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Sri Lanka's Bombed - Out Business Confidence

(by Milinda Moragoda)

Colombo's World Trade Center towers over the rubble left by a terrorist's suicide bomb back in January. The rest of the once bustling financial district, however, now looks more like a scene from "The Terminator". Buildings that used to house the Central Bank and the head offices of some of the leading private corporations remain empty, burnt-out shells. The WTC, however has been a victim of another type of calamity: the inability of President Chandrika Kumaratunga's government to generate private-sector confidence in the economy.

Begun three years ago when the economy was booming, the WTC was to have been a symbol of investor confidence. But now, the Colombo Stock Exchange Brokers working inside no longer dream of becoming millionaires overnight: rather, they spend their time worrying about corporate earnings that have plummeted, high budget deficits, dwindling foreign investment and falling indices.

Twenty miles from the capital, there's more evidence that something's amiss: in one of the country's free trade zones, yet another garment export factory has been forced to close. Apparel and garment exports to the United States are Sri Lanka's largest industrial foreign exchange earners, but the retail recession in the United States, combined with the fact that Sri Lankan wages are among the highest in the region, has hurt the sector.

Not that the trade union movement, which helped bring President Kumaratunga into office, is satisfied: in fact, it is bent on winning still more generous terms in what is already one of the most "labor friendly" regimes in the region. Industrial unrest, violent at times, has adversely affected both local and foreign investment.

Labor activism has also begun to spread up to the world-famous tea plantations in the country's central hills. Tea remains Sri Lanka's main value-added export. However, a derailed privatization program, and strike action by a plantation workers' union headed by one of the government's own cabinet ministers, is beginning to undermine the viability of this industry.

The government has also mishandled a power crisis. Up to 85% of Sri Lanka's power is hydroelectric, and the country is suffering from one of the worst droughts in recent memory. Power cuts are now occurring daily, which in a tropical country can make life

unbearable. The government, however, dragged its feet before announcing an incentive scheme for private companies to generate electricity, and many importers are still waiting for the arrival of equipment. Once again, the impression grows that leaders have not been planning ahead.

Many had high hopes after Mrs. Kumaratunga and the People's Alliance (PA) ousted the UNP in 1994. The UNP had governed Sri Lanka for 17 years and was accused of corruption and authoritarianism. The Sorbonne-educated Mrs. Kumaratunga campaigned on a populist platform that spoke of a "market friendly economy"

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with a "human face," but soon after getting into office, she did an about-turn and accelerated economic reforms. Privatization, tariff reduction, tax cuts and public service reform entered the lexicon of the political leadership. Private-sector Managers and reform-oriented technocrats joined the government at senior levels. In fact, the first policy statement of President Kumaratunga, who is also Minister of Finance, showed such a commitment to fiscal and monetary reform that they could have been uttered by free marketers like Argentina's Domingo Cavallo or Harvard's Jeffrey Sachs.

But the president's reliance on an ideologically diverse coalition that holds a one seat majority in parliament soon began to take its toll. Her left-of-center People's Alliance brings together Marxists, Trotskyites, Maoists and Muslim fundamentalists. As a result, ministers often make contradictory decisions that slow down investment approvals. Some politicians associated with the government even give support to labor unions, making them more militant. Many Sri Lankan businessmen have begun to question whether the reform socialists running the government are really equipped to manage a free economy.

As a result, economic growth this year is expected to drop to 4.5% after four consecutive years that saw annual growth of over 5.5%. Despite a few high-profile investments, which include Shell's purchase of the local gas distribution monopoly from the government and a bid by a P&O-led consortium to develop the port of Colombo, the government has been unable to generate sufficient business confidence in the economy.

The president has responded by accusing the conservative opposition, the United National Party (UNP), of undermining her efforts to generate investor confidence. She also insists that many of her problems were bequeathed by the last UNP government. But many fear that party rivalries could bring Sri Lanka to a virtual standstill. The added dimension of an upsurge in Tamil separatist terrorism, including January's bombing could make matters even more complicated. These developments have led Colombo's Chambers of Commerce and other intellectual and professional organizations to call for the formation of a "Government of National Unity" composed of the PA and UNP, but

the idea has not resonated well with either of the two parties, since neither sees any political merit in such a proposal.

Many times in the last two decades international observers have noted that Sri Lanka had all the elements needed to become an "economic miracle" along the lines of some other countries in Asia. Fate seems to have decreed otherwise. A reversal of fortune will only come when the political leadership, government and opposition, makes a clean break with the past and forges a compromise. Only then can both sides make labor unions, and Sri Lankans at large, that "rights" and "entitlements" must follow responsibility and commitment to hard work.

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