

Vision without action is a  
daydream. Action without vision  
is a nightmare

Japanese Proverb

Rohan Samarajiva

# Criteria for assessing Vision 2025

# Is it likely to gain broad acceptance?

- The success of an economic vision lies in its acceptance by most, if not all, of the key players
- The Jayewardene-de Mel-Athulathmudali vision of a **modern, commercial state** is an example of a successful vision
  - Despite grumblings among certain intellectuals, no one with political authority has tried to take us back to the hal-polu-miris-polu economy that preceded it
- Essential pre-condition: effective communication
- Is this pre-condition satisfied?
  - Does this very event constitute a positive indication?

What are the qualities of a vision likely to gain broad acceptance?

# Qualities of an effective vision

- Central, attractive metaphor
- Forward looking
- Evidence based
- Coherence (at least lack of incoherence)

# Hub as central metaphor

- ***“Our vision is to make Sri Lanka a rich country by 2025. We will do so by transforming Sri Lanka into the hub of the Indian Ocean, with a knowledge-based, highly competitive, social-market economy.”***



# Used since 2010: Does this constitute consensus?

## Vision 2025

- Our vision is to make Sri Lanka a rich country by 2025. We will do so by transforming Sri Lanka into **the hub of the Indian Ocean**, with a knowledge-based, highly competitive, social-market economy. . . . We will position Sri Lanka as **an export-oriented economic hub at the centre of the Indian Ocean**. We recognise the fundamental reality that Sri Lanka has a domestic market of only 20 million consumers with a modest per capita income, and must rely on external demand for sustained, high, and long-term growth. We will **strategically position Sri Lanka as the hub of the Indian Ocean, securing opportunities for local businesses in global production networks (GPNs)**. This outward-looking approach will increase the efficiency of the domestic economy . . .

## Mahinda Chinthana

- The objective of our next massive leap forward is to transform Sri Lanka into a **strategically important economic centre of the world**. My determination therefore, is to transform Sri Lanka to be the Pearl of the Asian Silk Route once again, in modern terms using our strategic geographical location effectively. I will develop our Motherland as **a Naval, Aviation, Commercial, Energy and Knowledge hub, serving as a key link between the East and West**.

# Mercantilist, insular thinking has caused facile understanding of hub concept

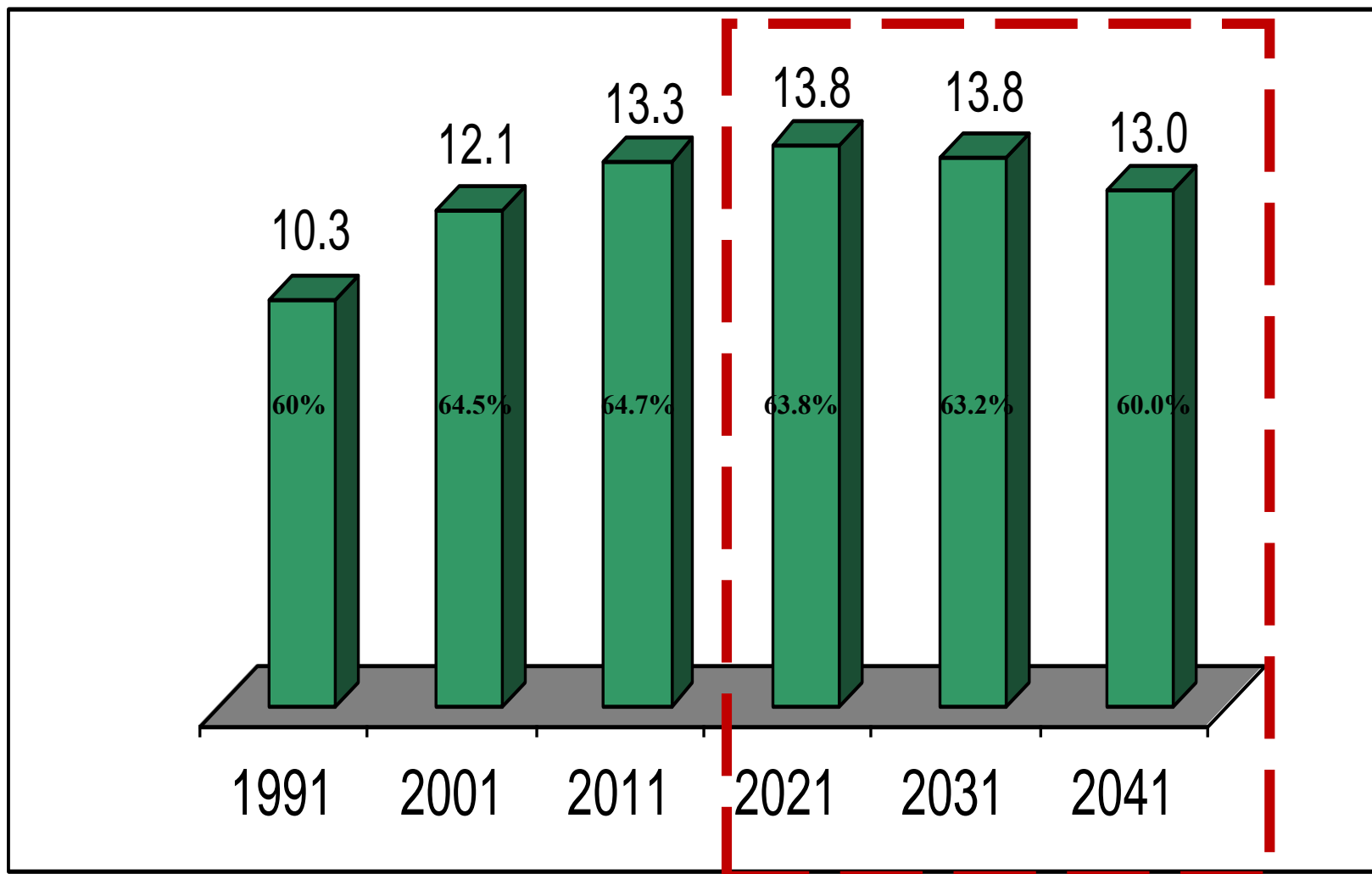
- “A hub is the central part of a wheel, rotating on or with the axle, and from which the spokes radiate. Its significance lies in its relationship to the rest of the wheel. The wheel, not the hub, is the unit of analysis.
- In the same way, the metaphorical hubs of the government’s economic strategy cannot be implemented without taking the “rest of the wheel” into account. As long as our thinking does not transcend this little island of 20 million people, the chances of success are limited. **As long as we do not understand that hub strategy necessarily involves two-way flows that benefit all parts of the system, success can only be partial and will depend on happenstance.”**



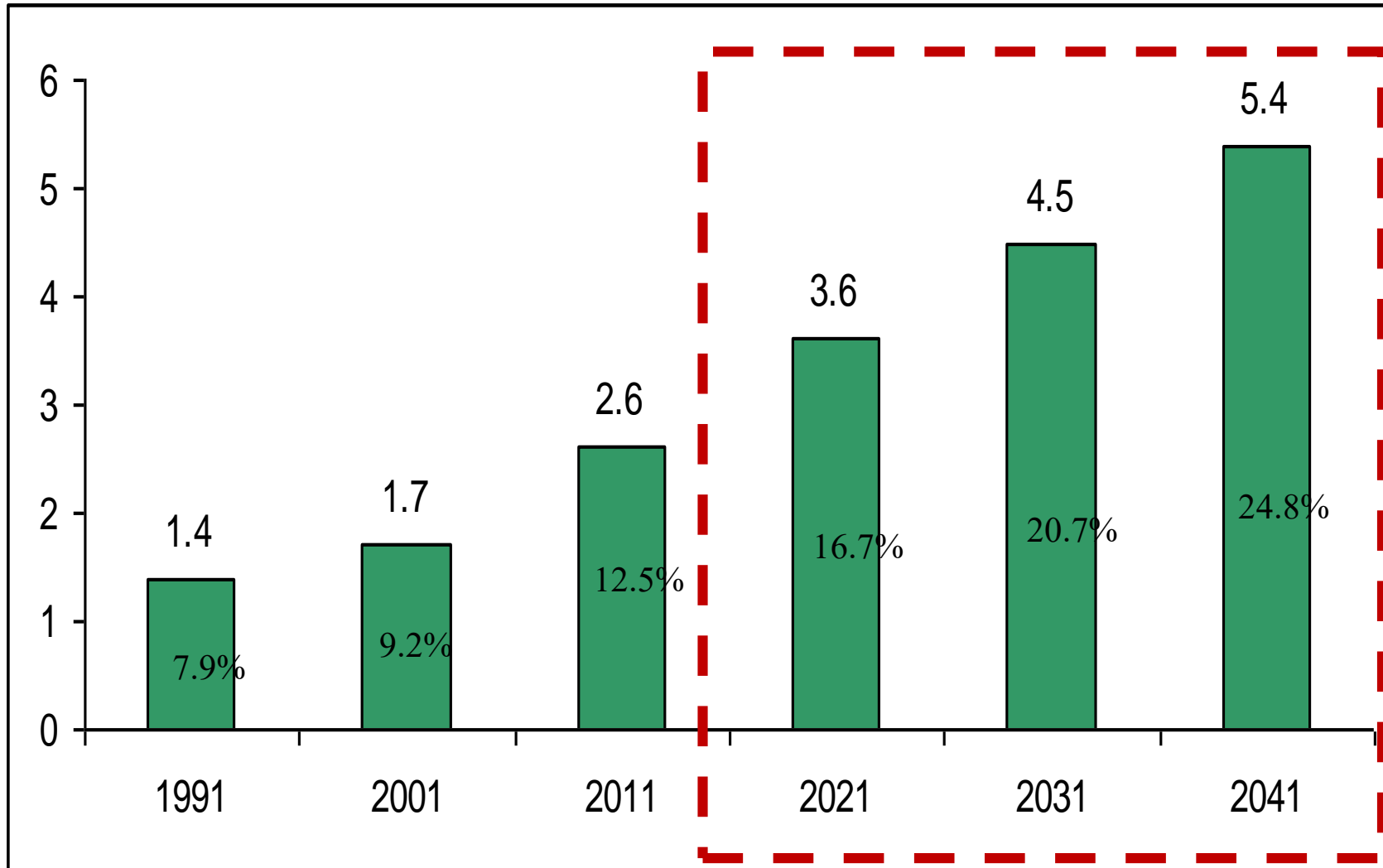
# Forward looking? Demographics as illustration

- Has it implicitly or explicitly taken into account projections of the critical human resource?
- The following two slides are taken directly from a presentation by Professor W. Indralal de Silva

# Population Age 15-59 (in millions), Sri Lanka 1991-2041



# Population Age 60 and Over (in millions), Sri Lanka, 1991-2041



# Explicitly recognized . . . (labor force problems)

- And proposed actions to address
  - Low female labor participation rate, including
    - Reducing inflexibility of labor laws, including enabling part-time & flexible work
    - Childcare & transportation solutions
  - Persistent mismatches of labor that is needed and labor that is supplied
    - Involve private sector

**Labour market inefficiencies are dampening productivity.** Our demographic transition, with reduced birth rates in recent times, has caused a rapidly ageing population and a shrinking labour force, an issue exacerbated by out-migration. A low female labour force participation rate (LFPR) of 35.9% in 2016, just half that of males, is another major constraint to labour force growth. With a large informal sector that accounted for 60% of the workforce in 2015, the enforcement of labour laws, including those provided with social protection, is low. While we have one sector where labour law is for practical purposes non-existent, within the organised sector, inflexibility of the labour market due to archaic labour laws constrains productivity growth and hampers international competitiveness. Other constraints include a low proportion of high skilled workers, persistent mismatches between labour supply and demand, and high unemployment among females, youth and the educated.

# Explicitly recognized . . . (aging population problems)

- Think beyond 20% who currently benefits from unfunded pension scheme
  - Contributory pension benefit scheme for all workers
  - Comprehensive social protection scheme
  - Centralized database

Existing social protection programmes lack adequate coverage and efficiencies to provide necessary support to the poor and vulnerable. Only the Government pension scheme for public servants provides an adequate pension, but this caters to only 20% of the 60+ population. The rest of the 60+ population either receives inadequate pension benefits, a lump sum payment at retirement (which is not a pension) or no pension at all. The national poverty alleviation programme (*Samurdhi*) is riddled with poor targeting. According to the latest Household Income and Expenditure Survey (HIES), 16% of households received *Samurdhi* cash transfers in 2013 when only 5.3% of households were classified as poor. Reforms are needed to address these issues while safeguarding the poor and vulnerable segments of society as the ageing population increases the cost of social protection in Sri Lanka.



# Evidence based? Examples . . .

## **Yes**

- Demographics-based problem identification
- Enhancing agriculture value chains

## **Questionable**

- Solutions to demography-based problems
  - Govt will only promote foreign employment in sectors without labor shortages
- Increasing non-tax revenues
- “Statements of Corporate Intent of the selected major SOEs”

# Non-tax revenues come from non-competitive (therefore harmful) or loss-making SOEs

- Inefficient state-owned banks have been recapitalized many times; have been conduits to enrich cronies through NPAs; and by their size & inefficiency harm entire economy
- SOEs that have to compete (e.g., SriLankan+Mihin Airlines) make massive losses: LKR 29.7 billion in 2016 & 9.5 billion in 2017 Q1

|    | Enterprise                               | Profit/  |             | As at<br>30.04.2017<br>(Provisional) |
|----|--|----------|-------------|--------------------------------------|
|    |  | (Loss)   | 2016(Draft) |                                      |
|    |  | 2015     |             |                                      |
| 1  | Bank of Ceylon                           | 25,109   | 31,635      | 10,200                               |
| 2  | People's Bank                            | 19,497   | 19,399      | 6,954                                |
| 3  | National Savings Bank                    | 13,034   | 13,251      | 3,526                                |
| 4  | State Mortgage & Investment Bank         | 731      | 460         | 217                                  |
| 5  | HDFC Bank                                | 972      | 636         | 164                                  |
| 6  | Lankaputhra Development Bank Ltd         | 204      | 255         | 94                                   |
| 7  | Pradeshniya Sanwardhana Bank(RDB)        | 2,112    | 2,089       | 345                                  |
| 8  | Sri Lanka Savings Bank Ltd               | 348      | 464         | 218                                  |
| 9  | Employee's Trust Fund Board              | 18,152   | 15,846      | 7,534                                |
| 10 | Sri Lanka Insurance Corporation          | 3,017    | 9,903       | 5139                                 |
| 11 | National Insurance Trust Fund            | 4,449    | 6,000       | 1,561                                |
| 12 | Sri Lanka Export Credit Insurance Corp.  | 224      | 193         | 104                                  |
| 13 | Agriculture and Agrarian Insurance Board | (256)    | (3,261)     | (842)                                |
| 14 | Ceylon Electricity Board                 | 28,845   | (14,499)    | (16,590)                             |
| 15 | Ceylon Petroleum Corporation             | (19,468) | 69,620      | (3,846)                              |
| 16 | Sri Lanka Ports Authority                | (9,575)  | 2,212       | (571.64)                             |
| 17 | National Water Supply and Drainage Board | 252      | 835         | 140                                  |
| 18 | Airport and Aviation Services (SL) Ltd   | 2,378    | 6,888       | 1,893                                |
| 19 | Sri Lankan Airlines Ltd                  | (12,622) | (28,140)    | (9,522)                              |
| 20 | Mihin Lanka(Pvt) Ltd                     | (1,196)  | (1,579)     | NA                                   |
| 21 | Sri Lanka Transport Board                | (3,438)  | 3,617       | 3.5                                  |
| 22 | State Engineering Corporation            | (586)    | (703)       | (245)                                |
| 23 | Central Engineering Consultancy Bureau   | 510      | 833         | 198                                  |
| 24 | State Development and Construction Corp. | 80       | 28          | 170                                  |
| 25 | Miko (Pvt) Ltd                           | (243)    | 274         | 137                                  |
| 26 | National Livestock Development Board     | 39       | (18)        | (102)                                |
| 27 | Sri Lanka State Plantations Corporation  | (189)    | (134)       | (12)                                 |
| 28 | Janatha Estates Development Board        | (401)    | (404)       | (38)                                 |
| 29 | Kurunegala Plantations Ltd               | 155      | 132         | 65                                   |
| 30 | Chilaw Plantations Ltd                   | 79       | 69          | 74                                   |
| 31 | Kalubovitiyana Tea Factory Ltd           | 7        | 33          | 30                                   |
| 32 | Sri Lanka Cashew Corporation             | 17       | 32          | 1.4                                  |

# Statements of Corporate Intent ineffective

- Signed with
  - CPC
  - CEB
  - NWSDB
  - AASL
  - SLPA
- Does not appear to be working, as seen from profit performance (aggregate losses for 2017 Q1 > 2015 + 2016)

Profitability of SOEs with SCI, 2015-17 (LKR millions)

|       | 2015    | 2016    | 2017 Q1 |
|-------|---------|---------|---------|
| CEB   | 28,845  | -14,499 | -16,590 |
| CPC*  | -19,468 | 69,620  | -3,846  |
| SLPA  | -9,575  | 2,212   | -57,164 |
| NWSDB | 252     | 835     | 140     |
| AASL  | 2,378   | 6,888   | 1,893   |
|       | 2,432   | 65,056  | -75,567 |

Ministry of Finance, 2017 Mid Year Fiscal Position Report

\* Owed banks in excess of LKR 300 billion each year



# Coherence

- Overall, coherent document except in cases such as SOEs, where the political considerations of not privatizing appear to have introduced incoherence
- But will the 2018 Budget be consistent with Vision 2015 and 2018 Economic Policy Statement by PM?
  - 2016 and 2017 budgets were not

Vision without action . . .

# This government gets a D in implementation

- The Prime Minister who was in charge of economics failed to put in place the right team to implement his good ideas.
  - Not one trade agreement has been signed, despite Ministry of Development Strategies and International Trade
  - Vapid Statements of Corporate Intent only apparent output of Ministry of Public Enterprise Development
  - Only GSP Plus and the Inland Revenue Act as significant successes
- Some recent changes suggest criticism has been heard. But is it too late? The document contains within it the excuse: *“As in all democracies, progress is often not made in straight lines.”*