

**Keynote Speech by Mr. K M Mahinda Siriwardana, Secretary to the
Treasury and Secretary to the Ministry of Finance, Economic
Stabilisation and National Policies at the 50th Anniversary Seminar of
Institute of Supply and Materials Management (ISMM)
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Hon. Prime Minister, Mr. Sarath Gamage, President of the Institute of Supply and Materials Management (ISMM), other officials and members of the ISMM, distinguished invitees, ladies, and gentlemen.

I'd like to thank the Institute of Supply and Materials Management for inviting me to deliver the keynote address at this very important international seminar. I am deeply honoured to have been invited to address this distinguished audience.

We all know by now that Sri Lanka is currently facing an unprecedented economic crisis. The country's gross official reserves have been under USD 2 billion for several months, with near zero liquid reserves. Sri Lanka is struggling to import essential items amidst the worst-ever foreign exchange shortage. In a more micro level, it was reported that container transport service providers have drastically reduced their operations, disrupting inland transportation and inter-terminal transfers.

On the debt front, Sri Lanka has to pay around USD 5 to 6 billion annually for several years, including this year. The severe current account deficit and lack of liquid reserves has left no option but to restrict imports. The inability to manage the excessive debt overhang and the acute shortage of liquid reserves led the government to announce a debt standstill in April. Inflation is around 70 percent by now with food inflation over 90 percent. The budget deficit is expected to be around 10 per cent of GDP in 2022. The economy is projected to contract by around 8 per cent this year. Cumulatively, these serious economic challenges have severely affected supply chains of all our economic sectors.

The current supply chain challenges, however, are not confined to our own domestic issues. They have global dimensions as well. Significant supply chain disruptions started bubbling up during the heat of the trade wars in 2018 and 2019 and were pushed into new territory over the course of the COVID-19 pandemic, continuing to this day.

And the conflict in Ukraine that started earlier this year have compounded pre-existing supply chain issues in the global economy. The resulting ripple effects are threatening the supply of key food resources like wheat and raising the possibility of a global famine.

Trade wars, COVID-19 and the Ukraine situation have cumulatively disrupted productions, supply chains as well as financial markets. The World Bank, the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) have all released forecasts showing a significant slowdown in global economic activity. So, the outlook for the global economy over the next couple of years is highly uncertain and this is likely to weigh heavily on trade growth.

Triggered by the pandemic, world trade fell sharply in the first half of 2020, and trade volumes registered a steep decline in 2020. The fall in trade was historically large, affecting both the demand side and supply side. The disruption to global value chains (GVCs), particularly in China, Europe, and the US, affected crucial supplies while market disruptions created a decline in the demand side.

Sri Lanka, as a small open economy, is dependent on trade; exports plus imports accounted for 39 percent of GDP in 2021. As such, Sri Lanka's exports were hurt in the short-term due to the supply chain disruptions as well as the collapse in global demand for its goods and services. The EU, and the US, which are the main export destinations of Sri Lanka, and India and China, the largest import markets of Sri Lanka, were amongst the severely affected countries due to the COVID-19 pandemic. The situation was not helpful because Sri Lanka's export markets and products are highly concentrated in Europe and North America. The relatively poor economic performance of the key trading partners not only affected Sri Lanka's export

earnings but caused supply disruptions which in turn, impacted the country's export capacity. However, it is commendable that our exporters have performed better in the more recent months despite these difficulties and challenges.

Moreover, Sri Lanka's imports exceed exports over the years, leading to a deteriorating trade balance; exports cover about half of the imports while the rest has to be covered by foreign remittances and earnings from tourism, both of which were severely affected by the COVID-19 pandemic.

Global trade in goods by volume returned to growth amid continued disruption to supply chains caused by the pandemic and the conflict in Ukraine, and was 10 percent higher than pre-pandemic levels in May 2022. In 2022 and 2023, however, international trade will slow, due to the conflict in Ukraine. But it has been predicted that this conflict will have a much smaller impact globally on trade than the pandemic - slowing but not reversing growth, so it still grows faster in those two years than the entire previous decade.

The centre of gravity of world trade is poised for a turn to the south. This is what all major predictions about world trade says. Southeast and South Asia, as well as Sub-Saharan Africa will all be central to trade growth in future. By contrast, the rate of China's trade growth is likely to slow, and its share of global growth will fall, as trade growth spreads across more countries. By 2026, emerging economies will account for 45% of trade growth, with 55% in advanced economies.

Trade can be a powerful force against inflation and supply chain disruptions. With inflation at multi-decade highs and economies slowing down, trade's power to accelerate growth, lower prices and diversify sources of key inputs is even more crucial for companies and countries than it was before the present wave of crises.

The key take home for Sri Lankan industries and businesses, especially the export sector, **is to be creative and explore new markets in emerging economies**. In the new environment, it is firms that are able to drive productivity and competitiveness that will succeed. Firms that have lean

processes, cutting edge logistics, streamlined procurement, and efficient employees will come out on top. This is where your industry, at the forefront of supply chain solutions, has a key role to play as an enabler for Sri Lankan exporters and domestic manufacturers to compete on the global stage.

In this context, Sri Lanka's export sector **need to focus on differentiation, value-addition, branding, and quality rather than quantity** as espoused by the Government of Sri Lanka. Sri Lanka's leading export firms in most sectors are already doing this but they need to redouble their efforts, as still a lot of goods go out of the country in raw/bulk form. For example, although Sri Lanka is an important producer and exporter of tea to the world, only 40 percent of the tea goes out of the country in value added form. With consumers increasingly concerned about the environmental and social impacts of the goods they buy; Sri Lankan exporters need to differentiate their products along these lines. Towards this end, it is important to strengthen the export of quality and value-added products from the country.

The global shutdown as well as the supply disruptions caused by COVID-19 pandemic have made many companies recognize their over-reliance on supplies from China. These companies are now actively seeking new suppliers and manufacturing locations outside of China with the rising cost of production in China and to diversify their supply-chains and risk – from electronics and appliances to auto-parts and precision components, to textiles and garments. There is an opportunity for countries like Sri Lanka to benefit from supply chain disruptions and realignment, which is currently underway.

Sri Lankan firms with capabilities in these sectors together with the government need to attract these global companies seeking alternate manufacturing or sourcing locations. Developments like Colombo Port City, the export processing zone near Hambantota in the South, and the proposed dedicated textile industrial park in Eravur in the East of Sri Lanka provide further opportunities to pitch Sri Lanka as an ideal location for relocation of major manufacturing facilities.

To take advantage of these supply shifts, Sri Lanka will have to articulate industry specific strategies, identify areas to improve in the country for investor consideration, and sell Sri Lanka as a destination to specific companies seeking to diversify their supply chains.

With COVID-19 pandemic and social distancing, working remotely has dramatically increased digitization of knowledge-based services. These services can now be delivered remotely via online from anywhere in the world. Sri Lanka is already supplying software which runs the world's top stock exchanges, airlines and retailers, and accounting services that support the back office of leading banks and insurance companies. The pandemic has made more people around the world including Sri Lanka comfortable with sourcing online services including medical consultations, legal advice, accounting services, etc.

Since Sri Lanka has long been known as a supplier of top-quality doctors, lawyers, engineers and accountants, there is a huge opportunity for Sri Lankan professionals to export these services to the world online. The government can still do more to support the growth of the sector by improving its legal framework for a digital economy (consumer protection, data privacy, cyber security), providing access to affordable digital infrastructure, implementing educational reforms which ensure that firms can source sufficient talent and accelerating digitization of government processes and its departments. The pandemic forced many government processes/procedures to go online: from the tea auctions to customs clearances. It is important to further digitalize the government departments and services which will mitigate the adverse effects of COVID-19 and facilitate cross-border trade. Similarly, we can apply this to other sectors as well. The digitalization of ports is a case in point. Customs automation, pre-arrival data processing, port call optimization and other digital solutions can help speed up port handling and customs operations.

Businesses must be resilient and capable of adapting to major disruptions so that it can develop long-term strategies and solutions to complex supply chain challenges. Managements should ensure they adopt a scalable crisis management process, have sufficient leadership capabilities in place, and document their experiences and learnings throughout the pandemic so they are able to balance short - and long-term priorities. Operations can be made flexible and resilient to adapt and adjust in real time to changes in trade flows, new regulations, climate change, trade tensions and other geopolitical movements.

Technology should be effectively utilised to help reduce operating costs, provide visibility and diversify the way customer needs are met. Capability to adapt to digital operations and drive actionable improvements from data is important. Fleet management and supply chain networks should be responsive to increasing customer requirements. Collaboration and supplier partnerships and ongoing risk monitoring are needed to de-risk the supply chain. To address rigidities, companies can focus on building a network of trusted vendors (customers, supply chain partners and suppliers) to help manage disruptions and support business continuity.

In fact, we know that Sri Lankan businesses are currently facing a number of issues that are affecting their supply chains. There are difficulties in the continuation of overall business operations, lack of operational cash flow and potential decline in workers' production or productivity due to working from home or termination of employment. The contraction in the economy is not going to help either.

That's why broader macroeconomic policy measures are being implemented by the government to emerge from this crisis, which include the following;

- 1) Immediate: Restructuring the debt and obtaining bridge financing from development partners
- 2) Short Term: Implementing fiscal, monetary and structural reforms to put the economy on correct the path while aiming the possibility of regaining access to global capital markets as early as possible

- 3) Medium Term: Improvement in non-debt creating inflows (exports, tourism, remittances, asset divestments where foreign sources will also participate)
- 4) Long Term: Consistently implementing appropriate fiscal/monetary policies that result in stable current account balance and generates macroeconomic stability to attract sustainable long term capital inflows

The first step in achieving these objectives was to establish an IMF programme without which it is impossible to obtain bridge financing from multilateral and bilateral partners. In parallel, it was necessary to commence the process of debt restructuring, since the IMF is unable to provide financing without Sri Lanka demonstrating credible progress towards making its debt sustainable.

The programme agreed between Sri Lankan authorities and the IMF staff includes measures that address the fundamental drivers of instability in the Sri Lankan economy and putting in place a policy environment to support sustainable and equitable growth, going forward.

In conclusion, as policymakers who try to manure various levers of the economy, we must not be too set in our ways about how to come out of this difficult situation. There must be agility in our decision making. And for that to be fruitful, there must be dialogue and consultation between policymakers and the business community. To this end, I feel very optimistic that this seminar on the topic of “**elevating the economy through innovative and sustainable supply chain solutions**” will produce solid strategies and concrete, workable solutions that will provide the basis for such dialogue. I warmly invite Institute of Supply and Materials Management share key messages of this seminar with the Ministry of Finance and join the collective effort of coming out of this economic crisis in Sri Lanka.

Thank you.