Spotlight: Econ Op-eds in Summary

Week ended 03rd June '20

In Summary

The underneath contains summaries of the articles given above, including key extracts from these articles.

1. Suggested revival plan for Sri Lanka's economy in the post COVID-19 era
By: Ajith Nivard Cabraal

- Sri Lanka has so far fared well in responding to the virus outbreak from a health perspective. It is now time for the Government to implement a focused and practical plan of action from an economic perspective.

- A debt-standstill from the IMF and World Bank for 2-years will save around $2.5bn or Rs.470bn in forex outflows, which can be funnelled to a business recovery and revival fund and a safety net fund for vulnerable groups. Support businesses by taking steps to attract Rs.200bn in equity inflows and a further Rs.200bn in venture capital funds. Build reserves by re-attracting $3bn in foreign inflows to government securities.

- In the near-term provide a boost to the economy via support to 2.6mn EPF members by releasing 20% or Rs.500bn of the fund balance. In the medium-term deploy a well-thought-out 3-5 year 'import-substitution' strategy – instead of a panic-stricken 'import restriction' – to help increase company revenues by Rs.1000bn every year.

- According to studies carried out, the stimulus given to the economy should be at least 10% of the economy's GDP to make any positive impact in the post-COVID economy. Thus, the above measures should be implemented simultaneously, using capable individuals, in order to provide approximately Rs. 1.5 trillion in stimulus to revive the economy.

COVID-19 has battered the world with its viral and deadly impact, with millions of people being affected and hundreds of thousands dying. At the same time, the virus and its aftermath has wrecked the economies of almost all countries and is now leaving a devastating trail of bankruptcies, livelihood losses, evaporation of savings, debt defaults, economic and corporate collapses, and hopelessness.

Sri Lanka has so far fared well in responding to the virus outbreak from a health perspective, but it is now time for the Government to implement a focused and practical plan of action for the country to deal with the significant challenge that is now before it, from an economic perspective.

This brief 'to-do' list sets out the most critical new initiatives that the writer believes must be implemented (in addition to the normal economic activities that are presently taking place in the country) if the country and the economy is to successfully and decisively deal with the crisis and embark on a growth trajectory once again.

> **1. Address the impact of the COVID-19 fallout at a macro-level and work towards a 'debt standstill' from the IMF and World Bank for a period of two years:** that will stop $ 2.5 bn (Rs. 470 bn) forex outflow which will stabilize the rupee, enable uninterrupted international trade and lead to normal economic activities without restrictions. Already, the IMF, World Bank and many advanced

nations have acknowledged the fact that the Post COVID-19 economic revival must essentially be a global effort, since it is a global problem. In that context, Sri Lanka must actively contribute to fashion the global response to its advantage and not take an approach that suggests 'we'll wait and see' or 'we can't do anything about the global response'. Instead, Sri Lanka must approach the recovery and revival from both a global as well as a local perspective and be seen as an active global contributor to this vital international recovery effort.

2. Establish a business recovery and revival fund and a safety net fund for vulnerable groups which supports those who are daily paid, those who lost livelihoods, and those hitherto vulnerable. These two funds would ideally consist of the rupee savings from the possible IMF and WB debt standstill and would be of a magnitude of around Rs. 500 bn.

3. Source global equity capital of around Rs. 200 bn (about $ 1 bn) to provide equity funds to corporate entities at times of distress. The corporate entities which receive such infusions must be encouraged to use a part of such cash inflows to settle their bank borrowings partially and thereby strengthen their balance sheets and become 'bankable' again. This process will, in turn, help strengthen the balance sheets of the financial institutions, as well.

4.**Attract global venture capital funds of about Rs. 200 bn (around $ 1 bn) and provide 'seed capital' to promising new and existing ventures**. Such infusion of new funds too will stimulate the economy while creating more entrepreneurs and livelihood opportunities in the country.

5.Re-attract at least $ 3 bn (Rs. 570 bn) of foreign investment into Sri Lankan Rupee Government Securities. Sri Lanka enjoyed foreign investment of about $ 3.4 bn in Government Securities in 2014, but those investments have dwindled to just over $ 0.1 bn now, which suggests that there is sufficient space for investors to return.

6.Attract elderly American, Chinese and European tourists to visit and stay in Sri Lanka for periods of around 100 days during the next Winter season 2020/21 by carrying out a global promotion campaign for this purpose. The Government should also consider providing a COVID-19 insurance cover (similar to an accident cover) of around $ 50,000 to each tourist who visits Sri Lanka in the year commencing 1 July. That will help bring tourists back quickly and lead to the revival of this very important industry.

7.Implement a focused 'import substitution' strategy to encourage Sri Lankan enterprises to undertake agriculture, industry, and services which have a proven market in Sri Lanka. It must be noted that an 'import substitution' strategy is the answer, and not a seemingly panic-stricken 'import restriction' reaction. A well-thought-out 'import-substitution' strategy will be a three to five-year initiative, and it could possibly yield a steady income stream of around Rs. 1,000 bn ($ 5 bn) per annum for Sri Lankan companies within the next three to five years. In tandem, financial institutions must be specifically encouraged to support such ventures, while the enterprises must be provided with tax incentives by the Government.

8.Release 20% of the EPF member balance to the members themselves, so that approximately 2.6 mn EPF members who are currently struggling could pay their debts and make ends meet, thereby giving themselves a new 'lifeline'. That intervention, while being of enormous value to the individual members, will result in an amount of about Rs. 500 bn being released into the economy out of the Rs. 2,500 bn Superannuation Fund. That influx of funds into the economy will also serve as a useful stimulus to the economy as well. After this idea was mooted by this writer in Sri Lanka in late March 2020, it has already been implemented in Australia and India.

Studies in many advanced and developing economies suggest that unless the post COVID-19 related collective interventions are (at least) of a value of around 10% of the GDP of a country, the impact of the interventions may not be sufficiently effective.

That finding therefore suggests that the collective interventions in Sri Lanka should be of a value of (at least) Rs. 1,500 bn in order to have a favourable impact in the country's Rs. 15,000 bn economy. Ad-hoc, knee-jerk and traditional interventions of a much lesser value may be helpful in limited circumstances but would not be adequate to realize the desired result of an economic revival at this time.

Piling on debt upon debt will not bring permanent relief to hapless borrowers but be a stop-gap measure only. A well-administered, temporary, but easy-to-implement 'debt moratorium' to enterprises without compromising the health of the banks and finance companies will certainly help, but would not be a long-term solution, unlike those strategies that are contemplated in the above 'to-do' list.

It must be stressed that the above interventions must be carried out together, and not be implemented in a sequence where one intervention follows another. All interventions are of vital importance and must essentially be implemented simultaneously.

For the full article - Refer Daily FT

2. Saving the economy of Sri Lanka after the COVID-19 pandemic
By: Lloyd F. Yapa

- The coronavirus pandemic has exacerbated the pre-existing issue of poverty in Sri Lanka. While a short-term plan to address the immediate fallout of the pandemic is necessary, so is a long-term plan that can address and remedy the underlying factors behind poverty.

- These underlying factors include a shortage of investments, lack of long-term policy stability, need for good governance, low productivity (especially in the agriculture-sector), brain drain, poor global competitiveness amid deterioration in the ease of doing business and finally, environmental pollution.

- The long-term plan should be aimed at remedying the above by attracting FDI and expanding export earnings through a sound policy framework that addresses social, political and economic aspects. This will not only improve income equality but will also contribute to ease the nation's debt burden. However, the political consensus necessary to implement these measures remains the need of the hour.

Poverty

Apart from the visible effects of a lockdown, indications are that the poverty and inequality of incomes of people may have reached new high levels.

It is reported that the government had extended COVID assistance to some 5.2 million Samurdi recipients amounting to about 24% of the population. This appears to be a more accurate figure of poverty in the country than the official figure of 4.1% of the total population as of 2016. The question whether this number has been pushed up due to the pandemic needs to be investigated immediately before making plans for development of the economy after the pandemic.

Short-term and long-term plans are needed to deal with the pandemic. The former could seek to solve the immediate problems such as the health issues, the supply break downs and the extension of relief to the worst affected. The enormous increase in poverty needs a long term plan (LTP) in anticipation of the recovery of the world from the pandemic.

Main objective

Alleviation of the new high level of poverty (and the inequality of incomes) mentioned above needs to be the main objective of the new economic development plan.

Main strategy

The main strategy to be implemented for this purpose should certainly be the attraction of an export oriented massive inflow of investment into the country to create jobs for the increased number of persons without jobs and to expand exports mainly to deal with the very heavy foreign debt of about USD 60 Bn. as of 2019.

It is estimated that if the economy were to grow at 8% per annum the country has to invest about 35-40 % of the Gross Domestic Product (GDP) every year. But SL does not save enough for the purpose; for example the average domestic savings for the last five years up to 2018 was about 22% of GDP. This is the justification for SL to attract Foreign Direct Investments (FDI).

Additionally, SL does not have the modern technologies required and an adequate knowledge of global markets for export of goods and services produced here. The FDI could provide these. But the fact is SL has failed miserably to attract FDI. The very first thing to do when preparing a future development plan is to find out why this has happened and studiously rectify the problems.

Absence of stability and predictability

FDI normally go in search of large markets like China and India for their products. Otherwise they look for countries with social, political and economic (fiscal) stability, for a long period of time with predictability/consistency. The right kind of policies can be described as Social Market Liberalism.

The absence of socio political stability has compelled a stream of people to leave the country for good creating some 500,000 vacancies for skilled and professional workers as per the Labour Demand Survey of 2017.

Improvement of governance

Another solution to the absence of a positive enabling environment or political instability is the improvement of governance.

Low productivity

One of the major effects of the 'social distancing' involved in the control of the pandemic is a substantial lowering of productivity/efficiency in the country;

The low level of productivity in SL could be due to several reasons such as the poor quality of the system of education, of physical infrastructure and the complexity of procedures and documentation.

Since the level of total factor productivity may go down substantially in SL due to the COVID-19 pandemic, urgent action needs to be taken to improve it considerably by resolving the above-mentioned problems.

Global competitiveness

According to the Global Competitiveness Report 2019, SL's ranking regarding trade openness was 127 out of 141 economies due to high import duties. SL has been moving in the opposite direction of trade openness for improving global competitiveness as proven by the following comment. 'The present import regime is one of the most complex and protectionist in the world. Sri Lanka: A Systematic Diagnostic', World Bank, 2016.

There are three main requirements to improve global competitiveness; a) reduction of import duties and para tariffs gradually, b) to promote intense competition among private firms to pressurise them to undertake further investment to reduce unit costs of production or improve productivity and c) improve value addition to satisfy the needs of customers in such a way as to be able to beat the competitors in international trade especially through innovation; this is referred to as 'differentiation'.

Improving agricultural productivity

There is now intense discussion about achieving self-sufficiency in food production. What is actually needed is to improve the earnings of rural communities as about 90% of people in rural areas (about 80% of the population) in SL are reported to be poor; The problem actually is that the farming units are too small to realise productivity and gain higher earnings.

According to the Agricultural census of 2002 about 45% of land holdings of a total of 3.3 million are about ¼ acre in size. This number may have now increased due to fragmentation. According to the Global Competitiveness Report 2019 the quality of Land Administration in SL is in fact one of the worst in the world, being ranked 135 out of 141 countries.

Where the size of the holdings is concerned the solution is to increase it while giving ownership of the units by undertaking state led land reform, to convert farmers from labourers to entrepreneurs; the small subsistence farmers displaced by the process were found employment in private sector manufacturing industries promoted by the government.

It is only after (state led) land reform is undertaken in SL with care that the incomes of farmers could be raised substantially, while increasing food production. This is a strategy that will also lay a firm foundation for further growth and even prosperity in SL.

Reducing the pollution of the environment

Where SL is concerned the World Bank (Climate Change Portal) has stated in a report that it is one of the countries in in South Asia that would be particularly affected by way of floods, droughts disease, etc. due to the expected global climate change.

SL has therefore to pay more attention to saving its natural environment by the prevention of the pollution especially by gradually abandoning the use of fossil fuels while resorting to greener sources of power, adopting suitable legislation, improving public awareness, preventing the excessive use of chemical fertiliser and weedicides/pesticides as well as by increasing the forested area which can absorb the carbon dioxide poisoning the atmosphere.

Conclusion

This needs an enabling environment consisting of social, economic and political stability which has eluded SL.

This essential stability could be realised by political consensus, which is the need of the hour. The rest of the strategies are desired as usual to improve fiscal stability, productivity especially of rural agriculture, the global competitiveness of the country and of course to save our precious natural environment.

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