

**HON. PRIME MINISTER'S ECONOMIC STATEMENT
IN PARLIAMENT ON 27TH OCTOBER 2016**

Mr Speaker,

With regard to the current state of the economy and the Way Ahead, I would like to recall the speech I made in the House on the 05th of November 2015.

We can once again become the resplendent nation we were under Manawamma and Parakramabahu. But it is a path that must be pursued with determination, commitment and patience. Only then can we create the country that we can confidently pass on to the future generations.

At the time I made the statement last year, I affirmed that our collective economic journey requires revolutionary thinking, bold policies and initiatives that would transform Sri Lanka into a vibrant and prosperous nation. The National Government started work on a sound footing - by increasing the actual wages of the public sector including those of general workers. This process stimulated domestic demand and addressed the imbalance in income levels, the economic legacy inherited from the previous regime.

However, we acknowledge that much more needs to be done. We aim to enhance the income potential of Sri Lankans on a faster trajectory. During the last 60 years, Sri Lanka has not kept pace with the South-east Asian nations and has been only barely ahead of our South Asian neighbours. Doubling our current level of per capita national income from USD 4000 to USD 8000 is no magic trick – rather, it is setting in motion a planned effort to grow at a faster rate. If we continue to grow at our current rate of 5% per annum we will only double our personal income levels by 2033.

We can double our personal income levels by 2025 if we set in motion a growth rate of 7% per annum. This rate was achieved in the aftermath of the war in 2009 but the momentum brought on as a dividend of peace did not last.

In 2012, it went down below 5% per annum. Private businesses were nationalised while local and foreign investment dried up. Heavy state borrowing for economically non-viable state sponsored projects did not leave any funds for private investors to borrow from the banks.

In 2015, we have addressed the inequality in income distribution at a national level. Consequently, we have been able to uplift the income levels of low income earners and public officials. At the same time, tax levies are being imposed on affluent groups to fund higher wages and minimize government borrowing.

Along with The IMF, The World Bank and The Asian Development Bank, lending institutions of the US, Europe and Japan have expressed their willingness to lend Sri Lanka funds at considerably low rates of interest ; these funds would enhance and strengthen the economy. The last time such funds were made available was between 2001- 2004, when I was the Prime Minister. Today, President Maithripala Sirisena and I have been able to successfully revive such funding sources towards assisting Sri Lanka.

For centuries, Sri Lanka's location in the heart of the Indian Ocean between Western and Eastern Asia has made us active partners of inter-regional trade. The strategic

importance of Sri Lanka as an Indian Ocean hub in the realm of global logistics and commercial activities has been widely acknowledged.

In this context, the foundation for a more sustainable economic model has been laid already, enabling us to recover from the inward looking economic policies of the past. Our exports with a value of USD 11 billion are contracting while garment exports remain static at USD 5 billion per annum. The garment industry will see a revival when GSP+ returns – we have already set in motion the process towards it being obtained once again.

Agricultural exports have declined as a result of prices for tea and rubber slowing down. It must be noted that in the plantations sector, some of the companies are being run well while others not so. The Government plans to restructure the regional plantations companies by infusing new capital and introducing efficient enterprises.

Our export base has remained the same for over 30 years and is dependant on a narrow export base of garments, tea, rubber, gemstones and tourism. The economy cannot experience growth based on such limited exports.

A key economic contribution in the form of remittances from the Middle East remain volatile as oil prices fall and countries like Saudi Arabia are reducing the salaries of their own citizens. This will pose a new challenge to Sri Lankans employed in the Middle East.

As the global economy struggles to recover, Sri Lanka has been able to successfully navigate amidst changing economic dynamics, maintaining a prudent domestic economic level of growth.

The Government has encouraged the people living abroad and in Sri Lanka to invest in construction, which has resulted in a construction boom.

Sri Lanka is seeing a staggering growth in tourist arrivals as our image as a safe and a friendly tourist destination is growing rapidly. In the aftermath of a decade of neglecting markets, major international airlines and hotel chains are once more entering a vibrant Sri Lankan market.

We are now ready to enter the next and the most important phase of economic activity, that of creating new and productive jobs and livelihood for the young people. The creation of 1 million jobs will empower the youth and enhance their standard of living.

We need to sustain a higher rate of growth for the plans to succeed , one that will result in higher exports and a greater domestic demand. Such growth will also increase state revenue. As I mentioned last year, a drop in government revenue and an increase in commercial debt to its upper limits can have a drag effect on the economic development.

Achieving a high level of growth in exports need major capital infusion and greater investments. New technological innovations, better management of data systems and up-to-date market information systems are needed to achieve better results.

During the Eighties, having decided that outsourcing was a better option, Japan was reviewing moving operations to Thailand and Sri Lanka. The Japanese delegation to Sri Lanka arrived at the height of July 1983 riots and needless to say, we lost the opportunity to Thailand which obtained investments to the value of 50 Billion USD. There was a spillover of US Dollars 13 Billion into Malaysia as well.

As the then Minister of Industries I focused on promoting industrialisation. At the time, Vietnam has opened up as a market economy model and came to Sri Lanka for advise. Unfortunately, as the war progressed, we stopped pursuing industrialisation in 1997. Vietnam continued to engage in industrialisation.

Sri Lanka's total export stood at US Dollars 1.9 Billion in 1990. Vietnam's exports were worth US Dollars 2.4 Billion. Today, 25 years later, Sri Lankan exports have climbed to US Dollars 10 Billion while Vietnam retains exports valued at US Dollars 162 Billion, most of it based on manufacturing.

In 2003, as the then Prime Minister, I set in motion the application process for GSP+ , subsequently concluded by President Chandrika Kumaratunga. While Bangladesh also enjoyed concessional entry into the EU markets, Sri Lanka lost the GSP+ incentive in 2010.

In 2003, the Textile and Garment sector in Sri Lanka stood at US Dollars 2.5 Billion, while in Bangladesh, it was US Dollars 5.2 billion. Last year our exports went up to US Dollars 4.8 Billion while Bangladesh stood at US Dollars 26.6 Billion.

We must understand that in order to grow out of being a poor, backward country, we need to focus on large scale FDIs and accelerate growth.

Towards this direction, the Government plans to create a positive investment climate that will generate jobs. Hurdles that stand in the way of achieving growth for business start-ups will be removed. The processes of starting a business, getting construction permits, electricity connections and bank credit, registering property, protecting minority investors, the payment of taxes, trading across borders, the enforcement of contracts, the resolution of insolvency, and regulations governing labour market will be efficient mechanisms that will facilitate business growth. Additionally, the Government will also prepare legislations to establish a single window for investment approval. Further, we will hold discussions with the Trade Unions and relevant stakeholders. The targeted outcome is to bring Sri Lanka within the top 70 nations of the Doing Business Index by 2020.

We plan to build on these strengths and initiate plans for a logistical and business centre in the Indian Ocean. With this in mind, we have started developmental work on 3 international ports and airports, providing efficient connectivity within the region.

A new set of investment incentives based on Capital Allowances and low tax regime will be introduced; the details will be announced in the Budget

We plan to repeal The Export and Import Control Act and bring in new legislation on the lines of Singapore's (a) Regulation of Imports and Exports Act and (b) Strategic Goods Control Act.

Current domestic market enterprises also have a greater role to strengthen the economy – in addition to expected Direct Investments of local and foreign origin. They too can add to export volume. The Government will assist them to connect to the Global Value Chain by introducing a Trade Adjustment Package which will include Capital Allowance for new equipment.

Concurrently, we are reviewing the growing interest of local and foreign business concerns towards solving the twin problems of low private investment and the accumulation of vast debts by the Government.

As you are aware, during the last year, HE the President Maithripala Sirisena and I have travelled to key destinations with an objective of reviving the interest in Sri Lanka. We have met with success. During my recent visit to Brussels, the officials of the European Commission expressed their confidence that the GSP Plus trade concession would be given favourable consideration. The Japanese Prime Minister has also appointed a senior official to especially coordinate Japanese Sri Lanka Joint Comprehensive Partnership Programme.

Towards creating newer markets for our exports, we are also negotiating three trade agreements; ETCA with India, and two FTAs with China and Singapore.

These are significant developments even as these two large economic regions struggle to maintain economic momentum in their domestic markets, which have been traditional export destinations for our businesses.

Most of us thought that our next generations would have to pay the debts incurred for Hambantota port and Mattala airport. Now, we have entered into a debt to equity swap. Chinese investors have made significant commitments to invest equity in the debt strapped Hambantota Port and the Mattala Airport as PPP ventures.

The Government plans to receive sufficient funds to offset these debts. You can now be assured that your children will not have to pay these debts but can reap the benefits of a dynamic, international air-sea hub.

Strong interest in utilizing these zones along with other such zones in the western province have been noted by investors from China, Korea and Japan. They plan to create an export market focused on Europe, China, Japan and USA and the crescent of markets around the Indian Ocean. Between the Middle East, Iran, Afghanistan, Pakistan, India, Bangladesh, Myanmar, Thailand, Malaysia, Singapore and Indonesia there exists a fast-growing population currently of over 2 billion people. This combined market has the potential of 3 billion consumers by 2050.

Going forward, our development strategy will be aimed at capturing trading opportunities within these identified Indian Ocean markets via pursuing trade liberalisation agreements with their governments. Concurrently, we are focusing on defining the two development corridors across the country – this will be a focal area for investment by the public and the private sector.

The logistical and infrastructural facilities that provide faster, secure links to the global value chain empowering viable business ventures, will be spearheaded for the first time in Sri Lanka, in these development corridors.

The two development corridors will correspond to the two distinct halves of the country irrigated by the two monsoons. The South-Western corridor will have as its major axis the proposed Kandy-Colombo highway linked to the existing Southern highway. This region has the strongest potential to link up with global value chains, because of its close proximity to the Katunayake airport and the Colombo harbour. This project envisages

- creating a Megapolis Development Authority to develop the entirety of the Western Megapolis an urban area of over 8 ½ million people.
- A brand new financial city centre that will be based at the new reclaimed land development project alongside the Port of Colombo.

A sub-corridor that will stretch along the central highlands from Kandy via Nuwara Eliya to Badulla and linked to the Kandy-Colombo highway. This will connect the revitalized plantations economy and modernized agricultural pursuits and will also lay emphasis on tourism and service delivery initiatives.

The second North-Eastern development corridor will connect the Eastern Province and the North Central Province to Jaffna linking the Trincomalee Port City to the Rajarata. The completion of the Moragahakanda and the Malwatu Oya reservoirs will create new vistas for the country and will result in the region gaining more land for agriculture. It will further result in the historic cities of Polonnaruwa and Anuradhapura emerging as modern urban centres. Trincomalee will be urbanized and transformed into a world-class Port City.

Reconstruction of housing and civic infrastructure will be given highest priority within the previously war-affected areas around Jaffna, Mullaitivu and Kilinochchi.

SUSTAINABLE DEVELOPMENT

While the priority remains economic stimulation and the improvement of individual finances, the plan also focuses on establishing a society in which every citizen has access to equal opportunities and individual rights are safeguarded - this includes the right to shelter. The Rural Housing Loan Programme, Urban Regeneration Housing Programme, Estate Housing Programme and Resettlement Programme are being implemented with focus on vulnerable groups. Plans are underway to construct 500,000 housing facilities for the middle-class to meet the rising demand for housing in urban and suburban areas, 65,000 houses for the urban underserved population, 65,000 houses for internally-displaced people in areas previously affected by conflict, and to fulfill 65% of the estate housing requirement by 2020.

I must emphasise at this juncture that we are committed to the sustainable development goals adopted by the UN General Assembly in September 2015. Our development of industry, services and agriculture will be guided by these principles. For instance, when we develop 15,000 acres of free trade zones in the South, we will undertake reforestation of unutilised lands in other parts of the country. Similarly, we are finding solutions to the overwhelming problem of solid waste disposal in our major cities. This is a hazardous situation affecting the lives of thousands of people , one left unchecked by the last government.

We are going ahead with schemes that provide safe drinking water to the communities in need of such projects around the island ; we are also seeking to improve treatment of waste water. The pristine status of our natural environment remains our most precious resource and has been praised by visitors throughout the centuries. We pledge to take utmost care to preserve our natural resources and our heritage within all our

development efforts. The economic vision of the National Government will yield prosperity for all Sri Lankans. It is an economy that will share the benefits of development among all. One that will be friendly to all, beneficial to all, keeping its focus on including sustainable development as well.

What we are hoping for is a lawful economic environment that will set the stage for sustainable development. We will incorporate a sustainable development entity that will provide the necessary framework and initiate mechanisms required. I called this the third generation of economic reforms. The first generation was introduced by President Jayewardene, the second by President Premadasa. What is now envisioned by us here, is based on multifaceted economic linkages to global supply chains and the planned increase in trade development. Many qualified people prefer well-paying jobs that are given based on professional capabilities. It is not viable to maintain a low paying production based economy.

These developments will result in the creation of one million jobs and the expansion of the middle-class; a nation in which the farmers prosper and every child has access to education. Our end goal is prosperity for everyone. Every citizen must enjoy the benefits of living in a wealthier nation. This also includes the realization of the basic rights of every citizen – principally, housing. We view this as the first step towards ensuring total social inclusion, followed by measures to promote inclusive involvement in the economy, especially for women, while improving facilities for differently-abled persons to integrate into society and pursue their life goals with normalcy.

BUSINESS AND SECTORIAL PRIORITIES

Sri Lanka has evolved a variety of distinct economic sectors, which are capable of further integrating the country's economy into the Global Value Chain. The digital economy, tourism and commercial agriculture are coming of age concerning their potential to offer high-value skills and remuneration to young job seekers in the country. With the new economic orientation that will include fewer opportunities with the government and more exposure and opportunities for entrepreneurs and skilled professionals, we aim to accelerate the broad basing of opportunities in these segments – the digital economy, tourism and commercial agriculture.

THE DIGITAL ECONOMY

The digital economy will empower our nation – through providing affordable and secure Internet connectivity to every citizen in any part of Sri Lanka, removing barriers for cross-border international trade. A platform for cashless payments will also be created. Digital technology will be included as a new subject in the school curriculum. We plan to foster entrepreneurship opportunities in digital commerce while providing training in cyber security monitoring and response.

MODERN MANUFACTURING ECONOMY

We shall strive to attain the status of a modern manufacturing economy that will include state-of-the-art equipment.

We plan to overcome the bottleneck of being a middle-income country with low wages in our pursuit towards greater prosperity for our people.

STATE-OWNED ENTERPRISE (SOE) REFORMS

We will establish a Public Commercial Enterprise Board by law an organization that will manage SOEs enabling them to be more efficiently run on a commercial basis ensuring value for money. We are creating a Public Wealth Trust through which the shares in state-owned entrepreneur enterprises will be held in trust for the people.

FINANCIAL INCLUSION

With the passage of the Microfinance legislation in Parliament early this year, rural microfinance is now a legitimate activity. Urgent measures are being undertaken to link foreign microfinance providers with local communities to promote greater credit penetration in rural areas. The Ministry has already allocated five billion Rupees for a special SME financing scheme to empower business formation and development. A National Financial Inclusion Policy will be evolved by the Central Bank to set quantitative targets for opening of accounts, disbursement of SME loans etc. To enable this, we will be consolidating rural development banks (RDBs). Rural Development Banks have become the main channel for concessional lending to Small and Medium Enterprises. Their decentralized management structure is reinforced with the Central Bank of Sri Lanka, through its newly created regional departments. We seek to initiate a nationwide campaign to encourage banking and endow a spirit of entrepreneurship among all.

TOURISM

The plan to make Sri Lanka a high value destination is on the cards. It will herald in prosperity that will showcase our cultural pursuits, wild life and the environment via provinces developed as unique tourist hot spots. We believe that Sri Lanka will be one of the finest travel experiences for the global traveller.

MODERNIZING AGRICULTURE AND FISHERIES

It takes over a decade to modernize the sectors of agriculture and fisheries. We plan to establish a Rural Modernization Board, which will include all stakeholders. Fisheries and Poultry will be the first categories to be promoted for exports.

The difficulties faced in the tea and rubber industry will be reviewed. The Government will restructure the plantations sector to invite new capital and eliminate inefficiency.

NATIONAL AGRICULTURAL MARKETING AUTHORITY

Marketing of agricultural products is the most important link between the producer and consumers. We will establish a fully empowered National Agricultural Marketing Authority to coordinate the marketing of agricultural products, and develop existing markets, transport and storage facilities. In addition, new infrastructure facilities such as cool storage will be added at a divisional and regional level, for preservation of food before or after purchase. Providing large storage facilities for purchasing and storage during the harvesting season is an essential pre-requisite for implementing a guaranteed purchase price. It is planned to create 250 'polas', farmer markets island-wide for farmers to bring their produce to local markets.

UPDGRADING HUMAN CAPITAL

The country's current education system, particularly the higher education system, is being recalibrated to produce graduates who will meet the skill and knowledge requirements of the corporate sector. We will ensure a culture where job-oriented skill development will take precedence over the passing of exams, while introducing more real-life vocational situations and simulations to the curriculum.

INCREASING FEMALE PARTICIPATION IN THE ECONOMY AND GOVERNANCE

The Government is committed to creating good and safe working conditions through sufficient investments and promoting entrepreneurship to create quality and high paid jobs in the country while targeting to increase the female labour force participation rate to 40% by 2020. It is also acknowledged that female-operated Small and Medium Enterprises (SMEs) could well cater to the demands of the rising middle class, which is important to Sri Lanka now given the country's move towards an upper middle-income economy. The Act has reserved 25% of representation for women in local authorities.

RECREATIONAL INFRASTRUCTURE

In addition to the recreational parks developed around the country, life enrichment projects are underway to introduce recreational spaces in every province, complete with synthetic athletic tracks and Olympic-sized swimming pools.

EDUCATION

13 YEARS OF COMPULSORY EDUCATION

A fresh policy initiative for making 13 years of education mandatory is now in place.

A pilot project on providing 13 years of mandatory education will commence next year. Those who do not pursue higher education after O/Ls will be trained under an upper Secondary Vocational Education system. We will recruit teachers and instructors required for this purpose as well as enhance the additional number of teachers needed to fill the cadre requirements for the next three years. Our focus will be on ensuring

that there will be no teacher shortages by 2019 and ensure all schools will have complete cadre. We will bring in a law for providing separate cadre for every school.

We will also commence school inspectorate to ensure that high quality levels are maintained in teaching. School boards consisting of parents, staff and past pupils will work towards maintaining high standards.

We will also commence a pilot programme to provide tablet PCs to all post O/L students.

Development of school infrastructure will be given to those needing to build capacity for new intake of students.

PROMOTION OF PRE-SCHOOLS AND DAY-CARE CENTRES

A five-year programme focusing on early child development (ECD) has been launched for improvement of systems and quality, to enhance the overall effectiveness and increase the enrolment of children for ECD programs. Early childhood development is not only meant for pre-school education, but includes interrelated segments such as health, nutrition, psychological condition, child care, probation and protection which are also essential components that will be considered in ECD.

EMPLOYMENT

In order to overcome the mismatch between skills acquisition and employment, we plan to empower young people without skills needed for employment, by providing them with additional training opportunities.

We will pool the services of Government and private sectors and utilize the Government network of state affiliated training institutions for this purpose. The accelerated Training and Employment programme will be a Public Private Partnership. The Government will make funds available both for training as well as supplementing the income of trainees in the Private Sector. This scheme will start in 2017 and will be fully operational in 2018.

HOUSING

The Government plans to construct 500,000 housing units for middle class and the working class, which will give them house ownership at a subsidized rate. These will be in the form of successful private-public partnerships and will be private sector driven. These will be based around vital nerve centres such as emerging cities, while encouraging the concept of sustainable urbanization; thereby strengthening the Government's socio-economic pursuits and sustainable development goals.

The Budget proposal will include detailed information on these initiatives.

Today, what the economy needs is not more governance but to achieve a goal of prosperity that can happen via the liberation of the economy. The first generation of economic reforms introduced in 1978 set the country free from the ill effects of a closed

economy. Today before us is the challenge of introducing the third generation of economic reforms. We have the potential to become Asia's next economic success story if only we can face those challenges successfully.

A booklet that contains detailed information on the planned economic measures will be made available soon.

Mr. Speaker,

In the past, Sri Lanka has missed many opportunities to achieve truly viable economic success. We cannot let the opportunity before us slip once again. That's why we must be able to comprehend the current global conditions and make the best use of our strengths, utilizing it successfully towards emerging an economically robust nation.

All of us may have personal opinions and different political affiliations but we as a nation must be able to rise above it all, to come together to take our country forward.

We have the best opportunity for that under the National Government.

We cannot hold the past accountable for not going forward into the future. There's no use in shedding tears over the wrong economic pursuits of the past. Instead, we need to focus on the path forward, on our ability to compete successfully in a dynamic global market place and carve out our niche among the prosperous nations of the world.

The future generations will depend on us for choosing the right economic path. As a nation committed to sustainable development and success, only then can Sri Lankans become the empowered citizens of an economically sound nation.