

Spotlight: Econ Op-eds in Summary

Week ended 13th November '19

In Summary

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

1. Economic performance dependent on political outcome and economic policies **By: Nimal Sanderatne**

- Political stability in the aftermath of the upcoming elections and adopting sound economic policies are vital for future economic performance. Export oriented policies also are essential to solve the fundamental economic problem of high public debt, particularly the foreign debt. However, the current populist policies are likely to worsen the situation.
- The front running candidates are yet to present a clear economic programme. The election statements made are quite self-contradicting with both inward looking protective policies and policies to enhance exports and modernize the economy. Export growth would require liberal economic policies especially in a resource limited country like Sri Lanka.
- Recently exports have been limited by protective policies, rendering Sri Lanka to be one of the most protected economies in Asia. Despite evidence of clear failure of such inward-looking policies during 1970-1977, some economists and politicians stick to this impractical framework. Along with political stability, policies that promote external demand are vital in reviving growth.

The country's economic performance in 2020 and beyond will depend on the outcome of the presidential election, the subsequent parliamentary elections that would elect a government and Prime Minister, political stability and the pursuance of sound economic policies.

Problems and challenges

The fundamental problems of fiscal consolidation, reducing the country's massive public debt, servicing the huge foreign debt of US\$ 54 bn, improving the investment climate, enhancing the low economic growth, attracting export oriented foreign direct investment and enhancing exports are challenging tasks.

Key challenges

The Central Bank Governor, Dr Indrajit Coomaraswamy, said recently that the key challenges for the next president and government include an export transition supported by Foreign Direct Investment (FDI), continuation of the clear path set by the Central Bank, debt management and capitalising on the best opportunities for Sri Lanka's economic growth.

He added: "I don't see enough export transition in any of the manifestos of the president aspirant candidates. In my view, that has to be the top line. If you want to have growth on a sustainable basis, to pay debts and still have space to create employment, then you have to increase exports significantly,"

Policies

The government's economic policies will determine the character and extent of economic growth. If the wide-ranging election promises are implemented, the macroeconomic fundamentals would be weakened and in turn economic growth undermined. Populist bad economic policies would aggravate the economic woes and destabilize the economy.

Rethink

Sober second thoughts on a growth-oriented economic programmes are vital. A precondition for the success of a growth-oriented economic programme is the adoption of economic policies to stabilise the economy. However, the plethora of extravagant election promises, the political milieu, the forthcoming parliamentary elections, and ideological positions rather than pragmatic policies make it difficult for the government to pursue the required policies for economic stabilization and growth.

Different policies

Different economic policies have different economic outcomes. In the past, different political regimes have had different economic policies that have had different outcomes. This has been due to different economic policies as well as the capacities to implement economic policies.

Therefore, the view that whoever is elected, the economy would revive is a misconception. The political developments after the new President is elected and the economic policies of the new government would have a decisive impact on the country's course of economic development.

Political stability

In the immediate aftermath of the presidential election, there should be political stability. This is only possible if the newly elected President is able to work together with the Prime Minister and government.

If on the other hand, the newly elected President attempts to act as an executive president, then there would be a constitutional crisis similar to the one in October 2018. Such a chaotic state of affairs would cripple the economy once again.

Parliamentary polls

The Presidential election is likely to be followed by a parliamentary election. Hopefully, a stable government that is crucial to stabilise the economy would be elected. If these two political events create political confusion, the economy would be in dire straits.

Policies

There is no clear-cut economic policy programme that has been articulated by the front runners. Several others have outlined their policies for good governance and economic development. However, these are not likely to be of any consequence. Even the manifestos of the two main candidates are election rhetoric rather than firm commitments of policies. Such has been the case in past elections as well.

Promises

The presidential election campaign has been full of promises that would increase public expenditure beyond what the public coffers can finance. If even some of these are given, the economic crisis would deepen.

The actual economic policies and programmes would be after the government is formed and a budget presented in parliament. It is realistic to expect that either party would follow broadly their former economic policies.

Inward looking policies

The speeches of the presidential candidates had internal contradictions. On the one hand, they promised policies for self-sufficiency by inward looking protective policies. On the other hand, they said they would follow policies to enhance exports and modernize the economy. The contradiction in these positions is not clear to most.

In brief, export growth requires liberal economic policies especially in a resource limited country. It is the liberalization of the economy in 1977 that enabled the diversification of the economy and the growth of manufactured exports. In the recent past exports have been hampered by protective policies, especially by the proliferation of para tariffs that have rendered the economy one of the most protected economies in Asia. The government has initiated actions to remove some of these para tariffs, but fiscal constraints may prevent progress in this.

Ideological policies

In spite of the clear evidence of the failure of inward-looking policies of the 1970-77 regime, there is ideological bias towards import substitution. The economy grew by less than 3 percent during this period and scarcities and economic hardships were widespread. However, politicians and some economists too remain wedded to this inefficient and impractical policy framework. In contrast, communist countries like China and Vietnam are thriving after abandoning such protectionist policies and adopting liberal trade policies.

As Central Bank Governor Coomaraswamy observed, it was crucial not to reintroduce an anti-export biased policy framework, adding that there was no point in talking about reviving growth with a market of 20 Mn unless we grew an external demand or exports.

Final word

It is not that the path to economic development is not known. It is an inability to implement good economic policies.

As Dr. Coomaraswamy said "We know what to do, but we just need to now box clever."

[For the full article – Refer The Sunday Times](#)

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