

## **STOCK MARKET PICKS-UP BUT FOCUS ON AGRICULTURE**

**Rohantha N.A. Athukorala<sup>1</sup>**

With the stock market once again on a high powered by infusion of capital from overseas it indicates that Sri Lanka's economy is considered to be more promising than many of the counterparts in the South Asian region. But we must also note that this money can be also withdrawn without notice and that shock cannot be cushioned. In other words Sri Lanka is getting connected to the global economy and unless stability is there things can rough overnight. This further puts pressure on the policymakers to ensure that market driven decision making takes place.



***'Ceylon Tea' global push must happen but even with billions of rupees collected market action has not happened.***

### **Why WP dominates?**

If one does a deep dive on why the western province (WP) continuous to dominate is because the focused market reforms that has happened in the 1980's and 1990's was exploited by the western province whilst the others were not geared to do for many reasons including the war in NE of the country. This, to my mind is the key reason that we see today the commanding position of the western province with almost a fifty percent contribution to the country's GDP but it must change in the next couple of years. Given the development we now see in infrastructure, ports, road network, communication, ICT and of course tourism. In other words when the basic infrastructure develops in an area it enables the private sector to take advantage of the market reforms that came to place. This happened in the western province and that's why the dominance of the western province and now it's the turn of the other provinces is my view. One of the key initiatives that we can check the progress of this ethos is how the Cargills Agriculture focused Bank pans out its operation together with the rest of the financial community focus on SME Development. However, a point to note is that the increased tariff will sure not augur well on this front.

---

<sup>1</sup> Head of National Portfolio Development UNDP -Sri Lanka & Maldives

### **Agriculture policy neglect**

If we focus outside the western province on the rest of regions that are lagging behind on growth, it can be hypothesized that it is due to the absence of reforms namely in the agricultural sector which is the main stay economic engine that has resulted in the private sector not been able to exploit the opportunities that these regions. To be specific, the opportunity that exists in the global market place in the agricultural sector are tea, rubber, coconut which have been continuously neglected over time by the policy makers. It could also be summarized that that regions that are lagging behind with lower GDP growths in the country is due to the sector specific development plans being a non starter. This cannot be just attributed to the private sector but more due to the macro policy reforms not taking off in the area of agriculture and there by having a ripple effect on the sector.

### **Case in point- Tea**

The best case in point is the tea industry where production has been hovering around 300 million kilograms nationally whilst in the corporate sector from a 140 million kilograms of tea at one time volumes came down to around 126 million in a three year time period. A study done by the Tea Research Institute (TRI) states that the extent of Old Seedling Tea (OST) in Sri Lanka, almost 75% are in the corporate sector and the majority of these bushes are above sixty years in age and the senility of the bushes tend to have impact on the declining tea volumes in the corporate sector. One can theorize that aggressive replanting programme must take place but, when the cost of manufacture and the Net Sales Average merge this arguments does not hold ground from a business sense.

The alarming factor is that if the agricultural focus does not happen in the country within a seven year time period the TRI estimates that corporate sector production volumes can decline to a level as low as 80 million kilograms. This drop in numbers account for around 45 million kilograms of tea and in value terms s is equal to 12 billion rupees which is colossal to a sector of business accounting for around forty billion rupees per annum. A point that must be noted is that is for replanting of one hectare acre of tea, will costs almost 4 million rupees. With a gestation period of seven years and the Internal Rate of Return (IRR) being just 13.7% as per TRI calculations this investment becomes financialy non viable.

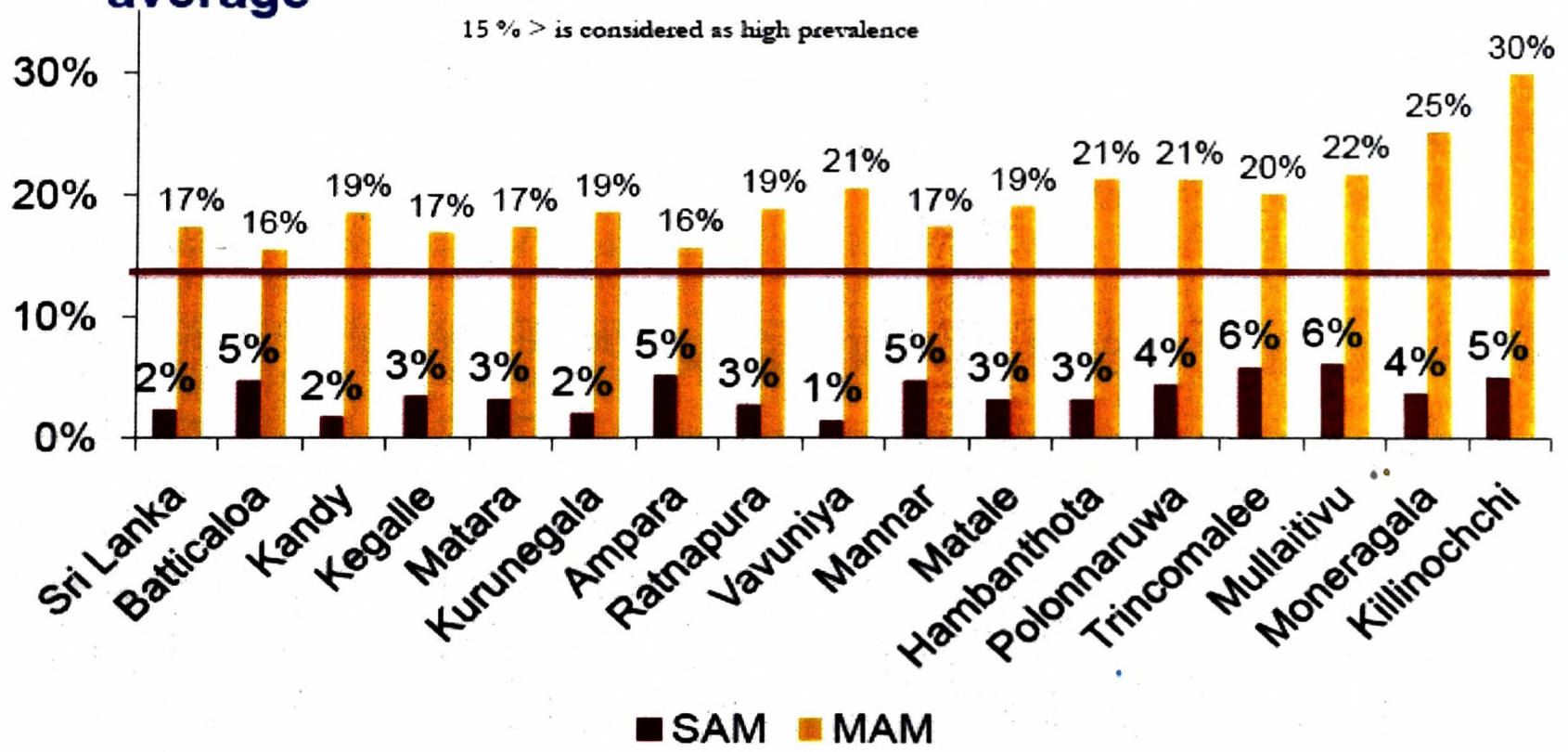
One policy decision harped by many strategists has been to increase the lease period of the privatized management contracts to around 66 years so that a new investment model can be done with at least two cycles of productivity runs on the life of a bush. But sadly, this discussion has been limited to the newspapers in the last four years which justifies the argument on the need for focus on Agriculture.

### **Poverty–Malnutrition flux**

We also have to keep in mind that there is a strong link between poverty and economic growth. The poverty in the agricultural sector as per some reports state that it is as high as forty percent and this tends to have a link to malnutrition levels. One can even go to the extent of linking the regions where reforms took place and the regions that were not ready accept these reforms and prove how agricultural defocus has led to this ramifications. Districts like Killinochchi, Moneragala and Mulltivu

standing out is not a surprise in this context. Whilst we can agree that agriculture has got lost in this economic template over the years due to strong growths seen in the Industrial and Service sector and of course the 30 year war that was in play but policy makers must note that it is Agriculture that keeps a government in power due to the voter base and needs focus. The above example of Tea is a real case in point where we see clear policy direction has not happened in the agricultural sector of Sri Lanka.

### Malnutrition situation - districts above the national average



Source: (Jayatissa R, National Micro-nutrient survey, January 2013 )

### Global thinking

If I am to pick the key highlights of the global analysis that was done by global experts like Paul Schulte the chief regional economic strategist for Lehman Brothers who commented ‘Until a powerful responses are seen globally on supplies, the high prices of merchandise will continue and war on food security will continue’. A statement that caught my attention was from Glien Maguire of Society General’s chief economist who said ‘Unless agricultural subsidies in countries like the US, Europe and Japan are taken off production else where becomes not profitable or cheaper’ which is so true, given the law of comparative advantage that works at a reverse end. Hence we that Agricultural neglect is not just an issue for Sri Lanka but it is a global issue.

### Role of World Trade Organization (WTO)

May be, it’s time that organizations like the WTO should mandate legislation in each country, so that there is a total ban on the use of food stuff like corn and palm oil in producing ethanol and bio fuel. May be there should be also a ban on the use of commodities as financial instruments as it can exert undue pressure on the price mechanism of food products. The argument that this blocks free enterprise and profit taking by the more entrepreneurial private sector but some times the world requires regulation given that resources are scarce and even a small blurb can drive many into poverty.

### **Next Steps**

The fact of the matter is that the availability of food to meet the needs of every citizen is the ultimate national security of any government. But what policy planners must take note of is that agriculture does not drive GDP of a country like how industrial sector or the service sector could. But the food security in a country definitely helps governments stay in power as mentioned before. This means that investment on agriculture should be a fundamental economic policy of any government if one is interested to be in power in the long. The key steps that can be implemented can be:

- 1) We must drive in at least a 2% of GDP into research and development so that we can increase the productivity levels in this sector that yet practices age old systems like manual irrigation.
- 2) We must infuse stronger supply chain management so that the 40% wastage that happens post harvest can be mitigated.
- 3) Lets correct the issue on Tea where the cost of manufacture is outside the control of the producers given the wage structure is essentially decided by the political economy at play.
- 4) Finally, we must invest on branding and sharper marketing so that we drive value addition. The best case in point is the billions of rupees collected for a global promotion on Tea and it's closing on over two years without market implementation.