

investment rather than to increase the overall investment flows into a country.

Sri Lanka achieved record FDI in 2017 and 2018. According to International Trade and Development Strategies Minister Malik Samarawickrama, Sri Lanka is estimated to have crossed the illusive US \$ 2 billion mark in 2018. Following this, the minister has set an ambitious target to achieve US \$ 3 billion FDI this year.

Although on surface Sri Lanka's FDI numbers look encouraging, it is important to keep in mind that most of the moneys have come in for infrastructure projects. Ideally Sri Lanka should try and attract more FDI into manufacturing and services sectors, which will improve the country's tradable sector and help the country to increase its exports while creating more jobs in the economy and equipping the locals with technological know-how.

Besides, the current FDI number only accounts for little over 1.5 percent of Sri Lanka's GDP, whereas FDI accounts for over 5 percent of the GDP of Vietnam, a country which opened its economy gradually since mid-1980s. As a result, Vietnam relies less on going to capital markets and raising debt to balance its budgets.

Sri Lanka jumping 11 places on the World Bank's Ease of Doing Business Index in 2019 will be a major stepping stone for the country to attract more FDI. Further effort is put into gaining more ground, according to the government. We believe it is equally important to reiterate the message that Sri Lanka is ready for business. Sri Lanka is known all over the world for its crispy beaches and not for business. That's the sad reality.

When we were the fastest growing Asian economy after the war, we were on the radar of many foreign investors. But now with unimpressive 3.5 percent growth, Sri Lanka has the second lowest growth in the entire Asian region. Hence, it is doubtful whether Sri Lanka enjoys the same investor confidence as it used to wear.

Reforming Sri Lanka's labour laws to match the modern world is another key area Sri Lanka needs to pay its immediate attention to, to get the FDI flowing. Enabling more women into the country's workforce, flexible working hours and hiring and firing policies are few areas immediate attention is due.

Last but not least, Sri Lanka needs a comprehensive database, including all the required information about the sectors the country is seeking FDI for. Currently the Board of Investment website has some vague details about the areas they are promoting FDI but that is nothing but primitive. The input of the country's private sector will become vital in creating this database.

companies

According to the Census and Statistics Department, there were nearly half a million vacancies in medium and large-scale private sector enterprises in 2017. The hardest to fill vacancies are found in the occupation categories of sewing machine operators (46,576), security guards (45,316) and other manufacturing labours (31,277).

SRI LANKA IS NOW WEIGHING ITS OPTIONS IN TERMS OF IMPORTING WORKERS FROM REGIONAL COUNTRIES TO COMBAT A SHORTAGE OF CONSTRUCTION WORKERS IN THE SKILLED, SEMI-SKILLED AND UNSKILLED CATEGORIES

These findings are corroborated by industry-level studies, which indicate large-scale labour shortages in selected industries, including tourism, construction and information and communication.

Moreover, industry-level estimates show that the labour shortages are likely to increase over time.

Sri Lanka is now weighing its options in terms of importing workers from regional countries to combat a shortage of construction workers in the skilled, semi-skilled and unskilled categories. While there is a general labour shortage of around 750,000 workers, the construction industry especially faces a major crisis, especially in terms of pending projects.

Although vocational training institutes have been set up by the government to train such workers, the youth who enrol see the perceived lack of

Source: DCS 2017

dignity in construction work, risk of physical harm, poor superannuation benefits and fear of being unemployed once projects end, as some of the key reasons for the lack of interest of people in the construction industry.

The industry is said to be considering the import of labour from countries such as Nepal, Bangladesh and India. Some of them have already got a contingent of foreign workers to manage the shortfall.

Key input

As the skilled labour component is a key input to economic development, the consequences of not having the right skills leads to a productivity drop and direct output losses. Acute labour shortages affect growth ambitions and investor confidence. Economic research in other countries suggests unemployment below 5 percent builds wage pressure as businesses struggle to find suitable candidates.

Labour shortages – and the resulting higher costs – make markets inefficient and are a disincentive for investment. In the absence of a clear policy to deal with the issue of labour shortages, industries are adopting different strategies to overcome the problem. Some industries have resorted to hiring foreign workers to fill vacancies using foreign contractors.

Disincentive

The industry estimates point to a large number of foreign workers mainly from India, China and

Plantation sector: 3,037

Bangladesh, working in different sectors. Some industries are mechanizing operations while other industries have relocated their factories to other countries, for example to Bangladesh.

Notwithstanding all the economic benefits, labour import to any country is a politically sensitive issue, as it generally has far reaching political consequences. Some of the key issues include loss of job opportunities to locals due to cheaper labour cost, threats to social-cultural identity, health and disease, ethnic and religious disharmony and national security.

THE INDUSTRY ESTIMATES POINT TO A LARGE NUMBER OF FOREIGN WORKERS MAINLY FROM INDIA, CHINA AND BANGLADESH, WORKING IN DIFFERENT SECTORS. SOME INDUSTRIES ARE MECHANIZING OPERATIONS WHILE OTHER INDUSTRIES HAVE RELOCATED THEIR FACTORIES TO OTHER COUNTRIES, FOR EXAMPLE TO BANGLADESH

Unregulated labour immigration may also lead to illegal immigration, overstaying, abuse of visa conditions, risk of human trafficking resulting loss of public confidence in the immigration system. Sri Lanka currently has no proper institutional, legal, policy and operational framework for facilitating and regulating foreign workers into Sri Lanka. More than half a dozen government agencies are involved in the management of labour immigration and often without any coordination or centralization.

Way forward

Today there is an urgent need for a coordinated approach to address this issue. The National Human Resources Development Council has formed a Taskforce on Labour Immigration with representatives from relevant government agencies to develop a strategy to transform the existing largely informal and irregular migration movements into a well-governed formal labour immigration system based on international norms that meets the demands of a strong, diversified economy.

In the final analysis, one of the key questions regarding immigration concerns its benefits and costs for the receiving economies. Fear that immigration may, at least in the short run, have adverse effects on the labour market opportunities of the young population and professionals are the main reason for the opposition in Sri Lanka. Finally the economic outcomes of immigration depend crucially on the skill structure of immigrants relative to the skill structure of the locals.

(Dinesh Weerakkody is a thought leader)



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