“Good Morning, Secretary to the Ministry of Defence and Urban Development, the senior officers of Sri Lanka tri-services, distinguished delegates, Ladies and Gentlemen. I am indeed honoured and privileged to be the Keynote Speaker of this 2014 Defence Seminar organized by the Sri Lanka Army, being attended by a rich audience and will he addressed by renowned resource persons from around the world. I wish to thank, the Commander of Sri Lanka Army Lieutenant General Daya Ratnayake and his able Director Training, Brigadier Ralph Nugera, for inviting me to speak to this high profile gathering.

‘Sri Lanka: Challenges to a Rising Nation’ - the subject assigned to me to speak at this prestigious event, compelled me to spend some time to research on our country's post independent journey towards what it is today, and in this process several milestones we as a nation have passed are in fact eye openers to be able to understand challenges from a historical perspective, since history has a tendency to repeat itself in the future. It is equally important to review the present phase of development and how it has been managed while passing many barricades along the journey to be able to understand the challenges of the present, since the present will invariably be the history of the future. I also thought that it is important to view challenges from a past and present perspective, in an endeavor to visualize future perspectives, to equip ourselves to facilitate the management of contemporary challenges in our transition from a middle income economy. The transition from a middle income economy involves targeting to achieve US$ 7,500 per capita by 2020, like we have already raised our per capita from US$ 1,200 in 2005 to US$ 2,400 in 2009, and from there towards US$ 4,000 in 2015 - in an extremely challenging environment. I will also touch upon the visionary comments expressed by none other than Mr. Takehiko Nakao, President of the Asian Development Bank when he visited Sri Lanka in June this year, on the likely journey of Sri Lanka towards an advanced economy by 2035. My overall aim is to register the point that history is in fact an analysis of how the past has been managed that provides lessons learnt, facilitating us to manage the present with proper checks and balances and thereby prevent the repetition of bad the experiences of the past, to gain high altitude in the future.

My speech is structured in five parts. Part I - explains how the post independent events pushed this nation towards becoming a marginalized nation by 2004, followed by the underlying strategic shift in 2005 through the adoption of Mahinda Chinthana: the National Vision of Sri Lanka. Part II - gives an overview of the current phase of development in a globally challenging environment. Part III - outlines how the challenges in the transition were managed shifting from confrontation to consensus building and how graduation from a low income to a middle income economy, was managed. The likely developments the country would face as an emerging economy towards reaching US$ 7,500 per capita by 2020 and the challenges ahead of us will be covered in Part IV. The last section presents some concluding reflections. The speech will take approximately an hour.

Distinguished Delegates, Ladies and Gentlemen, at the outset let me say that the conduct of a seminar of this nature, being held in this, peaceful surrounding, at this venue which is in the heart of the Colombo city, attended by this rich audience represented by about 40 countries and specifically on the topic assigned to me, could have been far from reality, and on top of it, the very subject itself could not have been relevant to us prior to 18th May 2009, being the day on which the 30 year terrorist conflict came to an end - a historic moment to our nation, probably as important as gaining independence in 1948
considering the long struggle we had against terrorism to secure democracy, peace and development. Therefore, we should at the outset express our gratitude and place on record our appreciation for the invaluable sacrifices and contributions made by Sri Lankan tri-services and their families. It is to them that His Excellency the President Mahinda Rajapaksa entrusted the task of carrying out a humanitarian operation to liberate us from terrorism a few months after he assumed leadership of this nation. It is they who made enormous sacrifices to complete this task during 2006-2009, while supporting the 'zero causality theme'.

We all know that this bold decision was taken after having exhausted all options available at local level, while experiencing continuous drawbacks from an international standpoint, and in the backdrop of escalating mass scale terrorist attacks. Two major events influenced this move. One was the Kebethigollewa bomb attack on a packed bus carrying innocent villagers to the nearby town - on a Thursday morning - 15th June 2006. It killed 64 innocent people including 12 children and left 75 others injured. The other compelling reason was the capture of the Mavil Aru irrigation and water supply scheme that by the LTTE terrorists, and closure of sluice - gates denying access to water to innocent villagers and people in that area - on 26th of July 2006. This is how so called internationally monitored peace accord was respected by the LTTE, by resorting to gross abuse and violation of human rights. I still remember the absolute frustration we went through having to live and work in such surrounding and how all of us as a nation felt that 'enough is enough' expecting the Government to liberate the nation from brutal terrorism which caused us enormous sufferings for nearly three decades ,the best part of lives of my generation. The astute and visionary leadership of His Excellency the President of Sri Lanka who spearheaded this once considered impossible task, the amazingly talented and committed. Defence Secretary, Gotabaya Rajapaksa who managed this high risk task as the Chief Accounting Officer of the Ministry of Defence, deserve special recognition with a round of applause from all of us. I am sure that the global community who truly stand against terrorism and are committed to eradicate terrorism in the interest of humanity, peace and development, feel the same. I wish to quote the words of Dr. Subramanian Swamy - the renowned former Minister of India, Economist and the present Chairman of BJP Committee on Strategic Action, during his recent visit to Sri Lanka. 'I have known no other country which has decisively finished terrorism of this kind and this is no ordinary terrorism….. If you look around the world people have had no country which had a kind of clear success in eliminating terrorism as you have'. He went on to say 'Today even Tamils up in the North admit that at least they know that when their children go to school they would return back in the night. When their husbands go to work they would return back in the night; That is the stability and certainty the end of the war has brought about to our country, for which the credit should no doubt go primarily to the bold leadership, the committed Defence Secretary and the tri-services. I must also mention that the role of the tri - services in the post conflict environment is equally humanitarian and development oriented, as they share their professional skills in demining activities, assist resettlement of the displaced and looking after their own colleagues and families who are victims of the conflict, provide their architectural and engineering skills to restore historical buildings, carry out flood protection and urban sanitation, programmes, besides entering into performing arts and sports as well.

It was sheer determination and not heavy military, human or financial resources that made it possible. As Finance Secretary, I know that they fully appreciated the financial difficulties that we on fronted with. I
like therefore to begin my speech by quoting former South African President late Nelson Mandela who once said 'The greatest glory in living lies not in never falling, but in rising every time we fall'.

Part I - A Marginalized Nation

Sri Lanka gained independence in 1948 from the British, who ruled the country in the process of a colonial rule that commenced in 1505 with Portuguese taking over the country, followed by the Dutch rule in 1658 and then by the British in 1815. The economy in the early 1950s enjoyed external assets equivalent to 12 months of country's import requirement. The country was economically second only to Japan in the entire Asia. Nevertheless the post-independence developments in Sri Lanka were grim. Political instability, short - term populist policies, experimenting extreme development models by different political parties that formed Government, lack of a long term national vision for the country and inability to position the country in proper global perspectives, made Sri Lanka a lagging nation with a 'dismal-rate' of growth of 3 percent by mid 1970s with unemployment as high as 25 percent of the labour force - that led to a youth insurrection in 1971. The absence of a policy strategy to ensure food security, lack of adjustments to the global oil price hike witnessed from early 1970s to build an energy efficient economy and continued expansion of the regulatory regime that weekend private sector initiatives, made economic management essentially inefficient.

Although the economy was reopened in 1977 with liberalization and deregulation, creating high expectations to recapture what the nation lost for 30 years since independence, by 1980 the economy lost macroeconomic stability with a high fiscal deficit, monetary expansion, loss of international reserves, high depreciation in exchange rates and inflation. The general strike in 1980 and civil riots in 1983 saw the beginning of the nearly 30 year LTTE terrorism.

Then the Southern insurgency in 1987/88, the change of Governments in 1988, 1994, 2001 while being engaged in managing a conflict trapped economy which badly demanded a development agenda that would facilitate its people to move away from poverty and 'low income trap', were critical milestones that led the country to be further marginalized in the world economy which was steadily growing. The key lesson from this long period since 1977 is that compromising national security and macroeconomic security are prime factors that prevented the economy from emerging on its own comparative advantage and strengths. The Asian Tsunami struck Sri Lanka in December 2004 taking nearly 40,000 lives, wiping out around 100,000 houses displacing many and destroying schools, hospitals, infrastructure and private property. This incident alerted the country on the adverse impact of climate change and that environment security cannot be overlooked in the process of development. Although the country has witnessed certain improvements in human resource development and in selected private sector activities, while recording around 4.5 percent average growth in GDP, the overall outlook was quite grim with poverty and unemployment remaining high, external reserves falling substantially to a level not sufficient to import even 3 months of country requirements of imports and the Budget running a high deficit of around 10 percent of GDP for decades, on top of an accumulated debt exceeding GDP. These factors provide us a picture of the Balance Sheet that the country was managing when His Excellency the President was elected as the leader of this nation in 2005.
Ladies and Gentlemen, if Sri Lanka is to emerge on its own comparative advantage and strengths within the framework of an integrated global economy, the challenge is to restore security of the five pillars which I referred to earlier namely, food security, national security, macroeconomic security, environment security and human resource security. Managing this task is the underlying story of development since 2005. As Albert Einstein said, 'out of clutter, find simplicity. From discord, find harmony. In the middle of difficulty lies opportunity'; This supports the underlying philosophy of "Mahinda Chintana: The Vision for a New Sri Lanka".

Part II - Strategic Shift in 2005

The post 2005 National Development Strategy - "Mahinda Chinthana: Vision for the Future" prioritized post Tsunami rehabilitation and reconstruction, the implementation of several national infrastructure projects that remained stalled for years and the revitalization of agriculture, while adopting bold policy decisions connected with the National Budget and macroeconomic management. The post Tsunami reconstruction and post conflict rehabilitation, resettlement and reconstruction, provided a unique transformation to those in affected areas while mined lands were converted into green fields. The Government also recognized that along with restoring national security and peace, infrastructure development should also take place through public investments being the critical component, such as a well connected road and expressway network, a globally competitive port and airport network, an irrigation and water distribution network and a strong telecommunication network together with well distributed urban and township development. This would in turn create opportunities while paving way for produce of rural farmers to have access to local and global markets and for investment in the real economy to go beyond Colombo and other cities.

The progress made in infrastructure creation, which the nation was desperately demanding for decades since independence, is strong. The country has a new expressway connecting the two international airports in the Western Province and Southern province. Steps are under way to build Northern Expressway and Ruwanpura expressway to connect Colombo and network with national highways to the North and East. Railway connectivity is to be established between major townships across the Country. These expressways and the railway network are to be connected through national highways and provincial and rural roads, through Government's Inclusive Road Development strategy to promote several themes, such as tourism, exports, logistics IT/ BPO services, high learning educational establishments and townships, towards rapid development.

Progress in power generation and distribution is another success story. As of now the country is benefitting from a power generating capacity of 4,100 MW consisting of diversified power sources as against 2,014 MW of power largely dependent on oil in 2005. Renewable energy including hydro and solar are being at to an improved transmission and distribution system. Almost 100 percent of households in the country will enjoy access to electricity by the end of this year. Investments have been lined up to double the refinery, aviation and bunkering storage capacity as well as to modernize the pipeline distribution system over 2015-17 to further improve an energy based economy and energy security. Public investment in irrigation and water supply remains a priority to enable several areas that are non irrigated lands to be cultivated, improve water treatment facilities and provide pipe borne access to
drinking water to all households by 2017. Investments have been also directed to contain non-revenue water in Colombo to below 18 percent, by 2017.

Urban infrastructure development include the construction of 50,000 urban housing units to house shanty dwellers in a well developed township environment in the city of Colombo and to relocate the Defence Headquarters, to be able to release prime urban land for alternate commercial and property development, greater Colombo flood protection scheme to convert suburban townships as environment friendly living areas, transform historical buildings as up-end shopping complexes capable of attracting tourists and move on to an integrated urban development strategy to make growth oriented cities in the provinces. Parallel with these public investment initiatives, private investments including FDIs are encouraged for urban property development, construction of tourist hotels with international network arrangements and to reclaim 450 acres of land to build a new port city and attract foreign direct investments from global investors looking for competitive locations.

Part III - Managing Challenges

This transformation was not from challenges. Ending the costly war against terrorism itself was a major challenge. Dr. Subramanian Swamy, in his recent speech in Colombo also said, I quote ‘……..as an Indian I can say that most Indian share this view we are proud of your President for decisively finishing a sinister terrorist organization which was a threat to our country too and therefore let no activity in the international arena subtract from that…… Sometimes I wonder whether this whole human right issues has been contrived to bottled dawn or to be little or reduce this massive achievement.’ Respecting human rights and welfare, several thousands of displaced persons consequent to the 2004 Tsunami and those who felt hostage in the 2009 LTTE final phase were provided food, shelter and sanitation adhering to best global standards. Amazingly no epidemic was recorded and maternal and child mortality even under such circumstances was maintained at zero level reflecting how well the humanitarian side of development was managed with determination. Ex-combatants were put on rehabilitation programs and social integration initiatives. Some were even recruited to Sri Lanka police and government services.

The de-mining of almost the entire mined lands, rebuilding conflict-torn areas with livelihood development, restoration of provincial councils and local authorities in such areas through democratic elections, removal of emergency laws that prevailed for years as though they are normal laws, removal of road barriers and security checkpoints, handling war risk insurance payments, restoration of housing and sanitation, the public service delivery mechanism, schools, hospitals, police stations, court houses, market places etc. were managed in a salutary manner by the Government, in the process of taking the country forward using domestic resources, borrowed funds and having mobilized foreign aid. A Tri-lingual policy has been promoted. A task force headed by Secretary to the President fully funded by the national Budget has been engaged to ensure that the recommendations of the Lessons Learnt and Reconciliation Commission are implemented by the relevant agencies in a timely manner.

On the economic front, the US and UK financial fallout in 2008/09, the sharp rise in oil prices, the US fiscal crisis and the Eurozone economic crisis, and the global economic slowdown placed the already weaned Sri Lanka on another wave of economic challenges. While many countries differed responses, Sri Lanka was able to take hold corrective economic measures such as allowing greater flexibility in
exchange rate regime, adjustment of fuel, electricity and water tariffs, monetary policy tightening to manage excessive credit expansion and several reform initiatives such as reorienting the taxation strategy towards broadening its base and improved debt management strategies. The Government secured US$ 2.5 billion - a three year Stand-By Credit Arrangement from the IMF to place the country on an emerging global order and this was the only successful IMF program carried out uninterruptedly in this country, since all previous IMF programs carried out by past regimes had been suspended half way, due to unsuccessful implementation. We could be humbly proud today, since we have already paid hack half of the IMF borrowings - reflecting country's economic strength. This success is supported by the stance taken by the Government - "peace at workplace" instead of "blood on the street", in carrying out these challenging reforms. On top of all these, getting the much needed infrastructure facilities in place, addressing the macro economic outlook and the several structural challenges through pragmatic reform initiatives, were not easy measures by any form of yardstick.

The Sri Lankan economy grew at an average growth rate of 7 percent since 2005 - to date, a break from the past pattern of an unstable growth that averaged around 4.5 percent. Over the same period, trade grew by almost fourfold in US$ terms. The economy has brought about a globally integrated manufacturing sector that has a lead in up-end apparels and that is breaking grounds into newer areas such as IT-enabling services, diversified tourism, high valued tea, medium and high technology industrial activities such as shipbuilding, electrical transformer manufacturing etc. and a buoyant service sector that now account for around 60 percent of GDP.

This year, the projected growth is 7.8 percent and the performance of manufacture of exports, tourism led services, construction industry and domestic consumer demand during the first six months of the year is conducive for such growth. The Service Sector is moving beyond 60 percent of GDP, reflecting a value chain growth in primary, secondary and services activities and the structural shift in the economy. Inflation is mid single digit and nominal growth is now driven by a high real growth - a sharp departure from the past when high nominal growth was nothing but attributable to inflation. Year on Year inflation averaged at 4.9 percent in the first half of this year. There is a steady buildup of reserves - now at US$ 9 billion and the volatility of the Rupee is contained. The buoyant growth of export earnings from goods and services, inflows from tourism and overseas remittances keep the Current Account Deficit well financed. There is stability in the Balance of Payments transactions due to buoyant inflows against moderate outflows, providing an environment conducive for exchange rate management. The Fiscal Deficit of around 3.7 percent of GDP in the first half of the year is in line with the annual target of 5.2 percent. Reduced rates of interest, stable movements of the exchange rates, a lower fiscal deficit complemented by better performance of large State Owned Business Enterprises parallel with the high growth, are supportive to further reduce Public Debt to GDP closer to 70 percent in 2015.

Underpinning the notable progress made through several bold policy and development initiatives, Sri Lanka has performed well in the region, in terms of many global indices. The country is well placed in the World Rule of Law Index and the Global Peace Index, being on top in South Asia. It is also placed high in the region as per the Global Infrastructure Index, Economic Freedom Index, Ease of Doing business index and Global Competitiveness Index. The Human Development Index ranks Sri Lanka among the top 10 in the Asian region, while presently commanding the second highest number of Chartered Accountant students in the world, only next to UK. With the high rate of enrollment for medicine, engineering,
commerce, law, nursing, teaching and technical fields, the country is well positioned to attract professional services and related industries - and move from unskilled labour intensive industries to skilled and technology based industries. Sri Lanka is among the top 50 leading service locations in the world in the delivery of IT/BPO and other knowledge services, having advanced to the 21st place. The evolving regulatory arrangements are conducive to promote clinical trials and research, which are primary to develop health care services to and advanced stage having mobilized countries medical specialists, scientists and technicians, while also developing several facets of the pharmaceutical industry. In terms of Per Capita Income too, Sri Lanka is on the top of South Asia. Securing a position among the top 10 in Asia in all these indicators remains our ambition.

As one said by Donald Trump the American business magnate, investor and author, we need to “get going. Move forward. Aim high. Plan a takeoff. Don’t just sit on the runway and hopes someone will come along and push the air plane. It simply won’t happen. Change your attitude and gain some attitude……”

Part IV - A Journey towards a High Income Economy 2020

The Government has set ambitious development goals for 2020, being the year that reaches the third five year term of Mahinda Chintana - National Vision Development Strategy, which is in keeping with the first five year program of 2005 - 2009 and the second covering 2010 - 2015. Surpassing US$ 7,500 per capita income in 2020 remains our income goal. Maintaining a 97 percent employment level with an increased number in the skilled categories of the workforce remains our employment objective. A zero maternal and child mortality and longer life expectancy of near 80 years along with 100 percent secondary school enrollment and higher computer literacy, form our human development foundation targets. All districts to be made poverty free in terms of the poverty headcount, while also freeing them from communicable and non-communicable deceases and malnutrition are the poverty reduction goals. A lower single digit inflation being the price stability goal, will improve financial management and supply side in the real economy. In this context, the underlying economic growth rate needs to be accelerated beyond 8 percent. This scale of economic growth depends on the level of investments, productivity, improvements in the policy environment and the institutional setup to do business efficiently, application of research, technology and innovation, macroeconomic stability, national security and law and order. It is a much more challenging task than the previous two five - year phases, similar to an airplane that takes off on a long-haul flight, where the year 2020 will only be a stop-over destination. This long journey needs to be supported through a strong National Budget which will bring macro economic security. It will be possible when the Budget continues to channel an increased volume of resources in support of core public investments in physical infrastructure, with parallel private investments shifting towards 30 percent of GDP from the current level of 24 percent of GDP. Equally, the Budget needs to divert a large volume of funds for the development of human resources and research and technology in excess of 6 percent of GDP, towards creating a productive and demand driven human resource base. Complementing the thrust of the social responsibility of the Government, public spending on social security needs to be protected with special emphasis on the elderly and vulnerable groups. Channeling enhanced public expenditure to rural centric development initiatives and agriculture, fisheries and livestock is the core of the all inclusive development strategy of 'Mahinda Chintana: Vision for a new Sri Lanka' to further strengthen food security. All these are viable only if the nation is capable of providing resources for national security,
which is a primary responsibility of the Government. Our challenge in the years ahead while moving ahead in this journey towards success, is to engineer the national Budget in line with these considerations.

I would argue that these multifaceted considerations along with public investments in infrastructure done by the Government and state enterprises at a stable level of 6.9 percent of GDP, have helped to sustain increased private investments - including FDIs from 17.6 percent of GDP in 2009 to 24 percent of GDP in 2014, with considerable efficiency improvements as well. The challenge here is to raise private investments to 30 percent by 2020, focusing areas in which Sri Lanka has an edge while raising public investments to 8 percent - and bring total investments to near 40 percent along with continued efficiency improvements by improving 'Ease of Doing Business', and through technology, research, skills and manpower resource development.

Benchmarking success stories in development is important as much as making investment for growth, to keep pushing the growth momentum. Sri Lankan tea, which remained a primary export commodity for many years with a less than US$ 600 million export income has gained momentum in recent year; and is gaining grounds through many homegrown brands and an expanded domestic value chain, having entered high-end markets covering advanced and emerging economies, international hotel chains and airlines, capable of surpassing USD 2.5 billion export earnings. This journey to achieve higher export earnings backed by a strong plantation economy and to retain its global recognition, is being supported through recent Budget initiatives. Apparel is another great success story that has concentrated on international branded clothing manufacturing, while maintaining high quality, being sensitive to timely delivery, adopting best business practices, ethics and respect for decent labour practices in good working environments and above all having looked at emerging markets such as China, Brazil, Japan and Russia.

Like our success stories of the apparel and tea industries, the Government also pushed certain other areas to take a further lead in terms of country's growth strategy. The Government supported IT/BPO business, which was around US$ 200 million in 2007, and is moving towards surpassing over US$ 1 billion export earnings and creating around 100,000 well paid employment opportunities by 2015 in the newly created policy and infrastructure environment supported by emerging skills in the labour force. This industry now projects US$ 5 billion net export earnings by 2022. Along with the skills development drive, the remittance income from Sri Lankans employed overseas expected to cross the benchmark figure of US$ 10 billion by 2016.

In 2013, the Government created a legal framework to develop free ports and bonding facilities to build a Logistic Services Economy. New investments realized in logistic services, prospects of relocation of global business headquarters and generation of new activities having combined many inputs mobilized to free port areas have paved way for Sri Lanka to capitalize on its strategic location supported by newly built infrastructure at Magam Ruhunupura and greater Colombo city. The logistic industry and provision of services have just begun to attract Sri Lanka as a destination in which headquarters of economic operations could be setup. New aspirations of a Marine Economy is emerging with prospects created having rationalized charges imposed on importers and exporters, the creation of the Shipping Corporation, the proposed setting up of a Marine Industry Regulatory Authority, coupled with the low tax regime for professionals.
Manufacture of electrical products, machinery and spare parts has also gained momentum. Energy Sector related activities that are expanding, include the manufacture of high quality electrical equipment, electrical wires and cables. Shipbuilding and boat manufacturing have set the tone on the potential of high-tech industrial development. Local enterprises have entered the manufacture of multiday fishery boats, agricultural machinery such as combined harvesters etc. The jewellery industry has also recorded a notable expansion in exports as well as in domestic trade. Manufacture of construction material, ceramics, tiles and sanitary wear, office and household furniture, home decor etc. provide new scales of investment opportunities to meet middle income aspirations. In promoting trade towards a greater volume of exports and import substitution, the trade and tariff strategy has been suitably directed in recent years. Free Trade Agreements with India and Pakistan as well as the proposed Free Trade Agreement with China to be launched shortly are being approached to secure a greater volume of trade with these large emerging markets. Our Government shares the view of the newly elected Prime Minister of India - Hon. Narendra Modi, who said ‘sell anywhere but manufacture locally’.

Tourism is becoming a lead industry, both in terms of foreign and local tourism and it is expected to record a turnover of US$ 2 billion by way of foreign earnings in 2014, which is expected to be US$ 5 billion by 2020. This has opened an array of opportunities, benefiting those engaged in extending home stays and boutique type hotel facilities, indigenous medical treatment combined with country's matured western health system, hair and beauty care services, high quality herbal hair and body are product development, gift and souvenir manufacturing, furniture manufacturing, transportation and local agriculture and has also pushed the expansion of the construction industry. These are some of the visible changes in the emerging economic structure of Sri Lanka and these new activities should create the next wave of growth. Almost all of them are in the hands of the corporate private sector and SMEs. Tea, rubber, spices, herbs, fruits, vegetable, poultry and apparel products and even high quality bottled water have entered a longer value chain process from simple labour usage to skills, technology and quality while becoming brand driven businesses to be able to secure high prices and attract up-end emerging markets.

Supporting these emerging scenarios, while consolidating the new tax policy and fiscal policy strategies, a revenue administration management system and an integrated treasury management system are being lined up to be fully operational lied by 2015. Concerted efforts are being made to simplify overlapping regulations, taxes and levies that have crept into the system due to the building up of layers of operational institutions to reduce transaction costs and make doing business easier, particularly to SNIFs. The automation of Sri Lanka Customs’ import export documentation process is being operationalized. Work is in progress to provide 24 x 7 Centralized Cargo Processing facilities for cargo exports, to further facilitate exports.

In the process of advancing towards an upper middle income per capita, the Government has recognized the importance of legal and financial sector reforms as announced in the 2014 Budget. In the legal sphere - reducing laws delays, setting up dedicated courts to handle commercial disputes to ensure the early dispensation of such cases, could be heighted as dire needs. It is encouraging to note that introduction of technology to Courthouses, promoting Court Assisted Mediation and revision of Superior Court Rules are in progress to reduce delays, among other reform initiatives that are being implemented.
The financial sector should be repositioned to meet the needs of an emerging economy, crossing it traditional boundaries through DM and diverse economic activities while also gaining ground in the region. The operation of a large number or small financial institutions with a to capital base is a constraint to satisfy regulatory standards, particularly in the backdrop of financial instrument getting diversified. It is in this background that the 2014 Budget proposed a medium term consolidation process to strengthen financial institutions, which is in progress. IT is a priority area, in policy and institutional development. Here again an inclusive policy strategy is being implemented in recent times bringing IT into both education and work places. These are steps taken to strengthen best practices in our governance structure.

Ladies and gentleman, let me stress that in the process towards graduating as an high middle income economy, the remaining facets of poverty will have to be addressed, while taking safeguards to protect vulnerable groups, uplift livelihood avenues and provide gainful employment opportunities to low income households and while also conserving Sri Lanka’s bio economy will make since only if it moves parallel addressing problems encountered in distant areas still vulnerable to adverse weather conditions such as droughts. Incentive structures and institutional setup should be geared towards promoting advanced water management technologies and drought resistant cultivation practices among farmers to address climate related risks, including having in place stand by funding support to mitigate extreme risks.

Considering the importance of the rural agrarian economy, the SMEs and food security and environment priorities, the continuity of the present rural centric approach towards development is likely to provide greater prospects to become a high per capita nation that is free from poverty, with an acceptable level of equity with regard to household and regional income distribution. In this process, given the high standards that are already achieved, it is equally important to target zero maternal and child mortality, while also addressing emerging challenges of non-communicable diseases among the population to improve quality of life, productivity of the workforce and maintain a healthy population whose life expectancy on average would be 80 to 85 years during the next 10 years. Hence, surpassing a higher per capita growth process has been made inclusive.

This brings together the synergy of the underlying five hubs namely, shipping, aviation, energy, trade and commerce and tourism, forming the foundation to drive the economy as a strategic global destination. You would see that it is structurally different from the legacy up to 2005 that I explained. It needs to be doubled through a well-integrated effort by the tri service, the civil service and the private sector, while working on this common national vision.

Part V - Conclusion

In Sri Lanka, the post 2005 development journey and the post conflict take - off are both vision driven, by the extraordinary leadership of His Excellency the President Mahinda Rajapaksa who helped the country to reach calm waters having sailed in rough seas, while placing the economy on an inclusive development strategy. The country now has strong prospects of reaching US$ 7,500 per capita by 2020 and entering a transitional phase to become an advanced economy by 2035. Succeeding this challenging transformation demands further strengthening of the ongoing rural centric development strategies to facilitate livelihood development and food security, a social security system for the vulnerable, a preserved natural environment with bio diversity, infrastructure development, uncompromising national security and peace,
law and order and maintaining continuity from a policy perspective, to boost business confidence to advance the country steadily. Hence, we need to place trust to make 20/35 development goals, a reality.

Sri Lanka as an emerging nation, which is increasingly integrating with the global economy, needs to be attentive to developments that are taking place around the world. Advanced G7 nations as shown in the recent Economist magazine, are performing below the potential growth in their countries owing to productivity lags, ageing population as well as ageing infrastructure. All these nations are heavily indebted and run high fiscal deficits requiring difficult reforms with strong political commitments. The recent financial crises along with the slowdown witnessed by these economies, have raised many structural problems connected with labour markets and immigration policies. Newly emerged BRICS nations too have slowed down and are faced with constraints to sustained high growth rates similar to those of past 20 - 30 years due to compressed demand from advanced economies as well as strong exchange rates, high labour and material costs, environmental issues and social safeguard concerns. Initiatives are underway to form a new multilateral bank of BRICS nations, a bank of SARRC nations and an Asian Infrastructure Investment Bank led by China to address capital needs of emerging and developing countries and also to address repeatedly unheard concerns over the years of developing countries, by existing multilateral financial institutions such as the World Bank and IMF. The use of trade sanctions has undermined the thrust of global trade and investment arrangement under WTO. Similarly, the stand taken by the newly elected Government of India recently to oppose WTO led trade reforms in respect of agriculture in the interest of food security reflects the voice of Asia on this matter. The lead taken by the Asia Pacific region in the global economy, signals of a new economic order. The operation of NGOs in non-regulated environments has become a threat to financial management, inclusive development and law and order itself. Widespread terrorism has threatened shipping, aviation and financial transactions that risk trade, tourism and investment. Computer crimes, drug trafficking and smuggling are also risks associated with the global economy. Adjusting to be able to manage these risks and to de-risk economy suitably are also challenges that we need to be mindful of, without being complaisant with the many good achievements made so far.

Challenges are not new. Every failure in history is a lesson to learn as to why challenges should not be overlooked or mismanaged. Our history has amazingly rich days of glory and national pride not second to any other country and the human tendency is to boast about such glorious days. But we know that we have also had bad times, full of misery. We should become mindful of possible risks, judging by historical experiences. I feel that although history is the past, the present and the future invariably become history. For us, the year 2005 is now history. Our balance sheet in 2014 is distinctly different from 2005 and in fact richer than then. Yet in 2020, the year 2014 would be history. Therefore, we should be determined to manage the present and future well, if we are to become a nation that can speak of a proud history. We should therefore try to prevent the recurrence of historical mistakes. This compels us to ensure that nation building is made on a solid foundation - on the five steady pillars that I noted earlier, namely, national security, food security, energy security, environment security and macroeconomic security, while also not compromising human resource development, peace and prosperity. Managing all these require us to be vigilant at all times in relation to all aspects of our respective responsibilities in public life. The country needs to be vigilant of possible national security risks as well as economic and environment risks. It will be a sad situation if we at any time have to say 'we underestimated the risk', as is the case with regard to the Ebola Virus outbreak.
I believe that success comes by following, as I have seen in every aspect of management of our President, start by doing what is necessary; then do what is possible; and suddenly you are doting the impossible.

Thank You! and my best wishes to Defence Seminar 2014.”