

PROFILES OF FREEDOM



Selected Speeches by

Chandrika Bandaranaike Kumaratunga
President of Sri Lanka

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A Collection of speeches by
H. E. Chandrika Bandaranaike Kumaratunga

President of Sri Lanka



**UNITED NATIONS WORLD SUMMIT
FOR
SOCIAL DEVELOPMENT - 1995
(COPENHAGEN)**

Address by

H.E. CHANDRIKA BANDARANAIKE KUMARATUNGA
President of Sri Lanka

Sunday, 12th March, 1995

Mr. Chairman

Your Excellencies

Mr. Secretary-General of the United Nations

Ladies and Gentlemen,

Your invitation to me to address this Summit, organised on the 50th Anniversary of the United Nations is a great honour to me and to our people.

To you Mr. Chairman, to the distinguished Heads of State and Government, to the Secretary-General of the United Nations and others gathered here today, I extend my felicitations and those of my government and the people of Sri Lanka. .

Poverty alleviation, the creation of employment and social Integration are critical issues that demand the immediate attention of the international community. Unless these issues are addressed urgently and effectively at national and global levels, the lofty goals of the United Nations - peace, security and economic prosperity of humankind - will continue to remain elusive; and the very existence of our societies will be drastically undermined.

Poverty and unemployment are very often the underlying causes of social conflict and violence, which undermines and erodes the social fabric upon which human prosperity and happiness rest. Our efforts at national level to overcome these problems can only succeed in a conducive international environment, in which the international community, the UN and the relevant financial institutions need to take positive steps towards assisting national economic development. It is regrettable that protective barriers on free trade, growing debt burdens, declining development assistance, worsening of terms of trade, as well as the negative effects of structural adjustment policies continue to thwart the national endeavours to achieve all round Social Development in an equitable manner. Hence the success of this Summit as embodied in the Declaration would lie in time bound, positive and concrete measures that will be taken to eliminate the adverse impacts of these trends on national economic development and the achievement of basic human needs.

We must make a collective and conscious effort to harness the positive effects of globalization. Increased trade and capital flows, development and transfer of technology, labour migration and foreign direct investment can contribute greatly towards empowering people and creating employment. Sri Lanka is proud of her enlightened social development policies pursued since independence in 1948. Relative to our per capita income of US\$ 550, we have a life expectancy of 70 years, a literacy rate of 90% and population growth rate of only 1.2%. These are but a few of our achievements.

There are however lessons to be learnt from our past. Short-sighted economic policies which aimed at growth alone have led to-

- * 30% of our households remaining below the poverty line,
- * 14% of our labour force, particularly the youth, remaining unemployed, and
- * over 30% of our young children being under nourished.

It is hardly surprising that such widespread social exclusion was the principle factor that led to the violence of the past years.

The people's Alliance government has given the highest priority to free market policies which will combine

economic growth with equity. We will carefully formulate and target our policies to ensure the equitable distribution of the fruits of development to meet the basic human needs of every sector of our society.

The alleviation of poverty will be one of our highest priorities. Towards this end we have initiated a SAMURDHI or PROSPERITY movement as the government's social safety net. By this programme we intend to broaden the horizons of those in genuine need by linking family development activities with community development projects at village, district and provincial levels.

We have also taken steps to further enhance the allocation of resources in the national budget for health and education from 1995 onwards.

Mr. Chairman, the policies adopted by my government since assuming office last year, reflect a firm conviction that social development, social integration and social justice are concepts that go beyond ensuring the physical well-being of the individual. We believe in simultaneously strengthening the democratic and legal frame work within which people participate in the formulation and implementation of policy. This involves the fullest respect for human rights and fundamental freedoms and the rule of law, access to justice, elimination of discrimination as well as transparent and accountable government.

Finally, Mr. Chairman, I wish to say a few words on the peace process that my government has initiated since assuming office last year. Our experience has amply demonstrated that social development and social justice cannot be achieved in the absence of peace and security. In the context of the conflict in the North and the East of Sri Lanka we have spent considerable resources and energies that could have been diverted for productive purposes. A peaceful resolution to the North East conflict arrived at through patient dialogue with all concerned, is essential for all communities in Sri Lanka to express their identities and to collectively and fully participate in national life. I am encouraged by the confidence expressed in our peace initiative by the international community and their commitment towards ensuring its success.

Mr. Chairman, in the up-hill task of achieving the objective of this summit by developing countries like Sri Lanka, the continued support of the international community would be of immense value. Countries that have effectively and efficiently utilized domestic and international resources in the realization of their social development goals would need assistance to continue their efforts at capacity building and self-reliance. Regional and sub-regional co-operation is as important as international support.

Sri Lanka fully endorses the two reports submitted to this summit by the Ministerial Conference of the Asia and Pacific Region held in the Philippines in October 1994 and

the South Asian Association for Regional Co-operation (SAARC) held in Delhi in December 1994. We also have submitted the Sri Lanka National Report in which, in addition to the general trends of the conference, matters that are unique to Sri Lanka are focused upon.

These reports while highlighting the priorities of our region in the achievement of the objectives of this summit send a strong message with regard to the urgent resolution of the issues raised in them.

I wish to emphasize two aspects of the current international situation that deserve our immediate and special attention.

First, in addressing problems of global poverty, we must not be unmindful of the large populations of Asia, particularly in South Asia which suffer from poverty, malnutrition and unemployment. It will be unfortunate to presume that problems of poverty in Asia are being settled along with the rapid economic progress in some countries in Asia. Hence, the poor millions of Asia should not be forgotten in international anti-poverty initiatives.

Secondly, we are now in the Process of replenishing the resources of the International Development Association (IDA) of the World Bank, which lends on very concessional terms to the poorest countries of the world. The past soft lending by the IDA has been one of the most potent forces

of poverty alleviation and I hope that this assembly can make a strong request to all donors to support the recommendation of the World Bank for the 11th Replenishment.

Mr. Chairman, we are confident that this summit will adopt a Declaration which contains practical and immediate measures that should be taken to combat the issues that we have been deliberating over the past few days. Our resolve to implement them both at national and international levels, remains firm.

In conclusion Mr. Chairman, whilst thanking every one who has worked untiringly to make this Summit possible I would like to express my sincere appreciation and deep gratitude to the Government and the people of Denmark for hosting this conference and for the warm hospitality extended to me and my delegation.

Thank You.

Sri Lanka Aid Group Meeting

**THE ECONOMIC AND
POLITICAL AGENDA
OF
SRI LANKA**

Statement by

H.E. CHANDRIKA BANDARANAIKE KUMARATUNGA

President and Minister of Finance, Planning,

Ethnic Affairs & National Integration

Paris, 27th April, 1995

Mr. Chairman, Ladies and Gentlemen,

It is a great pleasure to be with you this morning, because I am greatly conscious of the enormous support your governments and institutions have extended to our country to meet extraordinary economic and social challenges in the past. On behalf of our people, I wish to express our gratitude to your authorities and your people. Although we have made considerable economic progress with your assistance, we continue to face serious constraints to sustainable development and are assailed by daunting problems of widespread poverty and unemployment.

I have placed before you copies of my statement of government policy of 6th January and the budget speech delivered on 8th February 1995 which spell out our government's economic and social policies which represent a clean break from the tentative and stop-go policies of the past. Our new policies are designed firmly over a medium term framework. They are expected to more than double our income and virtually eliminate unemployment by the end of the century. They are essentially pro-market policies which will encourage the private sector and reduce structural rigidities which impede competition and productivity. They will be supported by well targeted poverty alleviation policies which will distribute incomes better. This is an enormous challenge to us because we wish to implement these policies in a totally democratic framework, with emphasis on good governance and utmost respect for human rights. You are well aware that there are only a very few countries in the world which have achieved these twin objectives simultaneously.



*President Chandrika Bandaranaike
Kumaratunga interviewed by the French
Media Personnel in Paris.*

ECONOMIC PROGRAMME

(a) Economic Performance in 1994

Sri Lanka's economy grew by 5.6 percent in 1994. This was a satisfactory rate of growth, considering the dampening effects of three elections held during the year. However, there were serious slippages in macro-economic policies, largely on account of populist policy measures announced in anticipation of the elections. Thus, the overall budget deficit increased to 10 percent of GDP in relation to an original target of 6.5 percent. As a result, government's domestic borrowings rose to 6.5 percent of GDP. This borrowing combined with an increase in private sector credit contributed to a monetary expansion of 19.7 percent. As a result, there was considerable demand pressure in the economy.

Sri Lanka's terms of trade in 1994 are estimated to have deteriorated by 4.7 percent in contrast to an improvement of 2 percent in the previous year. Exports were higher by 9 percent where as imports increased by 16 percent. It should be noted, however, that the latter increase was largely influenced by the purchase of aircraft during the year. Thus, there was a rise in the trade deficit to 13 percent of GDP in 1994. The current account of balance of payment widened from 3.8 percent to 6.5 percent of GDP in 1994. However, net capital inflows were such that the country's external assets grew by 16 percent to SDR, 1,792 million by the end of 1994. Thus, our assets were sufficient to finance

six months of imports projected for 1995. The Sri Lanka Rupee depreciated by 3.2 percent in real effective terms in 1994 thus maintaining the competitiveness of exports. Sri Lanka's debt service ratio declined to 13 percent of earnings from exports and goods and services, further easing the burden of external indebtedness.

Although the private sector dominated economy continued to show some dynamism, our new administration inherited a perilous fiscal situation when we took over in August 1994. A large number of revenue give-aways and additional expenditure measures had been pledged four months before the general elections, some of which we have had to roll back in order to save the economy from serious fiscal damage. At the same time, a few of our own election pledges had to be implemented. Altogether, it was with utmost difficulty that the budget deficit could be contained at 10 percent of GDP.

Thus, the immediate task of our new administration was to arrest the deterioration of the fiscal situation, which was the main cause of structural economic imbalances of the last several years. Sri Lanka has lived with huge budget deficits averaging over 10 percent of GDP during the last six years (1988/1994) and inflation has persisted at double-digit levels. Not only has this led to high interest rates which discouraged investment, but also it has introduced considerable volatility to the exchange rate.

(b) Medium term Outlook 1995 - 2000

Thus, our government resolved itself to make a clean break with the past. In a three year macro-economic framework (1995 - 1997), we pledged to bring down the fiscal deficit sharply to 7.5 percent in 1995, reducing it further to 5 percent of GDP by 1997. Inflation is expected to moderate to around 5 to 6 percent. This was to be achieved primarily by improving fiscal accountability and reducing waste, targeting welfare to the needy, divestiture of public assets by forming strategic alliances with private sector and reduction of public debt. However difficult it is, we believe that this fiscal adjustment has become necessary because of the need to stabilise domestic economic conditions in order to build international confidence, which is vitally necessary to attract foreign investment, without which we could not achieve our targeted economic growth.

When this initial period of structural adjustment is projected to the end of the century, with continuation of prudent macro-economic policies and structural reforms, we are hopeful of accelerating economic growth from 6 to 8 percent, which will considerably ease the unemployment problem. It will help us reduce the trade deficit from 13 to 5 percent of GDP and the current account deficit of the balance of payment from 8 to a level necessary to absorb foreign capital inflows. This would mean that the exchange rate will be stable, and inflation will be reduced to a manageable

level of about 4 percent with interest rate in the region of 7 percent per year. Underlying this forecast is a strong fiscal adjustment where current expenditure is held at around 19 percent of GDP and capital expenditure at 8 percent of GDP, and revenue rising to 24 percent of GDP. The budget deficit will decline to near three percent of GDP. Monetary expansion by that time is expected at around 13 percent.

I am very much aware of the hazards of medium and long-term economic forecasting and I must emphasise that

what you hear are tentative numbers. For some time now, we are working together with the World Bank on developing alternate scenarios of what Sri Lanka could be at the turn of the century under different policies and strategies, so that optimal policies could be selected.



*President Chandrika Bandaranaike
Kumaratunga addressing the IMF- Sri Lanka
Aid Group meeting in Paris*

(c) Structural adjustment

As I mentioned earlier, most of Sri Lanka's structural problems can be traced to the fiscal situation and the role

that the state was expected to play in the economy. We have clearly defined the role of government, apart from the traditional role of law enforcement and regulation, as that of facilitation of economic activity by the private sector and the provision of public goods which are not provided efficiently by the private sector. In other words, we have committed ourselves to a programme of divestiture of public assets which will involve strategic partnerships with the private sector on a case by case basis. We have appointed a Public Enterprise Reform Commission of eminent persons to undertake this operation in a transparent manner.

This Commission has an enormous task ahead of it in convincing the public that privatisation is in the long term interest of the country because of widespread evidence that many of the privatisation undertaken by the previous administration appeared to have been undertaken in a secret and questionable manner, with little or no benefit to the country, the workers and the consumers. The Commission has so far identified the National development Bank, the Capital Development and Investment Co., Lanka Tractors Ltd., Colombo Commercial Teas Ltd., The Orient Lanka Ltd., Air Lanka, 23 State Plantations Companies and several other state enterprises for strategic alliances with the private sector. There has been protracted negotiations for BOT projects, namely on account of lack of familiarity of line ministries with BOT processes, but we are now in the process of expediting them. In the case of Telecommunications, we will be searching for a strategic partner to modernise and expand

the system sometime next year. The two state banks have been re-structured, and new legislation to grant them autonomy will be put up to Parliament in the next few months.

We will make every effort to generate savings in government expenditure by eliminating wasteful spending and tightening fiscal accountability, but security related expenditure will turn out to be unpredictable. If the North and East conflict can be brought down to a lower level of intensity, there could be savings, but these savings will be needed for the rehabilitation of affected areas and people. That leaves salaries, wages and the pensions bill of the public servants which accounts to about one half of total expenditure. There is considerable pressure to fill vacancies in the public service and recruit additional staff, whereas early studies have shown that the public service is over-staffed especially at the lower levels. Continuing the on-going recruitment freeze, we will revive the studies of the required cadres in government. We have also discontinued the practice of employing pensioners in an *ad hoc* manner. The pension scheme will be reviewed with a view to making it at least partially contributory to start with.

We also hope to save expenditure by abandoning the old system of multiplicity of welfare programmes by converting them to a single welfare related income transfer to the poor. Already we have done this with major poverty alleviation programmes. The new Samurdhi Program will be extended island wide, better targeted, with clear entry and

exit procedures. We are exploring the possibility of targeting the wheat flour and fertiliser subsidies as soon as possible.

We feel that the rationalisation of the import tariffs by stopping *ad hoc* waivers and the reduction and compression of duty rates to a 3-band system will reduce uncertainty and give encouragement for industries to be internationally competitive. Also, the raising of the lowest tariff band to 10 percent is bound to encourage backward linkages in industries. We have announced that, in the long run, we will be further reducing protectionism in the country with a single unified tax of 15 percent by 1998.

Sri Lanka's labour market has been identified as structurally inflexible and hence discouraging promotion of new employment. We agree that the labour laws in the country are heavily weighted to protect incumbent employees and thus may be discouraging new employment. We are studying this aspect along with other factors, such as the large number of national holidays, which may be affecting labour productivity. We hope to take remedial action in this area as soon as we reach understanding with the concerned parties.

We agree that the agricultural sector is in need of urgent deregulation and explicit recognition of the role of the private sector. The Government has accepted a policy of extending plantations management contracts with a financial stake being given to the private management companies. It is also contemplated to give shares to workers and to the people at large. In other areas of agriculture, processing and marketing

facilities will have to be improved in order to stabilise the incomes of farmers. The land tenure system will have to be improved with a view to encouraging agro-businesses which will undertake outgrower systems.

Under strong liberalisation, industries have emerged as a major sector accounting for nearly three-fourth of Sri Lanka's export earnings. However, this performance has come mainly from garment and textile exports, which are faced with quota restricted markets. Hence, while encouraging expansion of textile exports into un-restricted markets, we will be promoting other industrial sectors which have shown dynamism in recent times. They are rubber based products, gems and jewellery and processed agricultural products. Mineral exports are expected to grow strongly, especially after the coming on stream of a large investment in fertiliser manufacture out of a local apatite deposit. We observe that the progressive reduction of over-protectionist tariffs has compelled our industries to be more competitive. Recent reforms will also encourage backward linkages in export processing industries.

The service sector, consisting of telecommunications, ports, electricity, transport, water and financial services made the largest contribution to economic growth in recent times. We are now in the process of implementing reforms of the financial sector, especially in developing new financial instruments and capital markets, so that Colombo could develop as a financial hub in the region. Similarly, we would like to develop our ports of Colombo, Galle and Trincomalee

to international standards, as transshipment hubs in the region. Similarly, plans are there to develop telecommunication industries to international standards so that communication and information technology based industries can be developed. In the case of electricity, we are considering several new projects for urgent implementation to avoid a power shortage next year. We will encourage local and private sector participation in all these developments planned for the services sector.

The Government is committed to improving the quality of education and health services in the country. Education and training of skills will be geared increasingly to the market needs. Resources will be more carefully allocated to the priority areas in the health sector, such as disease prevention and improving the quality of regional hospitals.

Peace, Good Governance and Human Rights

Restoring peace to our beloved land, which had not known serious conflict for more than a century until 1983, will be our single major objective. With the wisdom of hindsight, we can say that it was unfortunate that the discontentment of a minority affected by a slow growing economy has been allowed to escalate into a bitter armed conflict. Encouraged by an overwhelming mandate for restoration of peace, our administration made extraordinary concessions to ameliorate the hardships of people living in areas affected by the conflict, with a view to honourably negotiating an extensive devolution of political power to a

defined region within a unified state. While the preliminary dialogue with the rebels was going on, we even made an estimate of the reconstruction and rehabilitation that would be necessary to restore the affected areas. We also took steps to relax the trade embargo and to provide certain basic infrastructure facilities such as electricity and medical services, without awaiting settlement, in order to ease the hardships of the people.

It is unfortunate indeed that, for reasons best known to them, the rebel leadership has decided to break the agreement on a cessation of hostilities which was agreed upon early this year. As our commitment to peace and democracy within a united Sri Lanka is total, we shall not be discouraged by this setback. We are greatly encouraged by the widespread requests by the international community to the rebels to desist from provocative action, calling them back to the negotiating table. We hope and pray that international opinion and the great desire of the ordinary people in affected areas will make the rebels realise that there are no military solutions to the problems perceived by them. For our part, we are willing to go anywhere; any place, any length, to seek a peaceful and honourable resolution acceptable to our people, of a problem which has seriously retarded our country's progress. Our people are tired of this conflict, as evidenced by the overwhelming mandate that I received at the Presidential Election last November, where I explicitly sought a clear vote to end the conflict. Hence, I feel that now is the most opportune time to settle our problems amicably.

The conflict has been localised to some areas of the North and the East and as a result, the rest of the economy

has been remarkably spared of disruption. In fact, the economy has displayed surprising resilience and considerable dynamism despite the fact that a considerable volume of resources have been diverted for security operations and rehabilitation of refugees and the loss of output from the affected areas. In fact, during the short period of four months when there was a cessation of hostilities, there was a dramatic increase in supplies in the market, which has, among other factors, been significantly responsible for a sharp decline in inflation from 13 to 6 percent, which amply demonstrated to our people the great potential benefits of "the peace dividend".

While we focus on the conflict in the North and East, we must not be oblivious of the potential for conflict in the rest of the country, particularly in areas where youth unemployment is a burning problem. You are all aware that some disenchanted youth attempted to challenge authority on



A cordial meeting of Sri Lankan President with the late French President Francois Mitterrand at the President's House in Paris

two occasions in 1971 and in 1987. These challenges were suppressed by deploying security forces under a "State of

Emergency ”, which suspends the operation of most human rights, even those guaranteed under our Constitution. Unless the causes which prompted our youth to challenge authority are seriously addressed, namely by providing them with employment opportunities, the likelihood of future conflicts cannot be ruled out. Our economic policies aimed at accelerating economic development and organising the youth at village levels for gainful employment through the Samurdhi Movement utilising the government’s targeted income transfers and local savings, are the two major thrusts of our policy to meet these serious problem of youth unemployment. We will also embark on a substantial programme of training unemployed youth in marketable skills, by redirecting the resources which are now ineffectively utilised in a variety of un focused training programmes. We are glad that the World Bank and the donor community are happy to support this endeavour.

In other words, we do not believe that suppression of discontentment is a viable policy option for a democracy. In the past, ruthless suppression of dissent under draconian emergency regulations, justified on the grounds of the North and East conflict, but applied all over the island, had introduced a fear psychosis in our land, and serious allegations of widespread infringement of fundamental human rights had been made. I can assure you quite categorically that as a government committed to good governance and protection of human rights, we were very happy to rescind the emergency laws from all areas other

than those with on-going conflict. There was widespread exhilaration in our society at this restoration of fundamental rights. People in our country do not live in fear today.

Of course, workers and trade unions who had been suppressed for a long time reacted to these liberalisation by agitating for an immediate improvement in their working conditions and remuneration. There was a wave of strikes, especially in foreign-owned concerns, which appeared to have been instigated by disruptive elements. My Ministers and I personally intervened in these disputes because of a concern that foreign investors might be scared away. We were surprised at the ease with which some of the problems could be resolved. The main grouse of the workers was that they have had no opportunity to take up their problems with their managements. We have now taken steps to facilitate frequent consultations between the management and the workers and the situation has settled down.

In keeping with our policy of considering politics and government as the discharge of public trust, where decision making is transparent and free of corruption, where everyone in public life is accountable for their actions, we have taken several measures to create a human and benevolent form of government. We are now engaged in reducing the extraordinary powers vested in the Office of the President, by transferring the executive functions to a Cabinet headed by a Prime Minister, which will be responsible to the people through the Parliament. We have restored financial accountability as the corner stone of fiscal management by

discontinuing with discretionary revenue waivers and by closing down special funds out of which various unauthorised expenditures were made. We will also raise the status and the independence of the public servants by making them free from political interference and by improving their training and emoluments. The office of the Ombudsman had been strengthened to take up public grievances. A special Commission on Bribery and Corruption has also been set up with wide powers of investigation. A programme of Constitutional Reforms envisages strengthening of fundamental rights, the power of enforcement by the Supreme Court, strengthening of minority rights and a consultative process for political parties to avoid confrontation and to seek compromises. We believe that these reforms will usher in genuine and popular democratic conditions in our country and restore confidence among the people in the system of government and democracy.

Conclusion

Ladies and Gentlemen, you will observe that our new administration has made a strong commitment to prudent macro-economic policies with a view to restoring stability and confidence to the economy in a medium term policy framework. If any shocks put us off course temporarily, we intend to take prompt remedial measures. We really mean business with our fiscal, monetary and inflation targets as their fulfilment is so critical to our growth and employment strategy. In the Budget for 1995, we have undertaken major structural reforms in taxation by widening the tax base, in

the trade regime by rationalising and reducing tariffs, in poverty alleviation by targetting subsidies, in control of expenditure by restoring fiscal discipline, in agriculture, by reforming the plantation sector and improving incentives for other agriculture and in infrastructure by opening the sector to private participation. We will continue with our efforts to remove the structural impediments that affect our progress.

Initially there is bound to be some delay in getting these major reforms going because as a new administration, we need to reach consensus on policies and also we need to get the support of the persons involved in or affected by the reforms. I am encouraged by the support I have had so far and I am confident of going through all our reforms systematically. But these reforms, however desirable they are in the long run, have short-run costs. I hope you will be there to assist us tide over these short term difficulties.

The availability of foreign aid in the next few years is critical to support these reforms and to bridge the savings - investment gap of about 6-8% GDP to maintain the required level of investment. In order to improve the rate of aid utilisation, we have started a system of continuous monthly monitoring of disbursements and reporting to Cabinet. We are also streamlining procurement procedure in a transparent manner.

My government and I are confident of restarting the peace negotiation process, which I am sure, will be strongly

backed by all our people and the international community. The rebels need further assurance that with peace, they will be able to obtain the support of the international community for reconstructing the damage and the rehabilitation of the affected people. I am sure the people of Sri Lanka will spearhead the relief and rehabilitation efforts once peace is established. I am greatly encouraged by the generous offers of assistance I have received so far from the donors.

In conclusion, may I take this opportunity to thank the donor representatives for being with us today and through them, their respective government and institutions for the generous support extended to us. I must make special mention of the World Bank and you, Mr. Chairman, for the excellent arrangements made for this meeting and the strong support extended to our country.

**EIGHTH SAARC SUMMIT
(NEW DELHI)**

Address by

H. E. CHANDRIKA BANDARANAIKE KUMARATUNGA

*The President of Sri Lanka
at the Inaugural Session*

2nd May, 1995

*Mr. Chairman,
Your Majesty,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen,*

It is a great pleasure at any time to be able to visit New Delhi, but to do so twice within makes it all the greater. It is heightened even further by my coming to New Delhi in order to welcome India's assumption of the Chairmanship of our Association for Regional Co-operation.

The warmth of New Delhi's hospitality is well known to all of us. The efficiency and professionalism of arrangements made here for conducting deliberations such as ours as long been a by-word. The conferences that have

been hosted here, in this ancient seat of culture and civilization, have brought manifold benefits not only to us in South Asia but to many others who comprise the wider membership of such fora as the Non Aligned Movement and the Commonwealth of Nations.

Mr. Chairman, I congratulate you on your election to the Chairmanship of this Eighth SAARC Summit. Your vast experience in regional co-operation and your wide knowledge and deep understanding of the dynamics of our region will be a great asset for us. The Inaugural Address made by you today not only reaffirms India's commitment to Regional Co-operation but enthuses us to anticipate that SAARC will move ahead ever more decisively under your leadership.



*President Chandrika Bandaranaike Kumaratunga
addressing the eighth SAARC Summit
in New Delhi*

At the same time, I wish to take this opportunity to express our deep appreciation of the valuable contribution made to SAARC by the outgoing Chairperson, Her Excellency Begum Khaleda Zia, Prime Minister of

Bangladesh. Her commitment and dedication to realising the goals of our Association have earned her our great admiration and respect. SAARC owes her a deep debt of gratitude.

Mr. Chairman, we meet at a time when major global transformations are in motion. The end of the cold war era has seen regional identities being affirmed, with the security and economic well-being of people coming increasingly to be defined in terms of their immediate political and economic environment.

Our region was relatively late in entering upon structured regional co-operation. The reasons for that are well enough known to us all. It is for this reason that Sri Lanka has always supported regional interaction at the political level to the greatest extent possible. We believe that it is only by frequent meetings amongst ourselves, when we may confidentially and frankly address all issues, discuss our perceptions, clarify our misunderstandings and resolve our doubts, that we may realistically aspire to developing a sound foundation for meaningful practical co-operation.

To that end, we have always believed that our SAARC Summit Meetings should allow maximum opportunity for such confidence building interaction, leaving formal conference procedures to the minimum. This would enable us to make better use of the other mechanisms within SAARC, such as the Council of Ministers and the Secretariat, and thereby render the work of SAARC more expeditious.

Mr. Chairman, in our region where all of us are concerned with overcoming poverty, malnutrition, unemployment and other manifestations of socio-economic disadvantage, the only solution for salvation lies in vigorous economic activity which transcends our borders. To that end, we have embarked on developing a South Asian Preferential Trading Arrangement (SAPTA). The road ahead is a long and difficult one, for our region is characterized by disparities in size, resources and levels of development to a greater extent perhaps than in any other region. Some of us may have temporarily to limit national options in order to achieve regional objectives. It is hoped that member states which have not yet ratified SAPTA will do so by the end of December 1995, as agreed at the Dhaka Summit, so that SAPTA could be operationalised by the beginning of 1996. A Preferential Trading Arrangement is however but one stage in the development of a free trading area in our region, which should be our goal. Hence, both in order to keep that perspective clearly in view as well as to give SAPTA the necessary momentum towards effective realization, I believe we may do well to consider setting ourselves specific goals to be achieved within fixed time frames, for example by considering the reduction of tariffs to an acceptable percentage to be effected within a specified period of time, to be followed subsequently by the implementation of across the board tariff reduction and other related measures such as the elimination of para-tariff and non-tariff barriers. At the same time it is important to note that trade is only one component, though admittedly an important one, of possible regional economic co-operation. Equally important in the

overall picture are other manifestations of regional economic co-operation such as the promotion of intra-regional investment, and the establishment of joint ventures aimed at producing goods both for the regional market as well as for export to countries outside the region.

Mr. Chairman, regionalism which has emerged reinforced with the end of the cold war has itself been carried further with the development of intra-regional partnerships. Linkages have been and are being sought to be forged between different geographical regions and economic groups. We in South Asia must look closely at prospects of interaction with ASEAN and APEC in the light of their contiguity to the SAARC Region. At the same time SAARC would also need to examine ways to greater co-operation with the European Community and the North Atlantic Free Trade Association (NAFTA).

Mr. Chairman, all our countries have accepted the role of the private sector as crucial to economic development. In SAARC, we have already commenced the establishment of links between Chambers of Commerce, and further interaction is being explored by the industrial and business sectors of our member states. In fact, with the advancement of this process, I envisage a stage where the role of our respective Governments would largely be to facilitate economic development. To this end, I propose that our Summit agrees to convene a meeting of the industrial and business sectors of our respective countries with a view to

discussing ways and means of forging greater economic co-operation among themselves and harnessing the economic potential of the region. Sri Lanka would be happy to host such a meeting if the idea is found acceptable.

Of all the accepted regional divisions, the South Asian region has perhaps the largest number of the world's poor with millions of our people suffering from hunger and other forms of material deprivation. Poverty is one of the roots of conflict and destabilizes society. It erodes the creativity and capabilities of human beings. It is therefore imperative to plan and initiate programmes for the immediate eradication of this scourge. It is in this light that my Government welcomes the proposal made by the Government of India to declare the year 1995 as the SAARC year of Poverty Eradication. The Draft Plan of action prepared for the proposed, which formulates strategies and activities to hasten the poverty eradication process in the region, therefore has our support.

The twin phenomena of terrorism and drug trafficking continue to pose a grave threat to the security and stability of Member States. The phenomenon of 'narco-terrorism' is inseparably link to organised crime, money-laundering and the illicit arms trade. The SAARC Convention on Suppression of Terrorism and on Narcotic-Drugs represent the collective will of our countries in resolutely facing the combine challenge posed by these forces of evil. These instrument remain the fundamental legal basis for the adoption of co-operative measures to combat this grave threat confronting us.

Sri Lanka was one of the first countries to adopt domestic legislation to give effect to the SAARC Convention on Suppression of Terrorism. We are about to present in Parliament a comprehensive law dealing with drug trafficking, including money-laundering, which would also give effect to the SAARC Convention on Narcotic Drug. Adoption of similar legislation by all our member countries is imperative to discharge our obligations which we have undertaken in these Conventions.

It is also our expectation that we would receive the fullest co-operation of all our member countries in making more effective the regional monitoring mechanism in respect of drug and terrorist offences which we have establish in Sri Lanka. This would facilitate a constant dialogue and interaction among the concerned agencies in our countries, in the task of combating the terrorist and drug menace in our region.

Mr. Chairman, we are approaching the 10th Anniversary of our Association. Customarily that would be an occasion to pledge ourselves a new to creating an even more dynamic interruption. At the same time, it would also not be out of place to indulge in some backward looking introspection regarding how far we have come and whether or not we could have been further along our way.

At the inception of this process, the planners were faced with the practical question of where to start. The question at issue was whether practical interaction in various fields automatically achieves trust and confidence amongst ourselves, or whether trust and confidence is a pre-requisite to generating meaningful practical co-operation.

The path on which we embarked was two fold. One was to elevate our interaction as quickly as possible to the highest political level, so that frequent and regular meetings of leaders would help develop mutual trust and confidence, which in turn would create an atmosphere of harmony conducive to tangible co-operation. The other was to embark upon such practical interaction as seemed feasible at any given time, hoping that the accumulation and combined weight of such interaction would itself engender trust and confidence.

It is my firm conviction Mr. Chairman, that we should go forward pursuing both courses. To that end, I pledge you my fullest support and that of our people.

Thank You.

UNITED NATIONS 50th ANNIVERSARY
UNITED NATIONS SECRETARIAT
NEW YORK

Address by

H. E. CHANDRIKA BANDARANAIKE KUMARATUNGA
President of Sri Lanka

22nd October, 1995

*Mr. President,
Your Majesties,
Excellencies and Distinguished Delegates,*

Your Excellency, permit me to express my good wishes on your election as President.

I am deeply honoured to represent the people of Sri Lanka on this historic occasion.

Sri Lanka has always reposed great hopes in the United Nations for effective collective action to achieve our central aim of socio-economic development and thereby ensure social stability and peace for our people.

The transition from the Cold War era to a new world order has shifted the arena of conflict from the international to the national.

Whatever the overlay of such conflict - whether they take on religious, racial or other forms, they stem from poverty and social inequality. We believe therefore that the foundations of peace must be built on economic and social stability.

The new agenda of the United Nations with its heavy emphasis on peace keeping operations has impacted adversely on the development process.

As a developing country, Sri Lanka attaches great importance to the role which the United Nations can, and must, perform in advancing the development process. Unless the principles of the Declaration on the Right to Development adopted in 1986 are applied positively with the full commitment of both developed



*President Chandrika Bandaranaike
Kumaratunga addressing the United Nations
50th anniversary in New York*

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and developing countries, the development process will not be sufficiently advanced.

We believe that the effective strengthening of the United Nations system is an essential requisite for advancing its goals. The organisation has regrettably sometimes come to be seen by the more vulnerable States as primarily serving the interests of the more powerful States. We welcome the timely initiative of the President of last year's General Assembly to strengthen and empower the United Nations system.

Such an effective empowerment requires, in our view, that :

Firstly, development priorities should not be sacrificed in the pursuit of politico military operations which must be set at realistic, even modest levels ;

Secondly, decision making by the United Nations in all areas must be based on the full engagement of all members. The Security Council in particular must become more representative and more responsive to the general membership of the United Nations ;

Thirdly, commitment made for multilateral action in all fields must be honoured and diligently pursued.

In short, the revitalising process must enhance the capacity of the United Nations rather than merely effect economies and scale down its scope.

In the index of human development Sri Lanka rates high among developing countries, but we have been traumatised by ethnic tensions kept unnaturally, high by the forces of terrorism and chauvinism nonetheless my Government is resolved to fulfil its mandate by seeking through political negotiations, solutions to our problems which would enable our people to live in peace, security and freedom.

There are however obstacles in our way.

An armed group which claims to represent an ethnic minority has been engaged in violent acts against successive popularly elected Governments preventing them from ensuring peace and justice for all in our land.

This group which also operates on foreign soil maintains an international



*President Chandrika Bandaranaike
Kumaratunga greeted by the U.N. Secretary
General Boutros Boutros Ghali*

network for fund raising based on coerce and blackmail. That network has a close nexus with powerful commercial interests engaged in narcotic trafficking, trade in illicit arms and smuggling of illegal immigrants.

Concerted international action is essential to combat terrorism and to compel the terrorists to renounce violence and enter the democratic process. Unfortunately, effective action to that has been frustrated through sterile philosophical debate about the nature of terrorism.

However, in the South Asian Association for Regional Co-operation (SAARC) we have overcome that difficulty by focusing our attention on manifestations of terrorism. The SAARC Convention on the Suppression of Terrorism provides for a collective response. This centres on a comprehensive legal regime and practical measures to combat terrorism.

I would urge similar action by the United Nations to give legal effect to the obligations arising from the Declaration on the Elimination of Terrorism adopted last year. I was happy to hear the statement of President Clinton. I hope that our common realisation of the terrible consequences of terrorism, drug trafficking and other antisocial activities would usher in a new era of international co-operation to combat these problems.

My Government is committed to provide full opportunities in Sri Lanka for the development of the total human person. While promoting rapid economic growth, we seek to distribute its benefits equitably. This involves the maintenance of democratic institutions, and the preservation of human rights. It makes of politics, the discharge of a public trust, where decision making is transparent and free of corruption, and everyone in public life is accountable for their actions.

In end, the United Nations will essentially be what we, the member States make of it, not what individual States seek to make from it.

On behalf of the Government and people of Sri Lanka, take this opportunity to wish the United Nations success in its endeavours to transform the separate dreams of all the nations into a multifaceted yet harmonious reality.



*President Chandrika Bandaranaike
Kumaratunga Interviewed by a C.N.N. Broad-
caster in New York*

I thank You All.

**Sri Lanka Investment Conference,
Japan Chamber of Commerce & Industry**

Keynote Address

by

HER EXCELLENCY CHANDRIKA BANDARANAIKE KUMARATUNGA

The President of Sri Lanka

Tokyo, 14th May 1996

Distinguished Ladies and Gentlemen,

I am grateful to the Japan Chamber of Commerce and to the World Bank for this opportunity of addressing you, the leaders of business and industry in Japan. Sri Lanka has had friendly and cordial relations with Japan over a long period. As fellow Asians we have watched with admiration how you have rebuilt your country within a relatively short period of time into an economic super-power. Japan serves today as a model of successful collaboration between public and private sectors in bringing about rapid economic growth.

The significance of this occasion is that it takes place under the auspicious of two of the most important actors engaged in supporting the economic development of Sri

Lanka. Viz. the World Bank and Japan . The World Bank has chaired the meetings of the Sri Lanka Aid Group for the past three decades and Japan is now Sri Lanka's largest donor. Together, over the years, they have contributed towards numerous infrastructure projects that serve as the spring board for the next phase of Sri Lanka's economic development. I wish to record appreciation of my Government of the significant contribution made by the Government of Japan towards our economic development.

My Government is committed to a truly operative democracy, in which the rule of law is firmly entrenched. We have implemented important steps to restore democracy. We have effectively governed and brought under control numerous situations of crisis



*President Chandrika Bandaranaike Kumaratunga
Addressing the Investors Forum in Tokyo - Japan*

that are the consequences of an employing the excessive and all pervading powers of the Presidency and has thus guaranteed the restoration of democracy.

We have embarked upon the task of cleansing public life in Sri Lanka. It is our deep conviction that the fabric of our social institutions will disintegrate, if a concerted and persevering effort is not made to rid our country of irregular practices and wasteful expenditure of public funds. It is our firm belief that one of the sacred principles of public morality is that political power is neither a right nor an entitlement, but a trust. We have taken steps to assure the public of our intention by creating institutions that will ensure transparency, and adherence to the principles of good governance.

The process of constitutional reform was begun soon after assumption of office through the mechanism of the Parliamentary Select Committee on the Constitution. We propose to adopt a new Constitution through a process of consensus among political parties represented in Parliament. The views of the ordinary people, professional associations, non-governmental organisations and other interested parties have been canvassed and there has been a tremendous response. The new Constitution will be drafted in accordance with these views and we are certain that this Constitution will be a long lasting, living document that will embody the expectations of our people. The new Constitution will include provisions relating to the devolution of power. It will transform the present presidential system. Parliamentary sovereignty will be restored. A new Charter of Fundamental Rights and Freedom will be introduced to safeguard fundamental rights and freedom and it will guarantee the independence and strength of vital public institutions.

The Government is fully committed to restore democracy and peace in the North and East. Our policy on the ethnic question and the war in the North East has been enunciated clearly and courageously, from the outset. We have a vision of Sri Lanka where all communities can live in safety and security, where human dignity is valued, and equality of treatment is the accepted norm of public life. We believe that all communities must be given the opportunity to express their identity and to participate fully in the life of the nation, at the national, provincial or local level.

In keeping with this, within weeks of assuming office, my Government initiated a dialogue with the LTTE in the expectation that a

just and honourable peace could be attained.

The Government took several steps to ensure that the suffering borne by the ordinary people of the

North was alleviated. The



*Sri Lankan President with the Japanese Emperor
at the Imperial Palace in Japan*

LTTE did not reciprocate. The attack on April 19, 1995 effectively brought to an end the cessation of hostilities and the entire nation was made to bear the debilitating consequences of the resumption of conflict.

However, this did not deter the Government from presenting its political proposals for the devolution of power to the Sri Lanka people. This the government did on August 8, 1995.

The theme of the proposals is the facilitation of a wide devolution of power to Regions while safeguarding the unity, territorial integrity and sovereignty of the nation. We feel that the ideal of democracy is better served, by the sharing of power with local representative units which will enable persons to determine their own destiny. It is our belief that persons of all communities should be able to live together in unity, equality and brotherhood in our land. With firm political commitment and a well planned strategy, we have gained the confidence of the people of the North and East and secured control over the Jaffna Peninsula. The Government is taking speedy action to consolidate civil administration and to resume rehabilitation work.

I must emphasize that although terrorism could be quelled by military means, the ethnic problem cannot be resolved by such means. Socioeconomic and political problems of the minorities can only be resolved in a lasting manner through dialogue and political consensus and economic development.

While strengthening democratic institutions, good governance and pursuing a lasting solution to the ethnic conflict, we have made progress in the pursuit of market friendly policies to achieve our development objectives.

Indeed, a joint Sri Lanka World Bank study outlining a medium term economic strategy for the country for the year 2000 and incorporating an agenda for action, is being made available to you at this meeting.

The policy framework is based upon a commitment to the pursuit of market-friendly policies, whereby the private sector becomes the principal engine of economic growth. We intend pursuing more aggressively than in the past, ways and means of encouraging the private sector to dedicate itself to the task of delivering the rapid development. An important set of new investment incentives for both domestic and foreign investors have been introduced with the last budget. It follows

that the State will have an important role to play in strengthening and supplementing the market mechanism in areas where markets fail. These relate principally to the general area of human resource development, primary education, science and technology, basic health care, environmental protection and rural and infrastructure development.



An agreement of bilateral co-operation was signed by the two Foreign Ministers of Sri Lanka and Japan

The urgent task confronting us in Sri Lanka is that of rapidly improving her macro-economic management. My Government inherited a structurally weak budget with a deficit of over 10 per cent of GDP in 1994, superimposed upon substantial budget deficits, during the previous decade, which averaged 13 percent of GDP.

As envisaged in the strategy for Sri Lanka for the Year 2000, we expect to reduce the fiscal deficit through prudent policies, to a level which represents the sustainable volume of foreign financing that can be made available to the budget. This should enable the Government's budget to be financed without any recourse to domestic borrowing, so that national savings will be freed in its entirety for private investment. These steps constitute the most decisive contribution that the Government's fiscal policy can make towards private sector development, which in turn will enhance the potential for joint ventures with foreign investors, including those from Japan.

Our objective is to raise the level of investment to reach the critical threshold of 30 per cent of GDP needed for economic take off by the Year 2000. Additional inflows of foreign investment would make a decisive contribution to achieve this goal. With this level of investment, economic growth in the range of 7-8 percent annually is indeed within Sri Lanka's grasp over the medium term. Even a modest GDP growth of 6-7 percent can be expected to reduce unemployment from current level of 12 percent of the labour force to 5 percent by the Year 2000.

In spite of heavy outlays on defence, refugees and high interest payments on government debt, we have nevertheless succeeded in containing the budget deficit in 1995 to 8.4 percent of GDP. If not for the unexpected increase in defence expenditures, stemming from the unilateral abrogation by the LTTE of the peace process of my Government in 1994, the budget deficit would have been contained below 7 percent of GDP in 1995. Economic growth was maintained at around 5.5 percent in 1995, despite several adversities on both domestic and external fronts. Industrial exports grew by 13 percent and industrial output by 9 percent. The external current account deficit was contained at 4.2 percent of GDP and external assets were maintained at around US\$ 2.1 billion.

An important vehicle for attraction of foreign investment to Sri Lanka is the privatisation programme initiated by the Government. The Government established last year the Public Enterprise Reforms Commission (PERC) to design and implement the privatisation programme in a transparent and efficient manner. The Government's programme is far-reaching and has met with early success. The recent sale of Colombo Gas Company attracted four reputable multinationals and the award was made to the Shell Company. The ongoing sale of the Lanka Electric Company has also attracted international bids and we hope to complete this transaction shortly. The divestiture of Air Lanka and the National Development Bank are under way. Plans are under way to bring in strategic foreign partners for the development

of the Telecommunication sector. We have also cleared a proposed private investment project to set up around two hundred thousand wireless local loop lines which will be implemented this year. In addition, Sri Lanka Telecom is also expected to augment the present telephone lines by a further 150,000 lines in important commercial areas. We have also privatised 9 out of 23 plantation companies and this important sector will continue to attract capital investment by the private sector. An important objective of privatisation programme, is to progressively retire the public debt by earmarking privatisation revenue for this purpose. This will reduce the interest burden on the budget.

In the area of industrial policy, the Government has decided to steer the economy in the direction of diversification, away from its present dependence on textiles and garments, into a range of higher value added, high-tech industries. A package of fiscal incentives to reduce up front cost of investment was made available for existing and new companies to upgrade technology and undertake high technology investment in order to remain internationally competitive. It has also added fresh incentives to the package which was on offer by the Board of Investment, aimed at both export oriented companies and investors in large development projects. The following have been identified as priority sectors for investment. Agriculture, Leather and Rubber based Industries, Ceramics and Non-metallic Mineral Industries, Skills-based and Information intensive industries,

the Tourist Sector, Light Engineering and Electronic Industries. With our highly literate and easily trainable labour force, we have comparative advantages in developing these industries.

The Government recognizes that the development of an adequate infrastructure comprising power, telecommunications, ports, road and rail transport is an essential condition for the development of a vibrant private sector involving the participation of foreign investment. A beginning has been made with the participation of private sector in the power sector, where two power project will soon be implemented under BOO, BOT arrangements. As a major step in promoting private sector participation in infrastructure development we have just set up a Private Sector Infrastructure Development Company. The World Bank has allocated US\$ 75 million with co-financing from Germany - German Mark 20 million. We expect the Government of Japan to participate in this important venture along with the Asian Development Bank.

Let me, in conclusion, underline the potential Sri Lanka has to offer, by virtue of its strategic location at the foot of the Indian Sub-continent. Sri Lanka attracts trade-driven flows of foreign investment, based on preferential access to a substantial South Asian market. The SAARC region has a population of 1.2 billion with an affluent middle class nucleus of some 300 million. With the acceleration of the economic reform process in the sub continent, especially in India, this

market will continue to expand rapidly. The seven South Asian countries who are members of SAARC have recently decided to establish a South Asian Free Trade area by the Year 2005.

Sri Lanka is well placed to attract trade-driven flows of foreign investment from Japan and elsewhere much sooner than the SAARC deadline of the Year 2005. Preferential market access on a bilateral basis can only serve to reinforce the advantages Sri Lanka already possesses as an investment location. Its rich human development endowment, the literate and easily trainable labour force, alongside policies aimed at providing an adequate infrastructure will enhance her potential for such investment. A ready opportunity is thus available for Japan's private investment community to contribute to Sri Lanka's development.

Thank You.

**SRI LANKA ECONOMIC CO-OPERATION COMMITTEE
(HOTEL LOHE – SEOUL, SOUTH KOREA)**

Keynote Address by
H. E. CHANDRIKA BANDARANAIKE KUMARATUNGA
The President of Sri Lanka

Tuesday, 13th August 1996

Distinguished Ladies and Gentlemen,

I am Privileged to have the opportunity of addressing this distinguished gathering of business and industrial leaders of the Republic of Korea (ROK). As a nation in Asia we have watched with admiration how your people have brought this country to the level of newly industrialised countries in the world in a relatively short period of time. We in Sri Lanka are very enthusiastic about the Korean experience in which the public and the private sectors engage in a dynamic corporate partnership in the achievement of socio-economic goals of the nation.

Sri Lanka has been a long-standing friend of Korea in the field of international diplomacy. Our two countries had common problems in our socio-economic environments. In

overcoming problems, your macro-economic management has been more successful than ours. Korea is increasingly becoming a significant partner in our development efforts. Already 93 Korean private sector projects are in operation in Sri Lanka with a total investment of Rs. 6,284 million providing direct employment to 45,581. In addition, 49 new projects are to commence with a total investment of Rs. 4,592 million and additional employment to 10,485.

Sri Lanka is also increasingly becoming one of the principal beneficiaries of the Korean development assistance to developing countries. Many development projects, which have already commenced, and others under consideration, stand testimony to the benefits my country is realising through Korean aid. The Colombo



Sri Lankan President Chandrika Bandaranaike Kumaratunga being greeted by the President of Korea, Kim Young Sam at President's House

- Galle Road a major highway connecting Colombo to the South of Sri Lanka was rehabilitated with the first loan extended by the Economic Development Corporation Fund (EDCF) in 1991 with US\$ 14.5 million. Following my discussions with H.E. the President of Korea at the Summit

Meeting held in Copenhagen in early 1995, the EDCF loan package to the value of US\$ 100 million was extended to Sri Lanka. This package will cover, the rehabilitation of three urban hospitals, improvements to the telecommunication network, power sector development, housing for public servants and the rehabilitation of the Ratnapura - Bandarawela road. I wish to thank the Government and the people of the Republic of Korea for this assistance encouraging support for our development effort.

As you are aware, the industrial world today is very competitive and the challenges facing us are very complex. Sri Lanka, being a poor country, is wishing every effort to accelerate her development process in order to alleviate poverty, reduce unemployment and improve the living standards of citizens. When Korean investors look to better host country locations for investments, Sri Lankan industrialists at the same time look to attracting foreign investors to develop and expand their industrial ventures. When Korea is facing shortages of low cost and high quality skills due to rapid development, Sri Lanka is facing the problem of unemployment among educated youth. At first glance, the challenges appear to be quite different. But, these differences, I wish to say, are the most important factors conducive to strategic collaboration between Korea and Sri Lanka not only at Government level but also at industrial and commercial levels.

I now propose to present you important elements of our new policy framework and our future socio-economic perspectives, which I consider will be useful to investors among you who may decide to chose Sri Lanka as the base, targetting the rest of the world and particularly emerging the Asian Markets.

My Government is committed to a truly operative democracy, in which the rule of law is firmly entrenched. We have implemented important steps to restore democracy. We have effectively governed and brought under control numerous situations of crisis without having recourse to repressive regulations. We have embarked upon the task

of cleansing public life in Sri Lanka. It is our deep conviction that the fabric of our social institutions will disintegrate, if a concerted and persevering effort is not made to rid our country of irregular practices and wasteful

expenditure of public funds. We have taken steps to assure the public of our intentions by creating institutions that will ensure transparency and adherence to the principles of good governance.



*An agreement of mutual cooperation being signed
by the Foreign Ministers of
Korea and Sri Lanka*

The Government is fully committed to restore democracy and peace in the North and East. Our policy on the ethnic question and the war in the North-East has been enunciated clearly and courageously, from the outset. We have a vision of Sri Lanka where all communities can live in safety and security, where human dignity is valued, and equality of treatment is the accepted norm of public life. We believe that all communities must be given the opportunity to express their identity and to participate fully in the life of the nation, at the national, provincial or local level.

In keeping with this, within weeks of assuming office, my government initiated a dialogue with the LTTE in the expectation that a just and honourable peace could be attained. The Government took several steps to ensure that the suffering borne by the ordinary people of the North was alleviated. The LTTE did not reciprocate. The attack on April 19, 1995 effectively brought to an end the cessation of hostilities and the entire nation was made to bear the debilitating consequences of the resumption of conflict. However, this did not deter the Government from presenting its political proposals for the devolution of power to the Sri Lanka people.

The theme of the proposals is the devolution of power to Regions while safeguarding the unity, territorial integrity and sovereignty of the nation. We feel that the ideal of democracy is better served, by the sharing of power with

local representative units which will enable persons to determine their own destiny. It is our belief that persons of all communities should be able to live together in unity, equality and brotherhood in our land. With firm political commitment and a well planned strategy, we have gained the confidence of the people of the North and East and secured control over the Jaffna Peninsula. The Government is taking speedy action to consolidate civil administration and to resume rehabilitation work.

We propose to adopt a new Constitution through a process of consensus among political parties represented in Parliament. The Parliamentary Select Committee on the Constitution has been set up to facilitate this process. The views of the

ordinary people, professional associations, non-governmental organisations and other interested parties have been canvassed and there has been a tremendous response. The New Constitution



President Chandrika Bandaranaike Kumaratunga being welcomed by the children of Korea waving flags at the Korean President's house.

will be drafted in accordance with these views and we are certain that this Constitution will be a long lasting, living

document that will embody the expectations of our people. The new Constitution will include provisions relating to the devolution of power. It will transform the present presidential system. Parliamentary sovereignty will be restored.

I must emphasise that, although terrorism could be quelled by military means, the ethnic problem cannot be resolved by such means. Socio-economic and political problems of the minorities can only be resolved in a lasting manner through dialogue and political consensus and economic development.

We have made progress in the pursuit of market friendly policies to achieve our development objectives. Our policy at the outset is one of establishing a prudent macro-economic and financial policy framework, that would encourage rapid and sustainable development which would be just and equitable to all. In the realisation of this policy, my government has implemented radical changes within the economic system and in its methods of operation.

The policy framework is based upon a commitment to the pursuit of market-friendly policies, whereby the private sector becomes the principal engine of economic growth. We intend, pursuing more aggressively than in the past, ways and means of encouraging the private sector to dedicate itself to the task of delivering rapid development. An important set of new investment incentives for both domestic and foreign investors have been introduced with

the last budget. It follows that the State will have an important role to play in strengthening and supplementing the market mechanisms in areas where markets fail. These relate principally to the general area of human resource development, primary education, science and technology, basic health care, environmental protection, infrastructure development and poverty alleviation.

Our economic fundamentals remain strong. Economic growth has been maintained at around at 5.5 per cent, despite several adversities on both domestic and external fronts. Industrial exports continue to maintain a high growth rate of 13 per cent. Industrial exports account for 75 per cent of our total exports. The value of industrial exports has doubled every five years and its growth has spread over a wide range of industrial products, with continued diversification both in terms of products as well as export markets. Underpinning this export growth, the external current account deficit remains at a manageable level of 4.2 per cent of GDP and external assets at around US\$ 2.1 billion.

The urgent task confronting us in Sri Lanka is that of rapidly improving her macro-economic management. We have adopted a medium term fiscal consolidation programme, realising that large budget deficits result in the government absorbing national savings to finance them, when these savings can be more productively employed in the private sector. Competition between the two sectors for

a limited pool of national savings, raises interest rates to high levels discouraging private investment. In spite of heavy outlays on defence and refugees, we have successfully contained the budget deficit in 1993 below 10 per cent of GDP, we could have contained the deficit below 8 per cent of GDP, if there was no increase in defence expenditure. Well before the Year 2000, we expect the fiscal deficit to fall to a level of 5 per cent of GDP, which represents the sustainable volume of foreign financing that can be made available to the budget. This should make the budget independent of domestic borrowing, and will free all national savings for private investment. These steps constitute the most decisive contribution that the government's fiscal policy can make towards private sector development, which in turn will enhance the potential for joint ventures with foreign investors, including those from Korea.

My Government has made substantial progress in the implementation of tax reforms with a view to creating an environment conducive to private sector led economic growth. Income taxes have been simplified and reduced to a maximum of 35 per cent with a concessionary rate of 15 per cent for export income. Customs tariff has been rationalised within a 3 band rate structure with a maximum rate of 35 per cent. Incentive schemes have been put in place to exempt customs duties and other fiscal levies on the import for the production of exports. Excise taxation have been simplified to limit such taxes to essential revenue needs. Preparation is now underway to introduce a goods and

services tax in place of present cascading turnover tax. Over the medium term, the government is committed to further lowering taxes to encourage investment.

An important vehicle for the attraction of foreign investment to Sri Lanka is the privatisation programme initiated by the Government. The government established last year the Public Enterprise Reforms Commission (PERC) to design and implement the privatisation programme in a transparent and efficient manner. The Government's programme is far-reaching and has met with early success. The recent sale of Colombo Gas Company attracted four reputable multinationals and the award was made to the Shell Company. The divestiture of Air Lanka and the National Development Bank are under way. Plans are under way to bring in strategic foreign partners for the development of the Telecommunication sector. We have also cleared a proposed private investment project to set up around two hundred thousand wireless local loop lines which will be implemented this year. In addition, Sri Lanka Telecom is also expected to augment the present telephone lines by a further 150,000 lines in important commercial areas. We have also made progress in the privatisation of plantation companies and this important sector will continue to attract capital investment by the private sector. An important objective of privatisation programme, is to progressively retire the public debt by earmarking privatisation revenue for this purpose. This will reduce the interest burden on the budget.

In the area of industrial policy the Government has decided to steer the economy in the direction of diversification, away from its present dependence on textiles and garments, into a range of higher value added, high-tech industries. A package of fiscal incentives to reduce up front cost of investment was made available for existing and new companies to up grade technology and undertake high technology investment in order to remain internationally competitive. It has'also added fresh incentives to the package which was on offer by the Board of Investment, aimed at both export oriented companies and investors in large development projects, Incentives for export oriented industries have been improved by streamlining institutional arrangement and enhancing access to a tax free environment. The following have been identified as priority sectors for investment: Agriculture, Leather and Rubber based Industries, Ceramics and Non-metallic Mineral industries, Skills-based and information intensive industries, the Tourist Sector, Light Engineering and Electronic Industries. With our highly literate and easily trainable labour force, we have comparative advantages in developing these industries. The Government has launched a skill development programme with the participation of the private sector to provide skilled labour required for high tech industries and services.

The Government recognises that the development of an adequate infrastructure comprising power, telecommunications, ports, road and rail transport is an

essential condition for the development of a vibrant private sector involving the participation of foreign investment. An arrangement has been made with the participation of private sector in the power sector, where two power projects will soon be implemented under B00, BOT arrangements. As a major step in promoting private sector participation in infrastructure development we have just set up a Private Sector Infrastructure Development Company. The World Bank has allocated US\$ 75 million with co-financing from Germany-German Marks 20 million. We expect the Government of Korea also to participate in this important venture along with the Asian Development Bank.

Let me, in conclusion, underline the potential Sri Lanka has to offer, by virtue of its strategic location at the foot of the Indian sub-continent. Sri Lanka attracts trade-driven flows of foreign investment, based on preferential access to a substantial South Asian market. The SAARC region has a population of 1.2 billion with an affluent middle class nucleus of some 300 million. With the acceleration of the economic reform process in the sub-continent, especially in India, this market will continue to expand rapidly. The 7 South Asian countries who are members of SAARC, have recently decided to establish a South Asian Free Trade area by the Year 2005.

Sri Lanka is well placed to attract trade-driven flows of foreign investment from Japan and elsewhere much sooner than the SAARC deadline of the Year 2005. Preferential

market access on bilateral basis can only serve to reinforce the advantages Sri Lanka already possesses as an investment location. Its rich human development endowment, the literate and easily trainable labour force, alongside policies aimed at providing an adequate infrastructure will enhance her potential for such investment. A ready opportunity is thus available for Korea's private investment community to contribute to Sri Lanka's development.

Ladies and Gentlemen, let me reiterate that it is left to you and to us to reinforce the cordial relationships the people of our two nations have been enjoying in the past, but this time with a renewed strength and understanding to face the new development challenges. In the present context, economic co-operation between countries is shifting more and more towards investment initiatives. Korea is increasingly becoming one of Asia's exporters of capital and what I would like to see is more and more Korean investors looking at the opportunities and emerging complementarities and selecting Sri Lanka as the host country for their investment.

Thank You.

The policies adopted by my government since assuming office last year, reflect a firm conviction that social development, social integration and social justice are concepts that go beyond ensuring the physical well-being of the individual. We believe in simultaneously strengthening the democratic and legal frame work within which people participate in the formulation and implementation of policy. This involves the fullest respect for human rights and fundamental freedoms and the rule of law, access to justice, elimination of discrimination as well as transparent and accountable government.

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