The Ministry "controls the establishment of institutions and academic departments, curriculum and degree requirements, and student quotas". The Ministry recognizes seven different types of higher education institutions: (a) colleges and universities; (b) industrial universities; (c) universities of education; (d) junior colleges; (e) broadcast and correspondence universities; (f) technical colleges; and (g) other miscellaneous institutions.

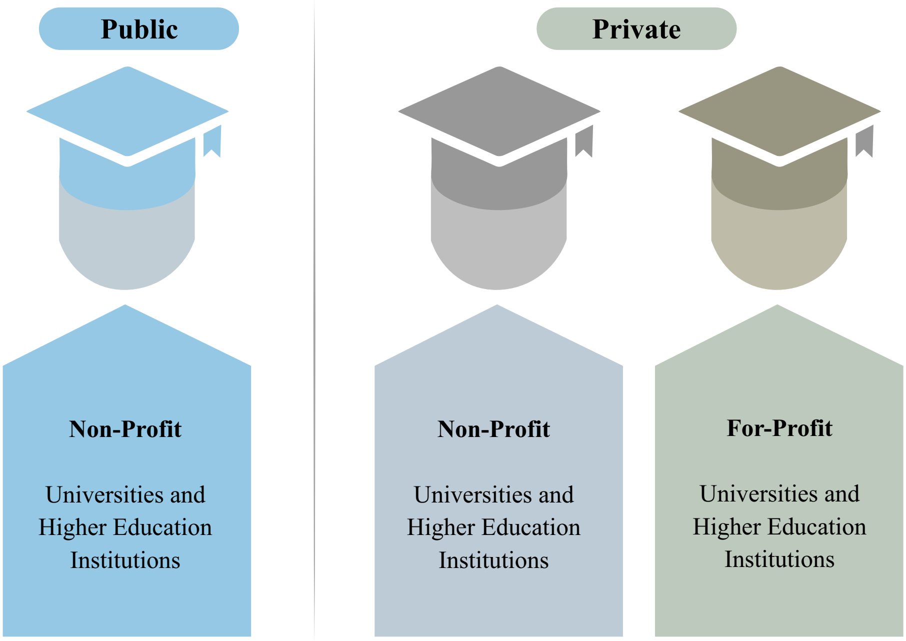
The accreditation of universities is the responsibility of the Korea Council for University Education (KCUE). The accreditation of programs is conducted by specialist agencies recognized by the Ministry. There are around 200 universities accredited by KCUE.

Source: Ministry of Education, Science and Technology, South Korea.

Non-profit institutions have historically played an important role in the higher education sector. Many of the modern world's most famous universities, such as Harvard, Stanford, Princeton and Yale in the U.S.A., and Cambridge and Oxford in the U.K., are non- profit and non-state universities. Non-profit private higher education institutions were often originated by, and may sometimes still be linked to, religious institutions. For example, ancient South Asian higher education institutions such as Nalanda and Taxila were centers of higher learning associated with Buddhism and Hinduism. Many of the oldest European universities, including Bologna, Oxford, Salamanca and Cambridge, were associated with the Christian Church. The promotion of private non-profit higher education institutions can be of great benefit to developing countries. However, they depend on the existence of a sufficiently wealthy charitable organization or philanthropist who is willing to invest enormous resources to develop a higher education institution. This is rare in developing countries, although not entirely absent, as seen from the case of Aquinas College, established by the Catholic Church, in Sri Lanka.

Private for-profit higher education institutions have rapidly proliferated in modern times. This has partly been the result of swiftly increasing demand for higher education, and partly the outcome of countries opening their higher education systems to private sector participation. The presence of private higher education institutions has several advantages for a country.

Figure 6: Classification of University Ownership



10.1 Benefits of Private Participation in Higher Education

Private higher education institutions increase investment in the higher education sector and raise the volume of resources available for expansion and development. This is especially important because the unit cost of higher education services is typically larger than the unit cost of primary and secondary education services. Expanding participation in higher education is vital for advancement and development as a country ascends to higher peaks of economic development. The demand for higher education increases steeply as a country develops, and the cost of creating adequate in-capacity in the higher education sector rises sharply. Even many high-income countries, in consequence, have introduced policy initiatives to increase private sector participation in higher education in recent times.

Private higher education institutions usually have greater flexibility and can respond to changes in student demand or the economic environment more swiftly than public higher education institutions. This is particularly the case for private profit-making HEIs, whose very existence depends on being able to match the supply of degree programs and courses to the demand from students. Public higher education institutions, in contrast, normally have less flexibility in changing academic staff and the menu of degree programs and courses provided.

Private higher education institutions increase the quantity and diversify the range of institutions that provide higher education services. A country with multiple providers and a variety of higher education institutions offers a broader range of programs. This enables students to choose courses and select programs more closely linked to their circumstances and preferences. The country can benefit from the presence of graduates who have a wide and varied range of higher education experiences than a more narrow and limited set of higher education backgrounds.

The presence of private higher education institutions generates competition. Competition can lead to improvements in the quality of both public and private higher education institutions. Also, competition can result in cost reductions as the institution seeks to expand enrollment and market share. Competition can also spur innovations in higher education services, including the introduction of new, market-oriented programs and courses.

Private higher education institutions can also make an important contribution to economic growth. This is particularly the case if Sri Lanka can become a hub for overseas students. Private higher education institutions, due to their greater adaptability and flexibility, are able to attract foreign students. For instance, where private higher education institutions are in-country franchise operations of reputed higher education institutions in developed countries, international students from other countries, especially in Asia, can be attracted to Sri Lanka. The presence of university campuses generates demand in the neighborhood for a wide range of goods and services, including food and accommodation, social and cultural activities, and ancillary services.

Private higher education institutions can produce employment opportunities for bright young academics and researchers, as well as university managers and administrators. The private higher education sector usually relies heavily on public sector academics. However, over time private institutions increase the share of academics who are full-time employees. This creates jobs for well-educated and qualified individuals seeking academic careers. In addition, private higher education institutions require managerial, administrative and clerical staff for their institutions. With the growth of the private higher education sector jobs in these institutions also expand.

10.2 Limitations of Private Higher Education Institutions

Private higher education institutions especially when they are new, normally do not deliver courses and programs that have high set-up costs. Degree programs in, for instance, heavy engineering do not usually attract private higher education institutions. Also, for-profit higher education institutions do not provide courses and programs where student demand is low, but which are important for the intellectual and cultural life of the country. For example, many programs in the arts, humanities, and social sciences, and even the physical and biological sciences, rarely attract sufficient private investment.

Private higher education institutions, particularly profit-making institutions, may offer programs and courses of weak quality. Private higher education institutions, in their drive to reduce costs and generate profits, can operate with inadequate physical capital, especially facilities and equipment. This has not been a major problem in Sri Lanka thus far, mainly because there are a small number of private higher education providers, nearly all of whom focus on a limited range of programs. But it could become a problem as the private higher education sector expands in the future. The optimal policy response is to establish a competent quality assurance and accreditation agency to safeguard standards and facilitate the entry and operation of good quality private higher education providers.

Private profit-making higher education institutions may be "footloose", and could close down leaving students stranded in mid-program. This has not been a major risk in Sri Lanka thus far. Some degree of risk, however, needs to be recognized. The best policy response, once more, is to ensure that all private higher education institutions operate under the umbrella of a quality assurance and accreditation agency.

The services provided by private for-profit higher education institutions may not be equitable. Normally the institutions cater to students from affluent homes, while bright and qualified students from less wealthy families may be unable to pay the fees required by these institutions. Countries respond to this limitation in many ways. Governments can make means-tested scholarships available for poor students. Also, private higher education institutions can be requested to provide a percentage of places at a subsidized cost for poor students. In addition, the government could take the position that the public higher education institutions will take care of the less affluent students, so that at the national level there is equity of access and opportunity.

A further criticism levied against the private sector, in some countries where higher education is either solely or nearly a public monopoly, is that the private higher education institutions can offer better benefit packages and attract the best academics away from public higher education institutions, weakening the latter. This fear is usually unwarranted in practice. When countries open up to the private higher education sector at first, some academics in public higher education institutions do teach part-time in the private institutions: but there is no mass outflow of staff from public to private institutions. Academics prefer to stay in the public sector for many reasons, including greater job security, and time for research and other activities. Over time, as the private higher education institutions become better established and if their employment terms and conditions are favorable, some public sector academics may move to the private sector. This process, however, creates opportunities for intelligent and well-educated young individuals to become academics, leading to an overall increase in employment opportunities for academics in the country.

10.3 Policy Options to Promote Private Sector Participation in Higher Education

The state can promote the development of private higher education institutions through a variety of policy initiatives, as outlined below.

The provision of a subsidy for students attending private higher education institutions. This could be in the form of scholarships, student loans or vouchers. There are several advantages to this initiative. The cost of higher education will be reduced for students due to the scholarships and vouchers or deferred through loan schemes. It can also promote competition among higher education institutions if students can carry the financial benefit to whichever institution they select. Competition can be extended to public universities if students become entitled to this financial benefit in either public or private higher education institutions, and are free to select between either set of institutions. Student loan systems have been successful in countries such as the U.S.A. and Australia.

Student loan schemes also have important limitations. Student loans are difficult to administer in countries that have not acquired the culture of borrowing to meet the costs of higher education. Two important conditions for success are that the government should be able to track the incomes of graduates accurately and have an effective collection mechanism. Where these two conditions are not met, repayment rates are usually poor. It is unclear whether Sri Lanka has the ability to design and implement effective tracking and collection mechanisms.

Scholarship schemes can also be inequitable if they are awarded on the basis of performance at public examinations, rather than economic need. Voucher systems are promising but require a drastic change in the culture of higher education institutions, especially public universities. In consequence they can be difficult to implement fully, or except over a lengthy period of time. With voucher schemes it is also important that weaker institutions receive substantial capacity building.

The award of financial grants towards the capital costs of constructing university buildings and purchasing equipment. Such grants would provide substantial incentives for higher education institutions as the capital costs of facilities and equipment can be very high. Non-profit private higher education institutions could particularly benefit. In order for the full benefits to be realized, the land on which the buildings are constructed or refurbished would need to be either owned freehold or on a long lease by the institutions.

Grants of land for private higher education institutions. Developing a large and landscaped university campus can be an expensive undertaking. The provision of land, for example through long-term leases or freehold ownership, can be an attractive incentive for private higher education institutions. However, if land is available only on short-term leases, these institutions would face considerable investment risks, and may be reluctant to invest substantial resources in construction and fixed equipment.

The provision of research funds to private higher education institutions. Academics from private institutions could be allowed to compete for research grants on the same terms and conditions as academics from public universities. Research funding can stimulate research activities, which in turn are positively related to the quality of teaching, as active researchers are more likely to be up-to-date with their academic knowledge than non-researchers. It can also encourage some higher education institutions to be centers of excellence. The research output may also benefit the government through the contracting of policy research from academics, and to private sector firms. A high-quality research system in specialized niche areas could also attract foreign researchers and grants to the country, as well as contracts from overseas private firms over the long-term.

These different policy options are not mutually exclusive or in competition. The government could choose to implement more than one, or even several, of these options. The adoption of different options could also be phased in at different stages. The sequencing of reforms would have to be undertaken strategically. The policy response of governments to the issue of low quality of some private higher education institutions is to develop sound quality assurance and accreditation mechanisms, dealt with in the next section.

11. Quality Assurance and Accreditation

Quality assurance and accreditation systems have seen rapid growth and development world-wide over the last twenty years. There are several factors that have caused this expansion. First, as higher education has moved from small elite systems to mass systems there has been a concern that quality standards have been experiencing downward pressure. Second, as the global economy has become increasingly knowledge-intensive employers have been demanding greater labor market relevance from higher education institutions. Third, fiscal restrictions have tightened funding for growing higher education systems, resulting in greater pressure from governments to deliver results. Fourth, the quantity of higher education institutions has rapidly expanded, resulting in growing attention by policy makers to quality. Fifth, stakeholders, especially students, have been increasingly searching for indicators of quality when selecting institutions. Developments in quality assurance and accreditation in Europe are presented in Box 4.

Box 4: Institutional Quality Assurance in Europe

The most important transformation in quality assurance in Europe in the 21st century has been the development of quality assurance processes. A survey of 222 higher education institutions in 36 countries in 2010 confirmed that the majority of IQA processes were introduced after the adoption of the European Standards and Guidelines for Quality Assurance in the Higher Education Area (ESG) in 2005. An increasing quantity of higher education institutions have institutional quality assurance policies and processes which are utilized for planning and quality improvement. A large proportion of institutions (63%) have institution-wide policies and processes. A further 13% have policies and/or processes at the faculty level. Overall, 99% of higher education institutions have a QA policy or system or both. Quality assurance is particularly strong in countries such as Austria, Belgium, Finland, Hungary, Ireland, Norway, Spain, Switzerland and the United Kingdom.

Source: Sursock (2015).

Sri Lanka has a quality assurance process developed over the last decade under the leadership of the University Grants Commission. The various elements of a good quality assurance system have been developed, including protocols, guidelines and processes for institutional and program reviews, a pool of well-trained quality assurance reviewers in the country, and the creation of Internal Quality Assurance Units (IQAUs) in universities. Over 600 study programs have been reviewed across the public universities. In addition, all universities have benefited from at least one, and in most cases two, institutional reviews. Quality assurance reviews of private higher education institutions have also been conducted, chiefly at the request of these private institutions.

There are several next steps in the development of the quality assurance and accreditation framework in Sri Lanka.

The government could move towards the establishment of a semi-autonomous Quality Assurance and Accreditation Agency covering both public and private higher education institutions. Globally, there has been a movement in this direction [Salmi (2015)]. For instance, in Malaysia the Ministry of Higher Education combined the National Accreditation Board, which had jurisdiction over private institutions, with the Quality Assurance Department, which oversaw public institutions, into a single Quality Assurance Agency covering both public and private higher education institutions. This was seen as a measure to level the playing field between the public and private sectors. In 2012, Ireland merged the Further Education and Training Awards Council, the Higher Education and Training Awards Council, the National Qualifications Authority of Ireland, and the functions of the Irish Universities Quality Board, into a single entity: Quality and Qualifications Ireland (QQI). Austria in 2014 established a new entity, the Agency for Quality Assurance and Accreditation Austria (QA Austria), which combined the two previously separate quality assurance entities for universities and polytechnics.

The government could also link quality assurance with the funding of public universities. This was would provide an incentive for the universities to undertake and act on the findings of quality assurance reviews. Such linkages between quality assurance and the mechanisms for university financing are seen in several countries. In the Netherlands, universities in which students complete their degrees in time are rewarded. In countries such as Austria, Chile and Spain universities enter into contracts with the government to fulfill specific national objectives, including quality improvement, and receive additional funds for good performance. The U.S.A. has over thirty states where universities have performance-based contracts with the state governments. The main objective of these contracts is to increase the proportion of students who complete high quality degree programs.

12. Internationalization of Higher Education

Internationalization is one of the most significant developments in higher education systems in modern times. There are large and rising flows of students across borders for university education. Countries with internationally reputed universities, such as Australia, the U.K. and the U.S.A., receive considerable numbers of foreign students. Overseas higher education students are a substantial source of income for many universities in these countries, including Australia and the U.K. In fact, countries such as Australia and Malaysia explicitly seek to attract foreign students as sources of revenue. Universities in the developed world are also setting up satellite campuses overseas to expand their enrollment and earnings. In addition, partner higher education institutions in different countries are now combining to establish institutions in either one of the countries or in a third country. The internationalization of higher education is consistent with Dr. Corea's vision of a new international economic order which benefits both developed and developing countries [see Sanderatne (2014) for a recent discussion of Dr. Corea's vision for a New International Economic Order].

The broadening of higher education opportunities overseas is a positive benefit at the individual level. If these students return to Sri Lanka after graduation and enter the labor market, the knowledge and skills brought can benefit the economy. In addition, if students during their studies overseas acquire political and cultural attitudes that are favorable towards a multi-ethnic and multi-religious democracy, or greater gender sensitivity, this would be a positive social benefit. However, if students migrate after graduation, and large sums of resources are spent on overseas higher education, there is a loss to the country. Against this, though, remittance flows from well-educated individuals living overseas can make an important contribution to the economy. In addition, nationals living overseas may engage in industrial and commercial collaboration with domestic industries and firms. The knowledge, technology and capital provided by such individuals can be a substantial source of benefit to the country.

The global mobility of academic staff is an important aspect of internationalization. Universities and research institutions in developed countries are increasingly acquiring international staff. In some cases, the overseas staff members commence as graduate students in foreign universities and then continue onto academic and research jobs overseas. In other cases, academics from one country, usually a poorer nation, move into academic and research jobs in richer countries. For countries such as Sri Lanka, the emigration of academics counts as brain drain and an economic loss. However, to the extent that the overseas academics remit income or contribute their knowledge to local academic, industry or services, there would be economic benefits.

International collaboration in research is a rapidly growing phenomenon world-wide. The availability of modern communications technology has greatly facilitated collaboration among universities and research institutions located in different countries, and even across continents. As a result, cross-border academic teams are increasingly engaged in research, development and innovation activities.

The internationalization of research is a clear benefit to developing countries such as Sri Lanka. University academics and researchers are able to access resources, especially expensive equipment and technology, and keep abreast of evolving global knowledge in their disciplines, in ways that would not be possible without international collaboration and the use of modern communications technology.

International quality research and development centers could become magnets for foreign investment. Overseas industries and firms may source Sri Lankan universities for research and development activities, if the country has the intellectual capital and an adequate supporting institutional environment. Such research and development services may be undertaken singly within a university or in collaboration with other national or foreign universities and research centers.

13. Sri Lanka As a Hub for International Students

The internationalization of higher education provides an opportunity for Sri Lanka to attract foreign students and contribute to economic growth. Foreign students would increase the incomes of domestic higher education institutions. The presence of foreign students on campuses would also benefit Sri Lankan students, as it would broaden their range of cultural contacts and be socially enriching. However, given that the demand for university places in Sri Lanka greatly exceeds the supply, opening public universities to foreign students beyond a small percentage would be highly contentious. Creating an enabling environment for private higher education institutions which cater for both domestic and foreign students could, however, be extremely useful. High quality Sri Lankan private higher education institutions may be able to attract students from other developing countries, including neighbors from South Asia. Such a strategy, if successful, would be an important source of income for the country. There are a number of initiatives that the government could implement to promote Sri Lanka as a hub for international students [Fielden *et al* (2011)].

The Ministry of Higher Education and Highways could establish a dedicated division to implement policies that promote Sri Lanka as a higher education hub. This division would be responsible for activities such as:

- Commissioning market research among potential students on the image of the country compared to competitor countries;
- Identifying the most promising overseas markets;
- Devising strategies for the recruitment of full-time undergraduate and postgraduate students;
- Creating a brand for Sri Lanka as an international student hub;
- Producing promotional and public relations material to stimulate interest overseas;
- Training diplomatic staff in High Commissions and Embassies overseas to promote Sri Lankan higher education institutions;
- Developing partnerships with overseas recruitment agents;

- Establishing recruitment offices overseas in major target countries;
- Developing relationships with tourism promotion agencies;
- Promoting Sri Lanka as a major destination for international academic conferences;
- Conducting research into pricing, competitive behavior and student satisfaction.

The overall supporting environment for foreign students needs to be strengthened. The country has already made enormous progress in making Sri Lanka a tourism-friendly visa environment. Student-friendly immigration policies need to be instituted to enable foreign students to live in Sri Lanka for extended periods of time. These could be supported by Codes of Good Practice for international students which could be a requirement for accreditation of higher education institutions seeking to attract overseas students. The Ministry of Higher Education and Highways also needs to work with institutions such as the Board of Investment to implement policies that attract foreign higher education providers, recognizing that there can be long lead times for such projects to break even. An example of how Malaysia is seeking to become a hub for international students is presented in Box 5 below.

Box 5: Malaysia as an International Hub for Students

Malaysia has an innovative and effective long-term strategy to attract foreign students. The country commenced as a center for overseas universities to enter into twinning arrangements with local universities in the mid-1990s. Credit transfer programs with foreign universities were developed subsequently. Over time, Malaysia has become a center for overseas universities to set up branch campuses. The number of international students has increased from about 70,000 in 2008 to around 150,000 in 2014. Currently Malaysia facilitates foreign students to enter the country for higher education through the Malaysian Education Promotion Council. This is a non-stop centre which provides information on the Malaysian education system and other relevant details. The Council provides assistance in a range of areas, including information on government-approved universities and colleges; entry requirements for the various programs; application for entrance into universities admission timetables; financial aid and scholarships; guidance on admission tests, applications for visas; health requirements and procedures; and pre-departure information.

The Educity in Iskandar Malaysia is a new multi-dimensional economic free trade zone neighboring Singapore. The objective of Educity is to provide high-quality education and to produce a highly skilled workforce for foreign companies in the commercial zone of Iskandar. Several overseas universities have opened branch campuses. These include the University of Southampton, Newcastle University, Netherlands Maritime Institute of Technology and the University of Reading. These support a range of intellectual service industries such as tourism and leisure, health care and wellness, and the creative arts.

Kuala Lumpur Education City is another innovative education project combining commercial and residential operations with branch campuses of foreign universities and local higher education institutions. The Government of Malaysia is seeking greater penetration of large regional markets for higher education such as China, Indonesia and India. The objective is to establish Malaysia as a regional center of excellence and the central hub for a network of international higher education institutions, companies and services.

Source: Fielden *et al* (2011).

14. Financing Higher Education: Options and Choices

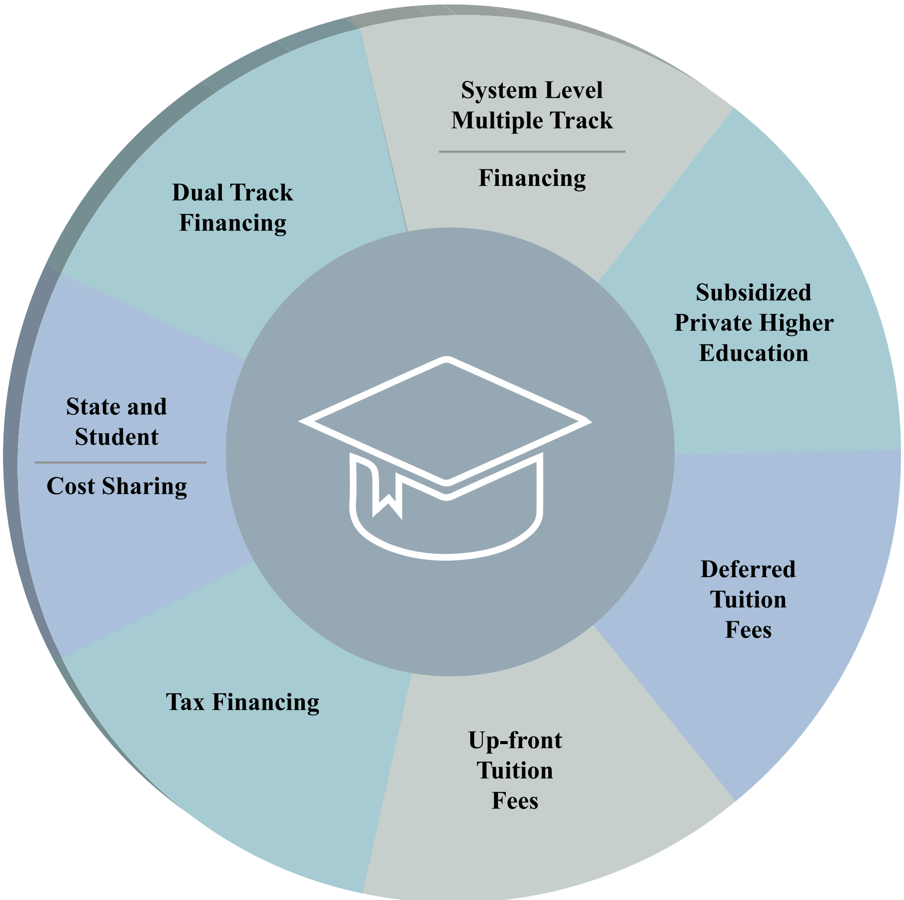
Higher education systems are financed through a variety of models in the modern world. A graphical typology of these models is presented in Figure 7 and described below.

Model one: tax financing. Higher education institutions are financed solely or predominantly through tax revenue. In this model, public higher education institutions provide degree programs free of tuition fees to students. In some variations of this model universities levy earmarked fees, such as registration charges and examination fees, and/or for board and lodging in university hostels, but provide free tuition. This is the predominant model followed for undergraduate degree programs in Sri Lankan public universities. The model is commonly found in countries of continental Western Europe and in Scandinavia. It was also followed in the U.K. for much of the second half of the twentieth century, and influenced the university system in Sri Lanka.

Model two: cost sharing between the government and students. In this model, students pay fees: but the fees are less than the full cost of their education. The government meets the difference through a grant to the public universities. The degree of cost sharing varies among countries, and even within countries. This is the predominant model in the state higher education systems of the U.S.A. Students enrolling in state universities in their home states receive a subsidy, with the degree of subsidy varying from state to state. Other countries where the government and students share the costs of attending public universities through a subsidy include the U.K, India and Nepal. The Open University of Sri Lanka follows this model, with a share of expenditures financed through student fees.

Model three: dual track financing. In this model there are two sets of positions available in public universities. One set of seats is available free of tuition fees. The second set of seats is available for students who have the minimum qualifications for entry, but have insufficient marks to gain a free place and can pay a fee. This model exists in several former communist countries, such as China, the Czech Republic, Hungary, Poland and Russia. It is a radical difference to the model that existed in these countries during their communist period, when all university seats were tuition free for students.

Figure 7: Models of Higher Education Financing



Model four: a combination of free and fee-levying higher education institutions and programs at the system level. In this model certain public higher education institutions and programs offer positions to students free of tuition fees, while other public higher education institutions and programs charge fees. The latter set of institutions and programs typically offer more market-oriented degrees and programs whose graduates have excellent employment prospects. This model is followed in countries such as Mexico, Nigeria and China. Sri Lanka follows this model for postgraduate education, where some postgraduate and research degrees are offered free, while other postgraduate and research degrees charge fees. In addition, Sri Lanka has public higher education institutions which offer fee levying higher education programs, such as Sri Lanka Institute of Information Technology (SLIIT) and National Institute of Business Management (NIBM).

Model five: subsidized private higher education. In this model the government provides students subsidies, typically as vouchers, stipends, or scholarships, to attend private higher education institutions. Alternatively, the government may provide direct financial support to private higher education institutions, usually as capital grants or grants for operational and maintenance expenditure, up to a designated number of students. Many states in the U.S.A. follow this model which is also known as demand-side financing (e.g., the State of Colorado – where it is associated with a performance-based allocation mechanism), as well as countries as diverse and varied as Chile and Poland.

Model six: the use of deferred tuition fees, where students meet the cost of their higher education after they have completed their studies and entered employment. Several countries, including Australia, New Zealand, the U.K., and the U.S.A, utilize this model of higher education financing. However, the model can be difficult to adopt in developing countries where students do not have a culture of repayment, and it is hard to track graduates to enforce cost recovery. In addition, moving from a tuition free higher education system to a deferred fee model can be politically contentious, as in the case of the U.K. when this shift was made.

Model seven: the payment of upfront tuition fees to higher education institutions. A large number of countries, such as Australia, China, England, the Netherlands, New Zealand, South Africa, the U.S.A. and Vietnam utilize this model. This model provides universities substantial autonomy, including the ability to appoint staff at the discretion of the university and to set faculty salaries. It also provides considerable flexibility in terms of introducing new degree programs and courses. It is, of course, the principal model used by private higher education institutions, and provides the private sector the flexibility to react quickly to evolving conditions in the market. However, in the context of public universities that historically provided tuition-free education, the introduction of fees can be highly controversial. It also has the disadvantage of making higher education less accessible to poor students.

There are a large variety of models in the modern world. Further, there are different models used even within one country [Aturupane (2012)]. Sri Lanka obviously should develop the best model for itself, depending on the country's higher education policy objectives, and the economic and political context of higher education reform and development. The chief reason for the higher education models that are not fully tax financed, but where some type of cost sharing exists, is the fact that the tax financed model is extremely expensive on a per student basis. When the demand for higher education increases and the cost of improving quality and relevance rises even wealthy countries find it difficult to meet the needs of the higher education sector solely through tax financing. This has been seen in recent times in many developed countries, including Australia, Canada, and the U.K., as well as former communist countries such as China and Russia. Ultimately, Sri Lankan policy makers may need to use a combination of these models to increase investment in higher education. If Sri Lankan policy makers explore cost sharing options in the future, however, it is extremely important that intelligent students from poor households should be provided with financial assistance to access higher education.

15. Performance-Based Funding

Performance-based funding of higher education systems has become popular in OECD countries. In the U.S.A., more than half the states use performance-based funding for their state higher education systems [Dougherty *et al* (2014)]. The objective of performance-based funding is to improve the performance of higher education institutions in line with national objectives. Two types of performance-based funding: (a) PF 1.0 programs where the state provides a bonus over and above the normal grant for achieving certain specific outcomes; and (b) PF 2.0 programs where performance-based funding is integrated into the overall funds provided by the state. The State of Tennessee introduced a PF 1.0 program in 1979, the first in the U.S.A. The State of Ohio introduced PF 1.0 programs in 1995 and 1997. The State of Indiana introduced a PF 1.0 program in 2007. Subsequently, Ohio and Indiana also introduced PF 2.0 programs in 2007, followed by Tennessee in 2010.

Performance-based funding instruments are based on the economic and political science discourse on principal-agent theory, and organizational learning and behavior. There are four broad types of performance-based funding instruments.

- provision of financial incentives for performance;
- communication of national higher education goals to university officials and academics;
- provision of information to higher education institutions on their outcomes, particularly in relation to other higher education institutions with whom they identify as peers or rivals; and
- capacity building of higher education institutions to improve performance throughorganizational learning and behavioral change.

Each type of instrument has strengths and limitations. Also, these are not mutually exclusive but can be used as complementary policy initiatives.

Performance-based funding can also have unintended negative consequences [Reddy *et al* 2014]. For instance, it can focus attention narrowly on the performance indicators, to the neglect or detriment of other important aspects and features of university teaching, research, and community services. It is important, in consequence, that performance-based funding mechanisms should be carefully and appropriately designed, and higher education institutions assisted to achieve the broad range of outcomes that are important for them.

16. Higher Education and Culture, Politics and Society

Higher education institutions, particularly universities, are of vital importance for the cultural, political and social life of a country. Universities strongly influence the world- views of individuals and the value systems of societies. In consequence, they can play a vital role in creating the enlightened citizens needed for modern participatory democracy. This aspect of higher education is especially important for countries such as Sri Lanka, which have experienced increasingly authoritarian rule. The arts, humanities and social sciences have a key role to play in developing the values, attitudes and behavior required for ethical social intercourse and civilized political behavior. Graduates and academics in the sciences, medicine and engineering, too, need to contribute to the promotion of good citizenship and civic values and behavior.

The higher education sector should lead in the creation of a favorable environment for a peaceful, multi-ethnic, multi-religious and multi-cultural Sri Lanka. One of the most important challenges facing Sri Lanka is to build a society in which individuals from different ethnic and religious groups can live and interact together; in peace and with trust and dignity; and in all areas of the country. The universities can contribute to the creation of such a society through a variety of avenues. First, the content of academic programs and research activities, especially in the arts, humanities, and social sciences, can clarify, expound and highlight the positive characteristics of multi-ethnic and multi-religious societies, and the requirements for respect for diversity and cohesiveness in such societies. Second, all the higher education institutions contain a rich combination of ethnic and religious groups among the students and staff. This creates a highly favorable environment for collaboration and cooperation among the different ethnic and religious groups. Third, universities engage in intellectual, cultural, and sporting activities among each other. This enables students of different ethnic and religious communities from different parts of the country to interact and engage in activities together. Fourth, universities provide a climate for collaborative research among academic staff from different religious and ethnic groups.

The higher education sector needs to play a prominent role in the creation and promotion of the enlightened citizens needed for a well-functioning democracy. It is vitally important to expand and develop a citizenry that values and rewards good character and ethical behavior in political leaders, and despises and punishes falsehoods, violence, and dishonesty. Universities through their teaching, research and advocacy activities need to enhance and strengthen the values and norms that are at the heart of such high-performing political democracies.

17. Conclusion

The preceding analysis outlines a deep and wide-ranging agenda for the development of higher education in Sri Lanka. The higher education sector can play a leading role in the economic, cultural and social transformation of the country. There are several dimensions of higher education development, and Sri Lankan higher education institutions need to advance swiftly and over a broad front. The presence of a government committed to developing education provides an exceptional opportunity for the higher education community.

In the spirit of the life and work of Dr. Gamani Corea, the role of higher education institutions should transcend national borders and continental boundaries. Universities are the crown jewels of a nation's education system. They should be able to offer services to society, firms, researchers, and students around the globe. They should also be able to attract knowledge, technology, and investments from across the five oceans and the seven continents. This would enable Sri Lankan higher education institutions to realize Dr. Corea's vision of a world where North and South interact with, and relate to each other, on terms of parity and to their mutual benefit.

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Ambassador Jayantha Dhanapala

Ambassador Jayantha Dhanapala was a former United Nations Under-Secretary-General for Disarmament Affairs (1998-2003), a former Ambassador of Sri Lanka to the U.S.A. (1995-1997), and to the United Nations Office in Geneva (1984-1987).

He was the 11th President of the Nobel Peace Prize winning Pugwash Conferences on Science and World Affairs. He served on several advisory boards of international bodies, including the Governing Board of the Stockholm International Peace Research Institute (SIPRI). Ambassador Dhanapala was also a distinguished member of the Constitutional Council of Sri Lanka and was at one time the Senior Special Advisor on Foreign Relations to the President of Sri Lanka.

As a Sri Lankan diplomat, Ambassador Dhanapala served in London, Beijing, Washington D.C., New Delhi, and Geneva. He represented Sri Lanka at several international conferences, chairing many of them, including the historic Treaty on the Non-Proliferation of Nuclear Weapons (NPT) Review and Extension Conference of 1995. He was the Director of the United Nations Institute for Disarmament Research (UNIDIR) from 1987-1992, and was well known for his continued dedication towards a world free of weapons of mass destruction, particularly the disarmament and nonproliferation of nuclear weapons. Ambassador Dhanapala passed away on 27 May, 2023.

Third Gamani Corea Memorial Lecture
Delivered on 10th November, 2016
at the
Bandaranaike Memorial International Conference Hall
Colombo, Sri Lanka

THE QUEST FOR GLOBAL GOOD GOVERNANCE

I have had many occasions in the recent past to pay tribute to the memory of Dr. Gamani Corea—a legend as an economic planner, a towering intellectual and a great Sri Lankan. And so I will be brief in talking about Gamani as a person, in the prelude to the main part of my talk today.

Listening to Dr. Gamani Corea as a guest speaker when I was a student in Peradeniya was a joy. His sparkling eloquence illuminated the prevailing economic policies of our country and the global economic situation. Later, as a neophyte diplomat in London on protocol duty, the conversations with one of our premier exponents of economic diplomacy on the many journeys to and from Heathrow Airport were an enriching experience for me.

One conversation recounted Gamani's meeting with Che Guevara at UNCTAD I[1], in Geneva in 1964, and involved a description of the fascinating charisma of that revolutionary icon whose portrait continues to be displayed on many of Colombo's three-wheeler taxis.

Still later, as Ambassador and Permanent Representative of Sri Lanka to the UN Office in Geneva, I basked in the reflected glory of Gamani's stellar performance as Secretary-General of UNCTAD until, at the behest of the U.S. Reagan Administration; his nine-year tenure was not extended. Gamani would revisit Geneva often while I was still there as head of the United Nations Institute for Disarmament Research. Our conversations in my Quai du Seujet apartment in Geneva and at his home in Horton Lodge in Colombo cemented our friendship and enhanced my admiration of a man who had contributed so much to Sri Lanka and the international community.

Among his many skills, Gamani was a keen photographer who delighted in showing me his pictures of the many "Interdit" or "Don't" signs in the urbane but firmly regimented Geneva where we both lived for many years. But not even he could provide us with a snapshot of the complex world of today; more interconnected and interdependent than ever before.

My academic training and professional experience were somewhat outside Gamani's discipline of Economics. So today I will focus instead on a subject close to both our hearts. We shared a common awareness and appreciation of the framework of global governance within which political, economic and now environmental norms and strategies must be considered and implemented, amid prevailing international trends. Gamani helped to influence that framework in his lifetime and in our current period of rapid change it is useful to pause and take stock.

1 First session of the United Nations Conference on Trade and Development.

This evening, therefore, I want to draw upon some of the themes I have recently been addressing in my writing and public speaking, in an effort to identify the enormous challenges that confront us all. In Sri Lanka, we are all so immersed in our experiment in good governance that we fail to see the quest for good global governance of which we are an inescapable part. Global governance and national governance are interdependent.

1. The Post-Cold War Global Situation

The bipolar Cold War contest between capitalism and communism appears in hindsight to be, frightening as it was, much simpler than the conflicts and tensions of the modern multipolar world. It was a struggle between two clearly identifiable ideological alternatives entrenched in two nuclear weapon-armed military alliances wedded to a Mutual Assured Destruction (MAD) doctrine. In this contest, successive governments of Sri Lanka wisely chose non-alignment as our foreign policy.

Today the situation is not as clear-cut. A global revival of nationalism, especially economic nationalism laced with a complex mix of populism, anti-immigration policies and extremism of various forms transcends national boundaries, together with rampant consumerism encouraged by globalization. We are being reminded that the nation-state which emerged with the 1648 Peace of Westphalia in Europe, and which we thought was being subsumed within regional organizations and a growing culture of multilateralism, remains the building block of international relations. We are seeing with widely disparate events like Brexit in the U.K. and the emergence of Trumpism in the U.S.A., Le Pen in France, Urban in Hungary, of Duterte in the Philippines—a backlash to globalization and the 2008 Wall Street-induced global economic crisis.

Meanwhile, the 'underclass' is protesting their exclusion, as the unemployed and the dropouts of society—who lack the capacity to participate in the global feast of the good things of life advertised so gaudily by the mass media are claiming their space. The unethical and unsustainable contradictions of opening borders to goods and services while closing them to people come into sharper relief. This is causing a loss of faith in democracy leading to the "illiberal democracy" now being preached in Hungary, Poland and other parts of Eastern Europe as a likely prelude to fascism. Fear of the refugee and migrant influx from Syria and other countries in 2015 brought about immigration controls despite a clear demographic need for an increased workforce in European countries. Traditional reservoirs for left-wing support are moving right out of fear and a need for security and jobs.

Demagogy flourishes in this political climate. The overpromise of liberalism and the losers in the globalization process have led to a mood of disenchantment and mistrust. The impact of this in Asia has not yet been as pronounced as in Europe, the U.S.A. and Latin America. Yet we are seeing terrorism fueled by religious extremism spilling over national boundaries and its impact on international relations is widespread. Climate change also hangs over us all, and even the fulfillment of the

2015 Paris Agreement and the recent Kigali Amendment will still not be sufficient to avert adverse consequences. Estimates of refugees from climate change could engulf Asia and Latin America as well. The faith in regional organizations and trade pacts is also weakening.

At the same time there are indications of a new Cold War between the U.S.A. and the Russian Federation arising from the containment policies of the U.S.A., the expansion of The North Atlantic Treaty Organization (NATO) and from Russia's annexation of Crimea and its policies on Ukraine and Syria. With the U.S.A.'s pivot to Asia in recognition of China's rising power and the territorial disputes in the South and East China seas, a new Cold War between the U.S.A. and China remains incipient. Proxy wars —a hallmark of the old Cold War have reappeared in Yemen, Syria and other places especially as the Big Powers decline to have boots on the ground except as "special forces" or "advisers". Intrastate wars also continue with a heavy toll of human life. In such a climate, it is small wonder that as we observed in 2014—the centenary of the beginning of World War I—many commentators saw parallels between the global situation of 1914 and 2014.

As I speak today, it is only two days since the sole surviving superpower elected a new president who takes office in January 2017 and I will not rush to speculate on what policies will be pursued thereafter.

Drawing upon his own scholarly and diplomatic experience, Dr. Henry Kissinger's latest book on World Order has provided us with a historical analysis of a quest for a rule-based global order. His special focus was the European Congress of Vienna after the Napoleonic Wars. That quest has now to be undertaken in a world where, in his words:

> ***"Chaos threatens side by side with unprecedented interdependence; in the spread of weapons of mass destruction, the disintegration of states, the impact of environmental depredations, the persistence of genocidal practices and the spread of new technologies threatening to drive conflict beyond human control or comprehension"***

Thus in this Kissingerian vision of our world today, a rule-based world order seems even more remote, especially considering the diversity of emerging players and problems with no apparent centre of gravity.

2. The Multilateral System, Disarmament and Development

It seems hard to believe that 27 years have passed since the Berlin Wall fell, symbolizing the end of the Cold War. Yet here we are, approaching 2020, the 75th anniversary year of the United Nations (UN) with a new Secretary-General unanimously elected for his professional track record, integrity and dedication to the ideals of the Charter, a pleasant surprise in the context of prevailing U.S.-Russian tensions. The UN itself lies at the interface between idealism and realpolitik where the structural tilt in favour of the five veto-equipped permanent members of the Security Council supports their interests and those of their allies. However, the 17 Sustainable Development Goals provide a credible framework for economic and social development for the world over the next fifteen years.

In his valedictory 2016 Annual Report on the Work of the Organization of the UN, here is how Secretary-General Ban Ki-moon described the state of our world today, and the UN as a multilateral institution:

> ***"This rising level of demand upon the United Nations is in keeping with the dramatically changing global landscape and the growing number of challenges that no country can confront alone. It reminds us anew of the enduring value of the United Nations as a forum for problem-solving and a tool for burden- sharing. This was a decade of tectonic turbulence and exponential change. Globalization ushered in many opportunities for prosperity and for a sense of shared global community and humanity. But with greater opportunity emerged greater risk and unforeseen challenges. Just as goods and people moved seamlessly across borders, so too did diseases, weapons and extremist propaganda. Events in one part of the world reverberated all over the globe. The decade was marked by a series of crises with global repercussions, from the financial, food and fuel crises to the wave of unrest in the Middle East and North Africa. These setbacks diverted resources away from development towards crisis response and magnified fear and anxiety in many quarters."***

His somber words speak volumes about both the indispensability and limitations of multilateralism, the chosen post-World War II tool for global problems, with the United Nations vested with the task of maintaining international peace and security. The Cold War obstructed the full realization of that historic mandate. Even thereafter, despite the U.S. being the sole superpower making the biggest investment in its military security (US$ 596 billion or 36% out of the total global military expenditure in 2015) it is unable to enforce world order.

The Stockholm International Peace Research Institute's (SIPRI) current Year book has rendered the following verdict on the year behind us:

> ***"From a wider perspective, the totals of 60 million refugees and displaced people and a further 10 million stateless people were the highest such figures since the foundation of the United Nations High Commissioner for Refugees (UNHCR) in 1950. At the same time, tensions between North Atlantic Treaty Organization (NATO) member states and Russia increased in the face of continuing disputes over Ukraine and policy differences over Syria. From all this and more, it was not difficult to characterize 2015 as one of the darkest years for international stability and human security since the end of the cold war in 1991."***

In such a climate, one can only wonder why some countries continue to invest heavily in weapons of war, including nuclear weapons, which have no value whatsoever in combating global problems, while actually making them worse. It is, after all, more likely that in a skewed world of nuclear "haves" and "have-nots", we are going to have increasing proliferation of weapons, including nuclear weapons by terrorist non-state actors. Scientific evidence is proof that even a limited nuclear war —if those confines are at all possible —will cause irreversible climate change and destruction of human life and its supporting ecology on an unprecedented scale. We the people have a "Responsibility to Protect" (R2P) the world from nuclear weapons by outlawing them through a verifiable Nuclear Weapon Convention overriding all other self-proclaimed "R2P" applications.

I have noted elsewhere that an international conspiracy of silence on the part of mainstream economists hides the essential symbiotic link between disarmament and development. NATO countries especially resist military expenditure being discussed in economic forums. As an exception, two Western-based NGOs International Campaign for the Abolition of Nuclear Weapons (ICAN) and PAX for Peace have painstakingly researched the money behind nuclear weapons and have revealed in their recent "Don't Bank on the Bomb" report that since 2012, 382 different banks, insurance companies and pension funds have invested an estimated US$ 493 billion in the nuclear weapon industry. The nuclear-armed nations spend a combined total of more than US$ 100 billion on their nuclear forces every year. Since the publication of the results of these research findings, some companies have been compelled to withdraw their investments. The anti-apartheid divestment campaign in South Africa contributed to the dismantling of apartheid and one can only hope the anti-nuclear weapon movement will be equally successful. The ICAN has examined these expenditures and reached the following conclusion about the huge opportunity costs involved:

> ***"The production, maintenance and modernization of nuclear forces divert vast public resources away from health care, education, climate change migration, disaster relief, development assistance and other vital services. Globally, annual expenditure on nuclear weapons is estimated at USD 105 billion—or USD 12 million an hour."***

It is relevant to recall that the 1996 Advisory Opinion of the International Court of Justice, to which another distinguished Sri Lankan Judge Christopher Weeramantry made a significant contribution, stated unanimously that, and I quote:

> ***"There exists an obligation to pursue in good faith and bring to a conclusion negotiations leading to nuclear disarmament in all its aspects under strict and effective international control."***

While U.S. and Russian relations have continued to deteriorate, this is not to say there has been no progress whatsoever in addressing nuclear weapons threats. We have witnessed the successful negotiations between Iran and the "P5 plus one" and the conclusion of the Joint Comprehensive Plan of Action (JCPOA). A deal to curtail the Iranian nuclear programme in return for a lifting of economic sanctions is a significant foreign policy achievement for President Obama, allowing him to follow up the welcome rapprochement with Cuba with a reconciliation with Iran, winning Iranian cooperation in the solution of many of the problems in the Middle East. What is still missing, however, are the legally required negotiations on nuclear disarmament.

3. Decline of Democracy and the Rise of Populism

This brings me back to the theme of democracy, which has the potential to contribute significantly in meeting great international challenges. Sir Winston Churchill said it most famously in a House of Commons speech two years after his historic electoral defeat in 1945,"Democracy is the worst form of government, except for all those other forms that have been tried from time to time." Sir Winston, who led Britain in World War II in its triumph over the fascist dictatorships of Germany and Italy, was referring here to the well-known weakness of democracy in the efficient delivery of goods and services to the people. However, supporters of democracy consistently affirmed that the basic freedoms and fundamental rights of that system more than compensated for this deficiency.

The late Samuel Huntington, the distinguished Harvard political scientist, saw three waves of democracy—first a surge in the early 19th century till about 1922 when fascism emerged; next, the period after World War II (to which the emergence of democracy in Sri Lanka can be traced); and finally, the much celebrated third wave after 1974, and especially after the Cold War ended, with more countries becoming democracies. Some talk, unconvincingly, of a fourth wave with the Arab Spring (which turned into a winter of discontent in most places) and developments in Myanmar.

Several decades after Churchill, Francis Fukuyama reached his controversial conclusion about the end of the Cold War. "What we may be witnessing," he wrote, "is not just the end of the Cold War, or the passing of a particular period of post-war history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government."

Today we see a very different global landscape from that which Fukuyama had predicted. Fukuyama later suggested that good governance and democracy are not synonymous. For a political scientist who saw liberal democracy and free market capitalism as the final phase of the evolution of human society, this is a major act of apostasy. Writing in the March 2013 issue of the journal "Governance", Fukuyama focused on the need to measure good governance as the ability of governments to make and enforce rules, and deliver services irrespective of whether a country is democratic or not. So we are back to the old argument that if the trains run on time and the people are provided with the essential services then indeed all will be well.

This argument that democracy is neither a necessary nor a sufficient condition for good governance is supported by that high priest of the Singapore "model" Kishore

Mahbubani in the discussion of Fukuyama's article, in the columns of the journal "Governance". Interestingly, a Chinese scholar from Tsinghua University makes the point that even where low-quality governance exists in democratic countries and high-quality governance exists in "non-democratic" countries, trying to measure governance has not been easy.

The common definition of good governance—a term that originally emerged in the literature on economic development—is the enlargement of the choices before the people and providing efficient delivery of public services meeting their political and economic needs. Good governance must be sustainable and only accountability, transparency and predictability can ensure this.

It is perhaps true that the dynamism and unpredictability of democracy make it vulnerable to periodic or recurring crises. Yet ultimately, democratic institutions—including the independent commissions—are what guarantee good governance. This is very relevant to our own brand of good governance or *Yahapalanaya* in Sri Lanka. Good governance is not possible without democracy. Lack of accountability ultimately renders it unsustainable. But bad governance will destroy democracy very quickly. Inequality, corruption and poor public services erode legitimacy.

Before January 8, 2015, Sri Lanka showed trends towards authoritarianism and populism around a leader who had undoubtedly brought relief to the nation by ending a brutalizing 30-year conflict. The parallels to populism in Sri Lanka are there in places as varied as Europe, Latin America and Africa and at different periods of history. It has typically arisen when socio-economic conditions are stressful and emerged around charismatic leaders. But it has also been anti-pluralist. Populism offers simplistic solutions to complex problems. It is based on an antagonistic relationship between "we" and "they", which sometimes translates into "we the genuine patriots" and "they the foreign-funded agents of imperialism". Political scientists do not regard populism as an ideology but see it as a strategy. Peron in Argentina was the archetypical populist leader.

Populism, being inherently anti-institutional, challenges the institutional safeguards of democracy beginning with the Constitution itself, which has to be amended if it cannot be flouted. It seeks, cleverly, to conflate authoritarianism with leadership while ensuring the ascendancy of the individual at the expense of the Institution. The separation of powers, so fundamental to any democratic system, is blurred if not eliminated as the Executive emerges to be the dominant branch of government on the basis of being the elected representatives of the people who are indisputably sovereign. Similarly, parochial political interests of the party in power are articulated and projected as the national interest without attempting consensual approaches through compromise.

Thus the independence of the judiciary; human rights safeguards; a free media; an independent commissioner of elections; civilian control of the military and other well- known features of the modern liberal democratic state must give way. Bureaucracy is partly to blame for not ensuring that initiatives are encouraged by the people, especially women and youth, rather than by the leaders. The staff of public institutions and independent commissions have a special responsibility to observe the rule of law by upholding the Constitution and rejecting illegal orders.

The defence of democracy in the face of populism depends ultimately on public vigilance. Political parties must also play a crucial role in educating public opinion against the undermining of democratic space. A similar role can be exercised by non-governmental organizations, university teachers, professional leaders, the clergy of all religions, women's organizations and other traditional leaders of society. Social media has recently empowered the youth, who have a vital constructive role. The challenges to democracy arise from new sources and not always from the more conventional coups d'état, revolutions, terrorist attacks and other extra-parliamentary sources. Democracy contains the seeds of its own destruction although, at the same time, it is a system capable of renewing itself. Over eight decades after 1933, it is important to recall that Hitler's assumption of power in Germany was achieved through democratic elections.

We are caught in a cusp of change. Our institutions—whether democratic or otherwise—are incapable of capturing the new currents of opinion and new voices, especially the voices of the youth, released by digital technology. Political parties misread signals, did not anticipate grassroots resentments, and were trapped in codes of political correctness, originally instituted to maintain a floor for free discourse but which are now increasingly viewed as hypocrisy and dissimulation. In many developing countries, a new middle class uncertain of identity, and a new media that seeks to entertain as much as to comment, finds ballast and profit in hyper-patriotism and populist enthusiasms. There is little patience for critical debate or alternative thinking. The real guarantors of good governance are shared prosperity, public education, and accountability under law. Equitable service delivery is a key element in a rapidly urbanising and articulate world.

Franklin Roosevelt had it right when he said: "Democracy cannot succeed unless those who express their choice are prepared to choose wisely. The real safeguard of democracy, therefore, is education". Populism, ultimately, is counterfeit democracy.

4. The Fourth Industrial Revolution

Let me now address another factor that is changing the entire global scene and making us more of a global village—namely, the rapid pace of technological change. Gamani Corea was an avid follower of modern technology. When I arrived in Geneva in 1984 as a computer illiterate, he was already one of the few using a computer with child-like enthusiasm, visiting his local shop to inquire into the latest models that were on the market. He was certainly well ahead of his time. Almost a year ago, Dr. Klaus Schwab, of the World Economic Forum which organizes the annual Davos meetings, published an article in *Foreign Affairs* on "The Fourth Industrial Revolution", which was later expanded into a book. Defining the various stages, Schwab wrote:

> ***"The First Industrial Revolution used water and steam power to mechanize production. The Second used electric power to create mass production. The Third used electronics and information technology to automate production. Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres."***

Schwab went on to say, again in his words:

> ***"There are three reasons why today's transformations represent not merely a prolongation of the Third Industrial Revolution but rather the arrival of a Fourth and distinct one: velocity, scope, and systems impact. The speed of current breakthroughs has no historical precedent. When compared with previous industrial revolutions, the Fourth is evolving at an exponential rather than a linear pace. Moreover, it is disrupting almost every industry in every country. And the breadth and depth of these changes herald the transformation of entire systems of production, management, and governance."***

As Schwab makes clear, the Fourth Industrial Revolution, which is already upon us, is multidisciplinary and encompasses many professions in society. It manifests itself in artificial intelligence, robotics, drone technology, self-driven vehicles, 3D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing. The likely impact on labour and in creating greater inequality is of concern as the societal cost especially for countries like Sri Lanka will be considerable. In military terms, the development of Lethal Autonomous Weapon Systems (LAWS) or "Killer Robots" with no meaningful human control poses problems for International Humanitarian Law on how future wars will be fought. Globally, therefore, this exponential technological leap has fundamental social, ethical and economic implications with which we have to come to terms collectively.

5. Conclusion

Before I conclude, let me refer to another issue raised by commentators on contemporary international affairs and that is the so-called "Thucydides' Trap". In an article in *The Atlantic* in September 2015, Professor Graham Allison of Harvard's Belfer Centre wrote:

> ***"The defining question about global order for this generation is whether China and the United States can escape Thucydides' Trap. The Greek historian's metaphor reminds us of the attendant dangers when a rising power rivals a ruling power—as Athens challenged Sparta in ancient Greece, or as Germany did Britain a century ago. Most such contests have ended badly, often for both nations, a team of mine at the Harvard Belfer Center for Science and International Affairs has concluded after analyzing***

> ***the historical record. In 12 of 16 cases over the past 500 years, the result was war. When the parties avoided war, it required huge, painful adjustments in attitudes and actions on the part not just of the challenger but also the challenged."***

Will the U.S.A., the existing superpower, and China the rising one, avoid war and make the necessary mutual adjustments in their postures? Sri Lanka has close relations with both and this bilateral relationship is crucial for our own national security as is the India-China relationship.

I cannot under any circumstance accept that war is inevitable while the opportunities for diplomatic negotiations exist. While international affairs experts and diplomats debate the issue, one fundamental aspect that stands out from the 16 cases referred to, is that nuclear weapons, with the single exception of the Cold War, were never a part of the cited historical relationships before. We cannot therefore contemplate falling into the "Thucydides' Trap" by design or accident when the contending powers are armed with weapons of mass destruction and when non-state terrorist actors seek these weapons for themselves. Solutions based on international law and negotiated through patient diplomacy, and not war, aggressive containment policies or uncompromising irredentism, are surely the lessons of history to be adopted in this nuclear age.

It is quite possible that 2017 will in fact be an auspicious year. The world will have a new U.S. President—for better or worse. There will be a new UN Secretary-General. And the EU will, hopefully, have adjusted to the exit of the U.K.

I have tried to weave the many strands of the political, economic, environmental, and other developments in the international arena together to illustrate the complexity of the world scene today. Amidst this welter of problems, the pathway for a small developing country like Sri Lanka is not easy to chart. Perhaps, a redesigned and reinvented non-aligned foreign policy embedded in our history, culture and national interests but adapted to suit the changed global situation is the need of the hour. There is no GPS for us except the good judgment of our democratically elected leaders who will not conflate national interest with self-interest. Let us hope they bend the arc of history towards peace and prosperity for our nation.

Dr. Indrajit Coomaraswamy

Dr. Indrajit Coomaraswamy was the Governor of the Central Bank of Sri Lanka (CBSL) from 2016 to 2019. He has over 40 years of experience in policy-making and providing economic advisory services, on both macroeconomic and structural issues at national and inter-governmental levels.

Dr. Coomaraswamy began his career at the Central Bank in 1974, where he worked in the Economic Research, Statistics, and Bank Supervision Departments. During his career at the CBSL, he was seconded to serve at the Ministry of Finance and Planning (1982-1989). He joined the Commonwealth Secretariat in 1989 where he held several senior positions, including that of Director of the Economic Affairs Division, until the end of his tenure in 2008. Dr. Coomaraswamy served as an Independent Non-Executive Director for John Keells Holdings PLC and currently serves on the boards of Tokyo Cement Company (Lanka) PLC and Dialog Axiata PLC, and is Chairman of Lynear Wealth Management. He is also an Honorary Director of the Board of the Gamani Corea Foundation.

He obtained a B.A. (Hons) degree from the University of Cambridge and subsequently a D.Phil. degree from the University of Sussex. He was conferred the Sri Lankan national honour of "Deshamanya" in 2019, the Lanka Monthly Digest's (LMD) "Sri Lankan of the Year (SLOTY)" award for 2016, and the "Central Bank Governor of the Year, South Asia" award in 2017 by the publication house Global Capital.

Fourth Gamani Corea Memorial Lecture
Delivered on 6th November, 2017
at the
Bandaranaike Memorial International Conference Hall
Colombo, Sri Lanka

TOWARDS A VIBRANT ECONOMY AND PROSPEROUS COUNTRY

1. Introduction

The theme of my remarks this evening is going to be "Towards a Vibrant Economy and Prosperous Country". I intend to begin by trying to make the case that this is probably the most favourable set of circumstances Sri Lanka has enjoyed for over five or six decades. I then propose to talk about key paradigm shifts which have changed the landscape for policymaking; the frameworks that have been put in place for macroeconomic management; the growth model; the policies to strengthen the growth framework; and some of the Government's major development programmes. These are embedded in the Government's *Vision 2025* document.

2. Most Favourable Circumstances

Let me first seek to explain why I believe the current set of circumstances are the most favourable for 50 or 60 years. From the late 1950s, there was a secular decline in the terms of trade. The domestic economy was dependent on the exports of the tea, rubber, and coconut sectors at that time. For nearly 25 years, there was almost a continuous decline in the prices of these commodities. In fact, if you look at the *World Development Report* of the World Bank - the 1982 edition - there is a box citing Sri Lanka as a classic example of a country that had been buffeted by severe terms of trade decline. This was clearly a major drag on the development prospects of the country in those years. The challenges posed by this secular and continuous decline in the terms of trade were compounded by the fact that in the 1950s, 1960s and 1970s there was a demographic surge. While surpluses in the economy were coming down, the number of people was increasing.

These twin effects were a major challenge in terms of policymaking. One could argue that the situation was further constrained by the fact that there was a set of inward-looking, dirigiste policies which, with the benefit of hindsight, were clearly inappropriate for a country with Sri Lanka's endowments. Of course, the policies pursued were very much part of the mainstream thinking in many parts of the third world at that time. This was an era when the general perception was that political sovereignty that came with decolonization had not been accompanied by economic sovereignty. It was argued that transformation was needed in that area as well. As the domestic private sector, the national bourgeoisie in Marxian terms, was not strong enough to pursue the objective of economic sovereignty, the state had to step in. Hence, it can be argued that it was probably a phase that we had to go through. However, it did not give us good economic outcomes, particularly as over time, the politicisation of institutions debilitated the capacity for prudent policymaking.

Then in the 1980s, we had the conflict which lasted for almost 30 years. Now, when you look around there aren't any such major drags on the economic outlook of the country. Furthermore, we are located in Asia which is the most dynamic economic region in the world. So, one can plausibly make the case that these are probably the best set of circumstances that the country has had for several decades.

3. Three Paradigm Shifts

There are three types of mindset changes, or paradigm shifts, that need to be addressed, if we are to take advantage of this propitious set of circumstances. The first is the balance between social development and wealth creation. Have we got that balance right? Have we had it right in the past? As you are all aware, Sri Lanka has been an overperformer in terms of social development. If one looks at Sri Lanka's performance on the United Nations Development Programme (UNDP) *Human Development Index* and its ranking in terms of per capita income, the gap has been the second largest of any country in the world. We have punched above our weight when it comes to social development. So, it is legitimate to ask why a paradigm shift, or a mindset change is needed in the context of such accomplishments. The reason we need a mindset change to give greater weight to growth, to wealth creation, is the fact that despite all our social sector achievements, we have had two youth insurrections and a separatist conflict in the country. Tens of thousands of our young people have lost their lives. While there is complex causality behind these episodes, arguably the most significant explanatory factor was the mismatch between expectations of and opportunities for, our young people. We have not met their aspirations. So, evidently, we have not done as well as we can in terms of growing the cake and providing productive livelihoods. The cake has to be distributed equitably but it is also important that the cake is grown.

We were second to Japan on almost all social indicators at the time of independence, in 1948, and we were above South Korea as late as in the mid-sixties. Singapore's per capita income was just a little bit higher than Sri Lanka's at that time. It is now over US$ 50,000 whereas ours is US$ 3,840. We have clearly fallen behind. Now, the focus must be not only on consolidating and building on our achievements in the social sector but also on looking for ways and means of pursuing growth and wealth creation. At the same time, the quality of that growth has to be good. It has to be inclusive and regionally balanced. In addition, priority needs to be attached to employment generation which transmits the benefits of growth widely. It also needs to be sustainable. But the bottom line is, we require 6% plus growth to meet the needs of an increasingly aspirational society.

It is encouraging that the recent Household and Income and Expenditure Survey done by the Department of Census and Statistics found that incomes had increased, and the Gini coefficient had improved. The median household income per month increased from Rs. 30,814 in 2012/13 to Rs. 43,511 in 2016. The Gini coefficient improved from 0.48 to 0.45 during the same period. Furthermore, the latest provincial Gross Domestic Product (GDP) figures reveal a greater regional balance, with a reduction in the Western Province's share of total GDP. It has declined from 39.9% in 2015 to 39.7% in 2016.

The second paradigm shift is associated with the fact that we have now graduated to lower middle-income country status. For many years, as a low-income country, we enjoyed extremely generous levels of Official Development Assistance (ODA) or foreign aid. Sri Lanka was treated very favourably because traditional donors were very keen to demonstrate good development outcomes in a country, which since 1977-78 has had liberal economic policies as well as a relatively open polity. Sri Lanka was the second country after Chile, in 1974, to liberalise its traditional economy. Donors were keen that such a country should be successful in terms of development, and they pumped in a lot of foreign aid. Not only did we receive a lot of foreign aid but about 2/3 of that came from the concessional windows of the World Bank and the Asian Development Bank. That type of concessional loans essentially had a 10-year grace period, a 40- to 50-year maturity and a less than 1% administration charge. That was the kind of infusion of resources we were receiving to supplement domestic savings. It certainly helped in terms of our social development and some infrastructure improvement. However, it also meant that we got into the habit of living beyond our means and did not make some of the tough decisions that we had to make. In every year since 1987, recurrent expenditure has exceeded government revenue. This means that we have borrowed even for our recurrent expenditure each year. If a company or a household did that they would not have survived. We were able to survive because of the inflows of foreign aid.

Then we graduated to lower middle-income country status in 1997, and our access to concessional money began to dwindle. We were fortunate because at that very time, the major central banks in the world were pumping in large amounts of liquidity into the global system in the aftermath of the global financial crisis. That money was looking for higher yields in emerging markets. Hence, plenty of money was available at relatively low rates. Furthermore, Sri Lanka had negligible amounts of commercial borrowing, so it had the headroom to borrow. Consequently, there was a shift from foreign aid to foreign commercial borrowing. Now, the headroom has run out. Our fiscal deficit and debt dynamics are such that we can't keep borrowing commercially at an incremental rate. We have got to the stage where we are now borrowing to repay our debt. So, the mindset has to change.

There is a new paradigm where we are now exposed to rating agencies and international capital markets. This imposes far more discipline and places a far higher premium on sound economic policymaking than we have ever experienced in the past. This is a major paradigm shift we need to understand. The International Monetary Fund (IMF) imposes conditions on its lending, but rating agencies and international capital markets are far more unforgiving. We have seen in Greece and in several Latin American countries that access to markets can suddenly "stop". Extremely painful austerity is the inevitable consequence. It is imperative that we have a shift in both mindset and actions in the light of this harsh reality. We need to understand the very high premium now placed on prudent and disciplined economic policymaking. We need to break out of the toxic combination of populist politics and a deeply entrenched entitlement culture among the people. This has been a mutually reinforcing, non-virtuous cycle that has been a major drag on our development since independence. We have regressed from being second in Asia to Japan on most socio-economic indicators at the time of independence to a relative laggard today.

The third paradigm shift that I would like to draw your attention to is that we are unique in experiencing a demographic transition before our economic transformation. The population is ageing at a far earlier stage in our development process. This means Sri Lanka can no longer drive growth merely through labour augmentation. Instead, growth must be driven to a greater extent by productivity improvement, innovation, research and an increase in total factor productivity. We are having to rely much more on productivity enhancement, at an earlier stage of our development process.

So, it is crucial that we have a laser-like focus on improving productivity and shifting financial and human resources from lower to higher productivity economic activity. Agriculture, which has 27% of the labour force and accounts for 7% of GDP, the public service which accommodates 15% of the work force, and the State-Owned Enterprise (SOE) sector absorb significant amounts of human and financial resources yet yield low returns.

4. The New Growth Model

Let me now address the importance of developing a new growth model which will give us 6%-8% growth over 10–15 years i.e., the kind of economic transformation enjoyed by the successful countries of East and South-East Asia. In the years after the end of the conflict, the major growth impulses in the economy emanated from public investment in infrastructure which was largely financed by foreign commercial borrowing. Economic expansion was driven by non-tradables like construction, transport, and retail and wholesale trade.

The previous growth model no longer has any headroom due to the country's budget deficit and public debt dynamics. Arguably, the biggest indictment of the policy framework of the past decade was the combination of the sharp decline in exports and the rapid build-up in the commercial external debt burden. This has resulted in the potential transfer of an inter-generational time bomb. The situation can be managed through prudent liability management provided there are disciplined macroeconomic policies. This is a necessary but not sufficient condition. The unsustainable debt burden can only be resolved through the transformation of our export performance.

The new growth model has to be private sector-driven, with exports and Foreign Direct Investment (FDI) as key pillars.

Why the ***private sector?*** Countries have achieved successful development outcomes with varying mixes of the public and private sector: China and Vietnam have been statist while others have had a much larger role for the private sector. In Sri Lanka's case, there is no fiscal space to have a statist development model. Hence, the emphasis on the private sector is not an ideological option. Instead, it is a pragmatic conclusion based on our fiscal deficit and public debt dynamics.

Why ***exports?*** With a domestic market of only 21 million people and a per capita income of US$ 3,825, it is not possible to achieve sustained growth of 6% to 8% without a transformation in our export performance. Exports have fallen from 32% of GDP in 2000 to 12.7% in 2016. The corresponding figures for Malaysia, Thailand and Vietnam were 67.5%, 54.2% and 83.7% respectively, in 2015. Sri Lanka's share of global exports fell from 0.09% to 0.06%. There is a lack of product (2/3 were apparel, tea, and rubber products in 2016) and market (U.S. and EU accounted for 58%), and diversification. The share of external commercial borrowing has increased from 2% of GDP in 2007 to 13% in 2016. As mentioned above, this is an unsustainable, and potentially dangerous set of circumstances. It can only be addressed by policy reforms, that promote export transformation to generate non-debt-creating earnings to both service the debt and support growth as well as employment generation. This places a high premium on getting the exchange rate; effective protection rates, particularly reducing para-tariffs; trade policy, including trade agreements; and trade facilitation right. It is noteworthy that the success of the countries of East and South-East Asia has been based on the transformation of their export performance – whether they are as large as China or as small as Singapore.

Why ***FDI?*** Evidence also confirms that FDI has played a major role in the economic transformation of the successful countries of East and South-East Asia. FDI not only infuses much needed capital to fill the savings/investment gap, but it also brings in technology, know-how and market access. It also facilitates access to regional and global value chains which are the most dynamic aspect of the international trading system. Over half of global exports are accounted for by cross-border production sharing networks.

One may pose the question whether it is advisable to pursue a development strategy based on exports and FDI as key pillars in the context of the new normal for the world economy of relatively low growth and sluggish international trade. The response is that this is mitigated by Sri Lanka's strategic geographical location and excellent international relations, particularly with the capital-surplus countries of East and South-East Asia. Sri Lanka is located twenty miles from India, the fastest growing large economy in the world. Access is particularly easy to the five fast growing South Indian states. In addition, we are at the Centre of China's Maritime Silk Route. Furthermore, countries like China, Japan, India, Singapore, and South Korea have indicated their willingness to support Sri Lanka's development process. It is also important to factor in that geopolitics in the Indian Ocean has increased the potential for Sri Lanka to leverage its excellent location for commercial advantage.

5. Strengthening the Growth Framework

5.1 Framework for Macroeconomic Policymaking

Sri Lanka has historically been characterised by stop-go policies. The excess demand pumped into the system by unsustainable budget deficits has been the main source of instability in the system. We have tended to be a high budget deficit, high inflation, high nominal interest rate and over-valued currency economy. This caricaturisation is diametrically opposite to what the successful Asian economies have achieved. In order to address this and achieve sound macroeconomic fundamentals, the Government is putting in place clear frameworks for policymaking. This should serve to promote greater consistency and predictability in policies.

On ***fiscal policy,*** the Government has embarked upon a medium-term revenue-enhancement based budgetary consolidation programme. It is designed to reduce the budget deficit to a sustainable 3.5% of GDP by 2020. The medium-term strategy is based on the premise of fiscal consolidation with the aim of increasing revenue, rationalising expenditure, and reducing government debt to a sustainable level. The Value-Added Tax (VAT) reforms, the new Inland Revenue Act, and measures to strengthen revenue administration and compliance are major achievements. The Government is considering institutionalising the fiscal consolidation process by introducing more binding targets to the Fiscal Management Responsibility Act.

On ***monetary policy,*** the Central Bank of Sri Lanka (CBSL) is making progress in introducing a flexible inflation targeting regime. This will create a framework for a data-driven, forward-looking, and proactive monetary policy. For instance, the 25-basis point increase in the policy rates in March 2017, was designed to anchor expectations at a time when there was a spike in headline inflation due to weather-induced supply disruptions, tax adjustments and base effects rather than demand-side pressure. Legal and accountability frameworks are being formulated to institutionalise the flexible inflation targeting regime.

On ***exchange rate policy,*** the framework being adopted is to adopt a competitive exchange rate. In this connection, one needs to adjust the nominal exchange rate gradually to bring the Real Effective Exchange Rate (REER) Index to 100. This is crucial for reducing the anti-export bias in the overall policy framework and increasing the competitiveness of the economy. This is an important prerequisite for transforming the country's export performance which is essential to overcome the onerous external debt burden and achieve sustained growth and employment generation.

A framework is also being established for **liability management.** There is a peak in domestic debt repayments in 2018. As there are no maturities in the last five months of 2017, this has presented an opportunity to build up a buffer to manage the elevated domestic debt repayments next year. In addition, a Liability Management Act will be enacted to create the space to address the bunching of external debt from 2019. This will relax the ceiling on government borrowing set out in the Appropriation Act to raise financing to extend the tenor and reduce the costs of external obligations. This will serve to reduce rollover risk. It is important to recognise that these measures serve to buy time by managing the cash flow. It must be reiterated that the solution to the problem lies in fiscal consolidation, export transformation and utilising the proceeds of the divestment of public assets to pay down debt.

On ***SOE reform,*** the five major state enterprises [Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB), Sri Lanka Ports Authority, National Water Supply and Drainage Board (NWSDB), Airport and Aviation Lanka Ltd] have signed corporate statements of intent. For the first time, there will now be a framework against which the performance of these enterprises can be measured in terms of governance and financial performance. Furthermore, the Government is committed to introducing cost-reflective pricing through a formula for the CPC in March 2018, and the CEB in the third quarter of 2018. This will go a long way towards putting these enterprises on a sounder financial footing. Most of their large accumulated losses have been due to part of the budget deficit being transferred to them. The subsidies built into their administered prices have not been compensated out of the Consolidated Fund. These losses were eventually reflected in the balance sheets of the state banks.

On ***factor market reform,*** the Government will be introducing legislation establishing a **land** bank. This will address a major constraint in the business environment by identifying pre-cleared land which will be available for **private** investment projects. Land titling is another issue which is receiving attention. Other land-related issues include the removal of archaic laws and the need for a comprehensive review of land use/crop mix.

Labour market reforms, include measures to increase female labour force participation from the current low level of 35.9%. There is a strong case for a concerted tripartite effort (unions, business, and government) to modernize Sri Lanka's labour laws, which are currently an impediment to investment and a constraint on improving overall labour standards in the country, by incentivising informality and casual labour.

On ***capital market reform,*** the Central Bank, the Securities and Exchange Commission (SEC), and the Insurance Board of Sri Lanka are all being supported by the World Bank and the Asian Development Bank to develop the government securities and share markets as well as the insurance sector.

5.2 Boosting Investment

On the ***investment climate,*** task forces have been established on eight pillars of the World Bank's *Doing Business* Index. Each of the task forces comprises all the government entities involved in the respective pillars. Action plans have been launched in May 2017, to deregulate by reducing the number of steps involved in each pillar; and technology is to be introduced where it can facilitate processes. These action plans must be implemented expeditiously. This will benefit domestic investors first.

On ***investment promotion,*** the Board of Investment (BOI) has worked with the Centre for International Development (CID) at Harvard, to identify subsectors with the potential for attracting FDI, which will enhance the complexity of the export basket and diversify export markets. Here again, effective implementation is the next step.

5.3 Promoting Trade

There is a great deal that is being done in the area of ***trade policy.*** The Government has developed a National Trade Policy Framework. An Anti-Dumping Bill is being presented to Parliament to protect domestic business from unfair competition. A trade adjustment package is being developed with the assistance of the World Bank and the EU/International Trade Centre. It is designed to increase the competitiveness of local businesses exposed to increased competition as a result of trade liberalisation and to provide re-training for workers. There is also a medium-term plan to reduce para-tariffs to create a more conducive environment for promoting linkages with regional and international value chains.

Arguably, the most significant trade policy measure is the negotiation of bilateral partnership agreements. The Free Trade Agreement (FTA) in goods with India is being deepened and it is being broadened to include services, investment, technology and training. In addition, an "early harvest" is being pursued to address some of the shortcomings of the existing FTA, including some Non-Tariff Barriers (NTBs) and quotas. Similar partnership agreements are being negotiated with China and Singapore. In addition, the EU's Generalized System of Preferences (GSP) plus has been restored providing preferential market access for 6,000 items. If things proceed according to plan, it is possible the narrative will be that Sri Lanka has preferential access to a market of over 3 billion people: China, EU, India, Pakistan and Singapore. In a world where over 190 countries are competing for FDI, this preferential market access can be a unique differentiator. It will greatly enhance our capacity to leverage the trade/investment nexus to our advantage. Of course, the partnership agreements need to be negotiated vigorously with positive and negative lists; safeguard arrangements; and dispute resolution mechanisms that pursue national interests. Our trade negotiators are well aware of this.

On ***trade facilitation,*** a single electronic window is scheduled to be operational in the Customs Department shortly. These measures are intended to reduce the transaction costs of the cross-border movement of goods, thereby enhancing the trade competitiveness of the economy.

All these measures are intended to improve the investment climate and trading environment for both domestic and foreign investors.

5.4 Education, Training and Skills Development

These are the opportunities that are out there. However, two questions need to be addressed. One is, can we implement it? The other one is, of course, do we have the human resources? i.e., whether we have the skills to be able to absorb this kind of investment. Arguably, the biggest challenge is moving as quickly and as decisively as we can to align what we see as the emerging sectors having a comparative advantage with our labour market, and the education, training, and skills development systems. This is an axis we need to align quickly. We have not done it very well in the past.

It is often said that there is a scarcity of labour. The real problem is that there is too much labour in low-productivity/low-income livelihoods. At present, 27% of the workforce accounts for 7% of GDP in agriculture. The public service has 1.5 million employees or 15% of the workforce (equivalent to Greece). All these workers are responding rationally to distorted incentives (free water, fertilizer subsidies, guaranteed prices and non-contributory pensions). The incentive structure should be created to shift labour from low to higher productivity/income livelihoods.

5.5 Facilitating Research and Development (R&D), Innovation and Entrepreneurship

A concerted effort is required to create an ecosystem which promotes innovative thinking to create value in the market. Priority should also be given to lower risks and barriers associated with start-ups.

5.6 Energy Security and Sustainability

The country's energy security needs to be established through a robust long-term energy generation plan based on credible demand forecasts. Priority is being given to Liquefied Natural Gas (LNG) as the energy source of choice.

The increase in the frequency and intensity of extreme weather events highlights the need to mainstream sustainability into the planning and budget processes. Priority should be attached to mitigation and adaptive measures to address droughts and floods.

5.7 Social Safety Net

It is important to shift from untargeted subsidies which benefit the non-poor disproportionately to a system of well-targeted cash transfers. In this respect, there is scope to reform the Samurdhi Scheme. The new biometric identity card can also serve to reduce leakages of scarce public resources.

The Budget 2018 is also expected to announce measures to address the acute challenges confronting debt-distressed families. These will be initially piloted in the North and North Central Provinces.

6. Major Development Programmes

The Government is launching a number of major development programmes around the country on two economic corridors, along major highways. This is intended to promote balanced regional growth. Japan is developing a master plan for the Kandy area. Given the religious and cultural importance of this area, the Japanese have been chosen as they are able to understand Buddhist sensitivities and priorities. It is expected that there will be a religious/cultural orientation to this development programme as well as an economic zone.

Then coming down, the Colombo/Kandy Highway that is being built, industrial zones are planned in the Kurunegala/Kuliyapitiya areas of the North Western Province.

The “Western Region Megapolis Plan” covers the three districts of the Western Province. It is a US$ 40 billion programme over 15 years. It envisages elevated highways; a light railway; residential and commercial real estate, including affordable housing; a logistics hub, involving the Colombo Port and the Bandaranaike International Airport, as well as a tech city.

The Port City Project, involving the reclamation of 269 hectares, will have the Colombo International Financial Centre as its centrepiece. The intention is to develop a business area, which has an investment climate that would rank in the top 10 in the World Bank’s *Ease of Doing Business* Index.

An industrial zone is being established by a Thai company in Kalutara. Tourism developments and additional industrial zones are being planned along the southern coast. Further south, there is the major proposal to develop the Hambantota area. The long-lease of the port will not only generate much-needed non-debt creating flows for liability management, which is essential to address the bunching of external debt repayments from 2019 onwards, but also assist in commercialising an asset which is currently a major loss-maker, casting a heavy burden on the people through its impact on the government budget. The leasing of the port to China Merchant will also catalyse a plan that envisages investment in a refinery, LNG plant, cement factory, steel billet plant, and a ship repair company. Subsequent phases are expected to involve the development of industrial zones by Chinese companies on up to 15,000 acres of land.

In the 69 years since independence very little has been done for the people of Monaragala and Uva. The people of Hambantota have a number of assets, including a port and airport, which are very under-utilized at present while casting a heavy debt burden on the country. Chinese investment can transform the whole of that lagging region by generating thousands of employment opportunities at wages that are higher than the prevailing norms in the country. None of this is likely to happen unless a Chinese company has a long-term lease of the port; whose strategic location is a major part of the overall investment case. In assessing the Hambantota port deal, we need to ask ourselves, is it right to stand in the way of developing a lagging region that has benefitted so little after seven decades of independence and has been the heartland for two youth insurrections (1971 and 1988/89), which led to the loss of thousands of lives?

Surbana Jurong, the Singaporean consultancy, which developed the “Western Region Megapolis Plan”, is also preparing a master plan for the Trincomalee area. Tourism, real estate, and industrial zones will be major features of this development. This development will yield benefits not only for the Eastern Province but also for the people of Rajarata. There are plans to develop the road and rail network in the North Central and Northern Provinces to improve connectivity to the Trincomalee Port.

In the conflict-affected areas, Palaly Airport and the Kankesanthurai port are being rehabilitated. There are also plans to improve road and rail connectivity. In addition, there will be a 200% upfront investment allowance for businesses located in these areas.

There are also master plans for the development of the tourism and ICT sectors.

Given the lack of fiscal space, much of the investment for these major programmes will have to come from private investment, domestic and foreign. High priority is also being given to Public-Private Partnerships (PPPs), particularly Build, Operate and Transfer (BOT) projects, and alternate financing instruments which are off the government balance sheet.

7. Conclusion

There are massive opportunities embedded in the plans in place. The jury is still out on whether we will be able to rise to the challenge of executing effectively enough to take advantage of them. Even if we are able to execute 25%-30% of all that I have mentioned, I think it will have a significant positive impact on the lives of the people of this country.

Dr. Dushni Weerakoon

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Fifth Gamani Corea Memorial Lecture
Delivered on 30th January, 2020
at the
Bandaranaike Memorial International Conference Hall
Colombo, Sri Lanka

SRI LANKA'S POLICY DILEMMA ON DEBT AND GROWTH: THE CHALLENGES FOR AN UPPER MIDDLE- INCOME ECONOMY

It is a great privilege to deliver the Gamani Corea Memorial Lecture. At the Institute of Policy Studies of Sri Lanka (IPS), we had the honour of interacting with Dr. Corea during his distinguished tenure as its founder Chairman from 1990 to 2006. I thank the Chairman, Vice Chairman and Directors of the Gamani Corea Foundation for the kind invitation to deliver this Memorial Lecture.

For Sri Lanka today, the biggest challenge on the economic front is an extende period of low economic growth amidst a rising public debt burden. The numbers are well known. Gross Domestic Product (GDP) growth has been coming in at below 3.5% for more than 11 consecutive quarters. This is not normal output growth for any persistent period of time for an emerging economy; the rest of South Asia is growing at above 6% per annum on average. With the fallout of the April 2019 terrorist attacks factored in, Sri Lanka is expected to end 2019 with an expected growth rate of around 2.8%.

While GDP growth has been low and on a persistent downward trend, Sri Lanka's public debt profile has been moving in the opposite direction. This is not unusual – excessive government debt acts as a drag on economic growth and low growth makes the debt numbers look worse.

Today, Sri Lanka's public debt stands at approximately 85% of GDP, with the share of foreign debt rising steadily in recent years so that domestic and public debt ratios are now 50:50. Foreign debt carries higher risks from exposure to exchange rate volatility where a sharp depreciation can aggravate debt ratios as we experienced in 2018. For Sri Lanka, the risks of foreign currency debt are heightened given our growing reliance on foreign non-concessionary borrowing which makes up 55% of total foreign debt outstanding in 2018.

The policy dilemma is clear. Fiscal consolidation of the kind that Sri Lanka has tried to implement over the last three years under an Extended Fund Facility (EFF) program with the International Monetary Fund (IMF) is required for putting in place the necessary policy measures for debt sustainability. However, in reality, such austerity measures have an immediate impact on growth outcomes, such that debt ratios can worsen, at least in the short to medium term.

On the other hand, reviving growth and sustaining that growth momentum may require some form of a fiscal stimulus. But, how do we do this without putting debt sustainability at further risk? Should a fiscal stimulus be provided through taxes or spending? If taxes, what kind of taxes? The questions are endless and there are no easy answers. For Sri Lanka, the challenges are even more daunting in view of its rapid demographic transition at a relatively low level of per capita income and the gradual climb from being a low middle-income economy to an upper middle-income economy.

1. Moving from a Low Middle-Income to an Upper Middle-Income is the Easy Part

At US$ 4,000 per capita income, Sri Lanka recently graduated to an upper middle-income economy in 2019. The real challenge is to move a notch further up to a high-income economy (US$ 12,000 and above).

Indeed, international experience suggests that graduation to a middle-income status is the easier bit. Many countries in Latin America and the Middle East reached middle-income status in the 1960s and 1970s. However, after the initial rapid ascent, the great majority have not made the transition to a high-income status. Only a handful of countries have done so successfully – of 101 middle-income economies in 1960, only 13 countries (Equatorial Guinea, Greece, Hong Kong, Ireland, Israel, Japan, Mauritius, Portugal, Puerto Rico, South Korea, Singapore, Spain, and Taiwan) have managed the successful transition to a high-income economy.[1]

In the circumstances, the transition to avoid a middle-income trap will be quite challenging. It requires faster growth that can be sustained only if there is growing demand for Sri Lanka's goods and services by foreigners. Relying on a small market of 20 million consumers is not adequate for this purpose.

Sri Lanka's export competitiveness has declined over the years – not only has the export share of GDP fallen, but so has our share of the global export market. Over the last 3-4 years, efforts to free up trade as a means of improving competitiveness, have come up against lobby groups. This is not unique to Sri Lanka – the almost universal push for freer trade and globalization is clearly under attack across many parts of the world. It is argued that proponents of globalization underestimated its disruptive impacts on domestic wages and labour market adjustments, leaving large swathes of disaffected voters, particularly in advance economies. The backlash is evident in electoral outcomes in the U.S. and the Brexit referendum in the U.K., supported by rising antipathy to issues of mass migration, etc.

The tendency to over hype the benefits of globalization and economic openness and create impossible expectations, while downplaying its potential disruptive effects have

not helped. Indeed, the current backlash against globalization did not spring up overnight. It was a decade or more in the making and spilled over into national politics with issues of mass migration and other factors acting as catalysts. The Doha Round of the World Trade Organization (WTO) negotiations collapsed, partly because global economic cooperation is perceived to be unbalanced – finance and capital can move much more quickly across borders than goods, services, and especially, labour. As a consequence, some countries benefit more than others, while some will face adjustment costs. Such economic adjustments can create long-term structural

1 Agénor, P., and O. Canuto (2012), "Middle-Income Growth Traps", World Bank Policy Research Working Paper 6210, World Bank, Washington, D.C.

unemployment as has been the case in some advanced economies. At its simplest, the ongoing U.S.-China trade war is a manifestation of this, in the belief that it is better to keep jobs and capital at home, and the way to do that is by loosening the grip of global integration.

For Sri Lanka, raising competitiveness also means absorbing technological innovation. Our workforce is shrinking unlike in competitor countries like India or Bangladesh. For higher labour productivity, workers need to be equipped with the right mix of skills – learning in science, technology, English and mathematics are a fundamental part of this. Sri Lanka has to do much more to ready its workforce.

Sri Lanka has a low share of workers with tertiary level education. Of the 15+ aged population, only around 3.5% hold a degree or above qualification. Of the annual university pass-outs (26,000 as undergraduates and 10,000 with postgraduate qualifications), only a limited per cent is following science (12.1%), computer science (4.4%), engineering (6.6%) and other technology-related subjects.[2]

The United Nations Educational, Scientific and Cultural Organization (UNESCO) Global Education Monitoring Report sets out some benchmark spending levels for countries at different levels of development. As a percentage of GDP, public education expenditure for an upper middle-income country is recommended to be around 4.6%.

2. Public Financing Needs Set to Rise if Middle-Income Trap is to be Avoided

As the population ages, the dependency ratio rises, adding to existing fiscal burdens. A rising dependency ratio means there will be fewer earners and tax payers going forward. For the economy as a whole, these trends can lead to a drop in savings and investment. While economic theory suggests that people may save more to meet these demands, there is little evidence to indicate that this is happening in Sri Lanka, at least at present.

Many emerging economies that have seen rapid growth, also experience widening income inequalities. Indeed, integration into an increasingly globalized workforce can accentuate inequities in economic opportunities and income levels.

Sri Lanka's demographics, and structural transformation of the economy in the years to come, suggest that there is a high probability for such equity gaps to widen. With the graduation to an upper middle-income economy and rising wages, technology and innovation will be the driving forces for productivity growth. These tend to benefit the skilled and educated, whereby skill-biased technological change can have significant impacts on a country's wage dispersion.

2 Arunatilake, N. 2019, "4IR and the Future of Work in Sri Lanka" in *Sri Lanka: State of the Economy 2019*. Colombo: Institute of Policy Studies of Sri Lanka.

Already, Sri Lanka has witnessed widening gaps. While income poverty is estimated to have reduced from 15.2% in 2006/07 to 4.1% by 2016, income inequality remains unchanged. The richest 20% enjoy more than half the total household income of the country, while the poorest 20% get only 5%. Thus, spending on social safety nets and other forms of income support need to be factored in.

An ageing population will also require more state support for health, pensions, social security, etc. Sri Lanka spends a considerable amount on a non-contributory public service pension scheme. The fiscal burden on the Treasury is high and climbing; the rapid demographic transition means that these liabilities may lead to future fiscal stress in a significant way.

At the same time, there is relatively poor enrolment and coverage for most other citizens. Only about 55% of the population is enrolled in some scheme or the other and this is sufficient to provide retirement income of some sort to only about 30% of the elderly.[3] Extending coverage – i.e., that of a universal pension – will jump from 3% of GDP in 2015 to an estimated 4.6% of GDP by 2030.

Sri Lanka's public finance benchmarks fall well below comparator thresholds. For instance, against the average for Emerging Market Middle-Income (EMMI) economies of Asia, Sri Lanka already does poorly on fiscal benchmarks. On expenditures, the average public spending ratio for Asian EMMIs is above 30% whereas Sri Lanka is at around 20%. On revenues, the gap is even bigger: the average for Asian EMMIs is about 26% whereas Sri Lanka's revenue-to-GDP ratio is half of that, at around 13%.

On public debt, Sri Lanka does very poorly. While Asian EMMIs have a public debt-to-GDP ratio averaging around 50%, Sri Lanka is burdened with a ratio of around 85%. The shift to commercial and non-concessionary foreign loans as Sri Lanka graduated into low middle-income will further curtail access to soft-window funds from multilateral development agencies, thus any future foreign borrowing will further raise the costs and risks of the country's debt profile.

In the circumstances, it would not be far off to argue that Sri Lanka is in an incipient debt trap. Overall, the future demands on public finances, alongside evolving debt dynamics suggest that Sri Lanka will have a tough road ahead in aiming for a sustained long-term growth acceleration.

3 Samarakoon, S. & Arunatilake, N. 2015, "Income Security for Older Persons in Sri Lanka", UNESCAP Working Paper.

3. How Can Short-Term Growth Objectives be Balanced with Long-Term Solutions?

Growth is said to be the best solution for debt. For Sri Lanka's incoming new government, therefore, reviving growth will clearly be the preoccupation in 2020.

If the production structure of the Sri Lankan economy had been more reliant on tradables, the adjustment would have been easier – i.e., as domestic absorption of output falls, the excess could be exported. However, with heavy dependence on sectors like construction for growth, the domestic production structure has become skewed towards non-tradable over the past decade. As a result, the process of adjusting to a downturn, and measures for a recovery, become more complex.

Reviving export growth sustainably takes time, and relies on a host of deeper structural reforms to bring about a shift in the pattern of production via a restructuring of the economy for a resource shift. In the interim, the Sri Lankan economy today exhibits all the signs of a significant production gap – low growth and low rates of inflation persisting for a period of time.

If there is slack in the economy, governments tend to rely on fiscal and monetary policies to drive growth, at least in the short term. Increasingly though, the traditional tools of fiscal and monetary policy are being questioned as never before in the post Global Financial Crises (GFC) era, and conventional views are undergoing seismic changes.

The first policy tool to be tested in the GFC era is a new form of 'unconventional' monetary policy – i.e., quantitative easing – where central banks created piles of new money through various measures. While these measures had some successes, conventional monetary policy tools of slashing interest rates to spur consumption, investment, and employment have become less effective since the financial crises.

The problem for many advanced economies today, particularly Japan for instance, is that inflation and interest rates are stagnant at historically low levels, even as new money was pumped in. This has meant that the relationship between unemployment and inflation –the famous Phillips Curve –does not hold true in many of these countries. The theory tells us that if unemployment falls too low, inflation will rise; too high, and it will fall – leading to a U-shaped curve – but that curve is now flattening because these countries have low unemployment and low inflation.

These developments not only call into question the effectiveness of monetary policy tools, but they also suggest much more is at play in explaining these relationships in today's globalised economy. For instance, stickier upward wage adjustments owing to higher foreign competition, changes in technological advancements, etc., are considered as some explanatory factors. The point, however, is that our understanding of the role of monetary policy in stimulating economic activity is undergoing some major paradigm shifts.

Similarly, the approach to fiscal policy adjustments has also undergone changes. For developing countries like Sri Lanka, theories of optimum fiscal policy have been dictated through many stages. In the 1930s-40s, the preoccupation was with designing fiscal systems with a focus on social welfare. In the 1950s-70s, fiscal policy was seen as a means of promoting industrialization through import substitution. In the 1980s, the Washington Consensus gained ground to argue for non-distortionary tax and spending that allow markets to operate. Thereafter, in the 2000s, an added emphasis was on public finance management and administration – such as semi-autonomous revenue authorities – to support broader goals on institutional and governance issues.

There are no hard and fast rules on fiscal policy per se. Some governments opt to maintain balanced budgets while others may consider a more relaxed fiscal policy stance – where spending exceeds revenue – as acceptable. In the case of the latter, the emphasis is that any borrowing should be for investment purposes and not for consumption purposes. There too, the golden rule is that it is appropriate for a government to borrow in order to 'invest in the future' – i.e., to the extent that an investment makes the economy more productive, increased tax revenues may be available to pay off the loan. It also assumes that public investment will act as a stimulant to private investment, instead of crowding out more productive private investment.

A second important feature that is subject to much debate is the scale of government spending, and the preference for 'big' versus 'small' government. Many European and Scandinavian economies maintain government spending ratios of 40% of GDP – twice the level currently maintained in Sri Lanka. In fact, some interesting new evidence from Organization for Economic Cooperation and Development (OECD) countries suggests that large governments can be compatible with high levels of economic performance.[4] There is, however, an important condition: these governments are argued to provide their services very efficiently. Where government delivery of public services is deemed to be less efficient, if not weak – such as in Sri Lanka - reducing their involvement is widely viewed as one means of raising productivity and economic growth.

Still, the overall stance of fiscal policy under any government is seen as a signal of its broader policy ideology. For many, fiscal policy is not designed solely to support economic growth; there are other, and equally important, considerations such as equity. While it is acknowledged that balancing different economic objectives and fiscal systems is not easy, fiscal policies can be strong catalysts in the process of economic growth. This is particularly so in a developing country context, where private sectors are less dynamic and where markets are either underdeveloped or are missing.

In the post GFC era, as advanced economies grappled with weak growth, there was greater tolerance to the idea that context matters and second or even 'third-best' fiscal policies that might be appropriate gained some acceptance. IMF fiscal adjustment

4 Boone, Lawrence. 2018. "How Can Public Finance Reforms Boost Economic Growth and Enhance Income Inequality?". Paris: OECD.

programmes also became much less ‘conditional’, as Sri Lanka also witnessed in the 2009-2012 programme that was implemented.

4. Can Second or Third-Best Fiscal Policies Work to Revive the Sri Lankan Economy?

The Sri Lankan economy is essentially seeing a moderation in consumption, as taxes were increased to deal with a growing debt burden.

The course correction was inevitable. The disincentivising impacts of high levels of government debt on interest rates and private investment are well known. As the volume of public debt increases, it dampens investor confidence – not only does it create uncertainty about an economy’s overall health, but it also raises questions on a government’s future course of policy. Inevitably, investments will be deterred when such course corrections involve tax increases.

Sri Lanka has had many such course corrections to deal with the economic consequences of what is called a twin-deficit problem – persistent deficits on both the fiscal and external current accounts. This is symptomatic of a country that essentially lives beyond its means; our national expenditure exceeds national income, and we rely on foreigners to finance the gap by way of capital inflows.

Thus, it has been a story of impending crises that have prompted Sri Lanka to approach the IMF with clock-like regularity for bailout programmes. To date, we are into our 15th IMF programme within a fairly limited span of 52 years, accounting for nearly 70% of the years covered over the last four decades. The reason why Sri Lanka has continued to engage in this cycle is partly because the country has managed to avert a full-blown crisis with stop-gap measures. Arguably, the fact that a deep economic crisis that necessitates shock therapy was averted, might also explain why reforms have not stuck.

If Sri Lanka wishes to avoid a regular dose of IMF-style course correction, then ideally, the moment to turn to austerity is when the economy can bear it. This is what is recommended as a prudent means of carving out space to practice counter-cyclical fiscal policy.

Measures to cut spending and/or raise taxes are easier to implement when growth is high under such conditions. With surpluses, fiscal policy can then be used as a counter-cyclical tool to stimulate an economy by adopting an expansionary policy stance – i.e., cutting taxes and/or raising spending. If surpluses are generated in good times and borrowing limited only to finance public investment means a more effective counter-cyclical fiscal policy.

Unfortunately, Sri Lanka has not at any point carved out that policy space. Instead, it has been a case of austerity measures being imposed, in the face of a looming crisis.

In that kind of a context as Sri Lanka was in 2016 when the latest IMF programme got underway, fiscal austerity takes an inevitable toll on GDP growth. It was a revenue-based fiscal consolidation process in view of the significantly low and declining revenue generation over the years. But, there are costs as expected – higher taxes bite into household disposable incomes as well as corporate earnings, impacting consumption as well as investments. These can in turn lead further to a stagnant or shrinking economy, at least in the short term. If growth slows, so can tax collection. This is what we have witnessed in the most recent fiscal consolidation effort.

Three years on, Sri Lanka is therefore still struggling with weak fiscal outcomes. Fiscal deficits are still relatively high in the range of 5.5% of GDP, and more worryingly, public debt has continued to grow to a high 85% of GDP.

However, while the overall revenue and fiscal deficit targets have been missed, the trends have been more promising. The persistent decline in the tax-to-GDP ratio reversed, and the overall fiscal deficit has narrowed when compared to the start of the programme.

More importantly, Sri Lanka has begun to record a primary surplus. For debt sustainability efforts, this is important. Debt begins to stabilise when the government's interest payment is exactly offset by a primary fiscal balance – the government fiscal balance excluding interest payments. As a country that has consistently run deficits on the primary balance, Sri Lanka was able to record a surplus in 2017 for the first time after 1992, and the second time since 1955. In 2018, Sri Lanka was able to record a primary surplus of 0.6% of GDP – albeit well below the total interest payments incurred of nearly 6% of GDP – and appears to be on track to repeat a surplus in 2019 as well.

Thus, some gains have been made. But, this is of little comfort to the general population. Not only do people see a fall in their disposable incomes as taxes rise, but slow economic growth can also mean modest wage gains and job creation. Inevitably, it can generate a backlash, particularly when implemented mid-way through an electoral cycle, as tangible benefits of such reforms – in the form of higher private investments that can lead to more productive jobs and wages – take time to materialize.

In the interim, lower growth also means that the debt outlook worsens, at least in the short run. Thus, not surprisingly, IMF prescriptions for course correction have their share of critics.

Not surprisingly, there are calls to use fiscal and monetary policies more actively to stimulate economic growth. In an environment of low growth, and a relatively low and stable rate of inflation at mid-single digits, efforts have been made to lower interest rates and provide credit support to revive economic activity. But, monetary policy measures have no impact on the real sectors of the economy, and that is where the leading role of fiscal policy becomes important.

The quickest results on the growth front will come about from spending, rather than the tax side. When there is a slack in the economy, a spending stimulus can be an effective tool, owing to a 'multiplier' effect. For instance, money spent on putting up a school is passed on as wages to a worker; the worker in turn may use the additional income on food and other purchases, raising demand for goods and services overall.

By contrast, passing on the benefits of tax cuts to put more money in people's hands to boost consumption or investments, may take longer. It can take time for tax cuts to be passed on to consumers, while corporates take other factors into consideration in their investment decisions besides lower taxes, such as policy and political factors.

Sri Lanka has opted for tax cuts as opposed to spending, as the primary means of providing a fiscal stimulus. The route of tax cuts, at least for now, makes sense for two reasons. The higher tax burdens imposed over the last few years have been highly unpopular, and second, for the more practical reason that expenditures cannot be raised given the ceiling imposed by a Vote on Account without a full budget being presented.

The question is how far a fiscal stimulus can go before the country comes up against debt sustainability concerns.

5. Tax Cuts for a Growth-Friendly Fiscal Stimulus

The announced tax cuts raised immediate concerns on their revenue implications. They are estimated to amount to a revenue loss in the region of LKR 550 billion or around one-fourth of the 2019 estimated revenue collection.

In this context it is worth examining whether the tax revisions are supportive of efforts to stimulate and sustain growth. The decisions on shaping tax policies are not based on economic considerations alone; politics and voter preferences play a significant role in shaping what is palatable and what is not.

On the whole, the overall health of Sri Lanka's tax system is weak. It has obviously failed to achieve its most critical objective – i.e., Sri Lanka is a country that does not tax sufficiently to cover its spending. Indeed, it is the case today that total government revenues are insufficient to even cover total government current expenses, let alone capital spending.

Tax revenues have fallen steadily in relation to rising per capita income levels. The reasons put forward to explain this anomaly are many. A failure to broaden the tax base, weak tax administration and enforcement, exemptions offered under various Acts including for Board of Investment (BOI) enterprises, and the structure of the economy itself. In the case of the latter, the growing informalization of the Sri Lankan economy – with more than 60% of the workforce employed in the informal sector at present – makes tax collection more difficult unless tax administrative structures are efficient and effective.

The tax system is also argued to be highly regressive. Indirect taxes continue to account for more than 80% of total tax revenues despite stated intentions to reverse this to a 60:40 ratio. But Sri Lanka's tax system is perhaps even more regressive than what these numbers imply because of an often overlooked factor – i.e., the spending side. The better off pay rather limited taxes but benefit enormously from free health, education, and many forms of subsidies such as subsidized fuel, electricity, water, etc.

Despite the various tax exemptions and incentives granted to attract Foreign Direct Investment (FDI), inflows of FDI have also failed to substantially increase over the years. To add to the difficulties, ad hoc tax changes over time did not help. For instance, frequent changes to the Value-Added Tax (VAT) rate, personal income tax thresholds and rates, etc. have been a regular feature of Sri Lanka's tax policy regime.

At the same time, Sri Lanka's tax structure hurts export competitiveness. Taxes on imports are easy to collect, but it has a downside in terms of the impact on export competitiveness and efforts to link up to global value chains. These networks depend heavily on having a low and uniform tariff structure to allow raw materials, parts, and components to be exchanged across multiple national boundaries before being incorporated into finished goods.

The recent tax revisions have brought relief to corporate and income tax payees. Rates have been lowered and/or thresholds have been raised. While taxes can distort economic activities, it is argued that some types of taxes harm growth prospects more so than others. For instance, if you believe that market forces provide the most compelling signal of economic choices, corporate/capital income taxes are likely to be categorized as the most damaging for growth, followed by personal income taxes, and then consumption taxes such as VAT. Property taxes and excise taxes will be thought of as the least harmful to growth. Thus, the revisions, in principle are seen as supporting growth objectives.

High rates of taxes on corporate income, given the high mobility of capital, can also prove counterproductive. Companies are inclined to move in search of more favourable tax treatment. Especially in today's digital global economy, high corporate taxes can drive out businesses and/or lead to exploitation of tax loopholes. Multiple Corporate Income Tax (CIT) rates should also be avoided as they can distort the sectoral allocation of resources.

Are the tax revisions supportive of equity and social justice objectives? The traditional view that income tax is a major instrument to reduce inequality is changing. The fact is that employment income is often a small share of national income in developing countries and makes it difficult for Personal Income Tax (PIT) to be a significant revenue source. The existence of a large informal sector and information paucity partly contribute to this. Thus, the effectiveness of PIT in reducing inequality itself is doubtful. High marginal income tax rates are argued to have distortionary impacts, especially when labour is relatively inelastic – a trend that Sri Lanka is facing at what we might call almost 'near full employment' reflected in a low unemployment rate of 4%.

On income taxes, therefore, low rates – with some degree of moderate progressiveness – plus a broad base, favour economic growth. A flat rate is proposed by some. While it may hold some merit as being close to optimal when it is difficult to obtain information, etc. the rate structure for income taxes is a very visible policy instrument for governments to underscore their commitments to issues of equity and social justice.

The top marginal PIT rate should not exceed the CIT rate by a significant margin. Many taxpayers can choose to shift the way they report their income to take advantage of lower corporate-tax rates. Thus, it is difficult to push up the tax rate on individual incomes while simultaneously lowering the corporate rate.

Consumption taxes such as VAT are considered to be regressive. However, it is also possible to design non-regressive consumption taxes by exempting essentials such as unprocessed food items, etc. It is also not recommended to have differentiated rates, but to levy a broad-based and simple VAT at a single rate. Multiple rates can be administratively costly. Despite their regressive nature, consumption taxes are seen as having a much less damaging impact on growth. As such, many countries are introducing a VAT scheme of one form or another (and lowering income tax rates at the same time).

In the long run, it would be good to put in place a simple and transparent system that broadens the base, reduces the rates and minimizes rate differences. Thereby issues of equity might be better addressed through the spending side – to increase incomes of the poor – rather than the revenue side of fiscal policy formulation.

In developed countries, more of their tax revenues are generated from income tax than consumption taxes. They also raise more from CIT than from PIT. Differences in wage income, more sophisticated tax administrations, and the political power of the richer segments of the population are considered to be the main reasons for this. These trends do suggest that as countries climb up the income ladder, we can expect a relative shift from consumption to income taxes.

Another important issue that arises is whether Sri Lanka should provide tax holidays and exemptions to attract FDI. These are deployed in one form or another to increase investments in targeted sectors, achieve balanced regional development, augment infrastructure, enhance exports and encourage the growth of Small and Medium Enterprises (SMEs).

There are many forms of FDI: natural resource-seeking, market-seeking, strategic asset-seeking, and efficiency-seeking are some of the more common. Offering tax incentives indiscriminately to all is not helpful. Tax incentives are mostly targeted to the last category – efficiency-seeking FDI. This type of FDI – that brings technology and knowledge know- how – is particularly important for countries looking to integrate into the global economy and move up the value chain.

In recent years, Sri Lanka has been largely successful in attracting FDI into real estate, mixed development and construction. This is not the productivity-enhancing type of FDI that the country needs to raise its competitiveness and link up to global or regional value chains, in manufacturing or services.

Under the new Inland Revenue Act, the BOI provides incentives by way of reduced tax rates for specific sectors, and enhanced capital allowances based on capital investments made. This seems to be in line with the general understanding that tax holidays are best avoided, and that accelerated depreciation has the least shortcomings.

Despite the acknowledged problems of tax avoidance/evasion and uneven treatment of local businesses, many developing countries continue to offer them. Across sectors, 50- 70% of all developing countries offer tax holidays, preferential or very low general tax rates, or tax allowances.[5] Tax incentives are most common for construction, Information Technology (IT) and electronics, machinery and equipment, and other manufacturing sectors.

Clearly, the pros and cons of this is open to debate. In many instances, tax incentives are abused by existing investors who re-enter the market as new enterprises through some form of nominal reorganization. The arguments made against granting concessions is that efficiency-seeking investors are not necessarily looking for tax breaks, but rather for other advantages such as skills, location, a supportive policy environment, etc. To support this, there is growing evidence on the effectiveness of tax incentives and FDI in developing countries that suggest that incentives do not compensate for shortcomings in the overall investment climate of a country.

Investors do want certainty about taxes and the broader economic circumstances. If Sri Lanka cannot assure investors of these, then we will have to rely to some extent on offering tax incentives to attract FDI into productive sectors. For instance, tax incentives can be justified if they are targeted at promoting high-tech industries that will extend benefits to the rest of the economy as well. The other compelling case may be when incentives are used to target specific regional development needs.

Thus, the direction of the latest tax revisions is sound, but its revenue implications need to be managed carefully. The expectation partly is that tax cuts will revive growth, and in turn, lead to higher revenue collections. However, that depends on many other factors, including the sectoral drivers of growth. Sri Lanka has had past experience where a growth boom driven narrowly by public spending on infrastructure did not translate into higher revenues. Growth that is more broad-based across sectors of the economy will be more revenue-elastic.

5 Andersen, M. et. al. 2017/2018. "Corporate Tax Incentives and FDI in Developing Countries" in the *Global Investment Competitiveness Report.*

6. Fiscal Targets and Debt Sustainability

For now, Sri Lanka is very vulnerable to any signs of macroeconomic distress. Any fiscal policy measures that signal a widening of budgetary imbalances without credible policy measures on how these will be bridged can trigger a fresh macroeconomic risk assessment on Sri Lanka's sovereign ratings.

Immediately after the presidential elections, Fitch Ratings issued a statement on 21 November 2019 titled "Sri Lanka Election Result Increases Policy Uncertainty". Following on from this, on December 19th, the outlook on Sri Lanka's sovereign credit was downgraded to 'negative' from 'stable'. S&P Global Ratings followed suit and revised its outlook too, from stable to negative on 14th January 2020.

Sri Lanka simply cannot afford continual risks of rating downgrades in view of the need to rollover significant volumes of maturing foreign debt. The debt build-up means that over the period 2019-2022, Sri Lanka must repay around US$ 4,000 million on average per annum. The challenge of high debt exposure does not end there. Another bunching up of settlements from 2025 is clearly evident.

The outlook on the external front is also of concern. Sri Lanka's trade deficit has been narrowing but that is largely on account of persistent contraction in imports. Once the economy starts to recover, imports can be expected to pick up, not to mention the risks of higher international oil prices as a result of rising global tensions in the Middle East.

By contrast, export earnings are stagnant, earnings from remittances are on the decline while tourism earnings are still in a recovery phase. FDI inflows, which had failed to impress over the years, has also declined sharply in 2019.

Sri Lanka has very thin buffer stocks of reserves. The total is well below recommended thresholds – i.e., reserves should be able to cover at least 100% of short-term debt. As the cost of the outstanding foreign debt stock has risen, so too has the country's debt service ratio in the absence of strong growth in earnings from exports of goods and services.

Thus, reserves are not sufficient to cover near-term foreign debt settlements. Sri Lanka needs to go to international capital markets this year, but what is the best time to do so, and what will be a convincing set of policy measures on the fiscal front to reassure investors of medium-term macroeconomic stability.

Given the very limited policy levers available, the most prudent options are 1) set modest public investment targets when setting a budget in mid-2020; and 2) rely on private investment and FDI to fill the gap.

From amongst an array of different tools of fiscal stimulus, public investment is argued to have the largest impact on GDP.[6] But for a successful outcome, such investments

6 International Monetary Fund, 2016, "Macroeconomic Management When Policy Space Is Constrained: A Comprehensive, Consistent, and Coordinated Approach to Economic Policy." Staff Discussion Note (SDN/16/09). International Monetary Fund, Washington, D.C.

have to be productive, especially so when they are financed with borrowing so that the returns on investments can help pay back the loans.

If, on the other hand, investment choices are compromised by poor analysis and incentive problems, low returns weaken growth prospects in the medium to longer term. Under such circumstances, major public investment drives in infrastructure are more likely to be followed by slumps rather than booms.[7] A good example is Sri Lanka's post war boom where growth picked up to average nearly 8% during 2010-12, but which proved to be short-lived; GDP growth dropped to an average of 4%-5% thereafter, and has since slumped even further. Thus, to ensure that any quick fixes do not carry longer-term costs, such spending should be evaluated for their economic and financial returns, particularly if such investments are being funded with foreign borrowing.

Additionally, if investment is tilted too heavily in favour of infrastructure, the resource shift towards tradables comes at the cost of a growing tradable sector. Sri Lanka cannot afford this as we aim to shift from borrowing to repayment which calls for a shift in the pattern of production.

Secondly, unlike in the immediate post war period, when public investment was seen as the means of drawing in private investment, the Government need not rush in to finance large-scale infrastructure projects, and instead should rely on FDI and other forms of private investment. The Colombo Port City, for instance, is ready for investors to come in for a variety of mixed development projects. If such FDI was to come in, it will not only give a boost to growth, but it will also help the Government to smoothen its debt financing requirements.

Once an economic recovery gets underway, attention can then focus on key micro reforms to ensure that the growth momentum accelerates in a sustainable fashion. Some of the micro reforms are related to: 1) policies aimed to improve the efficiency of resources used by the public sector (public investment, state-owned enterprises); 2) policies aimed to improve economic incentives (trade reforms, price systems in agriculture, state utilities such as electricity); and 3) policies aimed to improve institutional efficiency (customs, tax administration).

Such reforms are essential to broaden Sri Lanka's growth base and lay the foundation for a sustained export-led growth process. Given the country's heavy medium to long-term foreign debt settlement obligations, generating hard foreign currency earnings is the only means of lowering Sri Lanka's current high-risk exposure to external shocks.

In sum, reversing Sri Lanka's current low growth trajectory amidst a rising public debt burden requires a prudent mix of a macro stimulus and pro-growth micro reforms. What should be avoided is to set overambitious targets for growth that can undermine macro stability, hinder debt sustainability efforts, and ultimately prove to be a short-lived economic boom.

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7 Warner, Andrew M. "Public Investment as an Engine of Growth." IMF Working PaperWP/14/148. Washington, D.C.: International Monetary Fund, 2014.

NEW PERSPECTIVES ON ECONOMIC DEVELOPMENT IN SRI LANKA

PUBLIC LECTURES

Dr. Hilarian Codippily

Dr. Hilarian Codippily was a mathematician and an economist. He graduated with a B.Sc. degree in Mathematics from the University of Ceylon (1962) followed by a second B.Sc. degree from the University of London (1967). He joined the Ministry of Finance soon after graduation, pursuing a career in economic planning. While at the Ministry, he was awarded a scholarship for a Master's degree in Economics at the University of Warwick, England, obtaining the degree in 1975. On his return to the Ministry of Finance, he continued as Additional Director there, engaging in research in econometrics in his spare time while reading for his Ph.D. as an external student at the University of Warwick. He earned his Ph.D. in 1979.

Dr. Codippily joined the World Bank in 1981 and went on to become the World Bank's leading authority on 'Small Island Economics.' He retired in 2000 and returned to Sri Lanka, while remaining a consultant to the World Bank for several more years. Dr. Codippily passed away on 16th August, 2018.

Public Lecture Delivered on 30th July, 2014
at the
Lakshman Kadirgamar Institute of International Relations
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Colombo, Sri Lanka

REFLECTIONS AND PERSPECTIVES ON ECONOMIC PLANNING

1. The Evolution of Mainstream Thinking on Development Planning and Gamani Corea's Contributions

Development planning in Sri Lanka has had a long and varied history since the colonial times. Recent literature on economic policy in Sri Lanka has provided valuable insights on development planning covering its changing role, concepts of planning, focus on critical development problems, and other related aspects. Building upon these contributions, this discussion paper attempts to present further perspectives on development planning in Sri Lanka, highlighting, in particular, Gamani Corea's contribution to the planning process; he was truly the Doyen of economists in Sri Lanka. The paper also draws from the author's experience in the respective ministries in charge of development planning and includes some international perspectives on development planning.

The evolution of development planning starting from the colonial times may be divided into four periods.

- The first takes us through the colonial period up to a few years after Independence in 1948.
- The second consists of the period relating to the Ten-Year Plan formulated under the direction of Gamani Corea at the Planning Secretariat.
- The third period relates to the Five-Year Plan formulated under the direction of H. A. de S. Gunasekera, Secretary, Ministry of Planning and Employment.
- The fourth consisted of a series of rolling Five-Year Investment Plans formulated initially under the direction of W. M. Tilakaratna, Secretary, Ministry of Finance and Planning.

1.1 Planning in the Colonial Period

The earliest initiatives at National Planning started during the colonial period (see Godfrey Gunatilleke, 2004). The first of these was entitled "A Policy and Programme for the Ceylon National Congress" produced in 1935. Following subsequent initiatives, the most significant document that had been produced was the Six-Year Plan 1947-56. This was essentially a combination of two budget speeches of the then Minister of Finance, J. R. Jayewardene, for the years 1947-48 and 1948-49. Nevertheless, it included priority areas for action such as the wet zone crops – tea, rubber and coconut, and import substitution in agriculture and industry. In agriculture, it underlined the need for the development of the dry zone for food production, including the goal of self-sufficiency in rice. Although the document included most of the elements of a national plan, each part was not analyzed in detail and was not integrated into an internally consistent whole (Gunatilleke, 2004).

The second significant economic document produced after Independence was the International Bank for Reconstruction and Development (IBRD) Report of 1951. It provided a detailed analysis of the economy, its current problems and future prospects, and an assessment of domestic and external resources needed for a comprehensive development plan. The IBRD Mission had, on the whole, endorsed the policies of the then United National Party (UNP) Government and the development programme that was being implemented. However, it strongly recommended a phased removal of the food subsidy, with appropriate adjustments in wages and taxes on exports.

Shortly after the Mission, although the Mission had not specifically recommended the setting up of a Secretariat, the Planning Secretariat was established in 1952, staffed with professional planners. In a sense, the IBRD Report can be regarded as a link between the Six-Year Plan and the Six-Year Programme of Investment, formulated by the Planning Secretariat. The stage had been set for the entry of Gamani Corea, the principal author of the latter document.

National planning in a formal sense began in 1952 with the establishment of the Planning Secretariat which functioned under the Cabinet. As described by Gunatilleke, it was formally headed by a senior civil servant, but the substantive professional work was directed by Corea, who was seconded for service from the Central Bank. The first product, i.e., the Six-Year Programme of Investment 1954/55 to 1959/60, presented by Prime Minister Sir John Kotelawala in July 1955 was essentially a framework of projects, by sector, proposed for implementation over its six-year timeframe; no significant changes in policy, nor directions for new investment were envisaged. The professionalism and thoroughness in preparing this document (510 pages) enhanced the discipline of preparing the capital budget. Gamani Corea's hand is seen in the high quality of the document; in particular, the first chapter outlines the problems of the economy in lucid language intelligible to administrators and politicians. In a sense, this document provided a foundation for the formulation of future plans.

2. The Ten-Year Plan

The Ten-Year Plan prepared under the leadership of Gamani Corea is by far the most comprehensive plan ever written in Sri Lanka. It envisaged a Gross Domestic Product (GDP) growth rate of 5.9%, which set against a population growth rate of 3.0%, implying a per capita income growth rate of 2.9%. Development planning had reached its highest point in Sri Lanka.

2.1 The Quality of Planning

The author's mind goes back to the words: "Planning should be sound, deliberate, and unhurried". Curiously enough, these profound words were written in a Ceylon Cement Corporation file during the 1960s, by L. J. D. Fernando, the Director of Geological

Surveys, who was also a Director of the Corporation. At the time he wrote these words, in the context of the development plan of the Ceylon Cement Corporation, he was the Acting Chairman in the absence of Chairman G. V. P. Samarasinghe. The words he wrote resonate so well with the Ten-Year Plan. It was sound, as it had a well-thought-out framework that benefitted from the work of several world-renowned economists, and dedicated work by the staff of the Planning Secretariat. It was deliberate as it had a clear road map and a high degree of commitment. It was also unhurried, as sufficient time, extending to three years was taken to discuss the key issues, assemble the needed data, carry out the analytical work, and write the text of the Plan.

The Plan responded to the aspirations of the masses. The Mahajana Eksath Peramuna (MEP) Coalition, led by S. W. R. D. Bandaranaike that came into power with a landslide victory in 1956 was based on support from the common masses, and the Government had a mandate to improve their quality of life over time. One of Bandaranaike's priority tasks was to revamp the Planning Secretariat, appoint Gamani Corea as its Head, and direct him to prepare a Ten-Year Plan.

Corea had the Midas touch, so to speak. Whatever he touched turned into gold. The Ten-Year Plan had many notable attributes, the main ones being:

- A clear statement of the initial conditions of Sri Lanka, or the starting point of the Plan showing clearly the economic status vis-à-vis comparator countries as well as a few developed countries;
- A vision for the future and long-term perspective, and a strategy for addressing the challenges of providing better living standards for an increasing population, and jobs for an increasing labour force;
- A discussion of alternatives for the transition from an agricultural economy to an industrial one;
- The overall magnitudes of the Plan, and an analysis which in today's parlance is called a macroeconomic framework and plan targets;
- Financing of the public sector components of the Plan and projected financing by the private sector;
- Detailed sectoral plans for tea, rubber, coconut, other crops, fisheries, industries, power supply, transport and communications, and social services.

To fully appreciate the Ten-Year Plan, one has to mentally transport oneself to an epoch over half a century ago into the 1950s – like in the movie "Back to the Future". In that day and age there were no highways, not much of modern industry, nor were commonplace things such as information technology, personal computers, the Internet, or Facebook even conceived. Sri Lanka was essentially a low-income agricultural country. It was in essence a classic dual economy, with a large traditional rural subsistence sector side by side with a small but powerful modern sector based on export crops – tea, rubber and coconut, supported by an infrastructure network and an institutional framework.

The benefits of this dual economy accrued to an English-speaking minority, popularly known as the "microscopic minority". The vast Buddhist Sinhala-speaking majority had taken a back seat. It was against this backdrop that the MEP Coalition which drew its political power from the Buddhist Sinhala-speaking masses of the rural sector and some socialist movements scored a landslide victory in 1956. Popular slogans called it the "Apé Aanduwa" or "Our Government". Thus, the main task of planners was to develop a vision and a plan to meet the aspirations of the masses. Also, the development philosophy at that time was that the state sector should have a lead role considering the small and limited capacity of the private sector. The Plan was presented by Prime Minister S. W. R. D. Bandaranaike in 1959.

2.2 Advice from Visiting Economists

The quality of the Plan was greatly enhanced by the work of a few eminent economists from abroad. For example, Joan Robinson focused on the need for investment, and worked on development scenarios for Ceylon, with broad magnitudes of projected output, employment, and estimated capital and foreign exchange requirements to support GDP growth. Commenting on excessive welfarism, she made the famous statement "Ceylon had tasted the fruit before she has planted the tree". John Hicks presented some reflections on the economic problems of Ceylon, focusing in particular on the need to increase productivity in agriculture and to expand industry to provide output and employment for a growing population. Ursula Hicks presented a thought-provoking paper on Local Government and Finance in Ceylon.

Nicholas Kaldor presented a paper on the problems of economic development in Ceylon, noting in particular, the excessive concentration on the plantation economy, and the need to develop hydroelectric power generation, and "power-intensive" industries such as fertilizer and cement manufacture. The paper by Oskar Lange focused on the task of economic planning in Ceylon. In general, these papers provided some interesting perspectives on the problem of economic development in Ceylon, highlighting a number of issues relating to needed financial resources, planning techniques, and the quality of nationalization.

Others including Kenneth Galbraith and Gunnar Myrdal provided valuable inputs. It is interesting to note a statement in Galbraith's paper that "In all countries not the least the United States, much of the initial thrust towards development has come from the state". This was very much in line with the climate of thought in Ceylon at that time. The contributions by these visiting economists were later published in a volume entitled *Papers by Visiting Economists*. A good review of these papers is provided in Sarath Rajapathirana's forthcoming paper entitled "Through Eminent Eyes: A Fifty-Year Retrospective on the 'Papers by Visiting Economists'".

Competent teams of local economists were also in place to develop draft sections of the Ten-Year Plan. A participatory approach was followed, involving line ministries and other specialists, in developing these draft sections of the Plan. However, it was Gamani Corea's genius that wove these into a coherent Plan.

3. The Organizational Framework for Planning

With the change of government in 1965, a separate Ministry of Planning and Economic Affairs was set up directly under Prime Minister Dudley Senanayake and Gamani Corea was appointed as its permanent secretary. Under the leadership of Corea, the focus shifted from plan formulation to operational aspects of planning, and economic management. The organizational structure consisted of separate divisions for Perspective Planning, Economic Affairs, Plan Implementation supported by the National Operations Room (NOR), and Foreign Aid.

3.1 Functions of Planning

The new Ministry assumed responsibility for some key functions of economic management:

- Formulation of a macroeconomic strategy and preparation of medium- and long-term forecasts.
- Management of the capital budget and allocations to ministries.
- Monitoring of progress on all major projects, using the NOR.
- Project evaluation and review of all important projects and proposals by sectoral ministries, prior to consideration by the Cabinet.
- Foreign exchange budgeting and allocations of foreign exchange and foreign aid to ministries.

A Cabinet Planning Committee was also established for discussion and decision-making on economic issues, at the highest institutional level.

Gamani Corea's main focus was on economic policy formulation and management through the Planning Ministry and other ministries. As described by Godfrey Gunatilleke "If the Ten-Year Plan was the high point of professional excellence, the period 1965-70 was a phase in which national planning was most effectively linked to the highest levels of decision making on the economy and development". Emphasis was shifted towards a market economy and allowing market forces to function, and the role of planning was to give strategic policy direction for increasing investment and GDP growth. The development of an Input-Output table during this period provided great insights into the economy. One noteworthy development was the introduction of the Foreign Exchange Entitlement Certificate or the FEEC scheme, to set some part of the country's foreign exchange resources at a premium rate, based on market forces, representing a partial shift towards a market economy.

3.2 Capacity Building for National Planning

Gamani Corea recognized the importance of capacity building and launched training courses, for example, a training course for development planning attended by the author in 1967 at the Training Institute at Glen Aber Place, Bambalapitiya. In his inaugural lecture, he highlighted one of the close linkages between agriculture and industry i.e., the need to develop agriculture, and thereby save foreign exchange, to import capital and intermediate goods to develop industries. This training course was conducted by the United Nations Asian Institute in Bangkok engaging prominent economists such as Professors Ramana and Bhatawdekar (1967). The participants included staff of the Planning Ministry, line ministries, and major corporations. In addition, the officials of the Ministry were sent abroad for postgraduate training in fields relevant to development planning. These training courses were financed under British Aid and were typically up to a master's degree level in British universities.

3.3 Some Gaps in the Ten-Year Plan

With hindsight, the Ten-Year Plan had a few gaps, as with any Plan. Spatial planning, especially in urban areas was not emphasized. As a result, some 40 years later, commercialization of residential areas is seen in and around Colombo due to lack of zoning. Also, policy planning did not receive much attention. Some indication of the kinds of policy planning to be done principally, by the Planning Ministry, the Finance Ministry, and the Central Bank – within a macroeconomic policy framework – would have been relevant. Furthermore, the importance of managerial, scientific, technical and other professional skills was not adequately emphasized, although investments in tertiary education were featured in the Plan.

It should be noted that planners cannot be blamed for these gaps, as the Plan's content reflected the political mindset and the role of the public sector, in the absence of a sizeable private sector at that time.

In sum, the lasting impact of Gamani Corea's work is seen in the quality of planning, the organizational framework for planning, the functions of planning, and capacity building and had indeed set the course for the discipline of National Planning for years to come.

3.4 The Five-Year Plan

Once again, national planning took a different turn when the United Front coalition led by Mrs. Bandaranaike and the Sri Lanka Freedom Party (SLFP) came into power in 1970. The country's worsening economic problems needed urgent attention. Unemployment had risen to nearly 15%, and the balance of payments was in trouble. To underline the importance of employment creation, the Planning Ministry was renamed as the Ministry of Planning and Employment, functioning directly under the Prime Minister Mrs. Bandaranaike. Gamani Corea was replaced by Professor H. A. de S. Gunasekera, who was the Professor of Economics at the University of Peradeniya at that time.

The discipline of national planning and the organization structure developed by Gamani Corea remained largely intact. The Plan Implementation Division was headed by Godfrey Gunatilleke, the Foreign Aid Division renamed the External Resources Division was headed by Nihal Kappagoda, the General Economic Affairs Division was headed by Leelananda de Silva and the National Planning Division, established later, was headed by Sarath Perera. One major change was the creation of a Regional Development Division to focus on employment creation which was headed by Harold Fernando. Most members of the United Nations (UN) Team led by Abdel Meguid functioned from the Perspective Planning Division, to assist in developing a macroeconomic framework for a development plan. It might be of interest to know that Manmohan Singh who was later Prime Minister of India functioned at Perspective Planning as a short-term consultant. The UN Team also included sector specialists who functioned from the respective line ministries.

The procedures adopted for the preparation of the Five-Year Plan were very similar to those of the Ten-Year Plan. There was one group of officials who, with the assistance of the UN Team prepared the macroeconomic framework. The real GDP growth rate envisaged was 6%, and the implicit Incremental Capital-Output Ratio (ICOR) was 3.25. The broad magnitudes of savings and investment as well as employment creation were worked out. Groups of officials were also appointed to develop sectoral plans, and in the case of agriculture, separate inter-ministerial groups were appointed to develop plans for each crop or group of crops. The author's role was to help prepare, in collaboration with his colleagues and line ministry officials, the draft sectoral plan for housing. The draft sections of the Plan were prepared under very difficult circumstances in the aftermath of the 1971 insurrection, when government offices closed at 3.00 p.m., leaving little time for meetings and plan writing. The country's situation had come back to almost normal by the time the Plan went to the Government Printer, and it was possible to do the proofreading at the Government Press till the early hours of the morning.

The draft Five-Year Plan was discussed with relevant groups and civil society and was adopted by the Government. The Five-Year Plan was presented by Prime Minister Sirimavo Bandaranaike in late 1971. However, the implementation of the Plan faced major setbacks. As noted by Gunatilleke (2004), the unsettled conditions in the world economy in the first half of the 1970s, world food shortages, the devaluation of the dollar, and the steep rise in energy prices rendered the macroeconomic framework totally irrelevant soon after the publication of the Plan. Nevertheless, some sectoral development plans such as the export development plan, or some housing construction projects were implemented with the resources available. Overall, the real GDP growth rate averaged only 2.5%, compared to a target of 6%, and unemployment continued to rise to a level of 24% by the mid-1970s.

4. Planning in a Liberalized Economy: The Rolling Five-Year Investment Plans

A major paradigm shift in economic policy and development planning took place in 1977, when the UNP, led by J. R. Jayawardene was swept into power. The new right-wing government moved the policy stance away from the controls of the previous regime to a market-oriented one – the first government in South Asia to do so. The economic reforms were far-reaching and included the unification of the regular exchange rate and the FEEC rate into one rate, the relaxation of exchange controls, the removal of import controls, the streamlining of government regulation, and the encouragement of foreign investment. The establishment of an export processing zone in Katunayake, called the Greater Colombo Economic Zone (GCEC) played a major role in attracting foreign investment. Conditions were thus created for people to save, invest, and grow their incomes, and the private sector was assigned a major role. To complement these initiatives, the public sector was assigned a supportive role to provide the needed economic and social infrastructure. A Committee of Development Secretaries, representing the ministries in charge of development, and a Committee of Cabinet Ministers became the principal organs to guide the development process, and to approve development programmes.

Within such a scenario, the central role of national planning was reduced, and the National Planning Division of the Ministry of Planning and Employment, renamed as a 'Department' was transferred to the Ministry of Finance to ensure consistency of development plans with the resources available. Since then, it has been called the Ministry of Finance and Planning. The amalgamation of the two ministries reflected in part the advice of the World Bank to do so, and the resentment of some ministries to the power exercised by the Planning Ministry which, inter alia had control over the capital budgets of line ministries and foreign exchange allocations. It also had a considerable impact on policy initiatives, through reviews of related cabinet papers.

The aversion to planning by the new government was so pronounced that when a draft plan was submitted to Prime Minister J. R. Jayawardene, directions were issued to drop the word "plan". Accordingly, skills in plan writing had to be innovated to avoid using the word "plan". This explains why the planning documents produced annually on a rolling five-year framework were entitled "Public Investment". The focus of these documents was on public investment to support economic growth mainly through the private sector. Public investment was dominated by the three "Lead Projects" – the Accelerated Mahaweli Project, Housing and Urban Development, and the GCEC - and included several other projects proposed and implemented by the line ministries through their respective agencies. This radical change in economic policy produced spectacular results, as described below. On the policy front, the National Planning Department benefitted from a Harvard team of economists, led by Professor Joseph Stern, who provided policy advice for a short period.

The other notable features of these rolling five-year plans were its technical content. In designing the macroeconomic framework, much attention was focused on ensuring that its public investment component was fully consistent with the capital budget put together by the Treasury, based on line ministry submissions. With advice from the World Bank, a Flow of Funds, or a macroeconomic accounting framework exercise was introduced to demonstrate sources of funds and their utilization, both for the current account and the capital account for Sri Lanka, on a year-by-year basis. This was done in tabular form as well as in matrix form – very much like an input-output table. The sectors that featured in the Flow of Funds were: (i) the Government Budget; (ii) the other Public Sector; (iii) the Balance of Payments; (iv) the Private Sector; (v) the Monetary Sector; (vi) Other Financial Institutions; and (vii) the National Accounts. In its matrix form, the rows show the sources of funds, and the columns show the uses of funds. In a sense, the Flow of Funds represented a one-year slice, or a "cross-section" of the macroeconomic framework.

The initial version of this model was developed with advice from the World Bank. Also, at the initiative of the author, computerizing the macroeconomic model was done using the remote access terminal to the main computer at the National Institute of Business Management (NIBM) – long before the advent of personal computers. This land-based remote access terminal was the first of its kind installed in Sri Lanka, with the assistance of the Telecommunications Department and a private firm.

The response of the economy to the market forces operating in a liberalized economic environment was very significant. In 1978, the year after liberalization, real GDP growth surged to 8.2%. Thereafter, it stabilized to an average rate of about 5.6% from 1979 to 1983 – a level much higher than the average rate of 2.9% witnessed over the period 1971 to 1977. After 1983, the civil conflict had an adverse impact on economic development mainly through decreased levels of Foreign Direct Investment (FDI), tourism, and industrial development. Nevertheless, thanks to a liberalized economy, and the role of the private sector, Sri Lanka recorded an average growth rate of 4.7% during the civil conflict from 1983 up to the turn of the century. Even during the last five years up to 2009, real GDP growth had averaged 6% (ADB Key Indicators 2013).

4.1 Development Planning Guided by the Mahinda Chinthana

The most significant achievement in recent times has been the ending of the civil conflict in 2009. This singular event brought about not only the elimination of the "fear factor" and return to normalcy, but also a rebound in real GDP growth to 8%, largely reflecting the "peace dividend". The Government moved immediately in 2009 to: (a) resettle the Internally Displaced Persons (IDPs), on a scale perhaps unprecedented by international standards; (b) carry out extensive demining operations; and to (c) rebuild infrastructure in the North and the East.

With the return to peace and normalcy, the Government set about preparing plan documents largely guided by the Mahinda Chinthana enunciated by the former President Mahinda Rajapaksa. Several plan documents were prepared, the most recent one being "Mahinda Chinthana: Vision for the Future" – Public Investment Strategy 2014-2016, published in 2013 by the Department of National Planning, Ministry of Finance and Planning. This, like its predecessor document, is an elegant one, well presented with many tables, graphs, charts, and visual images to illustrate the initial conditions and the targets and goals along the current development path – reflecting greater clarity of presentation in this digital age. Unlike the older plans which present the macroeconomic framework, sectoral plans, and discussions on major projects, this plan has in addition, a number of targeted interventions for solving specific problems. These areas include, for example, inclusive development, empowering villages, knowledge and skills for excellence, and energy security. Addressing these problems has assumed special importance, considering the adverse impact caused by three decades of civil conflict.

Guided by the Mahinda Chinthana, the Government launched an extensive programme of economic infrastructure development, one of the largest since Independence. It consisted of two major highways, an outer circular highway, two harbours, a new airport, a modern concert hall, a large extent of road improvements, several lakes, walkways, parks, an improved physical environment, and cleaner and more attractive cities. Road improvements, in particular, play a complementary role to the output from investments in the directly productive sectors. This important role is essentially that of facilitating the movement of goods, from farms and factories to their respective markets. These investments in infrastructure, together with major investments in the health and education sectors, are contributing to economic growth and improved living standards. Poverty reduction programmes are also in progress to address the problems of lower income groups.

Sri Lanka recorded a real GDP growth rate of around 7% and an unemployment rate of a little over 4%, perhaps the lowest rate in Sri Lanka's history. The fiscal deficit is decreasing, and so is the external current account deficit. On the external front, overseas employment of close to two million Sri Lankans is contributing foreign exchange inflows equivalent to around 10% of GDP. Furthermore, the emphasis and development of information technology resulting in greater connectivity, and increased proficiency in English have enabled Sri Lanka in a more effective participation in the global economy. However, as in other developing countries, there are problems and challenges ahead, and these are being addressed. Having reached a lower-middle status, Sri Lanka is now on the threshold of joining the ranks of the upper-middle income countries.

5. UNCTAD

This section briefly reviews Gamani Corea's contributions at the international level. It was in 1963 that Raul Prebisch invited him to join a team to prepare for the first UNCTAD Conference in 1964, a decade prior to serving as Secretary General of UNCTAD from 1974 to 1984. He was also instrumental in establishing the Group of 77, and the South Centre. During this decade, developing countries had unified themselves into a single bloc and had made initiatives seeking a commitment from developed countries to provide preferential tariffs to developing countries on a universal basis. UNCTAD had also successfully completed negotiations for a Code of Conduct for Liner Conferences.

Gamani Corea assumed office as Secretary General of UNCTAD on the "ominous day" of April 1, 1974, as he calls it in his autobiography, but did not experience any popular drawbacks! At the time Corea assumed office, the oil-producing countries had formed the Organization of the Petroleum Exporting Countries (OPEC), and the fourfold oil price hike was in place. This influenced Gamani Corea's thinking towards forging unity amongst developing countries with the objective of avoiding commodity price fluctuations. He proposed a New International Economic Order, and by reviving an old idea of an integrated approach to commodities, he was instrumental in establishing an Integrated Programme for Commodities (IPC). This covered several commodities such as copper, rubber, jute, tea, tungsten, cotton, vegetable oil, and others. The objective was to stabilize prices, and to fix a floor for the price of each of these commodities.

The implementation of this approach required the combination of traditional export quotas with buffer stocks to keep prices stable. However, buffer stocks had to be funded, and a Common Fund for Commodities (CFC) was created for this purpose. The initial financing requirement was estimated at US$ 6 billion. However, the actual financing mobilized was only US$ 280 million, and the IPC ceased to operate by the mid-1980s.

Another major accomplishment to his credit was the creation of the Highly Indebted Poor Countries (HIPC) initiative, building upon his experience of chairing the Expert Group of the Non-Aligned Movement on Third World Debt which served as the basis for the HIPC initiative. His tenure at UNCTAD experienced one of the most active periods of its history.

6. International Perspectives on Economic Planning

The types of development plans cover a very wide spectrum. At one end of the spectrum are the comprehensive plans which are very quantitative in character, with emphasis on physical targets, and centralized direction control over the functioning of the economy, known as *dirigiste.* At the other end of the spectrum are the indicative plans which basically provide forecasts of the future state of the economy as a means of guiding investment choices of independent decision-makers through effective policies (Baum, Warren and Stokes Tolbert, 1985). Comprehensive plans were developed by the former Soviet Union, while the latter types, which may be described as 'comprehensive cooperative planning', were adopted by East Asian countries such as Korea and Singapore. In addition to these types of plans, those in sub-Saharan Africa and the Caribbean were largely inspired by colonial or former colonial governments and often managed by expatriates.

Development planning began in the Greek period where Aristotle had laid down the basic principles of planning. He had stated: "First, have a definite, clear, practical ideal – a goal, an objective. Second, have the necessary means to achieve your ends – wisdom, money, materials, and methods. Third, adjust your means to that end." (Bowles and Whynes, 1979). During the early part of the twentieth century, there was an increasing realization that market forces alone cannot restore equilibrium in an economy, and ensure stability needed for growth. This view was influenced inter alia, by the prevalence of imperfect competition, the business cycle, and the degree of income and wealth inequality. The climate of thought at that time was generally in line with the Keynesian philosophy that there are no automatic forces in the economy to restore it to a full employment equilibrium. Keynes proposed that some form of government investment i.e., public works was needed to pull the economy from an unemployment equilibrium. It was against this backdrop of the inadequacy of market forces to promote growth that several countries initiated systems of development planning.

6.1 The Soviet Planning Model

The first systematic plan was developed by the Soviet Union in the form of a Five-Year Plan in 1929. Since then, a series of development plans produced, were instrumental in helping the Soviet Union achieve a superpower status, both militarily and technologically, and to ensure a moderate level of living standards for its citizens. The main characteristics of these plans were that:

- All major industrial enterprises came under the direct control of centralized ministries, in a command economy.
- The national objective function was formulated as direct instructions to individual state-run firms and plants in the form of regulations as to the quantity and quality of output, quantity and sources of inputs, wages, prices, size and composition of the labour force, etc.
- Plans were developed between the Gosplan (the State Planning Committee) and individual state enterprises, in regard to feasibility and requirements.
- Plans took the form of 'material balances' in terms of actual quantities of commodities. Unlike in a capitalist economy, where there is a market mechanism based on prices, there was no such system to deal with imbalances in the economy.
- Under the Stalinist system, individual state firms were encouraged to make profits, although it was almost impossible to do so in a command economy, owing to the visible hand of central planners.
- The 'material balances' approach required an elaborate bureaucratic system for the collection of a vast number of data sets, which was very cumbersome to handle.

The structuralist approach in Soviet Planning led to a number of theoretical advances. One of them was the input-output model, developed by Wassily Leontief, based on the concept of the circular flow of economic life envisaged by the 18th century economist François Quesnay.

The inter-industry relationships inherent in the input-output table provided planners with deep insights into the structure of the economy, and how changes in one sector, or household consumption will affect the other sectors. While it provided a means of calculating outcomes by solving a set of linear equations, its use was limited by problems of data, and changes in coefficients due to technological advances or new production methods. Several countries such as France, Norway, Egypt, the United States, the United Kingdom, and Sri Lanka have computed input-output tables (Samuelson, 1980). Leontief was awarded the Nobel Prize in Economics in 1973.

Another contribution was the development of linear programming, first formulated by Leonid Vitalyevich Kantorovich, a Soviet mathematician and economist, when he was given the task of optimizing production in a plywood industry. He developed this technique for the optimal allocation of resources in the economy – in addition to a large number of contributions he had made in the field of mathematics. He was awarded the Nobel Prize in Economics in 1975. Yet another contribution was by Lev

Pontryagin, in the field of optimal control theory – where there is a large volume of literature, ever since the seminal paper by Ramsey (1928) on "A Mathematical Theory of Savings". Despite his blindness Pontryagin became one of the greatest mathematicians of the 20th century, contributing to several key areas of mathematics. He, along with three of his colleagues formulated the so called Pontryagin's principle. It is essentially a system of finding the best possible solution for taking a dynamic system from one state to another, especially when state or input controls are present. The application of this principle to a wide variety of problems is typically formulated in mathematical terms using Hamiltonians, and equations representing constraints. The optimization problem is then solved using differential equations.

The Soviet model produced tangible improvements to the living standards of the people of the Soviet Union up to a point but fell far short of those prevailing in the Western capitalist economies. This ultimately led to the fall of the Berlin Wall and the dismantling of the Soviet Union.

6.2 The Indian Planning Model

Development planning in India was greatly influenced by the Soviet planning model. The era of economic planning in India began as early as 1933. However, a very rigorous approach to planning began at the time of Independence and took the form of an unbroken series of Five-Year Plans. These plans were developed and monitored by the Planning Commission of India, functioning directly under the Prime Minister. The first Five-Year Plan was presented to Parliament by India's first Prime Minister, Jawaharlal Nehru in 1951. The macroeconomic framework was based on the well-known Harrod-Domar model, and the content of the plan was focused on the agricultural sector.

India's second Five-Year Plan (1956-61) was based on the Mahalanobis model, named after the Indian Statistician Prasanta Chandra Mahalanobis. This Plan focused on the optimal allocation of resources amongst the productive sectors of the economy, with the objective of maximizing long-run growth. It used state-of-the-art techniques of operations research, optimization, and novel statistical methods prevailing at that time. Much emphasis was placed on the development of the capital goods sector – which led to the establishment of five steel plants, and two supportive hydro-electric power projects. A basic assumption of the Plan was that of a closed economy, and that trading activity will be based on the import of capital goods.

By the time India reached the Fourth Plan (1969-1974), under the direction of Prime Minister Indira Gandhi, Development Planning in Sri Lanka had gathered much momentum. Thanks to the initiatives of Lal Jayawardena, Sri Lanka had established contact with the Planning Commission of India at the official level and a few of their officials served as Advisors at the Perspective Planning Division of Sri Lanka's Planning Ministry. We had the good fortune of visiting the Indian Planning Commission at that time and meeting with the Head of Planning, Dr. Haksar, the Deputy Chairman of Cabinet rank who reported directly to Mrs. Gandhi.

The Fourth Plan was a well-written document, and inter alia focused on the Green Revolution. At that time, the government had nationalized 14 major Indian banks, and was following a socialist approach to economic development. However, state funds had to be diverted to the Indo-Pakistan war of 1971, adversely affecting plan implementation. As a result, the actual growth rate achieved was only 3.3%, as against a target growth rate of 5.6%.

One special feature of the Fourth Plan exercise was the formulation of the Gadgil formula for the distribution of plan transfers amongst the states based on a set of objective criteria. It was named after the then deputy chairman of the Planning Commission, D. R. Gadgil. The central assistance provided for in the first three plans and annual plans lacked such objectivity.

In more recent times the Twelfth Five Year Plan (2012-2017), was prepared by the Indian Planning Commission, headed by Montek Ahluwalia. Overall, the approach followed in recent times is a liberalized one, with a greater role for the private sector. The Plan envisages a growth rate of 8 % and a 10% reduction of the level of poverty.

6.3 Planning in the Maldives

The Maldives is a country that has risen from one of the poorest in the world to one having the highest per capita income in South Asia, close to US$ 6,000. This has been achieved through a few strategic actions initially, followed by a systematic approach to development planning.

The identification of binding constraints to development in Maldives is of fairly recent origin, in the early 1970s. The key constraints related to the absence of hotels, poor transportation, and the lack of essential infrastructure, and on a larger scale, the constraints in developing tourism. Once the tourist potential was realised, the government moved decisively to remove these constraints and to develop the tourist sector. These actions, in summary form consisted of

- The leasing out of uninhabited islands to private entrepreneurs (mostly local) for the development of resorts, subject to their paying a lease rent, based on bed capacity, and a bed tax.
- Building a new airport with the assistance of a World Bank loan.
- Securing the services of foreign airlines (mostly charter flights at the initial stage) to bring in tourists; and
- Attracting foreign professionals and labour to work in Maldives.

Since these initial actions, development in the Maldives has been guided by a series of development plans, under the leadership of President Maumoon Gayoom over a 30-year period, after assuming office in 1978. The most recent plan completed was the Seventh National Plan 2006-2010.

The guiding principles of the Seventh National Plan were: (i) national ownership; (ii) enhancing trust and change; (iii) providing economic opportunities for all; (iv) promoting gender equality; (v) ensuring environmental sustainability; (vi) respecting and promoting human rights; (vii) enabling private and civil society participation; and (viii) achieving results. The Plan set out 12 important goals and 88 targets across four areas: economic growth, social equity, environment protection, and good governance. Detailed sets of policies and strategies are spelled out to achieve the goals and objectives. The Plan placed a strong emphasis on achieving the Millenium Development Goals (MDGs).

6.4 The East Asian Planning Model

In the East Asia region, Japan, Korea, Taiwan, and Singapore developed a different approach to planning, best described as comprehensive cooperative planning (Baum and Tolbert, 1985, p. 19.) The focus was on comprehensive planning, particularly on managing national resources. Building upon the traditions of these countries, the governments developed a unique partnership with the private sector in formulating long-term strategies and short-term action programs. In a sense, the plans developed were indicative plans, and did not have technical sophistication nor the requirement of strict adherence to targets. The hallmarks of these plans were, effective policies, consultation (with the private sector), and flexibility in dealing with emerging situations (Baum and Tolbert, 1985, pp. 19, 20.)

In Korea, the highest institution in charge of economic planning was the Economic Planning Board (EPB). The main focus of the EPB was on the economic policy framework, and the only major state enterprise which was regulated was that relating to the ginseng trade, considering its importance as a natural resource and its perceived health benefits. Any major economic issue that required deep study was outsourced by the EPB to the Korea Development Institute (KDI), which had a contingent of professionally qualified staff. The Korean International Economic Institute (KIEI), on the other hand, was the "business arm" of the planning apparatus and was staffed among others by desk economists who were tasked to follow up developments in other countries and explore the market potential for Korean trade. The KIEI was in close touch with the private sector providing them feedback as needed to promote trade and investment abroad. Later in 1994, the EPB and the Ministry of Finance were merged to form the Ministry of Strategy and Finance (MOSF). This Ministry has enforcement functions as well. It oversees the National Tax Tribunal and the Financial Intelligence Unit.

As noted in the World Bank study on the East Asian Miracle, the high growth performance in the East Asian economies could be attributed to getting the basics right. Private domestic investment in physical capital and investment in human capital were the principal engines of growth. These investments were sustained by high levels of domestic savings.

The World Bank study also notes that sound development policy was a major ingredient in achieving rapid growth. Macroeconomic policy was unusually good and macroeconomic performance was unusually stable for stimulating private investment that was supported by policies to increase the integrity of the banking system. On the sectoral front, education policies were implemented through multiple channels to foster development (see the World Bank study on the East Asian Miracle for a full report).

7. Concluding Remarks

Let us now transcend the foregoing discussion on development planning and pose the question as to what we have learnt in the end. The main conclusion is that, in the broadest sense, the most important factors for successful growth and development are: policies, institutions, and human resource capacity. In Sri Lanka, all these factors benefitted from Gamani Corea's work albeit for a limited period. These may be called essential components, or legs of the tripod of development. In its simplest terms, a consistent macroeconomic policy framework, supported by a suitable regulatory environment is essential for people to save, invest, and grow the economy. Appropriate institutions are required to implement policies and programs and trained professionals are needed to run these institutions. These mutually reinforcing factors of policies, institutions, and human resource capacity are required simultaneously as parts of a composite whole for growth and development. For example, two legs of this tripod, say policies and institutions, without the human resource capacity would fail to provide growth and development due to lack of implementation. Institutions and human resource capacity without effective policies will also end in failure due to lack of direction and incentives. Thus, the key to economic success would depend on this tripod of development policies, institutions, and human resource capacity. These are simple in conceptual terms, but very difficult to implement in the real world, as witnessed during the past 40 years. However, addressing these challenges is well worth the effort to ensure that a country moves on a steady path of growth and development.

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Public Lecture Delivered on 6th May, 2015
at the
Bandaranaike Memorial International Conference Hall
Colombo, Sri Lanka

A VISION FOR SRI LANKA 2025 AND 2035: PREREQUISITES FOR VERY HIGH HUMAN DEVELOPMENT

1. Introduction

The main purpose of this paper is to examine Sri Lanka's long-term prospects for human development over the next two decades. The sources of data used for this exercise are those made available in the *Human Development Report* (HDR) – in particular, the latest HDR for 2014. Sri Lanka's future possibilities are assessed in terms of the framework used in the HDR, which classifies the countries under four categories – low, medium, high, and very high human development.

The term "human development" as has been conceptualised in the HDR is a state of wellbeing in which economic development plays a part but is not the sole or dominant determinant of wellbeing. In human development, economic development is only one of three essential fundamentals of development, the other two being good health and educational attainment of the population. Each of these has equal weight in the total outcome of development. In the HDR, the state of human development of a country is measured and ranked in terms of these three basic indicators on a scale of 0 to 1. It is this analytical framework on which the paper draws.

The category of Very High Human Development (VHHD) includes 49 countries with a human development score over 0.800. These countries enjoy a PPP (Purchasing Power Parity US dollar) per capita income in a range between 17,297 (Argentina) and 119,029 (Qatar), life expectancies averaging 80 years, and a span of schooling of approximately 16 years. In comparison, Sri Lanka enjoyed a per capita income of PPP 9,250 in 2013 and was ranked at a midpoint among the 52 countries in the second category - "high human development". This category included all countries with a score between 0.800 and 0.700 on the *Human Development Index* (HDI), in which Sri Lanka has a score of 0.750. In 2015, Sri Lanka was estimated to have a per capita income of PPP US$ 10,400.

Sri Lanka's economic performance in the last two decades places it among the fastest-growing economies in the world. It achieved an annual average growth rate of 5.3% during the period 1990 to 2000, 5.6% during 2000 to 2010 and 7.0% for the most recent period 2010 to 2014. Only two countries in the category of high human development as classified in the United Nations Development Programme *(UNDP) HDR 2013* have a record of sustained growth of over 5% per annum during the entire period of 23 years. If we assume that Sri Lanka would be able to make the corrective policy adjustments that are needed to deal with the emerging macroeconomic problems, the country should be capable of sustaining high rates of growth in the next two decades, which would be in the region of 7%. Consequently, it should be able to reach the lower rungs of VHHD by 2025 and progress to higher levels of VHHD by 2035. While the paper briefly discusses the country's potential for high growth in a later section, the main purpose of the paper is not an analysis of the country's capacity for such a rate of growth. Its main focus is on the state of VHHD that it is capable of achieving in the years 2025 and 2035, assuming that it is successful in continuing to grow at current rates. On the basis of these assumptions, the paper raises the following issues:

- Apart from the three main indicators – life expectancy, education and income that constitute the HDI, what are the fundamentals that are intrinsic to the state of VHHD? And how are they manifested in the countries that are now in the category of VHHD?
- Where does Sri Lanka stand in relation to these fundamentals?
- What are the choices and options that are available for the growth path that Sri Lanka takes in the next two decades? Of the choices that are available, what are the most desirable?

To find answers to these questions, we need to examine the initial conditions from which Sri Lanka starts its journey, the distances that separate it from the levels of wellbeing, and the indicators that have been achieved by the countries that are now in the category of VHHD.

This paper is therefore an effort to delineate the states of human development Sri Lanka might be able to reach by 2025 and 2035. Thereafter, it attempts to identify the fundamentals or prerequisites that must invariably go together with VHHD and then points to the options that are available. In this process, it attempts to engage in a disciplined task of "imagining" Sri Lanka as it would /could be at these two levels and the quality of life the people would enjoy in those stages. It argues that Sri Lanka has the opportunity to evolve a model of development that offers a better mix of the state and market and can be better equipped to deal with the global challenges of over consumption, ecological threats such as global warming, and the dissonance between material and spiritual needs.

2. Per Capita Incomes of Sri Lanka in 2025 and 2035

Sri Lanka's HDI and global ranking would be a good starting point for our exercise. Let us assume that the Sri Lankan economy would be able to sustain an average growth rate of 6.5% in real terms during this 20-year period. From this we can derive a per capita income growth of 6%, assuming an average annual rate of population growth of 0.5% for the entire 20-year period.

The population projections that are available have forecast a lower average rate for the entire period - around 0.5% for the 10-year period 2015 to 2025 and 0.25 for 2025 to 2035. The economy has sustained growth rates of 8%, 8.2%, 6.3%, 7.3%, and 7.4% during the last five-year period 2010 to 2014. The Government is predicting that the growth rate will rise to over 8% in the next few years. Therefore, the more modest annual average Gross Domestic Product (GDP) growth rate of 6.5% and growth of per capita income at 6% used in the scenarios projected in this paper are arguably well within realizable limits. As economies reach high income levels, growth rates tend to decline. The World Bank estimates that growth rates for high-income countries during the period 1965 to 1999 were in the region of 3.2%. For the period from 2000 to 2010, the average growth for most VHHD economies which had reached the VHHD condition much earlier, ranged from about 2.0% (Sweden, Canada) to less than 1% (Japan, Denmark). However, fast-growing developing countries that reached the high-income levels of developed countries during 2000 to 2010, as in the case of South Korea and Singapore, continued to sustain high growth rates in the region of 6% to 7%. Therefore, there should be no insuperable structural constraints that would prevent Sri Lanka from sustaining a growth rate of 6.5% over the next 20 years, until it reaches the levels of per capita income currently enjoyed by South Korea or developed countries such as Ireland or New Zealand, which have per capita incomes in this range. Towards the end of this period, growth will decelerate and move in the direction of zero growth. This long-term trend has to be kept in perspective in Sri Lanka's journey to the VHHD condition.

The calculations are made in terms of the PPP, which has been universally accepted for making international comparisons of per capita income and the state of economic development of countries. All the data for per capita PPP incomes presented in this paper are taken from the *UNDP HDR 2014*.

The PPP income of Sri Lanka in 2013 – PPP US$ 9,250 – has been projected at 6% per annum and the outcomes for 2025 and 2035 have been derived accordingly. These projections of PPP income for the two goal posts are based on the methodology used in the HDR for constructing a time series of PPP incomes. The HDR uses the growth rate of real output for this purpose ("Technical Note 1", https://hdr.undp.org). Undoubtedly, there are issues of great complexity that arise in the use of such a method. The PPP measures income at one time; it is an inter-spatial measure not an intertemporal measure whereas in the methodology used for the present exercise, the 2013 PPP is taken as the benchmark and used as a constant PPP over time. We have to note that these projections cannot fully and accurately represent the trajectory of development that Sri Lanka takes over a 25-year period; nevertheless, it provides an adequately reliable framework for realistically "imagining" the Sri Lanka which the children and grandchildren of the present generation will inherit.

The projections given indicate that Sri Lanka would enjoy a per capita PPP income of US$ 18,952 in 2025. It would be in a state of development similar to the countries in the bottom half of the VHHD category in 2025 – countries with PPP per capita incomes in the range of 18,000 to 20,000 – Argentina with a per capita dollar income of 17,297 or Chile with an income of 20,804. In 2035, it would have reached a PPP per capita income of 33,300, which is a little above the per capita incomes reached by South Korea and New Zealand in 2013. In order to reach these destinations in 2025 and 2035, we must assume that Sri Lanka should have closed the gaps in health and education. This means that by 2025, about two years should have been added to both life expectancy and the span of learning. By 2035, four more years should have been added to life expectancy and two more years to the span of learning. We are assuming that with economic growth taking place as projected, concomitant action will be taken to close these gaps. Some of the requirements for closing these gaps are discussed in the sections that follow.

In the VHHD category, we are dealing with countries with populations of widely varying sizes. Countries with much smaller populations have economies of much larger size than Sri Lanka. Switzerland, (8.1 million population), Belgium (11.1 million population) and (Sweden 9.6 million population); each have economies in a range between PPP 400 billion and 440 million. These are the closest in the VHHD category to the size of the economy of Sri Lanka in 2025. All of them have large service sectors above 70% of GDP. By 2035, Sri Lanka's economy would be the size of the present economy of Netherlands, which has a population of around 17 million. 72% of its output is in the service sector. These figures broadly indicate the magnitude of Sri Lanka's economy and the size to which it must grow to reach the two goal-posts. They also suggest the structure of the economy and in which sector it needs to grow fastest – the service sector. This paper does not deal with the potential of Sri Lanka's economy and the sources of growth that would lead the Sri Lankan economy to the VHHD state, as such a task does not come within its scope. It is, however, an essential task and would have to be undertaken as a separate exercise. Nevertheless, what can be robustly demonstrated here is that the ongoing development trends in Sri Lanka point in the direction of an economy that relies heavily on the service sector. Services should probably account for about 70% of GDP. Some of the implications of such an economy for the pattern of growth and quality of life are examined later in the paper.

When we make international comparisons of this nature, we need to move very cautiously. While it is easy enough to point to differences and similarities when making these comparisons, the degree of uncertainty and variability becomes increasingly difficult to control when we come to evaluate the impact that these have on the total outcome. The PPP helps us to reduce a part of this uncertainty by taking the component of development that can be monetized or priced. But even with regard to the PPP as a common measure of income, experts who designed this measurement have elaborated on the problems of selecting a common bundle of goods and services, tradable and nontradable, which can serve as a tool for international comparisons. Quality of life comparisons across countries on the basis of PPP per capita income alone can also be very misleading. We can illustrate this by taking three countries in the VHHD category - South Korea, New Zealand and Israel. All three cluster round the per capita income of PPP US$ 30,000 - South Korea with a per capita income of PPP US$ 30,345, Israel US$ 29,966, and New Zealand US$ 32,599. However, this proximity in terms of PPP per capita incomes have nothing to say about the huge distance that separates the quality of life as experienced by the average citizen in these three countries, in terms of personal security, quality of the environment, the geopolitical location and threat of conflict. Whereas South Korea and Israel are at the centre of these strategic conflict zones, New Zealand located far away from the international conflict zones enjoys an existence which is almost idyllic by contrast.

What are the conclusions that we could draw from the current human development performance of Sri Lanka regarding its capacity to achieve a state of VHHD according to the two goal-posts; 2023 and 2035? We are beginning with the state of human development in 2013 and looking across a span of 12 years to 2025, and in the second stretch of the journey a further span of ten years. How do our initial conditions compare with those of countries in the VHHD category 20 years ago?

As per HDR (2014), in 1990, twenty of the countries in the VHHD category had an HDI lower than that of Sri Lanka today – 0.750. These include Singapore, South Korea, Greece, Poland, Portugal, Chile and Argentina. South Korea with an HDI of 0.731 in 1990, reached an HDI of 0.891 in 2013 – a path of growth closest to the path to be taken by Sri Lanka - 0.750 in 2013 to 0.892 in 2035.

3. Some Fundamentals of VHHD

At the very outset, it has to be acknowledged that the 49 countries in the VHHD category present a very wide variety and diversity of VHHD conditions. The paths that they have taken to arrive at the VHHD condition are equally diverse and varied.

There is first, the group of countries which were the leaders of industrialization and were already in the VHHD category in 1990 – countries of North Western Europe, North America, Australia, New Zealand, Japan; next there are the countries in southern Europe; Italy, Greece, Spain and Portugal (as well as Ireland), which were still below the cut-off point for VHHD in 1990; third, there are the oil-rich countries; Saudi Arabia, Brunei, UAE, Bahrain, Qatar; fourth, there are the two Asian economies; South Korea and Singapore; fifth, there is a group of "transitional economies" in Eastern Europe; Estonia, Poland, Latvia, Lithuania, Hungary, who have arrived from a socialist base which had already resulted in a relatively high standard of living and high social indicators with non-democratic systems. Cuba is an outlier with a fully socialist state. Then there are the two fast-growing Asian economies - Singapore and South Korea - with a mix of state and market which gives them an identity of their own. Finally, there are the two countries from South America; Chile and Argentina with socio-political and economic legacies very different from the rest.

This heterogeneity of development situations leads to the obvious conclusion that there has been no single path to the VHHD condition and there is no single country in the VHHD category that can be selected by Sri Lanka as a model for its own development.

As it would become clear in the discussion that follows, most of these countries end up in the VHHD condition only to face new problems of a persisting intractable character – high youth unemployment alongside shortages of labour, high levels of household indebtedness, over nutrition and obesity, a heavy burden of psychiatric ill health, the high prevalence of substance abuse and drug addiction, and the inevitable decline in the quality of life among the aged who now form more than 20% of their populations. Sri Lanka is at a stage when it still has the opportunity to choose from among a range of viable options, and reach a VHHD condition that can adjust better and avoid or mitigate these negatives.

For Sri Lanka's progress to the category of VHHD, the present exercise sets two goal-posts – 2025 and 2035 – and examines the state of VHHD in relation to the indicators of countries that are presently in the VHHD category. Given the capacity to achieve the goals set for per capita income, it selects six sets of issues and related indicators which appear to be fundamentally important for defining the capability for VHHD. These are:

- ***The role of government*** – total government expenditure and revenue as a % of GDP and the state's capability for the provision of a wide range of public goods and services, including economic infrastructure, health and education, social security, law and order and defense.

- ***Distribution of income and wealth, and society-wide distribution of capability*** (as defined by Amartya Sen), These indicators would represent the value system and norms of equity and justice that govern social relationships and the dimension of sharing and caring in a society, arguably the Scandinavian countries offer the best model.

- ***Human capital*** – the educational attainment of the population and the capacity to develop a knowledge-based society.

- ***The structure of the workforce*** – participation rates male and female educational levels, international mobility, and global competitiveness.

- ***Population dynamics*** – patterns of urbanization migration and the characteristics of VHHD in ageing societies.

- ***Growth, consumption, savings and life-styles,*** and a desirable state of equilibrium producing stability and contentment.

The indicators that are selected in examining these six sets of issues are what might be regarded as primary indicators of VHHD, over and above the HDI. They are "constants" in VHHD and have a long-term structural character. Performance indicators such as public debt, fiscal deficits, Foreign Direct Investment (FDI) flows have not been included. They are at a secondary level with short-term application. They are essentially indicators on aspects of macroeconomic management that are relevant to all levels of human development. They can have different meanings in different contexts. For example, in many of the VHHD countries the share of public debt as a % of GDP is quite high - Singapore, Portugal, Greece, and Italy. But the vulnerability of the economy in terms of the public debt has to be assessed not only in terms of its size but also in terms of the capacity for adjustment. In the case of Singapore, the public assets outweigh by far the public debt. Similarly, the importance of FDI for growth and the dependence on FDI can vary greatly. FDI has played only a minor role in the growth of South Korea and Japan. So far, Sri Lanka has sustained its relatively high growth rates without any large flows of FDI. Levels of FDI and foreign ownership may have an impact on the self-reliant and autonomous character of development. The performance indicators, therefore, have to be examined in each country context before we come to conclusions regarding the policies that need to be pursued.

The paper also does not deal with the political dimension of human development. The HDR excludes the political dimension in its design of the HDI owing to problems of quantifying political goods for the purpose of measurement. Nevertheless, issues of democracy and freedom of choice have been singled out as essential preconditions of development. Amartya Sen assigns a central place to democracy in the process of development, and one of his books is entitled "Development as Freedom". Several non-democratic countries such as the oil countries and Cuba have reached the state of VHHD when assessed on the non-political Human Development Index of the HDR. Even so, the values of democracy – the freedom of choice, liberty of the individual, consent of the governed, enjoyment of full human rights, and sound, effective systems of accountability - should unquestionably remain a fundamental of the model of VHHD to which Sri Lanka aspires. These issues, however, have not been brought within the scope of this paper and would require examination and analysis in a separate exercise.

4. The Role of Government

The first set of issues – the role of government - takes us directly into a very controversial and challenging area which may have far-reaching significance for the human development strategy as a whole. The analytical approach taken in this paper is based on the premise that the state of VHHD requires a strong proactive state, capable of assuming public and collective responsibility for a large and essential component of the wellbeing of its citizens. Along with it, they possess the capability to mobilize a substantial volume of resources for public spending. When government expenditure is efficiently managed and equitably allocated, the size of the government becomes a useful indicator of the partnership between government and the people, the foundation of social and political stability and the inclusiveness of a society.

A full analysis of the role of government in VHHD is hindered by the paucity of data on all aspects of government in the international databases that are available. Scholars have complained of the lack of adequate data on government expenditures and the composition of government expenditures. The *World Development Indicators 2014* provide information of central government expenses and revenues. The World Bank's *World Development Report* and the HDR also give the data for final government consumption. These do not cover government expenditure at subnational levels. The figures for total public expenditure which will include public spending at state, provincial, and local levels are available from various sources such as the *Economic Freedom Index* of the Heritage Foundation. What is relevant for our analysis would be the total public expenditure. As was mentioned, government expenditure includes military expenditure and the maintenance of armed forces; expenditure on law and order, justice, and a vast range of regulatory services; substantial outlays on the development and maintenance of the economic infrastructure; the public provision of educational services and healthcare; social protection in the form of unemployment relief, old-age pensions, income after retirement and various forms of public assistance to the vulnerable and disadvantaged groups of society.

The large majority of countries in the VHHD category have public expenditures over 35% of GDP. Government spending as a percentage of GDP has been increasing rapidly with economic growth and increase in GDP.

The countries with a style of development that offers a possible model that could be suitably adapted to Sri Lanka would be the Scandinavian countries with their social welfare orientation. These are among the countries with the highest scores on the HDI - Sweden, Denmark, Norway and Finland. The government expenditure as a percentage of GDP in these countries range from 43.9% (Norway) to 57.6 % (Denmark). The tax burden ranges from 43.2 % of GDP (Norway) to 48.1% of GDP (Denmark). The second group of countries with high proportions of public expenditure (above 40% of GDP) and tax burden, include Belgium, Netherlands, U.S.A., U.K., Italy, Germany, France, Greece, Canada, Japan, Argentina, and most of the East European states which had developed within socialist systems. In the middle range (between 30% and 40% of GDP) are Australia, Spain, Chile and South Korea. South Korea has the lowest proportion in this category (30.2% and 25.9% of GDP for expenditure and revenue respectively). Singapore stands by itself offering a model of low government expenditure and revenue - 17.1% GDP and 13.8% of GDP respectively. The data indicate a large range of options for the management of the balance between the state and the market.

To begin with, we need to take note of the fact that in the case of Singapore, the small size of government as reflected in the government expenditure and revenue, does not fully reflect the role that the government plays in the macroeconomic and sociopolitical management of Singaporean society. The decision-making capacity of the government in Singapore is derived from other sources, including the political processes which enabled it to function virtually as a one-party state, capable of mobilizing its citizens to move in the direction of clearly articulated development goals. Furthermore, the state ownership in sectors such as the economic infrastructure (transportation, telecommunication, power, water), helps the Government to play a commanding role in the framing of policies governing growth and investment. Nevertheless, Singapore could be held up as a model for its small size of government expenditure and revenue. It exemplifies “limited government” to the extent that government consumption remains small, and the major parts of the resources are available to the private sector and households. We can come back to the Singapore “model” and its relevance for Sri Lanka, after we have further analyzed the role of government in the majority of countries who have opted for a much larger role for government, in sustaining the condition of VHHD in their societies. The data for these countries sharply contradict the assumptions that are implicit in the approach that selects “limited government” as a positive indicator of macroeconomic management and development strategy.

The government expenditures in the countries in the VHHD category include a high proportion of public social expenditure. According to the data given in HDR 2014, public social expenditure accounts for almost half of the total public expenditure. In these countries, the balance of social and political forces appears to have created a value system in which society assumes collective responsibility for the provision of a whole range of public goods and services to its citizens. The majority of the countries in the VHHD category have national healthcare systems with universal coverage. The private sector in health is a very small component. The average public expenditure on education is in the region of 6% of GDP for the Organization for Economic Cooperation and Development (OECD) countries, and the public sector caters to the needs of the preponderant majority of their student populations. The social security of the non-working, aged population is the responsibility of the state. These systems and their institutions are driven by a value system closer to the value system that has underpinned the development process in Sri Lanka, than those of Asian societies such as Singapore and South Korea. This becomes evident in the system for social protection adopted in Singapore. The ruling People's Action Party in its 1998 Budget stated:

> ***"We believe that extensive welfare programmes damage the fabric of our society as they discourage individual responsibility, self-reliance, community support and the work ethic."***

The alternative that Singapore offers is one based on a high level of individual savings capable of promoting home ownership, supporting households after retirement, and meeting all the healthcare costs and living requirements. To achieve this, Singapore was able to adopt a scheme of compulsory savings averaging around 40% of income sustained over the entire working life. By 1988, the Central Provident Fund had accumulated savings that were as much as 86% of GDP and had become a major source for its housing programme, and the development of its economic infrastructure. This system relieved the state of the burden of financing a social welfare system on the lines of the Western democracies. Government expenditure was confined to the essential functions of defence, law and order, and the development and maintenance of the economic infrastructure.

In this context, the observations made by scholars who have studied the Singaporean system are relevant, when we evaluate the viability of the Singaporean model for replication outside the unique and special Singaporean context:

> ***"This anti-welfare philosophy appears to be explicitly reflected in the everyday activities of government and non-government welfare services. Service users are given temporary assistance, but are strongly encouraged to move towards self-reliance through workfare programs. Longer-term dependency on welfare assistance is considered unacceptable (Aspalter 2001, 52). For example, the introduction of the new ComCare fund was accompanied by an emphasis on "mutual obligation, not entitlement. Individuals should be prepared to help themselves. Provide assistance, not welfare."*** (CDC 2006).

> ***"To the superficial observer, the Singaporean antagonism towards the welfare state appears to be based on ideological dogmatism rather than evidence-based analysis and research. In particular, the use of loaded terms such as welfare dependency and mutual obligation seems to be sourced directly from western neo-liberal ideology. These terms imply that many poor and disadvantaged people are to blame for their own plight, and are not deserving of assistance."*** (Chee 1994, 80).

> ***"There seems to be little recognition that the free market often fails to provide for all, and that a welfare state is needed to compensate those who are poor and unemployed. Left/liberal critics of neo-liberalism would argue that increased reliance on income support payments reflects the growth of poverty and inequality in the community, rather than any individual characteristics. They believe most welfare recipients receive payments because they are poor and disadvantaged, and have little or no other income (Fraser and Gordon 1994; Mendes 2004). There is also considerable evidence that welfare states do not undermine economic growth and prosperity, and in fact play a key role in promoting social cohesion and solidarity."*** (Goodin et al 1999; Lindert 2004).

It would be seen that the alternative approaches that societies adopt to provide social protection and ensure the wellbeing of their citizens throughout the entire life cycle have far-reaching implications for the management of the economy and the development process as a whole. In contrast to the Singaporean ideology, the value system that underpins social protection in countries that opted for systems that accepted public responsibility for the social welfare of its citizens is based on rights and entitlements. It could be argued that on all counts; social, economic and political, such a system is better attuned to the values of VHHD.

According to HDR 2014, public spending as a % of GDP stands at 21.4 and government revenue as a % of GDP at 12.4 for Sri Lanka. The capacity to mobilize public resources and to provide public goods and services to its citizens is very far below that of the countries in the VHHD category. The goal posts set for 2025 and 2035 bring Sri Lanka to two levels of VHHD – 2025 brings it to the lower half where countries have higher government spending than Sri Lanka, with the exception of Chile. 2035 brings Sri Lanka to the higher half, where government expenditure and taxation would appear to require a further significant increase in the size of government as a share of GDP, with the exception of South Korea and Singapore. Korea, Chile, and in particular Singapore have substituted individual savings for public welfare systems. Singapore has succeeded in developing the system to provide comprehensive coverage on a scale that approximates to the public welfare systems of the majority of countries in the VHHD category.

The comparative data indicate that Sri Lanka has to travel a great distance before its government acquires the capacity for resource mobilization and provision of public goods and services to its citizens at levels achieved in the countries in the VHHD category. The choice between various alternatives regarding the role of government is not one which can be made freely. The choice will be determined to a large extent by country-specific conditions. A regime of mandatory savings at the very high level that Singapore was able to impose is not an option that is politically and socially feasible for most countries. Sri Lanka which is at the midpoint of high human development, starts with a level of household savings that is relatively low and tax revenues that are among the lowest in the high human development category. The initial conditions in Sri Lanka indicate that social arrangements of the type made in Singapore are beyond its reach - quite apart from the issue as to whether such arrangements are desirable in terms of their human development outcome. If Sri Lanka is to go in the direction of the Scandinavian model, the challenges are formidable. There has to be a radical re-examination of the concept of "limited government", which has been a part of the prescriptions for development policy in Sri Lanka. The capacity of the Government has to be increased to around 30% of GDP in 2025 and 40% in 2035. Its functions should include all those that are undertaken by governments in the VHHD category, ranging from economic infrastructure to social protection. The tax structure must undergo far-reaching reforms to enable the Government to mobilize the required resources. The tax system would need to be rendered more equitable, and a much larger share of the burden should fall on the wealthy than at present. Consequently, the distribution of income and wealth should move in the direction of greater equality. We could proceed to examine these attributes of VHHD in our next section.

5. Distribution of Income and Wellbeing

The data for the Gini index (ratio) in World Bank's *World Development Indicators* are based partly on income and partly on expenditure or consumption. They are, therefore, not strictly comparable across countries. The measure of inequality based on expenditure does not take into account the fact that the poor tend to be in a continuing state of indebtedness, and the rich save a significant portion of their income. The lower the ratio, the closer is the country to equality. The large majority of countries in the VHHD category have equitable distributions of income and low levels of inequality compared to the rest of the world. According to HDR 2014, Scandinavian countries; Finland, the Czech Republic, Slovak Republic, Japan and Germany have scores ranging from 24.7 (Denmark) to 28.3 (Germany). The next layer comprises a group of countries which have ratios below 40. These include France, Italy, Spain, Greece, Portugal, Australia, Canada, New Zealand, several East European countries and South Korea. The US has a ratio of 40, the highest in the western group of countries. We do not have data for the oil-rich countries except for Qatar which has a score of 41. For all these countries the index has been calculated on shares of income. Singapore, Chile and Argentina have high scores ranging from 42 for Singapore to 52.1 for Chile. It should be noted that these are three countries which have shown commitment to the concept of limited government and score high on that indicator.

The other indicators of inequality - the inequality index used in the HDR, and the shares of income of the lowest quintile compared to that of the highest quintile -

throw light on the structure of inequality. In the countries with low inequality, the share of the lowest income quintile is around 8% and the share of the highest quintile is 35% to 37%. The ratio of the highest to the lowest is between 4:1 and 5:1. The data for Singapore indicates a ratio of 10:1.

Sri Lanka shows a Gini ratio of 48 calculated on the shares of income in the Household and Income Expenditure Survey (2102/2013), and 40.3 on the shares of expenditure (World Bank, World Development Indicators, 2012). The ratio of the highest quintile of income to the lowest quintile is slightly above 10:1.

The analysis in the HDR makes a cogent case for the reduction of inequality as a vital condition for reaching the VHHD condition. Income inequality is intrinsically linked to inequality in health and education. The higher the Gini ratio, the higher the disparities in health and education. The HDR measures the inequality in the three basic dimensions of development – health, education and income, and provides an overall measure of the human inequality in these societies. According to this measure, human inequality is highest in Chile, Argentina, South Korea and the US; all of whom have a coefficient of human inequality above 15. Countries with the lowest coefficient are Norway, Denmark, Sweden, Finland, Netherlands, Slovenia and the Czech Republic; all of whom have scores below 7.

If Sri Lanka's objective is to become a society in the VHHD category with a strong proactive government with a high component of public goods and services, then its development strategy and policies have to be suitably crafted and directed towards this end. On the one hand, government budgetary policies need to ensure that the upper income quintiles are appropriately taxed and that there is an equitable redistribution through public goods and services. On the other hand, policies must result in an equitable, inequality-reducing distribution of the gains of development. This would require policies and action on several fronts. Wages and incomes policy, broad-based participation in the capital market, promotion of the mini, small and medium enterprise sector, and reduction of regional inequalities in development are among a few of the elements in an equity-oriented strategy that is needed to take Sri Lanka in the direction of a distribution of income and wealth that is intrinsic to VHHD. The structure of income distribution would have to improve considerably if it is to reach the same levels as that of countries with moderate inequality, in the range of 30 to 40, and move much further in the direction of equality to be among countries with low equality, in the range of 25 to 30. These targets would have to be effectively incorporated into strategies aimed at reaching the lower rungs of VHHD by 2025 and the higher levels by 2035.

6. Human Capital and the Educational Attainment of the Population

What clearly distinguishes the countries in the VHHD category from those in the lower categories are the indicators relating to human capital. In the computation of the HDI, these are the mean years of schooling and the expected years of schooling of the population, made possible through the prevailing system.

As per data given in HDR 2014 the mean years of schooling for the VHHD countries are generally between 10 and 12 years and the expected years of schooling are above 15. The gross enrolment in tertiary education for the majority of these countries is over 60%. When these are translated to educational attainment of the population, we find that approximately one quarter to one third of the total population above 25 years of age have had a tertiary education. A high level of educational attainment of the population is therefore an essential precondition of VHHD. It is this level of educational attainment that provides them with the capability – technological, economic, social and political - needed to reach and sustain the VHHD condition.

For Sri Lanka, these indicators - 10.8 mean years of schooling, 13.6 expected years of schooling, gross enrolment in tertiary education of 14%, and the share of the population with tertiary education at a percentage of the total population – indicate the large shortfall in human capital compared to VHHD countries. The shortfall of 3 to 4 years in the Sri Lankan span of schooling is the critical gap; it covers the span of tertiary education that is vital for reaching the VHHD condition.

There are other very important attributes of human capital in societies in the VHHD category. A significant proportion of those with tertiary education are engaged in research which keeps these societies at the cutting edge of science and technology. The number of research personnel per million population ranges between approximately 3,200 in Switzerland to 6,000 in South Korea, and 7,500 in Finland. Apart from capability in science and technology, the high educational attainment of the population results in a civil society with the intellectual capability to evaluate the outcomes of human development, and sustain a discourse on the values that should guide social, economic, and political development. The educational systems of the countries in a condition of VHHD attempt to produce the required knowledge output for all these purposes. Undoubtedly, there are issues relating to higher learning such as the limits of specialization and the need for major reforms in approaches to learning and curricula. They are complex issues that are still being debated in the VHHD countries, and higher education systems in these countries are undergoing continuous change. But the paramount need for tertiary education in the VHHD condition is not in dispute.

In this context, the country experiences that are relevant for Sri Lanka are those that have developed rapidly and reached the condition of VHHD within the time span of about 20 to 25 – South Korea and Singapore. Both these countries identified the need for high educational attainment as an overriding priority for rapid development. They then undertook the systematic expansion of the tertiary education system and dedicated a massive effort with large-scale resources to achieve this goal. Sri Lanka can learn from the South Korean example:

> ***"In 1980, the Ministry of Education implemented a number of reforms designed to make the system fairer and to increase higher education opportunities for the population at large. In a very popular move, the ministry dramatically increased enrollment at large. The number of high school graduates accepted into colleges and universities was increased from almost 403,000 students in 1980 to more than 1.4 million in 1989. This reform decreased, temporarily, the acceptance ratio from one college place for every four applicants in 1980 to one for every three applicants in 1981. In 1980, the number of students attending all kinds of higher educational institutions was almost 600,000; that number grew almost 100 percent to 1,061,403 students by 1983. By 1987 there were 1,340,381 students attending higher educational institutions. By 1987 junior colleges had an enrollment of almost 260,000 students; colleges and universities had an enrollment of almost 990,000 students; other higher education institutions enrolled the balance."*** (Wikipedia)

South Korea also made strategic use of educational facilities abroad and sent large cohorts of students to study abroad. The number of students learning abroad was estimated at approximately 250,000 in 2010.

The available data for gross enrolment in tertiary education give the astounding figure of 103% for South Korea. This means that almost all students in the tertiary age group are in tertiary educational institutions. The figure for Sri Lanka, as computed for the HDR based on national and United Nations Educational, Scientific and Cultural Organization (UNESCO) data, is 14%. The other countries, excluding the oil-rich countries, have gross enrolment in tertiary education ranging from 54% (Switzerland) to 95% (U.S.A.).

Recently, the academic community and other interested groups in Sri Lanka have agitated for a substantial increase in the allocation of resources for education, fixing a target of 6% of GDP. The Government has recently declared its intention to increase the allocation to reach this target. There is some ambiguity regarding the sources of financing (total expenditure on education would include both public and private expenditure) as well as the use of additional resources. The overriding priority in tertiary education is the rapid expansion of enrolment in tertiary education. The present situation is one in which around 150,000 students who qualify for admission to tertiary education annually are unable to obtain a tertiary education for lack of free government facilities and an inability to pay for education in a private institution.

A necessary condition of Sri Lanka's attainment of the VHHD level would be the rapid expansion of enrolment in tertiary education, to reach at least a gross enrolment of 50% by 2025 and 75% by 2035. This would require a long-term tertiary education plan covering a span of about two decades. It would need to identify the financial and human resources, the public-private mix, the academic-vocational mix, and the Research and Development (R&D) component, including the strategic use of foreign educational facilities in two stages, over a 20-year period.

7. The Structure and Quality of the Workforce

Our discussion of the educational attainment of the population in the VHHD category takes us to the structure and quality of their workforce. One set of key indicators that define the VHHD condition are those related to the special characteristics of the VHHD workforce. It is the highly educated, globally competitive workforce that enables the countries in the VHHD category to reach and sustain the state of VHHD. The high educational attainment of the population is reflected in the equally high educational levels of the workforce. On average, the percentage of the working population with a tertiary education in VHHD countries is above 30%. The data available for Sri Lanka shows that the share of the workforce with G.C.E. Advanced Level and above is 19% (2014). A large-scale expansion of tertiary education as mentioned in the preceding section is required to produce the workforce needed to reach the higher productivity and per capita income needed for the VHHD condition.

Data on workforce characteristics given in HDR 2014 indicate how these societies organize themselves for economic activity and balance their work with their personal life and leisure.

The rate of participation in the workforce is on average over 70% for most countries in the VHHD category. Their working population is therefore significantly larger as a proportion of the population than in Sri Lanka, which has a total participation rate of only 59%. The larger participation rate by itself would result in larger per capita output in the VHHD countries. One very important reason for the difference is the high rate of participation of the female population which again ranges from about 68% (U.S. 68.4%, Germany 70.8%.) to 76%. (Denmark 76.4%, Sweden 76.7%) of the working age population in the VHHD countries. However, in the south of Europe, Spain, Italy and Greece, the rates of female participation are much lower; ranging from 51.1% to 65.9%. South Korea while ranking 15th in the VHHD category has a total participation rate of 65.8% and a female participation rate of 54.5%. Sri Lanka has a female participation rate which is substantially lower - around 39%.

Another key indicator relating to the organization and nature of work in VHHD countries is the structure of employment. The predominant share of the workforce in VHHD countries is in wage employment in the private and public sectors. The segment in self-employment and in the informal microenterprise sector is quite small. The structure of employment indicates that in these countries in the VHHD category, the share of wage employment is uniformly high, ranging between 75% (Italy) and 92% (Germany). Correspondingly, the self-employed and informally employed are a tiny segment. In contrast, the data for Sri Lanka's workforce show some significant differences in the key indicators. Wage employment is 56% and self-employment in farming and nonagricultural microenterprises account for the balance 44%.

These indicators regarding employment structure and participation raise some far–reaching issues concerning the constraints that Sri Lanka faces, and the choices that it may need to make in regard to the organization of economic activity on the one hand, and the quality of life on the other. In the VHHD countries, the "formalization" of the economy and the high level of wage employment have facilitated the mobilization of resources for the social arrangements they have succeeded in making – the high levels of government revenue and social welfare programmes for most of these countries or the mandatory savings programme of Singapore. As a result these countries have been able to achieve universal coverage for their schemes of social protection. At the same time the high levels of female participation in these countries have had a far-reaching impact on gender relations and the institution of family, and its capacity for the care of children and the aged - an impact which has both positive and negative elements.

Does Sri Lanka have to travel in the direction of the structures of employment and organization of economic activity as have evolved in the VHHD countries? Does the technology that is currently available present different alternatives? For example, the economies of scale and location do not apply to the new technologies in the same manner as they did in the past. Microenterprises can operate at very high levels of technology, producing high levels of per capita output and income. This would be particularly true of the service sector which dominates the postindustrial economy. The low level of female participation in the workforce implies that Sri Lanka has a labour reserve that may work to its advantage as the labour market tightens. But is female participation at the high levels we observe in VHHD countries desirable, if other alternative social arrangements and patterns of economic activity that promote the status and rights of women are available? For example, in Sri Lanka, women are making an important contribution to the micro and small-scale nonagricultural sector. In the concluding section, some of these issues will be revisited in reviewing the choices and options that are available for Sri Lanka on its path to the VHHD condition.

8. The Population Dynamics of VHHD

Many of the indicators that have been discussed are organically linked to the population dynamics of the VHHD condition. Almost all VHHD countries have ageing populations with near-zero rates of population growth. As per HDR 2014, in all these countries the proportion of the population over 65 years ranges from 18% to 25%. The trends for ageing in Japan prefigure the typical age composition that could be expected as countries move into the VHHD condition. In this context, the conventional calculations of the burden of dependence, on the basis that the population below 15 years and over 65 years are dependent on the working population between the ages of 15 and 65 need radical revision. Increasing proportions of the population between 15 and 29 (estimated at an average of 48% for OECD countries) continue in tertiary education and a significant proportion of people over 65 years, continue in the workforce.

The final outcome of the VHHD condition as it has evolved at present is one in which societies educate and train a large proportion of their young population up to the age of about 29 to produce a highly skilled and educated workforce which in turn should produce an output sufficient to support a large population at the two ends of the life span. What demographers term the income deficit at the two ends has to be met with the high-income earning capacity in the middle. The World Bank examines these shifts of intergenerational transfers and their implications in its study *Sri Lanka Demographic Transition.* The most successful VHHD societies have succeeded in developing a value system that accepts and fulfils the intergenerational obligations that this distribution of income demands.

With an average life expectancy of 75 years and with 13% of its population over 65 years of age, Sri Lanka is already advancing into the stage of an ageing society. By 2025, it would have already arrived where many of the VHHD countries are at present, and by 2035, it would be in a stage similar to that of Japan. Sri Lanka's capacity to manage these processes successfully would depend not only on a steady and relatively high rate of growth, as has been projected but also on two other concomitants - its capacity to mobilize resources and allocate them to the development of a highly educated workforce on the one hand and the social protection of its ageing population on the other. The issues that arose in the preceding three sections on the role of government, the distribution of income and the structure of employment assume critical importance in this context.

Another key indicator of VHHD is the process of urbanization and the share of the urban population in the total population. For the large majority of these countries, the share of the urban population is in the range between 70% and 90% of the total population. A high level of urbanization appears to be an important indicator of VHHD. The spatial distribution of the population and their concentration in locations with high density has been an invariable and essential feature of the process of industrialization in VHHD countries. This distribution of population has also facilitated the provision of public goods and services on an efficient and economic scale. Urbanization also determines the quality of life in various ways. The location of work place and residence, the amount of time consumed in travel, the balance between work and home-life, rest and recreation are all governed by the man-made environment. Here, the VHHD countries have some negative outcomes in terms of ecological criteria and the quality of life.

Sri Lanka presents a very intriguing and unusual case in respect of urbanization. According to the statistics that are available, the proportion of the urban population is only round 18% - one of the lowest in the world. This low figure may be due partly to the fact that the estimate depends on the administrative classification of areas as "urban". Consequently, "urban" as defined in Sri Lanka may not include areas that are not administratively classified as such, but yet have the urban characteristics of population density and enjoy a wide range of urban amenities. But even if adjustments are made for such areas and the estimate of the urban population raised to 30%, the level of urbanization remains very low. This seeming lag in urbanization would imply that Sri Lanka has a major demographic constraint that it must overcome. It would seem that Sri Lanka would have to undertake a rapid and large-scale programme of urban development to reach the condition of VHHD.

But these conclusions that are drawn from Sri Lanka's low level of urbanization may not be valid in the Sri Lankan context. They need to be examined closely and critically. It should be noted that despite this low level of urbanization, Sri Lanka has sustained a high rate of economic growth and reached a state of high human development. The provisions of public goods and services - healthcare, education and a wide range of government programmes have reached every part of the country. The social welfare programmes which were implemented from the pre-independence period resulted in the development of townships and a thin layer of urbanization that was spread widely throughout the country. The housing stock was upgraded and permanent structures replaced the semi-permanent rural housing. Electricity has been provided to more than 90% of the households.

The rural roads have been improved and connected to the main transport system. Mobile telecommunication is available to the large majority of rural households. Access to the Internet and global centers of information and knowledge is expanding rapidly. In this process, the rural to urban migration that is normally associated with modern development has been mitigated and controlled. The steady expansion of the economy and the economic activities that sustained high economic growth in Sri Lanka did not require the agglomeration of population in megacities. The country's relatively small manufacturing sector which has been limited to light industries contributed to this pattern of moderate urbanization. Therefore, in planning the urban development for the next phase, we need to examine whether the pattern of urbanization we have in Sri Lanka offers a more eco-friendly, community-centered alternative to what has taken place in the VHHD countries. What may be required would be the improvement of the small towns and urban centers that are widely distributed at the different subnational levels, and the provision of urban type amenities and facilities to the human settlements as they are. This would be very different from the urbanization process as it took place in the VHHD countries where there were large movements of population, leading to unevenly distributed high-density population centers with all their concomitant problems. The alternative pattern of urbanization that has developed in Sri Lanka is also made possible by the technological revolution in which, as stated earlier, the economies of location and scale have diminishing value and application.

9. Growth, Consumption and Lifestyles

Countries which have arrived at the VHHD condition are confronted with certain fundamental problems which they have not succeeded in solving. The most striking negative indicators are the following: high rates of youth unemployment; high levels of household indebtedness reflecting a long-term imbalance between income and consumption; urban environmental problems of congestion and pollution; overconsumption and overnutrition resulting in high levels of obesity; high prevalence of substance abuse and drug addiction; a heavy burden of psychiatric diseases arising from lifestyles and non-economic causes. The abundance of material goods is accompanied by various forms of psychological and spiritual deprivations which are not clearly recognized or adequately addressed. The state of VHHD that Sri Lanka eventually achieves should be as free as possible from these maladjustments.

Immunity against these maladjustments would require an alternative style of development for Sri Lanka.

There are many lessons to be learnt from the experience of VHHD countries. On the one hand, the structure of demand in these countries has undergone a radical transformation with the ageing population. All the structural trends inherent to the process of ageing are driving these societies to a stabilized population, a declining or stationary workforce and near zero economic growth. On the other hand, high youth unemployment is demanding the creation of new jobs, stimulation of demand and consumption, and economic growth adequate to meet these objectives.

These problems have not been overcome by the macroeconomic policy prescriptions that the VHHD countries and the international agencies have prescribed up to now. In almost all these countries, high levels of gross household debt often exceeding the gross disposable income have sustained levels of consumption and expenditure well above the levels of income and output, according to HDR 2014. The macroeconomic adjustments that are prescribed which focus on public expenditures, public debt and fiscal imbalances have not been effective. The VHHD condition has simply failed to adapt on a long-term basis to conditions of zero growth and ageing, and seeks a long-term equilibrium at a reasonably high level of consumption with zero or near zero growth. The excessive consumption that has been sustained in the VHHD countries has created endemic problems for their own economies, problems which are continuously spilling to the rest of the global economy and impeding world development. Simultaneously, these countries are producing the ecological outcomes that are damaging the environment on a planetary scale.

The VHHD condition has therefore raised fundamental issues concerning the sustainable equilibrium of consumption and output – issues which have been examined by a minority of economists such as Herman Daly and Robert Skidelsky. These have great relevance for Sri Lanka and the policy choices that it makes in its path to the condition of VHHD in the next two decades. To what extent should the rate of economic growth dictate these policies and shape the long-term goals of the good society which Sri Lanka should seek to realize? Adam Smith predicted that the process of growth would come to an end in 200 years and John Stewart Mill in *Principles of Political Economy* had this observation to make:

> ***"The end of growth leads to a stationary state. The stationary state of capital and wealth would be a very considerable improvement on our present condition."***

Keynes's approach to economic growth is reflected in the following comments:

> ***"Avarice is a vice, and the exaction of usury is a misdemeanor, and the love of money is detestable. We shall once more value ends above means and prefer the good to the useful."***

> ***"The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or reoccupied, by our real problems - the problems of life and of human relations, of creation and behavior and religion."***

Skidelsky in his recent book on Keynes has some enlightening observations on the larger ethical and moral frameworks within which Keynes did his economic thinking:

> ***"Keynes' ethical approach offers considerations which have acquired a fresh importance in the context of the present 'crisis of capitalism' it keeps alive the importance of having an idea of the good life, it brings out the relevance of philosophy for economics. In advocating state sponsorship of the arts and the beautification of cities, he provided an ethically based argument for public action to influence the composition as well as the level of demand; he kept alive the idea of a just price; and finally he raised the question whether morals can survive without religion."***

The community of ecological economists led by Herman Daly argue that long-term sustainability requires the transition to what is described as a steady state in which economic growth is zero and total GDP remains more or less constant. They argue that most of the ills of the developed economies and the world economy are due to the inability to make an orderly transition to this state. They point out that increases in economic efficiency and technological innovation will keep on increasing aggregate consumption, whereas it is unrestrained consumption and lack of frugality that is at the root of the over-riding ecological problem that the human species faces, collectively.

The HDR has been grappling with the problem of giving an appropriate value to per capita income in calculating the HDI. In the early reports, it drew attention to the diminishing utility of income as it increases, and adjusted per capita income by using the logarithm of income and setting a maximum of 40,000 PPP US$ arguing that "human development does not require unlimited growth". In the HDR 2014, it has raised the maximum to 75,000 PPP US$. But nowhere has the HDR explored the full implications of this position and the policies it implies. Ecological economists on the other hand have developed a policy framework to guide the transition to a steady state. A final word, however, needs to be said about the theoretical work on zero growth. Much of this work approaches the limits of growth through the supply end – the limits to the factors of production – land, labour and capital. Not sufficient attention is paid to the demand end and the impact of collective ageing of a society on aggregate demand. Will the ageing of society act independently on collective human behavior to reduce aggregate demand, and temper the avarice and greed that drove unbridled consumption in capitalist societies?

There are important lessons that Sri Lanka must learn from the maladjustments that have occurred in the VHHD countries. If Sri Lanka is to avoid these maladjustments, it would have to make choices that address their root causes; this means that Sri Lanka would have to move on a path that enables it to adjust better to the ageing of the population, the decline of the workforce and low or near zero growth. In such an approach, the rate of economic growth cannot become the overriding objective as it is now. Individual self-interest directed at maximization of profit must not become the driving principle of society. Sri Lanka must guard against outcomes that push the country in the direction of a consumerist model leading to immoderate consumption. The growth objective must be tempered by the concern for the distribution of growth and its benefits, concern for equity in growth outcomes. The states of subjective wellbeing, psychological and spiritual, must have a central place in VHHD as much as physical and material wellbeing.

There are many features of Sri Lanka's development as it has evolved that may enable it to find such a path. One set of indicators that has been discussed demonstrate that there are major gaps that have to be filled - strengthening government capacity for provision of public goods and services, raising the educational attainment of the population and workforce, and processes that reduce inequalities and produce a much more equitable income distribution. Ongoing policies may have to be tested against these needs. On the other hand, Sri Lanka has some unusual indicators in regard to urbanization, participation in the workforce and the structure of employment. These initially appear as shortfalls but in fact they may provide alternatives that can ensure a higher quality of life, a better balance of work and personal life, of material and spiritual needs, and a more people-centered pattern of economic activity and governance. The dominant Buddhist value system supported by the other major religious and spiritual traditions may have an important part to play in shaping such a lifestyle.

10. Conclusion

This paper provides only a rough sketch of Sri Lanka's path to VHHD. An exercise in much greater detail and depth is needed to test some of the underlying assumptions as well as the conclusions. What is presented contains some of the skeletal elements of a Sri Lankan model of development that have to be further defined and given flesh and body. As stated earlier, the estimates of sustained high economic growth of per capita incomes would have to be verified in relation to the potential of the Sri Lankan economy and the sources of growth. In the VHHD condition, the service sector based on knowledge and high technology accounts for over 70% of GDP. The ongoing processes indicate that Sri Lanka could move in the direction of an economy with a strong service sector that might be capable of such growth. We can imagine a Sri Lanka with a service sector in the region of 70% of the economy, a soft economy with low levels of pollution.

An economy of this type has implications for other facets of Sri Lanka's development. The prevailing structures of employment could be strengthened to build a modern small-scale and microscale enterprise sector of considerable size - a sector which is knowledge-based, operating at a high technological level and globally competitive. The character of urbanization is also linked to the solution of other sociopolitical problems in Sri Lanka. It can be the economic infrastructure of a system of government in which the tier of government closest to the people is given prime importance in the devolution and decentralization of power.

The paper also argues that to address the root causes of the present maladjustments of VHHD countries, the VHHD model has to be non-consumerist and better adjusted to the structural characteristics of ageing societies leading to near-zero growth. Such an approach calls for lifestyle changes of a far-reaching character; it calls for an approach fully sensitive to the life cycle and the needs at every major stage of life. These changes must help to achieve the equilibrium which contains consumption and growth within sustainable limits. Above all, these changes require an overarching value system which defines “the good life” and directs growth and consumption to that end. The intrinsic working of the system must be such that in Keynes’ words society and its members “value ends more than the means and the good more than the useful”. We have to see whether the intellectual moral and spiritual resources that Sri Lanka can draw upon can enable it to develop such an overarching value system that can guide it to the VHHD condition.

Dr. Lloyd Fernando

Dr. Lloyd Fernando was appointed a founding member of the Board of Directors of the Gamani Corea Foundation by the late Dr. Gamani Corea himself in 2002. He has been the Honorary Chairman of the Board since 2020.

Dr. Fernando had his university education in Moscow (M.Sc., Patrice Lumumba Peoples' Friendship University, 1966) and Sussex (D.Phil., University of Sussex, 1979). He had a long and illustrious career at the Ministry of Finance and Planning. He was the Director General, Department of National Planning and the State Secretary, Ministry of Policy Planning and Implementation. In 1993, he retired prematurely to take up the position of Alternate Executive Director at the Asian Development Bank in Manila. On his return to Sri Lanka, Dr. Fernando held the position of Chairman, Marga Institute and Program Director, Public Policy at the Postgraduate Institute of Management (PIM), Sri Jayewardenepura University. He was the Founder Director of the Institute of Policy Studies.

He served on numerous government commissions and advisory boards, including the Salaries and Cadre Commission and the National Administrative Reforms Council. One of his major achievements was the design and execution of the popular DEPS (Distance Education for Public Servants 2001-2003) program with NORAD assistance, reaching almost 3,000 senior public servants operating in all the nine provinces. His research publications cover macroeconomics, development planning, public policy, and administrative reforms.

Public Lecture Delivered on 31st August, 2015

at the

Bandaranaike Memorial International Conference Hall

Colombo, Sri Lanka

THE FIVE-POINT PLAN AND THE TEN-POINT AGREEMENT

1. Introduction

The people have spoken and rejected the old regime. In 2015, the new government is yet struggling to be born. It appears that 46% of the voters have endorsed the United National Front (UNF) Five-Point Plan. The Ten-Point Agreement signed between the UNF and a section of the Sri Lanka Freedom Party (SLFP) has not deviated from it. What was published, perhaps, is only a summary of that agreement. That could be the reason why it appears to be an incoherent, disconnected wish list. All political manifestos, however, display characteristics of wish lists. Their implementability becomes apparent only when subjected, at least as a preliminary step, to the objective scrutiny of a simple SWOT analysis[1], the methodology of which is quite well known. The important point is that political rhetoric and subjective promises cannot defeat the operation of basic economic laws, which politicians often tend to ignore due to myopic political interests.

The whole edifice of economic theory rests on the simple concept of opportunity costs which indicates that you have to set your priorities right. You don't have to go to university to know this. It is also common knowledge that there are constraints to policy implementation associated with the availability of financial resources, institutional capacity, productive manpower, linkage effects, externalities, social and political impacts, as well as international economic conditions, which need to be objectively studied before any policy is formulated and tried out. It calls, in the ultimate analysis, for a coordinated approach to development management, which the late Shelton Wanasinghe observed to be necessary in the case of administrative reforms.

In *Report No 1 Administrative Reforms - An Agenda for Action,* he warns that:

> ***"The Committee does not consider that it is possible to implement bits and pieces of the proposed agenda and to expect to improve effectiveness. Actually, the implementation of bits and pieces of the suggested agenda could be dangerous in that it would lead to incoherent and chaotic results which would put the administrative system back rather than propel it forward.***
>
> ***Thus the Committee is unequivocal in requesting the Government that its recommendations be considered in totality and implemented as a whole."***

The Report was published in 1987. What happened thereafter is common knowledge replete with lessons. All governments that held power since then ignored this advice.

1 Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis is a very well-known method of ascertaining the strengths, weaknesses, opportunities and threats affecting a policy or a project proposal.

There were many ad hoc, ill-conceived, uncoordinated reform measures, mostly meant to score political brownie points and what we have today is a sick giant in the form of a public administration system, incapable of supporting a concerted development effort. The problem is not only with public administration. All areas of government development policy suffer from this malaise.

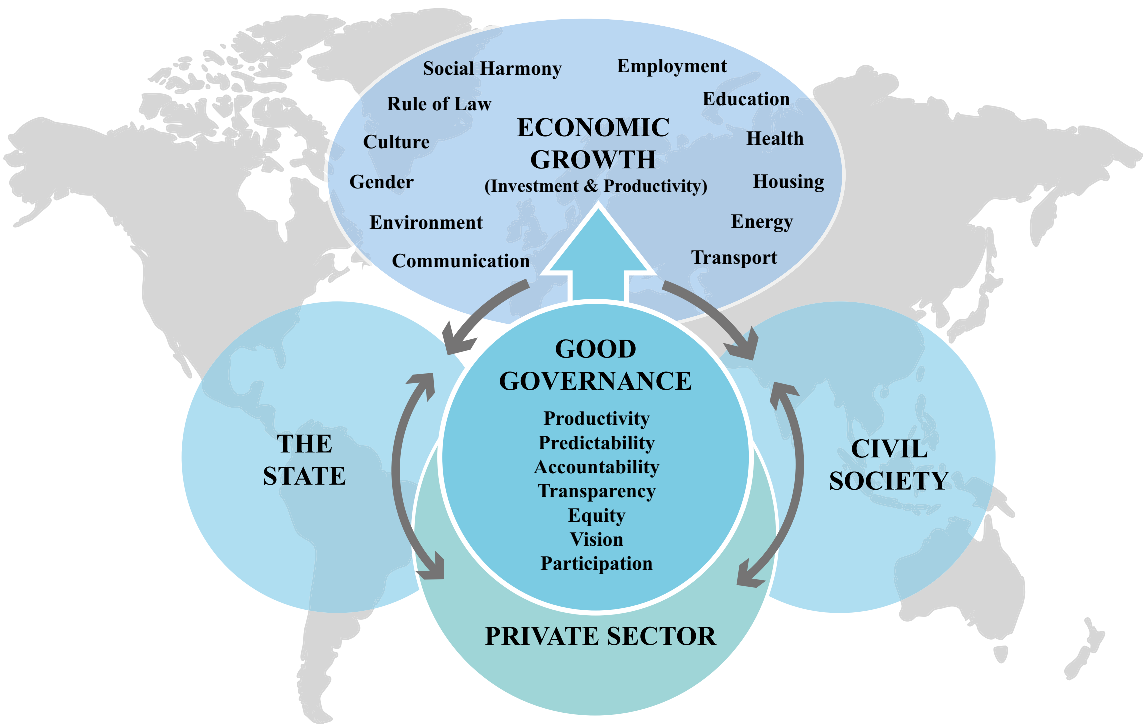
The main message of this presentation is the crucial need for a holistic approach to development, leading to a system of planning and implementation based on the principles of 'good governance' and 'management for development results'.

2. The Development Paradigm

The need for a holistic view and a coordinated approach to development is well reflected in the following diagram:

Diagram 1

The Development Paradigm



The global setting reflects the need to consider the international market implications of domestic development policy. We tried to ignore these in the pre-1977 period and what happened to domestic production, consumption, income growth, distribution, employment and balance of payments is well known and recorded. These issues will be analyzed later when we consider the manifesto proposals.

• Economic Growth

The top circle on 'economic growth' is an attempt to define the concept of development. It is now universally accepted that economic growth is only a 'necessary condition' and not a 'sufficient condition' of development. Economists today refer to development as a process of 'inclusive growth' which contains all the indicators connected to growth. Growth itself is a result of investment and productivity. But for growth to become 'inclusive' it must produce better education, health, housing, etc. What is important to note, however, is that this is not a 'one directional' relationship but a mutually reinforcing one. Economic growth provides opportunities for better education, health, employment, etc., but is also symbiotically influenced by them. Such a symbiosis exists also among the various elements of development such as between education and health, which reinforces each other. What it suggests is that these symbiotic relationships must be taken into account in determining development policy and implementation systems.

• Partnership

Development in a market-based economy (the opposite is the Soviet-type state-owned system, which is now history) is the result of a partnership involving the State, Private Sector and Civil Society. The effectiveness (development impact) of that partnership is determined by the promotional outcome of the principles of 'good governance'. It is a popular saying that 'the private sector is the engine of growth but the government is the engine driver'. As the engine driver, it is primarily the government's responsibility to ensure the application of the principles (or rules) of good governance.

Accordingly, the principles of good governance emerge not merely as ethical or moral concepts but as technical imperatives of development. The technical effects of good governance on development become obvious when we examine the role of each principle.

• Vision

Any partnership is based on a mutual understanding of common goals. A collective vision therefore lays the foundation for an effective partnership. A vision is not a dream or wishful thinking as usually contained in political manifestos. Yet, political manifestos subjected to a SWOT analysis could provide the basis for a viable vision.

A collective vision cannot be formulated by a group of experts only. It must be the result of an intensive dialogue involving all stakeholders. It should not be couched in mere ideological terminology or obscure economic theory; nor is it a mere set of numbers. It is a vivid idealized description of a desired outcome of collective effort that inspires, energizes and helps stakeholders to create a mental picture of the targets to be achieved.

It is the prelude to a long-term Perspective Plan, like our own Ten-Year Plan (1959), which provides the basis for a series of medium-term (normally five-year) plans, usually broken down into Annual Plans, preferably on a 'rolling plan' basis. The advantage of a collective vision is that it provides a long-term perspective of opportunities and challenges to business community as well as the people. It is useful particularly where long gestation investments are needed. A credible 'development vision' becomes a powerful tool in attracting meaningful Foreign Direct Investment (FDI).

Malaysia produced one of the best-known long-term visions (Vision 2020) in 1991 which guided its development policies right throughout the years, helping it to get closer to developed country status. Korea started its march towards development guided by long-term economic goals. Currently, it is guided by its Vision 2025. A common characteristic of all these exercises (the Malaysian and the Korean) is the position given to science and technology and human resource development.

There is a lot one could learn from these visionary outlooks and plans. We have to be cautious, however, in trying to adopt any particular model of development, whether it is the Malaysian, Korean, Singaporean, German or even Soviet, or Chinese models, for they have grown up under very different socio-economic and political conditions with deep historical roots. Lessons could be learnt, nevertheless, from individual sectoral achievements, such as in the case of the development of human resources, technology, as well as physical infrastructure.

• Equity

A collective vision takes shape only when there is equity. This is not equality per se but equality of opportunity, the opposite of discrimination. Discrimination is not only morally wrong but also deprives a country of the benefits of participation and competition. It is the competition that brings forth the best in people and organizations. Once you remove competition the incentive for better performance is lost. The strength of capitalism lies in competition which drives businesses to improve the quality of their products, lower costs, explore new technologies, train and motivate workers and raise labour productivity. Where discrimination sets in providing patronage to a select group, the result is crony capitalism, which is corrosive, corrupt and repressive.

Discrimination due to social differences - ethnic, religious or cultural - is equally corrosive. It affects not only those who are alienated but also the country as a whole through loss of national productivity. Where alienation has deep-rooted historical reasons and requires concerted long-term intervention, there is a case for affirmative action, at least as a short-term measure, as in the case of the estate population in Sri Lanka. The problems of the people in the North, and some districts of the East, can be traced mostly to the armed conflict. Separatism or even near separatism through unrealistic devolution, as advocated by certain political groups, could only exacerbate the situation by prolonging suspicion, fear and even new armed conflicts. The answer lies in 'inclusive development' through partnerships based on the fundamental principles of good governance.

A segment of the population which requires affirmative action, particularly in a developing country context, is poor women and quite often middle-class women. Discrimination against women has deep-rooted historical reasons and cultural practices. The Ten-Point Agreement refers to women's and children's rights "and adds that measures need to be taken to ensure women's social, economic and cultural rights and also to empower them and that laws need to be formulated in accordance with the United Nations Pledge on the elimination of discrimination against women."

Affirmative action, unfortunately, depends often on men's perception. Women have a weak voice because of relatively poor education and political power; even though, ironically, they make a significant contribution to development. In Sri Lanka, they contribute heavily to export earnings by engaging in estate agriculture, garment manufacture and also as migrant labour. It is also noteworthy that they handle most of the school and pre-school education. What is sadly ignored is the role they play in managing families, a creation of value that never enters the calculation of Gross Domestic Product (GDP). Civil society organizations in Sri Lanka have highlighted some of the basic issues but the political voice of women is muted due to poor representation in Parliament and other state assemblies.

• Transparency

Transparency is the bedrock of equity. Where information on government policies, rules, regulations and procedures is available only to a favoured group there is room for corruption and crony capitalism. Insider trading, restricted tender board information, and advanced information on impending financial policy made available to a few favoured parties are examples of corrupt practices.[2]

The proposed Right to Information (RTI) Act, if passed by Parliament will have a significant impact on transparency of government policy and implementation. Section 2 of the Draft Act states, "Subject to the provisions of section 5, every person shall have a right of access to official information which is in the possession, custody or control of a public authority." Section 8 specifies the type of information, which covers, inter alia, particulars relating to the organization, functions, activities and duties of the ministry, powers, duties and functions of officers and employees, rules, regulations, instructions, manuals, as well as facilities available to citizens. These are details that could be easily covered on the various institutional websites. However, even where websites have been established, they are rarely updated. A central authority such as the Ministry of Public Administration should take to task government institutions that do not update information.

A major issue that has prevented the enactment of the RTI Act in Parliament is the controversy regarding the exemptions list covered under Section 5, which precludes information that "would constitute an invasion of personal privacy", "cause serious harm to the defence of the state, its territorial integrity or national security, cause serious danger to life or safety of any person and would be or is likely to be seriously prejudicial to Sri Lanka's relations with any state or international organizations, where such information was given by or obtained from such state or international organization, in confidence." Similarly, there are exemptions in regard to premature

2 In a letter addressed to the Senior Assistant Secretary to the President, the Secretary, Ministry of Power and Energy has complained that a particular company was able to manipulate tender conditions in respect of supply of coal to the thermal power plant in Norochcholai by having access to information that was privy only to the Standing Cabinet Appointed Procurement Committee (SCAPC) and the Technical Evaluation Committee – Daily News, August 3, 2015.

information relating to exchange rate, banking regulations, taxation as well as prices and wages policies.[3]

The complexity of enacting legislation giving citizenry the right to information is so complex that India took nine years to complete the process and finally did so in 2005. But it was the result of a relentless struggle spearheaded by civil society organizations. Even after enactment, there were various attempts to dilute it, the Government going to the extent of engaging a British consultancy firm to produce learned reports. One of the arguments put forward was that the bureaucracy was already overburdened with work, an argument gladly supported by a good segment of senior government officials that it is not possible to comply with some of the requirements of producing information. It has been reported that there were even death threats used to intimidate certain civil society activists in order to weaken the provisions of the Act. It is, however, implemented now without much hindrance and has become a powerful tool of enforcing discipline in government spending and curbing corruption.[4]

• Accountability

There is a link connecting accountability, transparency, predictability, participation, equity and finally productivity. The Organization for Economic Cooperation and Development (OECD) Code of Ethics says that public servants should be accountable for their actions, to their superiors and the public, for compliance with rules, regulations and procedures. In the new approaches to public administration, they have to be accountable for the results and outcomes of their actions.

The principal aim of accountability systems is to prevent corruption - the abuse of public office for personal gain. Corruption has many corrosive effects on development. It adds to costs, which have to be borne by the people. It also discourages investment because of the additional financial burden. Corruption also misallocates talent, for rent-seeking activity becomes more lucrative than productive activity. It also leads to misallocation of resources particularly foreign aid and foreign private investment.

Accountability in respect of the use of public funds (finances) is clearly laid down in the form of parliamentary allocations through the Annual Budget and the system of reporting through the Treasury to the Public Accounts Committee. Ministries and departments are not permitted to exceed the expenditure limits set out in the Budget, nor are they allowed to switch expenditures. However, they have often recourse to 'supplementary estimates', which weakens the principle of public accountability, even though one might argue that it is the proper practice in terms of the Constitution. Supplementary estimates are not fully debated, rushed through Parliament and alter the originally agreed parameters of the Budget. A further shortcoming is that the Public Accounts Committee rarely meets and its deliberations are often a formality, especially with the new practice of a governing party member of parliament chairing the meetings. Even though the Committee on Public Enterprises (COPE) has been meeting more often, the question is how much of the decisions have been implemented.

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3 Readers are advised to read the Draft RTI Bill (2015) for more accurate information.

4 Right to Information, Daily News, August 3, 2015..

Secretaries of ministries are often referred to as ‘Chief Accounting Officers’. The question is, how ‘independent’ are they to perform that function? Can they deviate from the parochial political interests of the ministers under whom they serve? They are firstly, expected to function “subject to the direction and control of his Minister, exercise supervision over the departments of government and other institutions in charge of the Minister” (19th Amendment, Section 52(2). In the 1946 Constitution, the Permanent Secretary exercised such supervision “subject to the general direction and control of his Minister.” In the 1972 Constitution, the word “general” was deleted. “General direction” relates to matters of policy only.

Further, “the Secretary to a Ministry shall cease to hold office upon the dissolution of the Cabinet of Ministers….”[5], tying further the fortunes of his office to that of the minister. This encourages secretaries to acquiesce in the violation of rules and regulations proposed by a minister. Further, what is generally observed is that the majority of the current secretaries do not have the requisite knowledge and intellectual capacity to stand up to a minister when attempts are made to violate accountability.

It is generally believed that the proposed Audit Commission and the Audit Service, however, could help secretaries and heads of departments to play their roles as chief accounting officers and custodians of accountability. Yet, there is a danger that an ‘overkill audit system’ could rob government institutions of the benefit of innovative practices, pushing heads of institutions to play safe. This is a universally observed phenomenon, as Lou Winnick of the Ford Foundation, observed in the U.S.:

> ***“In government all of the incentive is in the direction of not making mistakes. You can have 99 successes and nobody notices, and one mistake and you are dead.”[6]***

• Predictability

Predictability assumes that laws, rules, regulations, procedures and policy decisions, once adopted, and are followed diligently. To change these in midstream is like shifting the goalpost in a soccer match when play is in progress, in order to influence the outcome. Predictability is based on the cardinal principle of the Rule of Law, which means that decisions made by the government are not arbitrary, instead are founded on well-defined rights and duties. It also means that rules are applied without exception, unless predetermined and made transparent. Where rules appear to be inappropriate to changing situations, their annulment or amendment must be decided *ex-ante,* providing sufficient time for private decision-makers and stakeholders to adjust their plans. Failure to do so has often resulted in costly litigation.

Consider, for instance, the award of a government tender, which is later quashed by the courts because proper procedures have not been followed. Far worse are situations where tenders have been received, processed and decisions taken, only

5 Nihal Jayawickrama, The Proposed 19th Amendment - a Critique, Sunday Island March 29, 2015.

6 19th Amendment Section 52 (2).

to discover that the terms of reference are not consonant with the objectives of the project, as a result of which fresh tenders have to be called. The question arises as to who compensates the bidding firms for the expenses incurred in preparing the bids.

It is important, to appreciate that a predictable regulatory framework is crucial for firms to calculate the expected return on investment. On the other hand, uncertainty regarding the application of regulations raises the cost of capital by increasing the risk of investment. Investors need to be assured that bidding processes are fair and free from undue political influence, bureaucratic discretion or serious negligence. It means that the results of public bidding must be honoured and implemented.

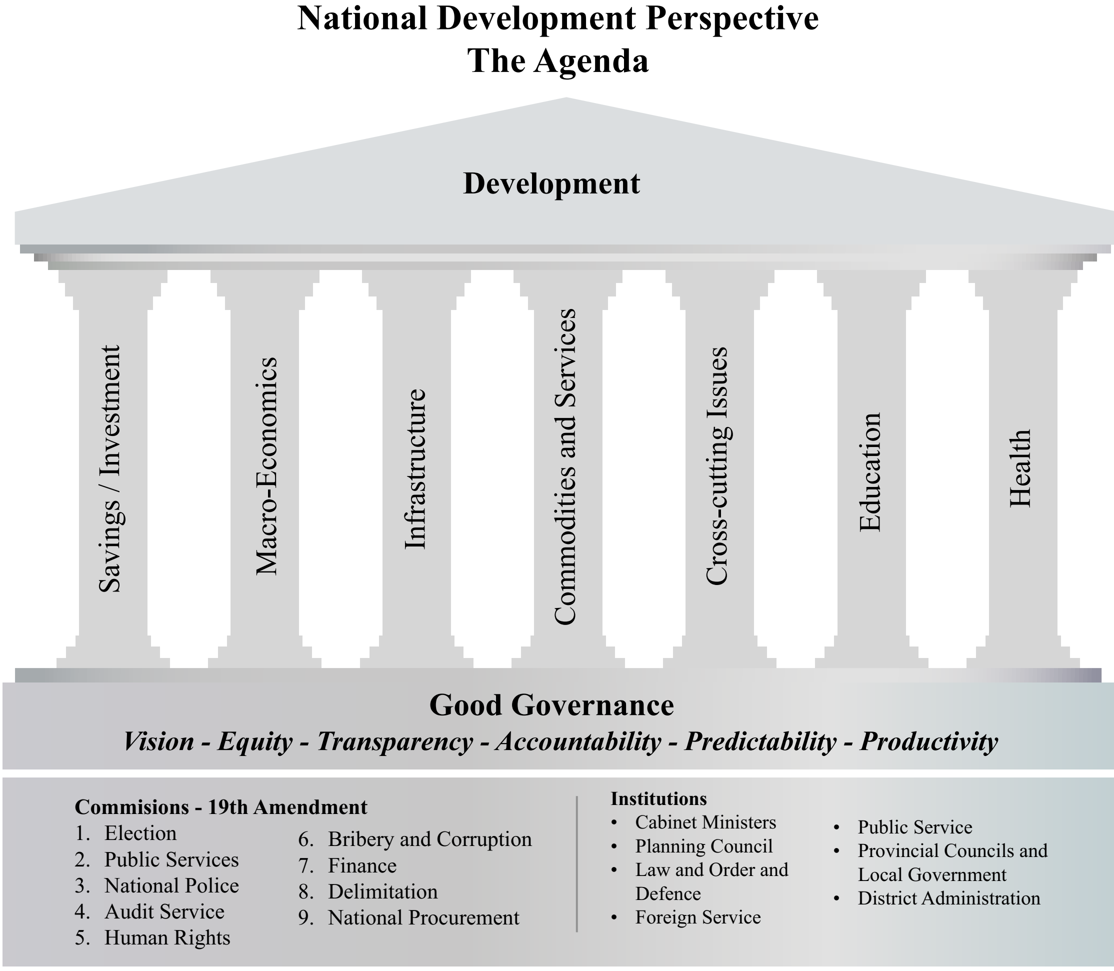
Predictability is important also where citizens are concerned. They must know that the law would be applied to everyone equally. Consider the situation where an ordinary citizen has to go to a police station to lodge a complaint. He would be well advised to get an introduction from an influential politician to be taken seriously by the relevant officers. Failure to do so could result in having to meet a countercharge from the opposite party which has better political influence. Even where political intervention is not required to sell a point of view, one could still be at the mercy of cynical police officers who may not care about a citizen's right to save time.

• Productivity

Productivity could be viewed both as a principle, as well as, an outcome of good governance. There are two sides to productivity - efficiency and effectiveness. Efficiency reflects doing a job within an expected time frame at relatively low cost, while effectiveness reflects doing it appropriately, with optimum outcome. Productivity is extremely important where there is a lack of capital and an investment constraint. While skills, technology, management, leadership and motivation are essential factors of efficiency, productivity also means rational decision-making with regard to the choice of investment. You could build a school with utmost efficiency but if there are no students and teachers, it becomes a waste of limited resources. Wrong investment decisions are often the result of parochial political interests, which made one-time Soviet Prime Minister, Nikita Sergeyevich Khrushchev to remark that "politicians are good at building bridges, where there are no rivers." A good decision-making process is a fundamental outcome of good governance. It is the foundation of development.

The Diagram 2 below attempts to indicate graphically the ideal decision-making process, in a coordinated manner, based on the institutions of good governance as the foundation:

Diagram 2



3. Development

There is often a tendency to mix desired outcomes (development indicators) with outputs, activities and inputs. This is obvious when you look at all the political party manifestos. The UNF Manifesto proposes a "five-point plan", suggesting such a mixture.

A political party manifesto, even the best written, cannot be implemented without going through the discipline of a planning process. There is enough experience in developing countries from which one could learn how successful plans could be drawn up and implemented effectively. The most accepted approach, in simple terms, is suggested by the methodology that is popularly known as Managing for Development Results (MfDR)[7]. The process starts with defining the desired outcomes,

7 Please see: *www.mpi.gov.lk,* for a short description of MfDR under the former Ministry of Plan Implementation. An excellent, more comprehensive paper was published in 2009 by Dhara Wijayatilake who was in charge of establishing the MfDR system in the Ministry of Plan Implementation. The whole system was discarded when the Ministry of Finance took over the function of project monitoring.

precisely in the form of Key Performance Indicators (KPI), which are then worked backwards through the identification of the related outputs, activities and inputs.[8] The process, however, takes the form of an iterative exercise, reworking KPIs in line with available inputs, possible activities and outputs. All the desired outcomes in the manifesto will have to be put through this process. Planning, however, is not complete without an arrangement for progress monitoring and impact assessment. The planning process is complete only when the impact assessment provides feedback for midterm adjustments and future planning.

• The Seven Pillars

The seven pillars represent planning categories arranged separately for analytical convenience. They should not be confused with the conventional economic sectors, even though they contain some of those characteristics. The important thing to note, to repeat once again, is that all the pillars must function in a coordinated manner, supported by the institutions of good governance, which provide the foundation.

Savings and Investment

Investment, supported by productivity (incremental capital output ratio) is the basis for economic growth. It is economic growth that creates opportunities for employment and increase in per capita incomes, which when distributed equitably (not equally, but, based on individual contributions) results in overall prosperity. The level of investment required is determined by national savings plus foreign savings (loans and direct investment).

Sri Lanka managed to invest about 30% of its GDP during the last few years; 24% of it on average came from the private sector. Government investment was about 6%. The rate of growth of GDP during this period was about 7%. What it implies is that the incremental capital-output ratio (ICOR), reflecting the productivity of capital, was around 4.3. If we are to increase the growth rate to 8% per annum, we will need an investment of around 35%, unless, of course we manage to reduce the ICOR through higher productivity by introducing new technology and skills.

Accordingly, there is a need to bridge the gap in investment and productivity, which given domestic constraints, pushes us to seek productive FDI. Loan financing could mitigate the need but, beyond a point, could create debt servicing problems with balance of payment implications. The best solution lies in attracting FDI, but to areas which either increase our export earnings or reduce import expenditure, or even better, do both. The latter indicates the reason why arbitrary attraction of FDI is not only of little use, but even harmful.

There is, however, intense international competition for FDI. The United Nations Conference on Trade and Development (UNCTAD) Annual Reports on foreign investment indicate the pull factors - what attracts FDI to a host country. Obviously, the main reason is the opportunity to make profits, even though there may be exceptions,

8 David Osborne and Ted Gaebler, Reinventing Government, Penguin, 993.

where a source government may encourage its businessmen, through subsidy systems, to enter a particular non-profit market due to geopolitical strategic reasons. To make profits, an investor would require a relatively stable political environment and, above all, policies that are predictable. Corruption may be tolerated up to a point where it still leaves a reasonable margin of profit for repatriation. Profits are often related to the size of the market, availability of natural resources, low-cost labour, infrastructure facilities, tax concessions and ease of doing business.

The UNF Five-Point Plan makes a one-line reference to FDI under the section on "Accessing the Global Market", where it says "Encouraging foreign firms which are globally competitive to invest in Sri Lanka". Such encouragement to invest in nationally profitable areas requires a planned approach which combines the efforts of the Board of Investment (BOI), Export Development Board (EDB) and Commerce Department (consular representation), in coordination with the Ministry of Finance and other relevant ministries. In fact, FDI policy should be a component of the national development plan for better direction and coordination. The 'One stop shop" concept, which needs no introduction, has been on the agenda for quite some time and steps must be taken if Sri Lanka's ranking in the World Bank 'Ease of Doing Business' index is to move up as an encouragement to FDI.

Macroeconomics

Sri Lanka is facing two cliffs staring at each other on opposite sides - the balance of payments cliff and the fiscal cliff. It is a matter of primary concern how to move away. The balance of payments is largely determined by the trade balance, with ever-increasing imports, while exports are lagging behind. There is very little one could do to curb imports. In fact, our exports have large import content. If we have learnt lessons from pre-1977 import substitution policies, we would rather concentrate on the export sector, which includes services. In recent years we have seen the scope for IT-based services. The fundamental question is whether there is a role for the government in helping industries, apart from opening the doors through feasible trade agreements and fiscal and monetary policies, to identify potential areas of expansion based on our dynamic comparative advantages. The latter suggests a research agenda for BOI and EDB in collaboration with authorities dealing with science and technology and academia.

No government could go on ignoring the need to keep the exchange rate, at least, in line with domestic inflation. Exporters have to face the problem of almost all domestic market prices, including wages going up, which erode their profit margins, sometimes driving them to bankruptcy. Further, Sri Lanka's competitors keep on adjusting their exchange rates which make our real effective exchange rates uncompetitive. One must ask the question why countries like China continue to keep their currency undervalued. Yet, the exchange rate is a holy cow in Sri Lanka. Adjustments could have serious implications not only for domestic consumer prices but also the government's fiscal management. Removal of a cancer is often painful but if managed properly by taking care of the side effects, it could prove to be life-savings. The point is that, an exchange rate adjustment (devaluation is a dirty word) must be combined with affirmative action to cushion the impact on segments of the population who need temporary relief. Consumer protection is a major concern expressed in the Ten-Point Agreement.

The second cliff is the Government Budget. We are spending more than we collect in terms of revenue. As a result, we keep on borrowing, pre-empting resources of the private sector, depriving the country of higher returns to the national economy. Far worse, we keep on increasing the public debt, servicing of which alone last year was higher than the revenue we collected. Revenue collection, as a percentage of GDP has come down from over 20% a few years ago to less than 12% last year. Worse still, over 80% of that revenue is collected from consumers.

The new government, therefore, has a fundamental challenge of dealing with the two cliffs. All the other challenges, though related, are peripheral.

Infrastructure

No modern economy could function without a solid infrastructure base provided by power and energy, irrigation facilities, telecom, ports and highways. That is why in the early stages of development, countries give priority attention to the development of these facilities. In developed economies these facilities have developed over a long period of time while new investments only yield incremental benefits. They are also built and sustained through mostly private investment.

In developing countries, it is the governments that provide the major share of investment; for two reasons. Firstly, there are constraints emerging from the low capital base of the private sector, and the long gestation periods involved in receiving income returns. Secondly, governments find it difficult, if left entirely to the private sector, to maintain an output pricing system that promotes industry as well as one that is not too heavy on direct consumers. These constraints get reduced whenever an element of competition is introduced.

Many infrastructure facilities, due mostly to the size of investment involved, assume the form of natural monopolies. This was the case with Sri Lanka Telecom in the past, when there was a need for heavy and widespread infrastructure connections. The advent of mobile phone technology has altered that situation, infusing thereby significant competition within the sector, and reducing in the process not only costs of service but also waiting time for connectivity.

A key issue in Sri Lanka's infrastructure development demonstrated recently in the case of the highways, harbours and airports, is not only the size of investment but also appropriate project selection, technology and location. Unfortunately, due to the capital constraint we are often driven by the sources of investment which may not be the most effective and cheapest. These effects could be mitigated only through a system of planning that determines project priorities and other aspects that enhance their value to the country.

Infrastructure development must take into account forward and backward linkages. A harbour, for instance, could bring in tremendous benefits, not only in the form of earnings from ships that call over for port facilities but also from facilitation of exports and reduced-cost imports. Exports have backward linkages to domestic producers and forward linkages to foreign buyers. It is the same in the case of imports, where more efficient handling of goods could make them cheaper for the consumers. The effect on producers is an extremely important issue that can be dealt with only through effective planning, not only at the project but also at sectoral and macroeconomic levels.

The National Planning Department had acquired a wealth of experience in infrastructure planning which was at the heart of its medium-term Public Investment Program exercise, providing valuable information for the Annual Budget. The planning exercise usually commenced with an analysis of the macroeconomic framework, leading to the determination of sectoral and project priorities.

The experience of many countries, starting with Ireland's Shannon initiative in the 1960s, indicates an approach to deal with infrastructure issues based on special economic zones. It was the Shannon experience that prompted Sri Lanka to set up the Katunayake and Biyagama export processing zones under the purview of the Greater Colombo Economic Commission, the predecessor of BOI.

The UNF Five-Point Plan proposes to set up 45 Economic Development Mega Zones. It says that "the Government will establish Economic Development Mega Zones. These zones will be provided with infrastructure facilities and services on par with similar units in South East Asia. This will enable the creation of well-paid jobs by attracting investments, especially direct foreign investments to make us globally competitive in manufacturing services, technology, logistics, agriculture, fisheries and tourism. There will also be schemes to develop the public infrastructure such as schools and hospitals."

There are lessons to be learnt not only from "units in South East Asia". Even rich countries like Saudi Arabia and Iran have established Special Economic Zones. The best known are in Russia. We could learn not only from the success stories but also from failures. Shannon struggled hard for decades to put things right. Russian authorities have indicated willingness in the past to pass on their experiences to us.

A fundamental problem the government will have to address in setting up special economic zones is not only how to deal with intra-institutional structures and systems of management but also interinstitutional relationships, particularly those involving regional authorities. What is the role of provincial councils, district and divisional secretariats, local authorities and regional offices of government departments in running the special economic zones, and which authorities will coordinate all their activities? The second issue, equally important, is that of public service management capacity, which though very challenging, could be dealt with through appropriate training programs.

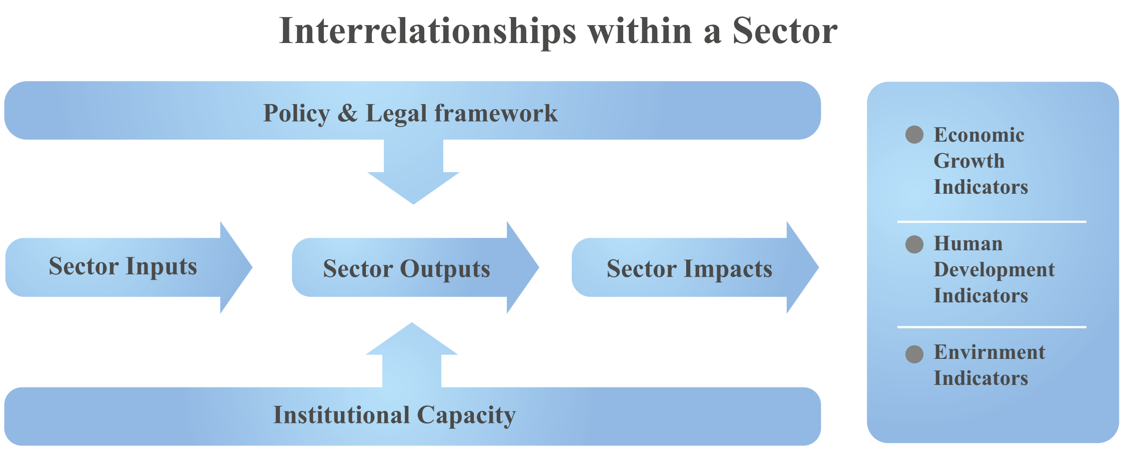
Commodities and Services

This pillar draws attention to the all-important sectors dealing with the production of goods and services. The Five-Point Plan draws attention to the role of "23 Agricultural Development Mega Zones, 10 Development Mega Zones for Fisheries and Tourism Development Mega Zones" which, if effectively implemented, could make a significant contribution to the development of these sectors. That contribution, however, will depend not only on intra-sectoral management but also coordination with the other sectors, as well as macroeconomic policies. In short, there should be a sectoral planning approach with intersectoral coordination, applying the best principles of MfDR, as explained in Diagram 3.

The diagram indicates the interrelationships within a sector, which should be managed to yield the desired impacts. Sector inputs are the resources required to deliver sector outputs and eventually sector impacts. Sector inputs are typically:

- human resources, particularly skilled resources;
- technology such as equipment and work processes; and
- finance, both public and private.

Diagram 3



These inputs, as well as the outputs and impacts are significantly influenced by the policy and legal framework, and by the organizational and institutional framework which manages the sector.

Sector outputs are tangible deliverables. They are the physical goods and services produced by public or private sector institutions. Impacts are the effects of those goods and services. Thus, new school buildings (project outputs) could provide new educational facilities and in turn the benefits of education (impacts)

Policy and legal framework relate to decisions taken by the government with regard to the promotion, reduction or discontinuance of activity and the rules, regulations and procedures for approval connected with such activity. The policy and legal framework, therefore, creates an environment that substantially influences the availability of inputs, the efficient production of outputs, and the significance of the expected impact. Policies can make dramatic changes to inputs such as the availability of technology or private sector investment. They can also change the demand-supply situation of sector outputs.

Institutional capacity refers to the capacity of public, private and community-based institutions (NGOs) to support and promote the development, progress, and social well-being of the people they serve. Given available inputs such as financial, technological and human resources, the concerned institution must be capable of efficiently and effectively converting these into outputs. Institutional capacity is, therefore, managerial capacity – a prerequisite for achieving the quantity and quality of outputs in a sector. Once again, we are reminded of the capacity development need as a prerequisite to achieve the desired impact of government policies.

Cross-Cutting Issues

Cross-cutting issues are those which are common to all sectors such as those related to the environment, women's position in society, poverty of the disadvantaged, as well as the technology deficit.

The Five-Point Plan recognizes the need to strengthen environment management by proposing an Act for Sustainable Development to be passed in Parliament, preparation of a geological plan, setting guidelines for town and city planning as well as designating protected zones and reservations.

The National Environment Authority has adopted a plethora of rules, regulations, procedures and guidelines to be followed, which includes mandatory environmental impact assessment of projects. Yet, most of these provisions are implemented in the breach. There are two problems; lack of knowledge of the provisions, mostly by government authorities and lack of will to enforce them, very often due to corruption. It is hoped that the proposed legislation will close the loopholes. There is also a need to educate the public to ensure that environment protection measures are followed by all, in particular by businessmen and to report to designated authorities observed breaches. The authorities ranging from central government ministries and departments to regional institutions such as the district/divisional secretariats, provincial councils and local authorities must be held accountable for implementation of government policy. NGOs have played a big role in the past with regard to environment protection. They must be encouraged to do so with greater vigour.

Gender issues extend far beyond and deeper than what the UNF Plan recognizes. The Plan refers to the problems faced by rural women due to indebtedness. As already mentioned above in the section on 'Equity', issues relating to the position of women are of a historical-structural nature which should be handled through a concerted long-term effort. While many piecemeal isolated interventions have been made on and off during the last few years to tackle some of the problems, there is a need to adopt a planned approach, for which a central authority (ministry/department) with power to engage other agencies of the government in a coordinated effort is required. This is an area in which the outcomes and impact of public policy and interventions are far more important than activities and outputs. A vital prerequisite is a well-trained competent staff which could, at least, interact gainfully with the academic and research institutes that are generating useful knowledge.

If Sri Lanka is to get out of what is now described by economists as the 'middle-income trap' it must seek to get out of traditional methods of doing things by adopting more productive technology. This is needed in all sectors of the economy, not less in the plantation sector where a time bomb of youth expectations is clicking. Science and technology are connected and are so pervasive that a central authority such as a planning ministry or a planning council must have the power to engage all the other government institutions in a promotional dialogue and direction. Yet, discovery of new technology will be confined to academic discourse if there is no incentive for the business sector to adopt them. The best approach is to encourage business firms themselves to engage in research and adopt the findings, supported where necessary with special subsidies and other forms of financial support, particularly when disruptive technology has to be adopted.

Raising the level of productivity of the public service is also a cross-cutting issue, as it extends to all sectors of the economy. We will return to this theme in a subsequent section.

Education

The UNF Manifesto – Five-Point Plan, quite rightly, devotes a whole section to education, covering preschools, general education, technical and vocational education and university education, and draws attention to school facilities, curricular and teaching quality. Unfortunately, it ends up as a scattered wish list, providing some amusement at the end with a proposal to set up "A National Astrology Centre of international standards", probably to make more accurate forecasts of presidential election results.

The education sector, more than any other, has benefitted from a large number of very valuable reports, mostly financed by donor agencies. Unfortunately, most of the recommendations, in the best instance, have been implemented piecemeal, creating more problems due to lack of coordination and poor-quality administration. What is important is to ask the fundamental question, as depicted in Diagram 3, what is the impact you wish to have from investing in education, overall and by subsector? The problem is not just a case of raising the investment level to 6% of GDP (as suggested in the Ten-Point Agreement) but determining for what purpose and how? Then you work backwards to determine outputs (school buildings, water supply, teacher training, etc.) and inputs (financial, human resources, etc.) taking into account and where necessary, adjusting the policy and legal framework and consonant institutional framework.

The education sector needs an effective planning approach, a principal element being administrative capacity and teaching quality improvement, based on the best principles of recruitment, deployment, training, performance appraisal and reward.

Health

There are 18 suggestions in the Five-Point Plan for improvement of the health sector, which appear to be disjointed. It is not clear why we need a National Health Services Authority when we have a full-fledged Ministry. The fundamental problem with the government-managed health sector is that it has become too unwieldy. To begin with, there is no Health Management Information System. There is no coordinated approach to policy formulation and no mechanism for monitoring and impact assessment of the plethora of health interventions. The government-administered health service sector covering promotion, prevention, cure and rehabilitation must be coordinated with a system of information flows that covers the entire country. The Health Ministry must determine national health policy, providing guidelines for the devolved health services handled by the Provincial Councils. There must be a system of constant interaction between 'the Center and the Periphery' based on IT facilities. The fundamental problem with the health sector is poor management (not just raising the "allocation of the GDP for the Health sector to 3 percent") as envisaged in the Ten-Point Agreement. Better management requires not only a better organizational structure but also a huge managerial capacity-building program, driven by leadership at the top.

4. The Foundation - Institutions of Government

The foundation of good governance for the development effort is provided by the accountability and institutional framework. Accountability will be facilitated further by the nine Commissions, which will be enhanced, if adopted, by the legal framework of the RTI Act. Operational efficiency, however, will depend on the effectiveness of the institutions of governance. It is well known that the Cabinet's size, structure and composition are vital factors that affect the leadership role of the government in the development effort. The new Cabinet has been sworn in. Whatever views one has about it is of little value at this stage as it is a *fait accompli.* What is important is to think about how to make it perform effectively and efficiently. Much depends on the organizational framework and productivity of the public service. In the ultimate analysis, the public service becomes the custodian of good governance. As such it could mitigate the damage of arbitrary politics.

• Planning Council

In view of the complicated decision-making process associated with the 'paradigm of development' and the required coordinated approach, the Cabinet of Ministers must have the benefit of advice from a group of professionals drawn from state institutions, private sector and civil society organizations. Members of the National Planning Council should comprise inter alia ex officio members, renowned academics, researchers and representatives of various chambers of commerce and industry, as well as professional associations. There should be regular meetings, at least, once a month, chaired by no other person than the Prime Minister, himself. The Council should be serviced by a Planning Secretariat, headed by a renowned economist. The first Planning Council under the late S.W.R.D. Bandaranaike was serviced by a Secretariat headed by the late Dr. Gamani Corea. The Secretariat was later converted into a Planning Department, which finally came under the Ministry of Planning, with Dr. Corea as Secretary.

The functions of the new Planning Secretariat could be performed by the present National Planning Department, which should, however, be strengthened through a thorough program of internal capacity building and co-option of competent staff from other organizations.

• Provincial Councils and Local Government

Before we enter into an analysis of the role of the public service, it is important to consider how to enhance the contribution of the regional bodies - the provincial councils and the local authorities - to good governance and development. The 13th Amendment defines the role and functions of the provincial councils, similarly certain functions have been devolved to the local authorities. A principal question is whether they should operate in total isolation from the development perspective, tasks, and functions of the central government, represented regionally by the district and divisional secretaries, or in consonance, of course without harming their legal rights to decision- making and management.

If there is to be a partnership for development, it has to be based on a solid understanding of each other's role and constant dialogue. The instrument for this approach is what is called a *'centre-periphery contract'*, which has been tried and tested in some Asian countries, providing lessons of experience, indicating both positive and negative outcomes. The Contract must be based on the outcome of a consultative process with the people, engaging them not only in the decision-making process but also in the implementation. As a result, the people will learn not only about the needs and opportunities but also about the constraints that will have to be addressed through a time-bound program which will include a gradual resource mobilization and allocation process, including demarcation of functional responsibilities. The mechanism for constant dialogue and consultation between the centre and the periphery needs to be established by an arrangement whereby the cabinet of ministers meets the provincial council members, at least quarterly, to address their minds to issues based on a solid agenda and position papers. Much will depend, however, on the managerial capacity of the public servants who serve both the central government and the provincial councils.

• Law and Order and Defence

This segment was included for comprehensiveness, as no development could take place without both internal security and defence against external threats. While we have no qualifications to make any worthwhile suggestions regarding this sector, it is perhaps worthwhile noting the ever-growing sophistication of crime. This was highlighted recently in the case of the financial crimes investigations for which our defence establishments, particularly the Police, were not equipped to handle. This appears to be an area of urgent capacity building, for which foreign expertise would have to be acquired, where necessary, with adequate allocation of funds from the government budget.

• Foreign Service

The Foreign Service, it is well known, has also a development role to play by creating conducive political relations with Sri Lanka's development partners. To do so, the Foreign Service has to recruit competent personnel and assign them responsibilities using professional yardsticks. Basically, it must have the competence to identify opportunities, challenges and threats posed by the behavior of major global players to Sri Lanka's interests. This could be done only through a process of continuous collection and analysis of information about the behavior of these players. It involves a thorough understanding of the role of the U.S., the European Union, China, Russia, India, and Japan, in the international arena and the response of other countries. Ad hoc collection of data and compiling of hurried reports is of little value.

This is what was expected of the Lakshman Kadirgamar Institute, which, however, is facing a resource constraint, more than financial, a manpower deficit. Instead of trying to recruit and maintain a large number of experts under its wings, the Institute must adopt a system of sub- contracting assignments of continuous research to outside researchers, based on policy needs and guidelines. The Institute must, however, recruit and train a small co-staff that could liaise with the external researchers, do quality control and disseminate information, appropriately to both government and private sector agencies that could benefit from such research output.

• The Public Service

There is a common perception that the Sri Lanka public service is too large, unwieldy, politically controlled, inefficient and even offensive. Generalizations, we know are not always true, and could be misleading and even dangerous. Some pockets of excellence have emerged in recent years within the public service which challenges the common perception. Today, you can get a passport in one day, provided you have all the documents in hand. The Registration of Persons Office, the Motor Traffic Department and a number of district and divisional secretariats operate equally well. Yet there are stories of long delays, cumbersome procedures, harassment by officials and even solicitation of bribes in a number of other places. The worst offenders seem to be those institutions, in particular, local authorities that have to be frequented by the poor and the lower middle class. The story which goes around is that in order to get anything done by the government, 'you need to know someone, who knows someone, often a politician, who can move the papers'. Worst still you need to grease the palm.

This is with regard to the service delivery and regulatory functions of the government. The Ministries of Public Administration and Public Service Reforms, as well as, various ministries, departments, and authorities are quite aware of these problems and a series of attempts, unfortunately *ad hoc*, have been made and continue to be made to address the issues concerned. However, the role of the public service does not end with the service delivery and regulatory functions. Equally or far more important are the development functions, which indeed subsumes them.

5. The Public Service

• The Development Role

This does not mean that the government should produce all the goods and services, like what was attempted and failed miserably in the old Soviet Union, China and Eastern Europe. Only Cuba and North Korea are still following that path at high economic and social costs. The development role of the public service is to basically facilitate, as well as regulate, the role of the private sector. The regulatory function is often misunderstood as one of control. It should be there to protect property rights and ensure a 'level playing field' for competition among business entities; that is, avoid corrosive monopoly practices. The strength of capitalism lies in competition. It is the mechanism that induces innovative practices that result in better-quality and cheaper products and services from which society as a whole benefits.

The mechanism through which the development function is performed by a government is policy formulation and, in the context of a developing country such as ours, through a process of planning, implementation, evaluation and feedback. It should be obvious, however, that the regulatory and service delivery functions too have to come into play and perform a crucial supportive role. The public service must be well equipped to perform these functions if there is to be inclusive development. This is the reason why the National Planning Department (not the ministry in charge of public administration) took the initiative in establishing the well-known Wanasinghe Committee of Administrative Reforms in 1986. The Committee, we must remind ourselves, presented a holistic picture of the issues involved with recommendations for their resolution through a well-coordinated approach.

Yet, this is exactly what all governments failed to do. Even though several attempts were made to deal with issues identified by the Wanasinghe Committee by appointing various Task Forces, Councils, Committees, Secretariats, etc., the ad hoc approaches created more problems than solving them. One fundamental problem was that the recommendations involved structural changes in the administrative system, some of which were quite disruptive of the status quo and promised only long-term benefits. Governments which were geared to meeting short-term objectives were not prepared to take measures that would yield benefits only in the long run.

When the Wanasinghe Committee advocated a comprehensive approach, it did not mean the simultaneous implementation of all the reform measures. It advocated that the reforms be set in motion within a system of priorities. This meant giving precedence to measures that would be catalytic in their effects, paving the way for the progressive introduction of complementary measures.

While the approach to reforms was to be conceptual and holistic, with a clear definition of concrete outcomes, both Wanasinghe's recommendations and experience indicate a strong need for acceptance of reforms by all the stakeholders - the political decision-makers, public servants, as well as the business community and the general public. This requires that while the social benefits are clear and appreciated, stakeholders also see benefits that could accrue to them individually. For instance, public servants must have the motivation to participate actively in the reform process through opportunities for personal gain. This is usually engendered through a performance appraisal and reward system. These rewards need not necessarily be pecuniary; they could be in the form of recognition for career advancement.

An equally important third condition for success is the availability of an organizational structure that is conducive to the introduction and implementation of reforms. This involves administrative leadership, effective delegation of functions, with clear-cut definitions of responsibilities within time-bound programs, allocation of necessary resources (financial, human), as well as systems of information flow, where necessary, for progress monitoring and course correction. The most critical factor among all these is leadership.

- **Leadership**

Leadership qualities have to be displayed at all levels of the administrative hierarchy that is charged with the responsibilities of introducing reforms. Qualities of leadership emerge from knowledge, self-motivation and ability to motivate followers. Thus, a primary function of the reform process is to instill knowledge in those who have to provide the necessary leadership. It is a cardinal mistake to expect administrators to simply follow circulars issued by concerned government authorities when the need is to exercise knowledge and conceptual skills. Secretaries of ministries, as well as heads of departments nurtured in the old system of governance cannot be expected to promote innovation without new knowledge and motivation. Thus, the administrative reform process must start at the top.

There must be a system through which secretaries and heads of departments have the opportunity of upgrading their knowledge in a dynamic global setting. In some countries like Singapore, Malaysia and South Korea, secretaries and heads of departments are provided with facilities for participating in short-term training programs of their choice. In Sri Lanka, we had a cost-effective system of upgrading and sharing knowledge in the 1980s through frequent (weekly) discussions at the Committee of Development Secretaries, chaired by the Secretary to the Cabinet. He was assisted in the task by the Department of National Planning through the preparation of knowledge-generating agenda and discussion papers. This is a system that will have to be revived and utilized effectively if the government is to earnestly promote system-wide administrative reforms. It is also imperative for effective coordination of policy, implementation, progress monitoring and course correction.

• The Role of Secretaries and Heads of Departments

There is, however, a fundamental condition for secretaries and heads of departments to exercise leadership qualities. They must have the time to think. If they are totally engrossed in routine operational detail, without proper delegation of functions they will not have the time to engage in innovative thinking. It is important to examine the functions of secretaries and eliminate the need to deal with files which could be easily handled by other senior officers. This is a matter which needs the urgent attention of the Ministry of Public Administration.

One of the primary causes of the lack of time, an increasing phenomenon in recent years, is the proliferation of mostly unnecessary but invariably unplanned large meetings, which secretaries could avoid without loss. They could also reduce the number of meetings with their own staff if they learn to use IT facilities, particularly e-mail and Skype. The Ministry of Public Administration should do a time-use study and set out guidelines for the conduct of meetings.

The success of the Committee of Development Secretaries was due mostly to the leadership provided by the Cabinet Secretary and the technical service provided by the Department of National Planning in preparing a meaningful agenda and follow-up of decisions. In the current context, the leadership will have to come from either the Secretary to the President, the Secretary to Cabinet or the Secretary to the Treasury, assisted by a strong secretariat.

• Knowledge Sharing

A viable alternative to the Committee of Development Secretaries, particularly in view of the large number of secretaries today, would be a system of quarterly retreats, at least half-yearly retreats, which will bring together all secretaries, including chief secretaries to deliberate under a well-structured agenda. To enrich the discussion and to promote “out of the box” thinking, appropriate academics and professionals, including from the private sector, could be invited to participate. There should be no protocol, chief guests, keynote speakers or lighting of oil lamps. In short, the proceedings should be strictly workshop style. The best results could be obtained when position papers (learning modules) are distributed, well in advance, among the participants. This approach dispenses with the need for the traditional lecturer. The emphasis will be on interactive learning through group discussions and exercises, a method that has been proved very effective at the Postgraduate Institute of Management, in the case of learning programs for top-level executives.

• Second-Tier Leadership

The Wanasinghe Committee considered it imperative to develop leadership qualities of second-tier officers who are in the queue for promotion as secretaries of ministries. The National Administrative Reforms Committee, chaired by the former Secretary to the President discussed and approved in principle a short-term program of training to upgrade leadership qualities of officers in class I and the special grade. Participants in the training program were to be selected through a very elaborate process which would include psychometric tests. At the end of an intensive course, based on learning modules, group interaction sessions, role play and problem-solving exercises, the best performers were to be provided with an opportunity to obtain wider exposure to contemporary knowledge, through short visits to reputed international organizations such as the World Bank Institute, the Kennedy Center, Brooklyn Institute, Lee Kwan Yew Institute in Singapore, as well as the Asian Institute of Management and the Asian Development Bank in Manila.

• Management Reform Cells (MRCs)

Leadership training at the top level of the administrative structure has to be reinforced by appropriate training and motivation of 'followers' at the bottom layers of the 'pyramid'. There are currently a large number of training programs for public servants. They need to be reviewed and assessed to determine their effectiveness. The litmus test is the post-training improvement of productivity. To achieve this objective, training should be accompanied by a system of effective performance management, which would include a rational performance appraisal and reward system.

One of the most important recommendations considered by the now-defunct Administrative Reforms Committee was the establishment of Management Reform Cells in all government institutions that would function under the head of the institution and be serviced by a trained Chief Innovation Officer (CIO). As usual, there was no follow-up - the bane of government in Sri Lanka.

6. Conclusion

This paper makes a plea for (i) a holistic view of the development problems facing the country; (ii) formulation of a collective vision to march forward; (iii) implementation of policies through a coordinated approach; (iv) employment of the best techniques of national planning led by a National Planning Council; (v) laying a solid foundation for development intervention based on the principles of good governance; and (vi) developing a highly competent public service.

Sri Lanka's experience is that what has been missing is not wisdom but political will and discipline.

Sir Richard Jolly

Sir Richard Jolly is a leading development economist and Honorary Professor and Research Associate of the Institute of Development Studies (IDS) at the University of Sussex. He was the second Director of the IDS and held the position from 1972-1981. Thereafter, he took on the role of Deputy Executive Director for Programmes of the United Nations Children's Fund (UNICEF) from 1982-1995, with the rank of United Nations Assistant Secretary-General. Sir Jolly also held the position of Special Adviser to the Administrator of the United Nations Development Programme (1996-2000) and Principal Coordinator of the widely acclaimed Human Development Report, overseeing reports on a human development approach to growth, poverty, consumption, globalization and human rights.

Sir Jolly has served on the Council of the Overseas Development Institute and during 2001-2006, was a Trustee of Oxfam, and Chairman of the United Nations Association of the U.K. He was knighted in 2001 for his contributions to international development.

Public Lecture Delivered on 28th September, 2016
at the
Bandaranaike Memorial International Conference Hall
Colombo, Sri Lanka

DEVELOPMENT – CAN SRI LANKA BE A MODEL FOR IMPLEMENTING THE SDGS?

It's wonderful to be in Sri Lanka again – and to think back to Gamani Corea whom I saw on my last visit, shortly before he passed away. What a great man! What a wonderful legacy. What challenging potential for this Foundation?

Gamani was a true hero of Sri Lanka, a creative servant of the country and a great servant internationally where he was a pioneer for the United Nations (UN), especially of ideas for strengthening international action and what today, would be called global governance. Gamani combined a high level of intellect as well as institutional leadership and operational wisdom. His skillful and strategic leadership was seen when he was Director of Planning in Sri Lanka and later as Secretary General of the United Nations Conference on Trade and Development (UNCTAD) for 10 years, and later still as Chairman of the South-Centre. Would he be with us today to help revive international vision and help strengthen global institutions.

Today, I pay tribute to Gamani but also to those who have followed his inspiration in formulating the ideas and plans of the Gamani Corea Foundation, and especially to Godfrey Gunatilleke. Let me say at once how positively I react to the programme set out for research and postgraduate teaching. There is much that is excellent and well in touch with the main development challenges today. I especially like the strong question and normative goal – what will it take for Sri Lanka to become a Very High Human Development (VHHD) country in 2025-2035?

1. The Foundation's Priorities for Research and Teaching

I frame my talk today around some of the issues raised in the Foundation's programme for research and teaching, ending with a challenge which grows out of the ideas in the programme but goes somewhat beyond them. Inevitably I speak as an outsider, ignorant of so much that everyone in Sri Lanka takes for granted. Sri Lanka has for many years attracted special interest for its development experience unlike others far beyond the country, especially because it has demonstrated in different ways what a country can achieve in terms of human development while still at relatively modest levels of income. Certainly, when I was at the United Nations Children's Fund (UNICEF), we treated Sri Lanka as a model when we issued "Profiles in Success", a document prepared for the UN Summit for Social Development in 1995.

There are still reasons today why Sri Lanka's development experience attracts and deserves special interest worldwide. In the ranking of the Human Development Index (HDI), Sri Lanka stands at number 73, in the upper end of the high HDI list. More significant, this is 29 places above where Sri Lanka would stand if ranked by per capita Gross National Income (GNI). At number 71 in HDI is Turkey, about double Sri Lanka's per capita income and ranked 12 places below where it would be, if listed by per capita income. At number 73 is Mexico, also with a per capita income not quite double Sri Lanka's – and ranked 4 places below its per capita income. Apart from Cuba and two others (Georgia and Kyrgyzstan), Sri Lanka is the only country which ranks in HDI so far above its rank in per capita GNI. For all the weaknesses of HDI as a measure, this is still an impressive indicator of human development performance.

Sri Lanka's HDI figures are backed up by numerous other more direct statistics of the country's human situation: the under-five mortality rate is under 10, maternal mortality rates are relatively low, adult literacy rates are above 90%, averaging 98% for those aged 15-24, with slightly higher rates for women than men. Of course, this is only part of the picture or the only issues that matter for development. But the data explains why Sri Lanka has so often been used as a model. And I am left wondering how Sri Lanka can retain and strengthen this standing for the future. It also explains why I am totally supportive of the Foundation's goals that students should study what it would take for Sri Lanka to reach VHHD status in the 2025-35s – though, I will later suggest how in my view this goal could be broadened and strengthened.

Sri Lanka's human development performance can now be put into international perspective by reference to the Sustainable Development Goals (SDGs). A major international advance was the adoption last year of the SDGs. These goals were adopted by all 193 members of the UN and thus form the most authoritative summary of today's global development agenda.

In spite of certain criticisms, I see the SDGs as an important and major step forward, especially because:

- the goals were formulated over three years in an intensive process of participation, involving people in all regions of the world.

- the SDG goals embody many new key elements that are not part of the Millenium Development Goals (MDGs): inequality, consumption, a range of international actions – not just aid – and a diversity of dimensions of sustainability, including the need to promote peaceful and inclusive societies. None of these were mentioned in the MDGs of 15 years earlier.

- above all, the SDGs are universal, applying to each and every country, developed as well as developing. The SDGs thus, for the first time move away from the "us and them" thinking of the MDGs and, indeed, of most development thinking and policy until recently.

Though expressed in over-idealistic and often imprecise language, the SDGs build upon the substantial human progress made in most parts of the world over the last 50 to 70 years. In terms of life expectancy, education, health, access to clean water, and sanitation – the world has seen more progress for more people than ever before in history. I am not uncritical of this record but before turning to the negatives, let us at least recognize these positive achievements for billions of people. As Bill Foege of the Centers for Disease Control and Prevention (CDC) put it in relation to global health: spectacular achievement, spectacular inequities.

The close overlap between the SDGs and Sri Lanka's experience in human development reinforces the possibility of Sri Lanka continuing to serve as a model, especially for achieving such progress at a level of income below those of many other countries.

With these points as background may I turn to the five areas for research and teaching identified in the Foundation's programme, as follows:

i. The role of the state in development, income distribution and reduction of inequality.
ii. The sources of economic growth and Sri Lanka in the global value chain.
iii. Human capital for very high human development - the Sri Lanka model for higher education.
iv. The Sri Lankan model of urban development and empowerment at the local level.
v. The social and demographic dimensions - female participation, gender equality, roles of smaller families and aging.

As I have already said, I feel extremely positive about these five areas for research and teaching. But I want to make five general comments about how they can be enriched in the ways they are carried into action.

First, I hope you will set the research in a long-term frame. The research and teaching programme explicitly focuses on the period since Independence. Why not make it 100 years? Several elements in Sri Lanka's development in the 1930s were of strategic importance - the universal adult franchise introduced in 1931 by the Donoughmore Constitution. The role of the dynamic Marxist opposition in the 1930s which also continued after Independence.

A second point, for all five topics, is to include attention to the important though fluctuating role which government tax revenue has played and must continue to play in Sri Lanka. Tax contributed much support in the 1930s and in the post-independence period, benefitting from high profits in the tea plantations but varying thereafter with slow or more rapid growth of Gross National Product (GNP) and then, declining sharply after 1990. As my Institute of Development Studies (IDS) colleague, Mick Moore, has written in a most careful paper on tax revenue in Sri Lanka: "Sri Lanka holds the world record for the longest and largest decline in government revenue collection. Over a quarter of a century from 1989, the ratio of government revenue to Gross Domestic Product (GDP) fell by a half, from 21% to 10.4% (in 2014)", though with a recovery most recently, I gather, to 13% or 14%. There needs to be further recovery from the earlier decline.

My third point is to encourage the Foundation to be more specific and rigorous in using the Human Development paradigm for analysis in research and teaching. Under the intellectual leadership of Professors Amartya Sen and Martha Nussbaum and others, the concept of human development has been refined and carried forward into many applications. Many of these can be found in the *Journal of Human Development and*

Capabilities. In spite of this work, the phrase “human development” is still often used in a most casual fashion meaning little more than having a rough human focus in policy or outcome.

Strengthening human capabilities goes far beyond this, as indeed does the concept of expanding human choices, both are the key elements in human development.

The adoption and use of a more precise human development approach would greatly strengthen the research and teaching in the Foundation. It would also make an important contribution to the understanding and application of the concept in many other countries - and indeed in universities and research institutes worldwide.

At the Human Development Conference in Tokyo last month, Takashi Hirai, Flavio Comim and I presented a paper making many of these points “Why is Human Development loved by all and so rarely taken seriously!” The paper spelt out a number of dilemmas in the application of capabilities analysis and Human Development measures. The Sri Lankan experience could help correct this deficiency with practical examples.

My fourth point is a question: should Sri Lanka’s experience of conflict be absent from your list of topics for research and teaching? There must be many sensitivities around this recent and painful topic – but the causes, its continuation in different phases and the long-standing efforts to bring it to a conclusion would seem important to probe and better understand from a development perspective.

This must cover not only experience to date, but future experience in seeking to introduce elements of reconciliation, accountability and reconstruction. Granted that there are several reports analysing these issues and there may well be more. But the links with development, positive and negative, understood or uncertain, are an integral part of Sri Lanka’s development experience.

In this, Sri Lanka is not alone. Many countries have experienced serious civil conflict in the last year alone, over a quarter of the world’s nations. The countries are often listed by the numbers killed in the last year – with Afghanistan, Iraq and Syria, the tragic cases, at the top of the list, along with the Boko Haram insurgency in Nigeria, Niger, Cameroon and Chad. Another 10 countries last year had 1,000 deaths or more from civil conflict, including the Mexican drug war, Ukraine and Southern Sudan. In total, there were some 55 countries with ongoing civil conflict, some going back 30 or 40 years. The cumulative cost in terms of deaths is well into four or five million, overwhelmingly in Afghanistan, Iraq and Syria but the disruption of societies and human development is far wider than the statistics of those killed, tragic as each death.

These broader elements of disruption and setbacks for development explain why Sri Lanka’s own experience is so relevant. Goal 16 of the SDGs is to promote peaceful and inclusive societies for sustainable development. This goal also includes providing access to justice for all and to build effective, accountable and inclusive institutions at all levels. Sri Lanka's experience in these further efforts can make an important contribution to the world's understanding of these complex but vital issues.

The fifth point is the near absence of what needs to be done at the international level, to make possible better outcomes for Sri Lanka. Granted the Foundation's five-point agenda refers to "Sri Lanka's place in the global value chain". But this seems to imply that Sri Lanka will be the passive recipient of whatever international options are on offer, rather than an active participant – in changing these options. It would be in the best tradition of Gamani himself, to include in the Foundation's teaching and research some element of what Sri Lanka has contributed in the past and needs to contribute in the future to reform and strengthen the global system. This audience needs no reminding about the many ways in which the present international system, global governance, is failing the whole world today as Europe and other parts of the developed world as well as most other regions and certainly the group of poorest Least Developed Countries (LDCs) and Small Island Developing States (SIDS).

2. Priorities for the Longer Run and the Potential for Sri Lanka to be a Global Model

Let me now turn to the longer-term future, elaborating three challenges – adopting the priorities and details of the SDGs to the realities of Sri Lanka; reducing inequality and shifting from a model of ever-continuous growth to one focused on human concerns and long-run sustainability.

In my view, these are central to the longer-run challenges facing Sri Lanka and thus to the agenda for research and training of the Foundation.

2.1 Setting Priorities and Monitoring the SDGs through a Decentralized, Participatory Process

The 17 SDGs are expressed in very general terms, perhaps inevitable in a global document. The goals specifically require each country to set priorities within the goals in a decentralized manner, involving communities and community groups. This matches the approach of the new government in Sri Lanka - and the needs of the communities in areas recovering from conflict. Perhaps the Foundation and some of its students could contribute to this decentralized process.

What is needed is not a once-for-all involvement in setting priorities but a sustained process of monitoring and adapting priorities as progress proceeds. It would be good if the Foundation could contribute to this and report on it to the wider world.

2.2 Reducing Extremes of Inequality

The first point to stress is that reducing inequality is possible. After years of global and national neglect in both developed and developing countries, inequality has now moved to centre stage internationally and higher up the national agenda in many countries. For the first time, inequality, national and international, has been specifically identified as an international goal.

Soaring inequality in many countries of the world is now acknowledged to be in large part the consequence of the adoption of neo-liberal economic policies in the 1980s. Worldwide, there is no doubt about the negative role for development that the international institutions played from 1980 until recently, in many countries, indeed in the majority of those in Latin America and sub- Saharan Africa. Neo-liberal policies had to be adopted as a condition for obtaining debt relief. These free market policies in turn were a major cause of inequalities to soar, as it has, they did almost universally until the millennium.

There are some important examples of reducing inequality in recent years. After 2000 in Latin America, many centre-left governments were elected and the majority adopted policies to curb the high levels of inequalities. As a direct consequence, Gini coefficients were brought down in some 15 to 18 countries by a range of policies, well analysed by *Falling Inequality in Latin America: Policy Changes and Lessons* edited by Giovanni Andrea Cornia. The policies included progressive tax measures to curb top-incomes as well as new elements for support of the poorest households. The expansion of secondary education also helped as did rising commodity prices. Some countries also introduced elements of land reform in favour of marginalized farmers.

In Sri Lanka, the Gini coefficient has risen from 1990 to 2015, though perhaps with the upward trend being modified in the last few years. The shares of income of the lowest 20% may also have increased slightly in the last 5 years, along with the shares of the middle 80%. But the income of the top 20% remains high, for instance, 5.8 times that of the lowest 20%, though this is in the lower third of the high human development countries.

Inequality embraces much more than income inequality. The inequalities which matter for long-run equitable progress are such as early childhood nutrition and well-being, and access to quality education, especially at the secondary level. Gender equality is also especially important, the more so because of the interaction between one dimension of inequality and another – what Naila Kabeer has termed intersecting inequalities, where inequality in one dimension feeds into, sustains and often widens other inequalities over the human lifecycle, from one generation to another. Actions to tackle these inequalities need to have clear objectives, long-run goals, cross-sectoral action and sustained monitoring over the longer run.

Professor Tony Atkinson in *Inequality: What Can Be Done?* has set out fifteen areas where action is needed in relation to the economic situation. I have put them within the frame of redistribution with growth, a strategy originally set out by Hans Singer as Redistribution from Growth. The core idea was that redistribution needed to be built into a country's growth strategy: the income of all groups could increase, but taxation of the better off should be arranged so as to tax some of their increases – but not all. The revenue thus raised would then be channelled into investment for the poorest, delivered in terms of contributions to health, education and investments of the poorest farmers and of urban informal workers, thus raising their productivity for the longer run. *Redistribution with Growth,* the volume produced by IDS in cooperation with the World Bank generalised this strategy – redistribution with growth, not from growth.

It was one of the few publications on redistribution issued by the World Bank, at least until recently. Like other documents issued by the research department of the Bank, it, unfortunately made little difference to the policies they pursued, especially during the era of structural adjustment policies over the 1980s and 1990s.

Other priority elements for redistribution include some often forgotten – support for technologies which benefit the poor, control of monopolies to limit the capacity of corporations and businesses to raise prices in the favour of capital and at the expense of wages and employment – or even taxation. The guarantee of public employment can build on India's National Rural Employment Guarantee programme which has had considerable success in providing a minimum income floor for the poorest in many states, especially for women. In India's Employment Guarantee programme, one woman in eight or so is often employed looking after the children of the other women workers.

Many countries have demonstrated the usefulness and success of payments for child and other family benefits, linked to conditions that the mother or child attend regular health check-ups or in richer countries like Costa Rica, where the children attend secondary school instead of working. There is now important experience of such policies being successfully implemented in a number of countries, in a cost-effective manner. The key point is not their economic feasibility but the politics of building a coalition of support.

2.3 Moving from Maximizing Growth to a Strategy of Sustainable Development for the Long Run

Sustainability covers a large agenda. Protection of the environment, the heart of several SDGs, requires specific actions for protecting forests, biodiversity of species and marine ecosystems. Less emphasised are the ways environmental issues are linked to ensuring sustainable patterns of consumption and production, goal number 11. In ending, I will concentrate on this because it may be another area where Sri Lanka can serve as a model for the world.

The expansion of consumption in virtually all countries of the world is driving most of the global pressures on the environment, more than population growth, let alone actions to end poverty by raising the incomes of the poorest. Yet so far, and apart from praiseworthy efforts by a few groups calling for alternative development approaches, little has been done to change fundamentally the patterns of consumption in middle- or high-income countries. This is the big challenge underlying calls for faster action on climate change, the destruction of forests, protecting marine waters and ending pollution. Could Sri Lanka be a model for change?

Sri Lanka already has some features which have made it a model for human development, as I have already explained, by virtue of the high levels of human development it has already achieved with relatively low per capita income and sustained even during periods of low growth. Could Sri Lanka now be a model for providing higher standards of human well-being, satisfaction and happiness for the whole population without an endless pursuit of economic growth? If so, Sri Lanka would indeed become a model of global significance for the 21st century.

Many might dismiss this hope as a pointless dream, fine for academic philosopher kings but hardly in touch with the realities of serious economics or economies. Don't be tempted by such thoughts. John Maynard Keynes, no slouch as a serious economist, considered that the economic problem in the more developed countries would be solved, or be within sight of a solution, in a hundred years. He projected that by 2020 income per capita in the Western world might be four or eight times greater than in the 1930s – a situation more or less already achieved in much of Western Europe and the U.S.

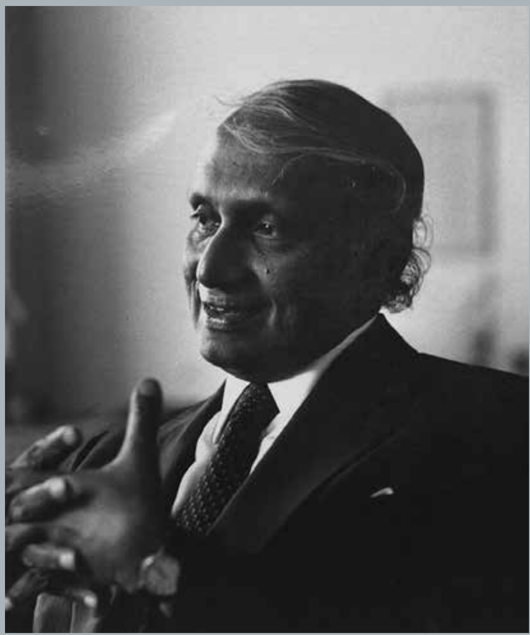
Keynes predicted that this level of income would be enough for meeting absolute needs, defined as a point after which many people would prefer to devote their energies to non-economic purposes. He boldly concluded. "For the first time since his creation, man – we would now say people - will be faced with his permanent problem - how to use the freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely, agreeably and well." Robert Skidelsky, the distinguished biographer of Keynes, has explored these ideas with his philosopher son in *How Much is Enough; Money and the Good Life.* It would be a good starting point for exploring possibilities in Sri Lanka.

I am not suggesting that Sri Lanka in income or leisure has yet reached this position. But I do wonder whether, with careful attention and policy-making, Sri Lanka could be moving to this position for most of its population within the foreseeable future. If so, and this is my point, Sri Lanka might reach lifestyles and sustainable consumption at a level of income far below that of the richest countries of the world, then or even now. As Godfrey Gunatilleke has put it in his agenda, "the essential ingredients of development include an adequate income, health, education, a safe environment, freedom, security and enjoyment of human rights." Godfrey's objective would require purposeful change, political leadership and community participation to achieve this outcome - but it would not require ever faster and continuous economic growth as the end in itself.

Am I simply a naive outsider to think that Sri Lanka has much of the experience and many of the building blocks on which such a more human living style could be constructed? It would require strong leadership from civil society – from religious groups and others who already treasure such values. It would require a vision of the good life from government leaders and planners, and a sharp shift from maximizing economic growth. It would require building on the less material values in Sri Lanka's culture and long traditions and certainly some control of the international and national corporate forces which define business success as ever-growing sales.

3. Conclusions for the Foundation

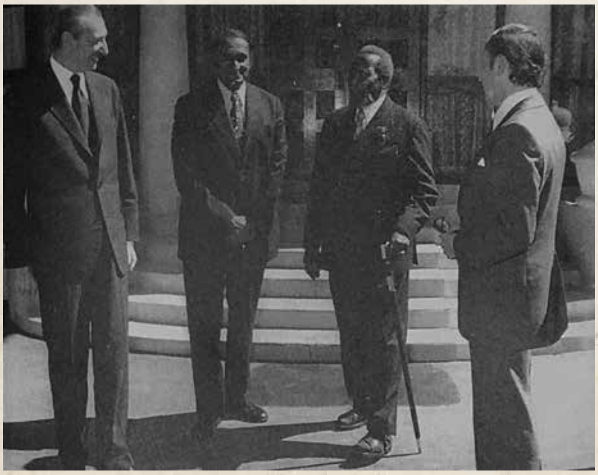
These three major challenges – prioritising and monitoring the SDGs, reducing inequalities and shifting from an objective of maximizing economic growth to one of improving the human condition and happiness of people in Sri Lanka. These are major challenges. Exploring them would bring excitement and originality into the research and teaching of the Foundation. I hope you will consider how this can be done.



THE LIFE OF DR. GAMANI COREA IN PICTURES

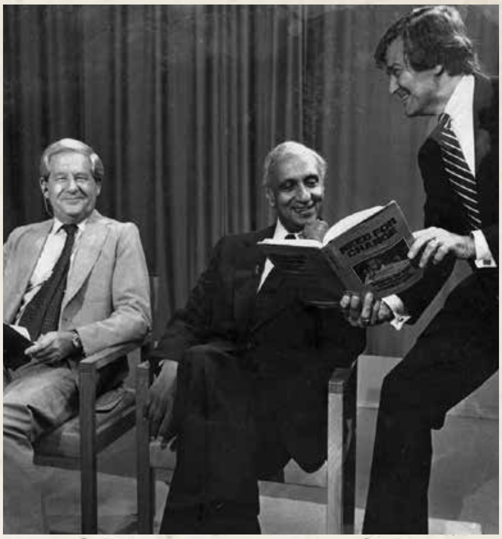
Meeting with World Leaders

Dr. Gamani Corea as the Director General of UNCTAD and Under Secretary of the United Nations from 1974 to 1984 met many world leaders. Here is a collection of photographs of some of those moments.



Many moments from an illustrious career

Dr. Gamani Corea visited many countries and attended many conferences and meetings and gatherings, negotiations, press conferences, luncheon meetings, and formal events during his career as the Director General of UNCTAD and Under Secretary of the United Nations from 1974 to 1984. Here is a collection of photographs of some of those moments.

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EXTERNAL DEBT
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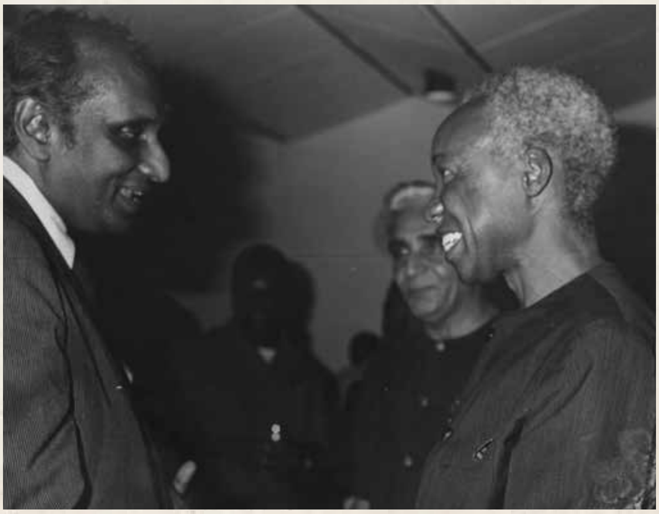
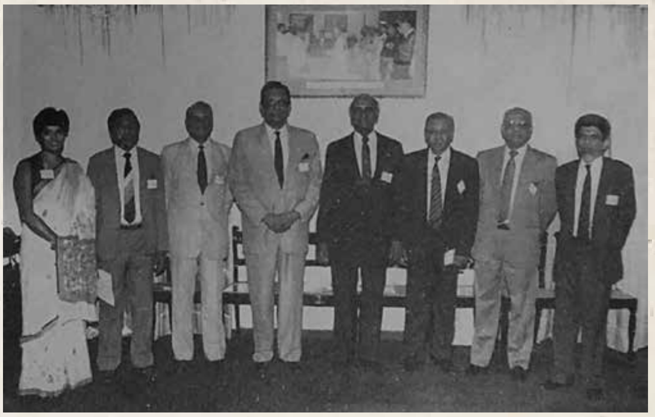
PIA




SECRETARY GENERAL
OF UNCTAD

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THIRD MEETING OF THE NAM-AD HOC
ADVISORY GROUP OF EXPERTS ON EXTERNAL DEBT
Grand Hyatt Hotel, 25-27 August 1993
Jakarta

Launch of Dr. Gamani Corea Memoirs

Launch of Dr. Gamani Corea's Autobiography "Gamani Corea - My Memoirs" amidst a distinguished gathering at the BMICH on 6th September 2008.

The Gamani Corea Foundation

The Gamani Corea Foundation (GCF) was established by the late Dr. Gamani Corea on February 10, 2000. His vision for the GCF was a research institute that would advance his passion for global development, with a particular emphasis on Sri Lanka.

The GCF is an autonomous non-profit charitable institute that aims to promote development-related economic research, while being open to research from other social sciences, especially from a multi-disciplinary perspective. Its mission is to contribute to socio-economic development of Sri Lanka and other low-income and middle-income countries through informed, independent and high-quality research. GCF perceives research as being more than a mere academic exercise; it is primarily a catalyst for tangible socio-economic transformation of countries and societies.

Dr. Corea's dedication to economic and policy advocacy finds resonance in the Gamani Corea Memorial Lectures and Public Lectures contained in this book. These discourses facilitate the exchange of contemporary ideas and offer fresh insights, much like the conversations Dr. Corea championed throughout his life. This volume of lectures, from eminent economists and development thinkers, will be invaluable for policymakers, government officials, politicians, researchers, academics, scholars, and students.

In pursuing Dr. Corea's deep-rooted belief in the transformative power of innovative ideas, the GCF launched the Sri Lanka Innovators Forum (SLIF) in February 2023. It addresses pressing socio-economic challenges through a series of issue papers on twenty sectors authored by eminent policymakers, administrators, diplomats, and academics. SLIF's mission is to devise alternative, sustainable economic models, processes, and practices that are effective, efficient, timely, environmentally-friendly, and politically neutral. Its findings are ultimately consolidated into blueprints to be presented to policymakers, making a significant contribution Sri Lanka's economic recovery.

In tribute to Dr. Corea's mother, Freda Corea, the GCF set up the competitive Freda Corea Awards (FCA) scheme in 2023. The scheme rewards women in low-income categories who have been empowered through their entrepreneurial initiatives and succeeded in uplifting the living conditions of their families. Under the FCA, nine winning stories will be selected from each province, and both the enterprising women and the writers of their success stories will be rewarded by the GCF. These awards celebrate the remarkable journeys of women who have triumphed over challenging circumstances, embodying the indomitable spirit of female emancipation.

In a world where positive change is needed more than ever, the GCF is a beacon of hope that stands as a living tribute to a visionary who dedicated his life to the betterment of societies.

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ISBN 978-624-6487-00-3