

Repositioning Sri Lanka's Transport and Logistics Sector to lead the economic recovery in Sri Lanka

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Introduction

The current economic crisis cannot be taken lightly. Early warning signs over decades that all was not well, were ignored. We have simply lived beyond our means. We just have not worked smartly or hard enough to support our lifestyle that we have taken for granted, accompanied by the unrestrained imports and the ever-increasing dole-outs, expanded public services and subsidies. The transport sector was no different. When corrupt leaders took poor investment decisions without heeding professional advice, supported by those who have prostituted their professions, it has not taken long for the pillars of our economic and social well-being to crumble.

The Challenge

The journey of denial of the reality, and the mistaken belief that Sri Lanka can bounce back happily from any mismanagement, is over. The political ideology of living today and paying for it tomorrow and its proponents must urgently be reformed or the perpetrators should be removed. A new journey must begin using hard economics and the science of what we do and how we do them. A new ethical standard and way of managing institutions must be established at all levels of leadership and governance, binding them to policy, processes, established management methods and data-based decision making. This is a prerequisite for the recovery of the transport sector, and with it the economy.

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Transport and Logistics as a contributor to the Economic Crisis

The transport and logistic sector, as have many other sectors such as education, agriculture and industry, contributed significantly to this current debacle. Transport and logistics has failed to deliver its true potential for the economic endeavour of the nation, and in fact, has currently become one of its biggest burdens. This paper dwells on identifying what we need to do, both in the short-term to get over the immediate crisis and simultaneously work towards developing the transport and logistics sector to be positioned as a driver for Sri Lanka's economic revival and long-term regeneration to reach its fullest potential.

Transport and Logistics as a driver of Sri Lanka's Economic Revival

This requires a two-pronged strategy where we address the immediate problems and then proceed to make those solutions drive Sri Lanka towards a truly sustainable economy in the medium to long-term. The most urgent issue and starting point is to reduce our heavy dollar expenditure on transport; especially road transport. Analysis of the import bills from 2014 to 2019 (Sri Lanka Customs, 2022a), shows that 8% of Sri Lanka's import bill is for road vehicles, while a further 10% (at US\$ 50 a barrel) is for fuelling this fleet. The foreign outflows for road construction amounts to a further 3-4% of the import bill. In comparison, this is higher than what the country spends on the import of food, beverages, dairy products, pharmaceutical and medical products, all agricultural inputs including fertilizer, mobile phones and all other consumables that have now been banned or are in short supply (Sri Lanka Customs, 2022a) . Thus, reducing this



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economic cost to ease the suffering of many people deprived of other imports essential for life and livelihood, should become an urgent priority.

The strategy identifies the major issues that need to be addressed to relieve the current situation quickly and affordably.

- Reduce consumption of Petroleum Fuel for Transport.
- Redirect towards a sustainable motor vehicle fleet.
- Impose an immediate moratorium on expressway construction and instead
- Invest in modernising the public transport network and improve walking, and cycling,
- Reduce vehicle usage and manage traffic congestion.
- Promote digital technology and supply chain science in transforming transport and logistics operations and
- Reform and Restructure Transport and Logistics Supply and Regulation.

A. Reduce Consumption of Petroleum Fuel for Transport

Around 63% of petroleum imports amounting to US\$ 2,065 million has been used for road transport annually (Sri Lanka Sustainable Energy Authority, 2019). This was when oil was US\$ 50-60 per barrel. At current prices of over US\$ 100 per barrel, this will increase to 20% of our usual import bill of US\$ 20 billion per year. It is possible that oil prices will stay at this level for several years, as in 2008 when it crossed US\$ 100 mark, it held for four years. Continuing dependency on oil will make Sri Lanka's economic recovery well nigh impossible. Private vehicles consume around 80% of this fuel (Weerawardena, 2019), leaving the entire goods and public transport services consuming just 20%, indicating where the problem lies. It is therefore imperative to urgently reduce personal vehicle use. This can be done in different ways in the short-term:

- Peg Fuel Prices to global oil price:

Pump prices of fuel in Sri Lanka even at the current Rs. 300+ per litre are still the lowest in the South Asian region in terms of

US\$/litre (Advocata Ins., 2021) . It is also still lower than its inflation-adjusted price in 2008 when global prices exceeded US\$ 100 per barrel and the US dollar was only LKR 110. In fact, oil crossed US\$ 100 per barrel mark even in 1981-82 during the Iran-Iraq war when the US dollar was just LKR 20. The popular principle of cushioning the people from the shocks of fuel prices in the long-term no longer works. There is just too much oil consumption that eventually it is the heavy consumers, the rich and not the poor that benefit from such subsidy. Unlike other goods, fuel imports should not be restricted or rationed as they are necessary inputs for other economic productions, but they should be pegged at market prices with a reasonable tax component that discourages consumption and encourages alternate use. In many countries, this tax is designated to develop and promote less fuel consuming means of alternative mobility to which people can shift without reducing productivity or convenience. Fuel prices may, if allowed, be raised in stages over 2-3 months giving sufficient time for making ready these alternatives which will be discussed below.

- Tax Readjustment of Vehicle Imports and Revenue License Fees to improve fuel economy:

According to import statistics from 2014-19, (Sri Lanka Customs, 2022b) over half a million motor vehicles are imported annually to Sri Lanka. Of this, 60% are motorcycles and 10% are three-wheelers and less than 10% are goods and passenger transport vehicles including buses. The 50,000 motor cars, which make up 10% of all vehicles imported, cost around \$800 million annually which is one half of the total CIF cost of all vehicles imported. In other words, the 10% of car owners spend 50% of foreign exchange as opposed to the 90% of other vehicle importers who use their vehicles for both private and commercial purposes. While this is a social impediment in itself, it is further aggravated by the concessionary permit system which enables around 10,000 vehicles, mostly cars and SUVs, to

be imported annually at minimal taxes. The loss from this concession has been calculated to be LKR 94 billion per year. This is almost equal to the total tax of LKR 97 billion the treasury has gathered from all car imports annually. This has effectively reduced the average tax on large cars/SUVs over 1,500 cc to only 99%, whereas three wheelers have paid 132% tax, while motorcycles paid 96%. The concessionary permit scheme is an economic disaster as most people buy the most expensive vehicle available so that they get the highest benefit in terms of resale value. Moreover, such vehicles are heavy consumers of fuel thus creating more economic issues. Thus, it is imperative that the permit scheme be scrapped forthwith. This alone will clearly not be adequate to reduce importation of such expensive and fuel inefficient vehicles. As such the vehicle import tax structure needs to be readjusted urgently considering the fuel economy of vehicles. If any concession is to be offered, it should be for electric vehicles, for which a long-term incentive structure and policy framework should be developed simultaneously.

- Moratorium on Expressway Building:

Expressway building has contributed significantly to the intolerable debt accumulation. Moreover, the ones completed evidently have not contributed adequately to the economy to avert this crisis. The cost of the Southern Highway up to Galle completed in 2011 was only US\$ 7 million per km. But the construction cost of the Central Expressway-3 that is being hurriedly awarded now, is estimated at US\$ 42 million per km. The total cost of the spending on expressways since 2001 is around US\$ 7 billion (Kumarage, 2022). It is not hard to imagine overspending of at least US\$ 3 billion in building expressways which, at most carry just 3% of the country's traffic. This shows the scale of corruption and waste that has taken place. The road tolls being collected are barely adequate to recover their cost of operation

and maintenance, let alone repay the loans. This 'highway robbery' should be immediately halted by imposing a short-term moratorium for new road infrastructure until the planning and procurement process that has been systematically corrupted can be reverted.

- Invest on Public Transport, Walking and Cycling Infrastructure:

For decades public transport has been denied any significant funding. Even when it was finally decided in the last few years, attention has been placed on expensive metros, such as LRTs that Sri Lanka neither needs, nor can afford, at present. The current line of funding from the ADB for railway electrification should be expedited instead of pursuing more road projects. The Sahasara Bus modernization programme (Ministry of Megapolis and Urban Development, 2019) costing US\$ 500, for which low interest finance is readily available and cost less than 1/3rd of the US\$ 1,872 million the government is prepared to commit to building the 20 km Central Expressway-3, has been stopped by the Cabinet recently. This can modernise all the 25,000 buses in the country, connect them to an IT-platform, implement a different business model of paying bus owners for the km-operated, together with digital passenger information systems providing real time information and integrated mobility solutions from first/last mile modes made available from a single platform. It can improve the quality of at least 50% of all trips. Concessionary funding for climate change can also be sought urgently to modernize the entire bus service to what is enjoyed in many developed countries in just a short time, thereby reducing the use of private vehicles and reducing emissions of buses. This can then be integrated to the railway network and the same mobility eco-system through modern IT-systems. A car-free day celebrated in over 1,500 cities worldwide (Wikipedia) should be implemented as a symbol of policy change. The public transport in cities such as Colombo, Kandy, and Galle should be developed to convert these cities to global mobility standards and transit-oriented development strategies to create liveable and

green urban spaces that are in demand globally as high-end value adding locations.

- Improve facilities for Walking and Cycling:

For health reasons, more and more urban dwellers look for active mobility opportunities such as cycling and walking. Around 22% of all motorised trips in the Western Province are less than two kilometres in length and are thus walkable or cyclable if the correct infrastructure is provided (JICA, 2015). However, our roads are not provided with such space or safety facilities. We should begin to assign space to foot or cycle users as an immediate policy change at least where space can be provided. This will also be a cost-effective way to improve access to rail and bus transport which can expand to park and ride operations using cycles, particularly for semi-urban and rural areas. Developing sidewalks, pedestrian crossings, to be followed by cycle lanes and walkways, will only cost 1-2% of the annual spending on expressways and yet be used by many more people. Moreover, many countries open selected roads only for cycles and pedestrians on holidays and evenings, which has revived the local economy and created lively public environments. Short-distance food and other deliveries now handled by motorcycles should be incentivised to be moved to bicycles or electric-cycles.

- Reduce Vehicle Use and Manage Congestion:

Even with all of the above, those who have got used to private vehicles and have means of passing off higher fuel prices to others, will continue using their vehicles. However, this causes huge external losses when urban areas get congested especially during peak times. The Government should implement a multi-pronged approach to mitigate congestion, with measures such as imposing peak-period minimum passenger occupancy in selected traffic attracting areas such as Fort, Battaramulla and Nawam Mawatha, introduce bus priority lanes on major corridors, incentivising company transport services and ensure that all major roads are

kept flowing-free throughout the day using modern traffic management technology. It should seek the help of the environmental conscious younger generations to drive this initiative and move Sri Lanka to attain its optimum balance between vehicle use, land availability and environmental sustainability. In addition, work-from-home and compressed work weeks for others who physically report will be encouraged to reduce commuting trips. More reliable online services should be provided to eliminate unproductive physical travel. Delivery of goods will be limited to night-time along major corridors and congested urban streets. Speeds would be monitored to ensure minimum mobility levels are maintained and restrictions revised accordingly on a monthly basis.

B. Position Sri Lanka as a Modern Transport and Logistics Hub to fast-track economic recovery

The current economic crisis is an opportunity to break the many barriers that have long prevented Sri Lanka attaining its fullest economic potential. In the transport and logistics sector, Sri Lanka has stagnated under archaic regulations, inefficient suppliers, outdated delivery methods and technologies and lack of professionalism in management and leadership. Though most transport infrastructure is stagnant in under-capacity, Sri Lanka now has excess capacity in underutilised expressways, as well as some ports and airports. There should be a strategy to speedily use these for economic activities so that they are converted from being liabilities to opportunities for economic recovery by using modern management, regulation, and operation methods, supported by modern smart technology and analytics. Short-term initiatives include:

- Promote Digital Transformation in Transport, Logistics & Supply Chain Management:

The advances in smart technology is being used effectively in revolutionising the way passengers and goods move around the world and within cities. Industry 4.0/5.0

applications such as robotics, Artificial Intelligence, big data analytics, deep learning algorithms, together with optimization sciences, can be applied in stages to ensure that major cities in Sri Lanka and our distribution networks and supply chains become efficient. Targeted funding should be provided for the urgent development of these technologies for Sri Lanka to become a leading technology-based mobility solution provider. The fast-developing field of operations science would be encouraged and applied to integrate the domestic and international supply chains to fully exploit the advantages of Sri Lanka's geographical locations, which has become irrelevant. Only with such leap-frog initiatives in technology can Sri Lanka become a regional logistics hub, a dream that has eluded Sri Lanka for decades. This parallel development of goods and personal mobility will have spin-offs on many dollar earning industries such as tourism, manufacturing, financial services, and technology-based services. This will initiate a long-term economic development strategy in improving Sri Lanka's supply chain efficiency in both domestic and international trade.

- Reform and Restructure Transport Supply and Regulation:

All of the above requires the urgent modernisation of transport suppliers and the reform of regulatory agencies to become industry reformers from being gatekeepers and beneficiaries of the status capable of navigating the modern-day business environment. They should be led by proven sector experts. The focus should be on quality service provision, reduced carbon footprint and increasing fuel efficiency so that Sri Lanka moves specifically towards being able to certify its manufacturing industry well ahead of 2050 when global carbon neutral compliances is sought by Western countries (UNECE, 2022). Technology-driven innovations should be encouraged and rewarded

through competitions and contracts and assisted to become bankable business models. Regulation should be made to synergise the market forces and the civil society enthusiasm in developing lasting win-win solutions. Transport planning and investment should be made law and be integrated to energy policy and urban development plans and in each urban area, transport infrastructure and service provider should be made responsible for ensuring targeted efficiency levels in providing mobility and energy efficiency. Regular monitoring should be in place to identify good practices and to reward and replicate them across the country.

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