

Sri Lanka: Next Trade and Investment Destination in Asia



Presentation by Mr. M P T Cooray

May 2017

South Asian Region

A map of the South Asian region, including India, Pakistan, Bangladesh, Nepal, Bhutan, and Sri Lanka. The countries are color-coded: India is orange, Pakistan is purple, Bangladesh is purple, Nepal is green, Bhutan is green, and Sri Lanka is red. The surrounding oceans and parts of neighboring continents are shown in light blue and grey.

- ❖ Quarter of the World Population
- ❖ Accounts for 3% of global gross domestic product
- ❖ 1.9% of world exports
- ❖ 1.7% of world foreign direct investment
- ❖ Home for 40% of the world poor with
- ❖ 29.5% population living on less than a dollar a day

This is the region where Sri Lanka is located.

Sri Lanka in a Nutshell

❖ Demographics

- ❖ Home for 21.4 mn people

 - ❖ 90% is literate

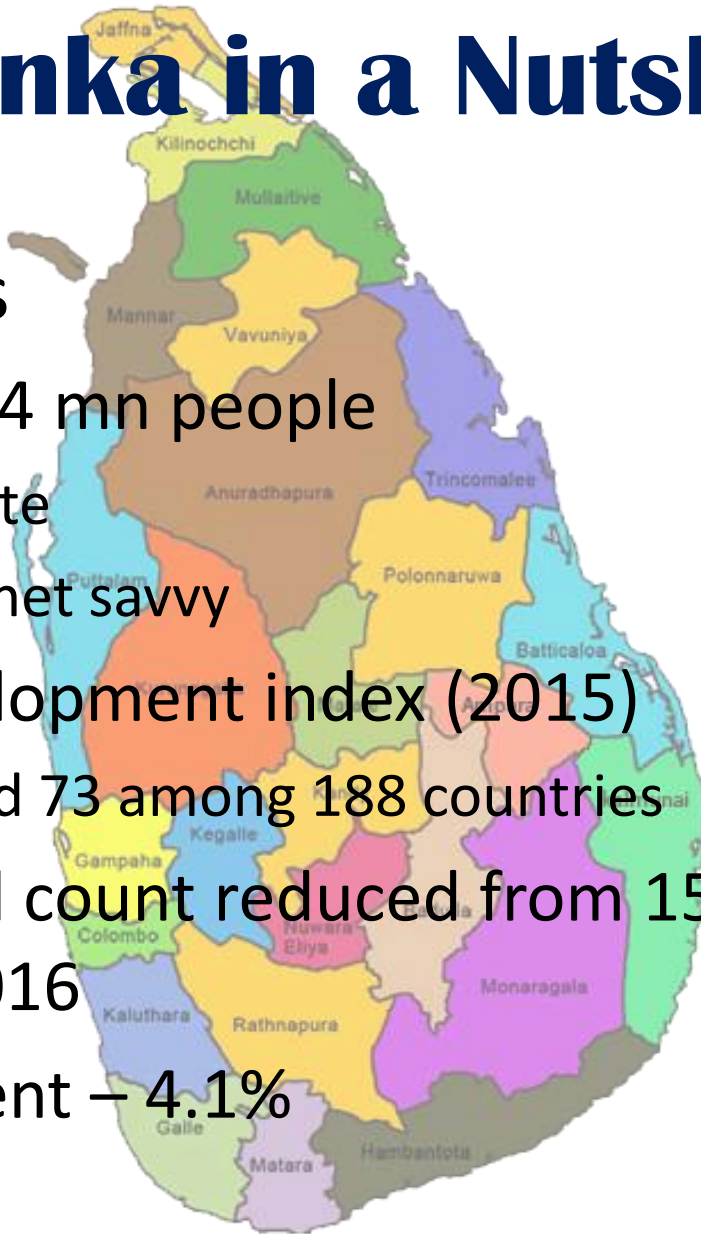
 - ❖ 70% is internet savvy

- ❖ Human Development index (2015)

 - ❖ 0.766 ranked 73 among 188 countries

- ❖ Poverty Head count reduced from 15.3% in 2006 to 4.1% in 2016

- ❖ Unemployment – 4.1%



Sri Lanka in a Nutshell

cont'd....

❖ Economic

❖ GDP 2017 – US\$ 87.2 bn

❖ GDP per capita US\$ 4065, a middle income economy

❖ GDP growth rate 3.1 (2017)

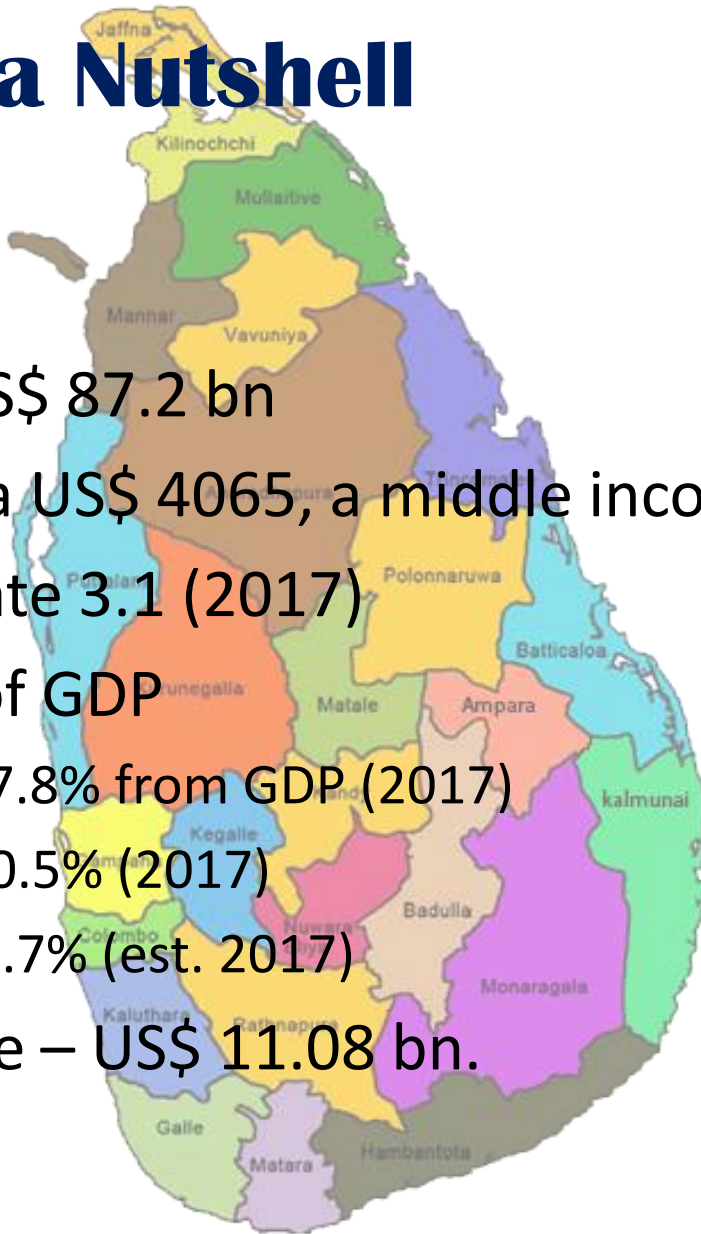
❖ Composition of GDP

❖ Agriculture 7.8% from GDP (2017)

❖ Industry 30.5% (2017)

❖ Services 61.7% (est. 2017)

❖ Export revenue – US\$ 11.08 bn.



What is being done to Sustain the favourable economic outlook

- ❖ Macro Economic Stabilization
- ❖ Better Integration to the Global Economy
- ❖ Improving Investment attraction and Business climate



Sri Lanka is on an Ambitious Trade Reform Agenda

- ❖ New Trade Policy
- ❖ National Export Strategy
- ❖ New Trade Facilitation
- ❖ New Maritime & Logistics policy
(under preparation)



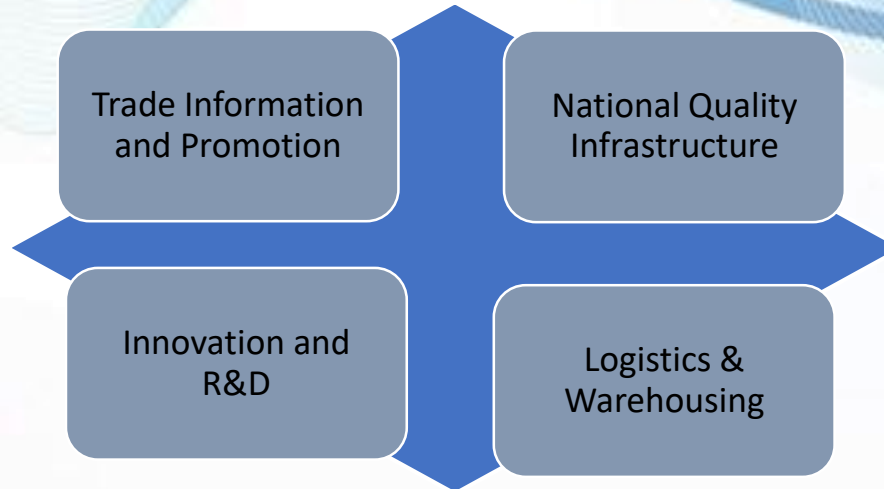
New Trade Policy

- ❖ Rationalization of trade regime by eliminating para tariff, specific tariff and consolidating tariff lines into 2 or 3 brands
- ❖ Strengthening and developing new institutional mechanism by reviewing current standards and further liberalization
- ❖ New comprehensive FTAs
- ❖ NES for export diversification
- ❖ More liberalized regime of trading services
- ❖ Liberalized foreign investment regime specifically targeting export seeking FDI
- ❖ Facilitation of trade and improve trade logistics and implementation of WTO Trade facilitation agreement
- ❖ Promote industries capable of integrating into global production networks
- ❖ Safeguard measures for protecting domestic industry from dumping and unfair trade practices.

National Export Strategy

Focus Trade Support Functions

Improved business environment for all export sectors through



Priority Sectors – selected by NES for Export Diversification

Boating Industry

Electrical & Electronic

Processed Food & Beverages

Spice & Concentrates

ICT/BPO

Wellness Tourism

Trade Facilitation

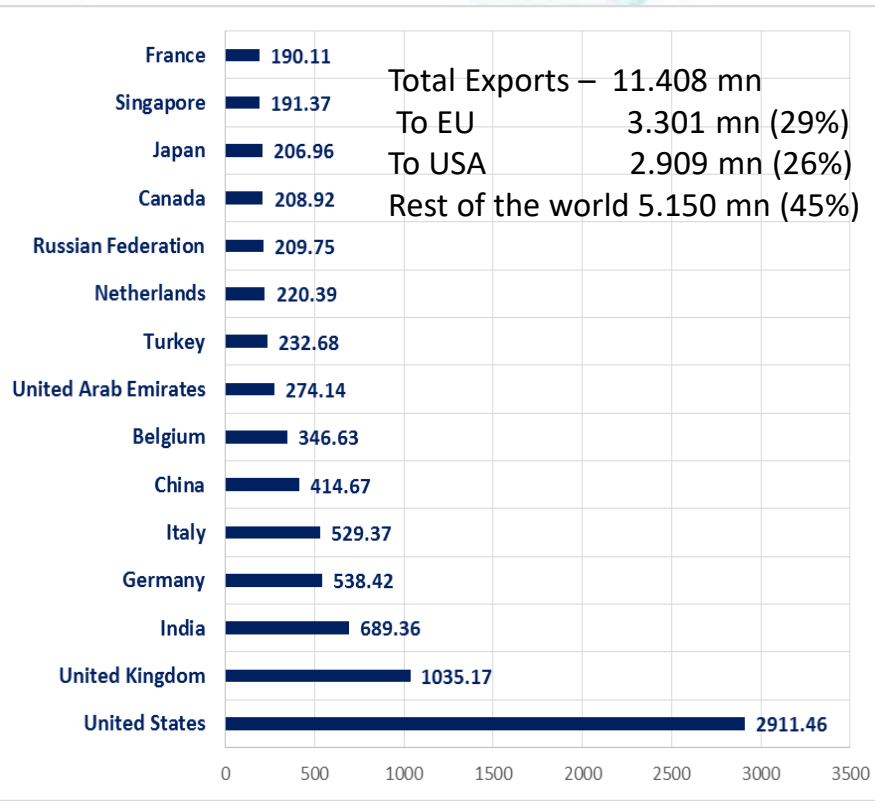
- ❖ Sri Lanka Ratified WTO Trade Facilitation agreement 31 May 2016. 81st WTO member to ratify
 - ❖ Expected to improve awareness
 - ❖ Reduce trade costs
 - ❖ Improve export potential
 - ❖ Improve FDI attraction
- ❖ Set up National Trade Facilitation Committee
- ❖ Launched National Single window system to streamline export and import documents

New Maritime & Logistics Policy **(under preparation)**

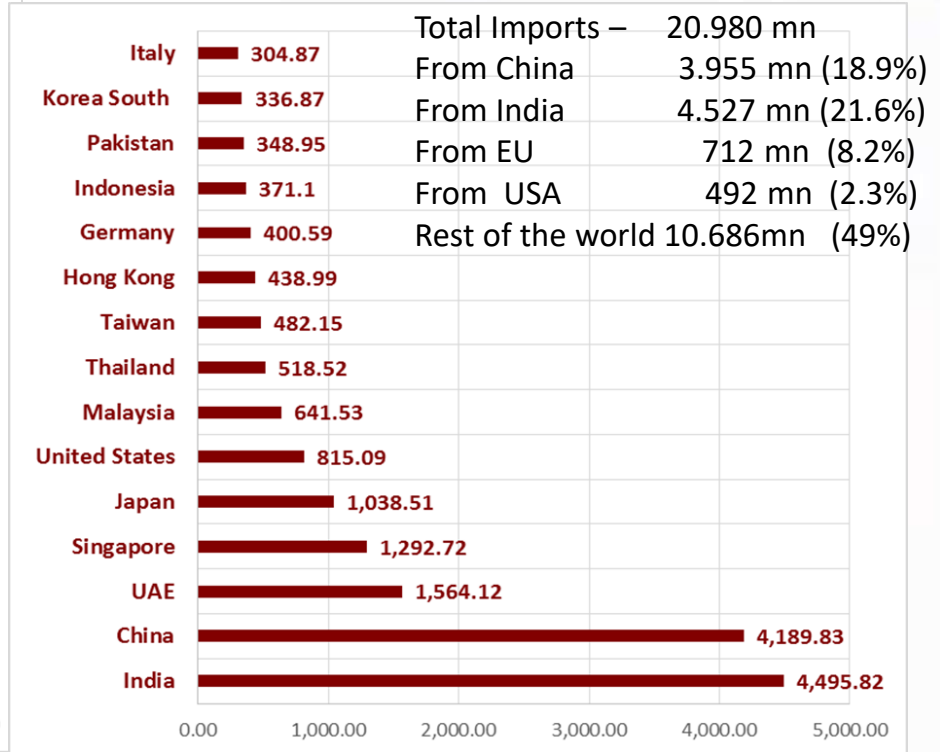
- ❖ Desire is to utilize locational logistic advantage of Sri Lanka and to develop new maritime hub with market driven policies and appointment of a regulator.
- ❖ Further liberalization of shipping, logistics and ancillary services are being thought of.

Sri Lanka as a Vibrant Trading Nation (US\$ mn)

TOP EXPORT DESTINATIONS



TOP IMPORT SOURCES



Source: Information Technology Division /Sri Lanka Export Development Board

Major Export Products

❖ Tea

- Cleanest Tea, ISO 3720 quality standards US\$ 1,512.41 mn

❖ Processed Food Products

- Fruits, vegetables, confectionery, beverages US\$ 114 mn

❖ Seafood

- 34 EU approved plants,
- Premium quality tuna
- 100% VMS licensed fishery vessels US\$ 255.65 mn

❖ Spices

- Nutmeg, Mace, Cardamoms,
- Ceylon Cinnamon, Essential oils US\$ 399 mn

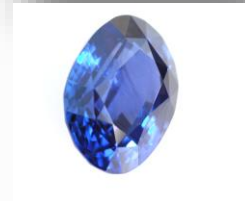
❖ Apparel

- Ethical Sourcing destination catering to all brands US\$ 5,015.12 mn



Major Export Products cont'd...

- ❖ **Rubber based products** - US\$ 873.34 mn
- ❖ **Gems & Jewellery**
 - Leading sapphire supplier US\$ 266.29 mn
- ❖ **Electronic & Electrical Sector**
 - Automotive Electronics, PCB Assembly, Consumer Electronics US\$ 353mn
- ❖ **Boat Building Sector** – US\$ 279 mn
- ❖ **ICT/BPO**
 - Leading brands are operated - US 1.2 bn
- ❖ **Construction Service Sector**
 - Designing, system planning, project management, green construction US\$ 60 mn



Free Ports & Bonded Areas

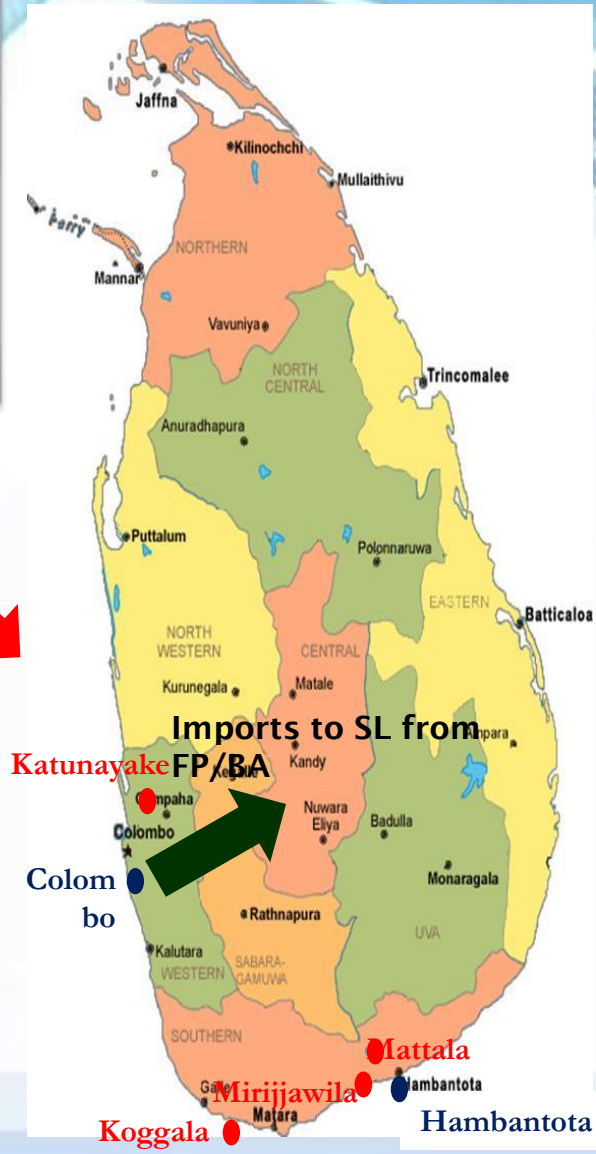
- What are Free Port (FP) & Bonded Areas (BA) for the purpose of Finance Act 12 of 2012 ?

Areas “which are geographically inside Sri Lanka but are legally considered outside its customs territory”.

- Entrepot Trade
- Offshore business
- Front end services
- Operations of the Headquarters

Imports to FP /BA

Exports from FP/BA



- Admissions into FP/BA TZ :
Duty Free
- Exports from FP/BA :
Duty Free
- Imports to Sri Lanka from FP/BA :
Dutiable

An Investment Regime

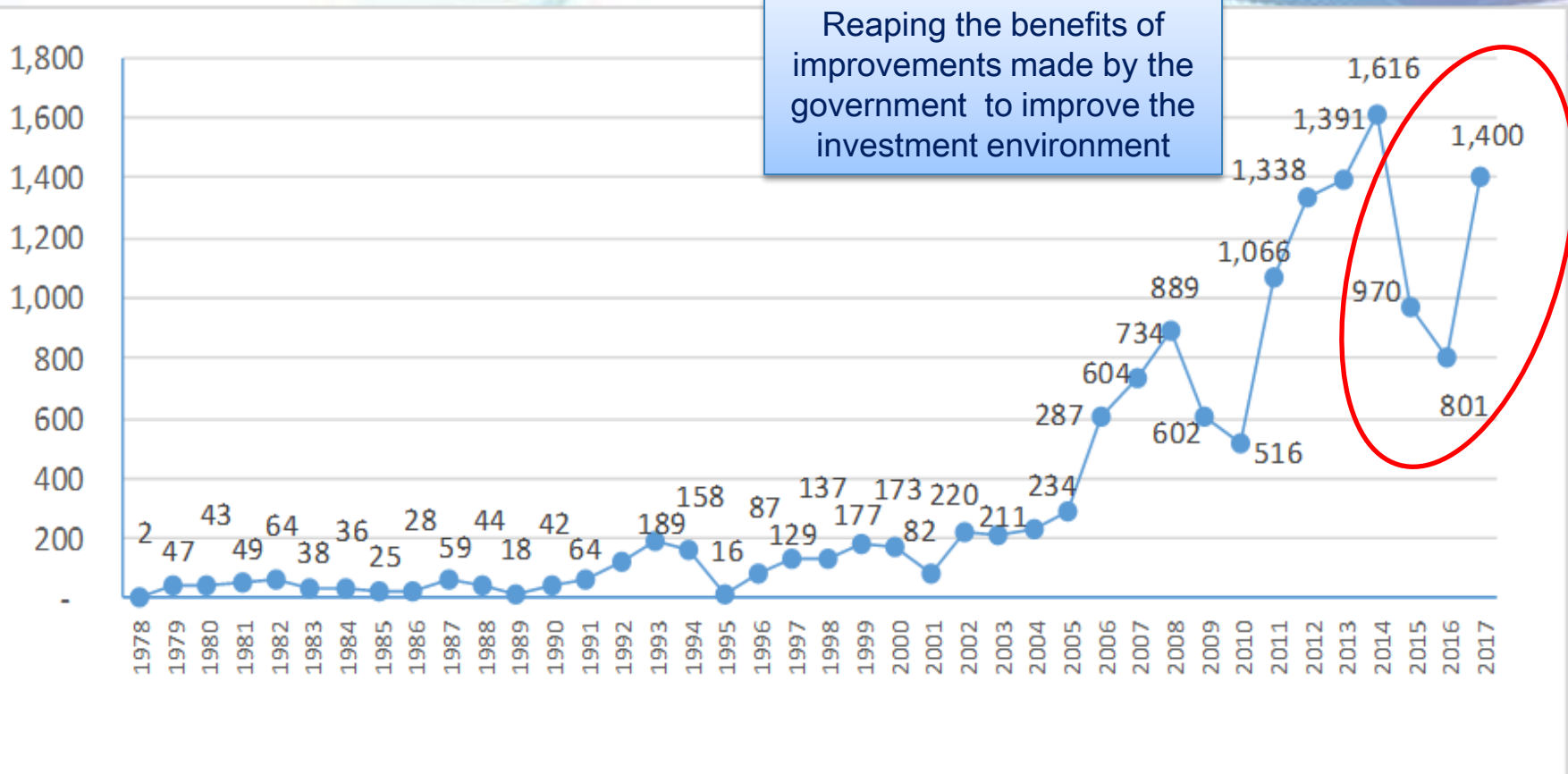
Importance of FDI

eg. To achieve : 7% GDP growth rate per annum

Economic indicator	2007-2016 (Actual)	2020 (Targets)
GDP Growth – Average	5.9%	7%
National Investment – Average (as a % of GDP)	30.8%	35%
National Savings – Average (as a % of GDP)	26.8%	30%
FDI – Average (as a % of GDP)	1.65%	4 - 5%

FDI Trends – 1978 to 2017

USD Mn



Strategies for New Investments

A) Identification of
Target sectors

Identified
priority
Manufacturing &
Services sectors

C) Policy &
Regulatory
Reforms

To improve policy &
regulatory environment
To offer predictability &
sustainability

B) Identification of
Lands for New
Zones
development

Initiate Establishment
of New Zones

Identified 14 priority sectors

Comprehensive
Analysis on all
private sector
activities

Manufacturing Sector

- Electronics
- Industrial Machinery
- Automotive
- Electrical Equipment
- Fabricated Metal products
- Food Products
- Medical Devices
- Basic Metals
- Pharmaceuticals
- Mineral Products

Service Sector

- IT & Software Development
- BOP/KPO
- Tourism
- Education

Sub Sectors

- Solar Cells and related, Printed circuits
- Production machinery, valves, pumps
- Auto parts
- Electricity panel boards, insulated wires
- Screws, bolts, washers, nuts
- Structural metal products
- Fruits and vegetable processing, dairy

Policy & Regulatory Reforms

Policy Reforms

- ❖ Consistent & Transparent Investment Policy
- ❖ Moved away from Traditional Incentives of granting Tax Holidays
- ❖ New Tax Incentive Regime based on Capital Formation in par with international best practices

Regulatory Reforms

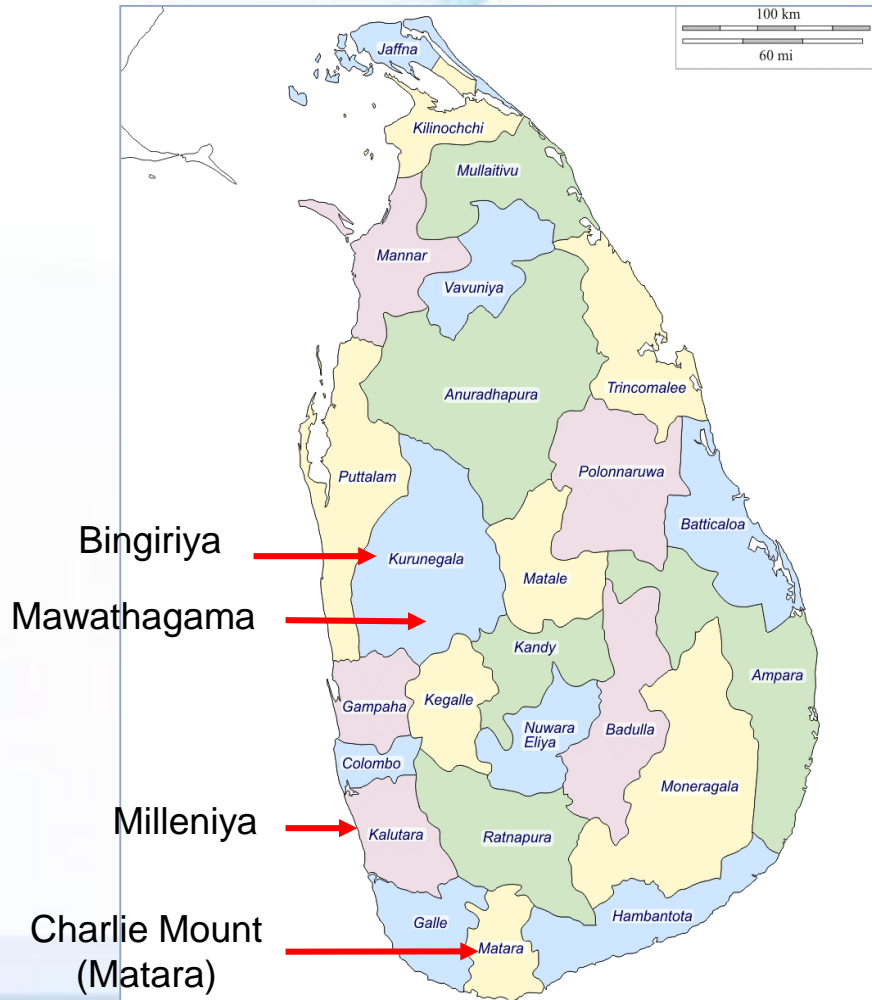
- ❖ New Inland Revenue Act No. 24 of 2017
- ❖ New Foreign Exchange Act No. 12 of 2017
- ❖ Amendments to Land (Restriction on Alienation) Act No. 38 of 2014

New Improved Co-ordination

- ❖ Improved Line Agency Co-ordination through Single Window (SWIFT)

Development of Infrastructure

Proposed New Economic / Industrial Zones



- Budgetary allocation USD 2.5 Bn for development of new zones
- Along with Line Agencies, BOI to provide off site infrastructure
- Investor to develop the zone on PPP basis
- Joint promotion to attract investors by developer and BOI

Investment Promotion & Protection

Double taxation avoidance agreements

Bilateral Investment Promotion & Protection Treaties

1	Australia	15	Korea, Republic of
2	Belgium-Luxembourg	16	Kuwait
3	China	17	Malaysia
4	Czech Republic	18	Netherlands
5	Denmark	19	Norway
6	Egypt	20	Pakistan
7	Finland	21	Romania
8	France	22	Singapore
9	Germany	23	Sweden
10	India	24	Switzerland
11	Indonesia	25	Thailand
12	Iran, Islamic Republic of	26	United Kingdom
13	Italy	27	United States of America
14	Japan	28	Viet Nam

1	Australia	23	Netherlands
2	Bangladesh	24	Norway
3	Bahrain	25	Oman
4	Belgium	26	Pakistan
5	Canada	27	Philippines
6	China	28	Poland
7	(Czech Republic)	29	Qatar
8	Denmark	30	Romania
9	France	31	Russia
10	Finland	32	Saudi Arabia
11	Germany	33	Singapore
12	Hong Kong	34	Sweden
13	India	35	Switzerland
14	Indonesia	36	Thailand
15	Iran	37	U.A.E.
16	Italy	38	U.K.
17	Japan	39	U.S.A
18	Korea	40	Vietnam
19	Kuwait	41	Seychelles
20	Malaysia	42	Belarus
21	Mauritius	43	Palestine
22	Nepal	44	Luxembourg

Opportunities in Colombo International Financial City (CIFC) (CIFC)

- ❖ The Colombo International Financial City (CIFC); A Special Financial Zone that Is planned to become an Offshore Financial Centre.
- ❖ Already attracted numerous investors from all over the world.
- ❖ 60% of reclamation work is completed
- ❖ The Colombo Port City when completed would see an investment of Us\$15 Billion
- ❖ 83,000 new employment opportunities

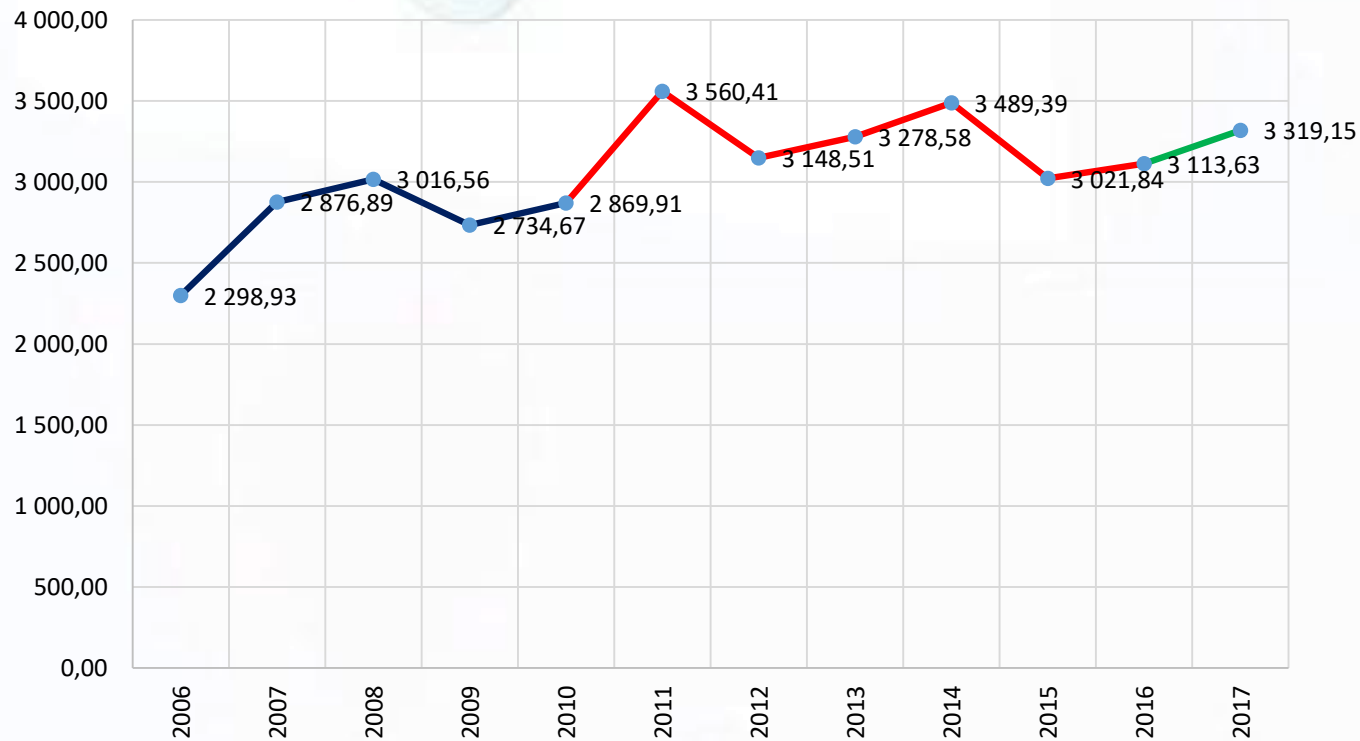


Importance of EU Market

- ❖ EU is already an important trading partner to Sri Lanka as an export destination
- ❖ Significant FDI contributor
- ❖ It offered unilateral non reciprocal trade preferences known as GSP+ in recognition for the commitment of good governance, human rights and rule of law

Exports to EU

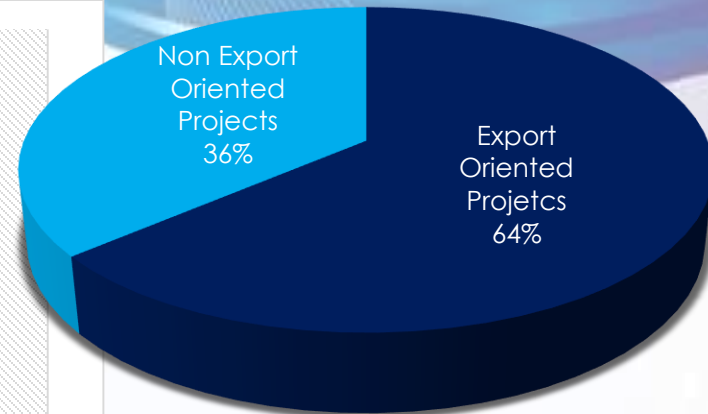
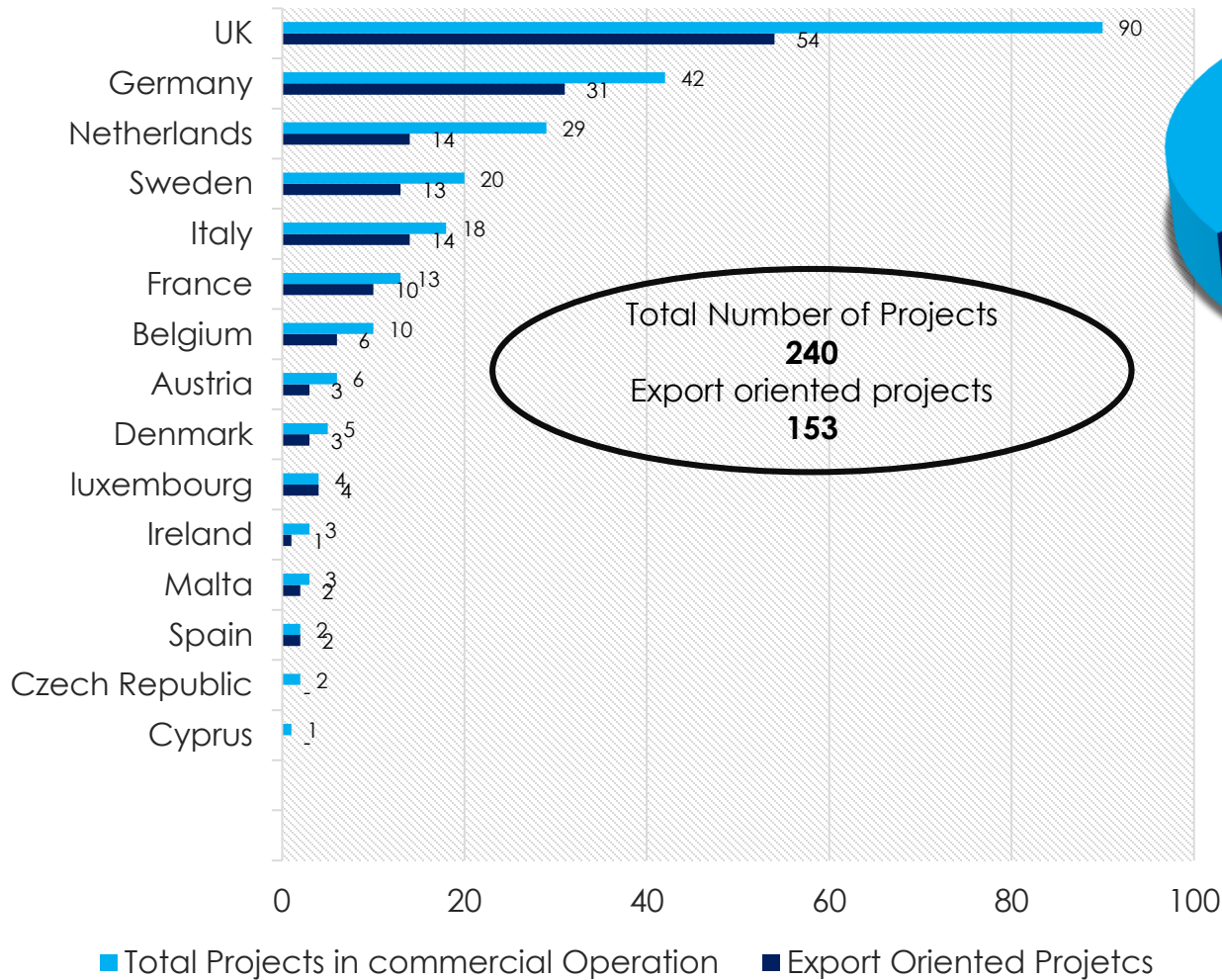
To the EU 2006-2017 (US\$ Mn)



In 2017 EU market share was 29% percentage of total exports of Sri Lanka

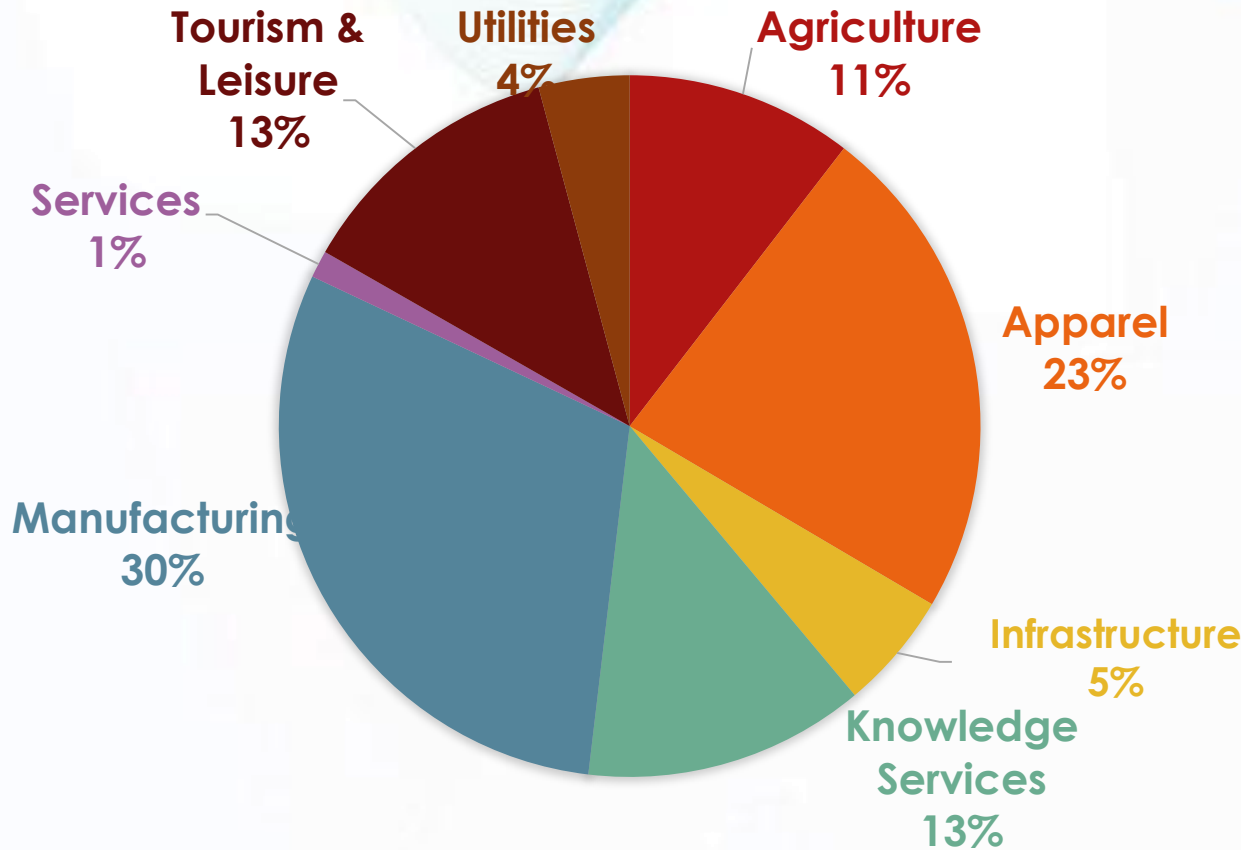
Source: SL Custom Returns/ITC

Investment Projects from EU (In Commercial Operation)



- UK is the major source of investment from EU followed by Germany, Netherlands, Sweden, Italy etc.
- 64% of projects are from manufacturing, Apparel & Agro Processing sectors while 36% projects are from other sectors such as infrastructure, utilities, hotels etc.
- 30 more pending projects from EU of which 13 are export-oriented.

Investment Projects from EU – Sector wise (240 Projects in Commercial Operation)



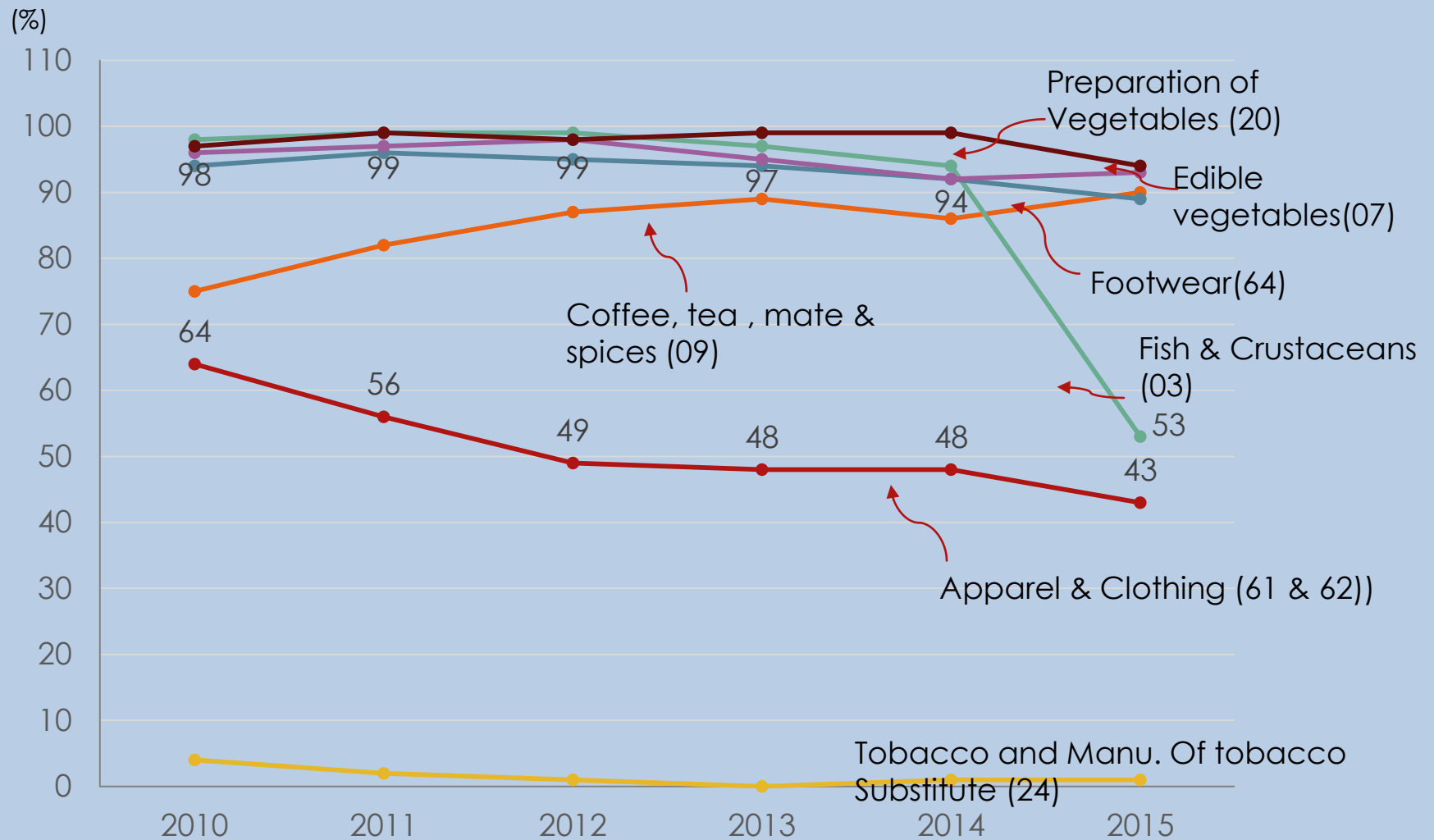
**Manufacturing
Including Apparel
and Agro Processing
projects represents
64% of total EU
Projects**

EU GSP+ and what it means to Sri Lanka

HS code	Product Description	MFN Tariff Range	Tariff range under Standard GSP	Tariffs under GSP Plus
61	Knitted and Crocheted Apparel	8.9% - 12%	7.1-9.6%	0%
62	Woven Apparel	8.9% - 12%	7.1-9.6%	0%
40	Rubber & Articles	0% - 4.5%	0%	0%
03	Seafood	7.5% - 18%	2.6-14.5%	0%
87	Vehicles other than railway	1.7% - 15%	0-10.5%	0%
85	Electrical machinery & equipment	2.1% - 3.7%	0%	0%
21	Miscellaneous edible preparations	0% - 14%	0% - 9.8%	0%
63	Other made-up textile articles	2% - 12%	1.6% - 9.6%	0%
95	Toys games & sports items	1.7% - 4.7%	0% - 1.2%	0%
64	Footwear	3.5% - 17%	0% - 11.9%	0%

How EU GSP+ works in Sri Lanka

Utilization Rates of Major Sectors



Potential Products for Sourcing & FDI

Chapters	Description	Duty Rate (approx..) - %	
		MFN	GSP ⁺
61 & 62	Apparel & Clothing	11.6	0
9	Coffee, Tea, Mate and Spices	7.1	0
24	Tobacco and manufacture tobacco substitutes.	22.8	0
3	Fish and crustaceans	12.3	0
64	Footwear, gaiters and like products	10.2	0
7	Edible vegetables	10.8	1.5
20	Preparation of vegetables, fruits,	33.8	3.3
16	Preparation of meat of fish	17.7	0
15	Animal or vegetable fats or oils	7.1	0.4
6	Live trees and other plants, bulbs, roots	6.3	0
69	Ceramic products	4.9	0
40	Rubber and articles	2.4	0
57	Carpets and other textile floor covering	7.6	0
44	Wood and articles of wood	4.3	0
71	Natural or cultured pearls, semi precious stones.	3.1	0

ON TRADE

- ❖ It offers market access to USA through GSP
- ❖ To EU through GSP+
- ❖ To the region through bilateral and multilateral trade agreements with China, India, Singapore, Pakistan, APTA, AFTA, SAPTA
- ❖ In future to Thailand, Malaysia and Bangladesh

ON INVESTMENT

- ❖ Through a predictable fiscal environment
- ❖ A clear FDI entry policy
- ❖ Liberalized predictable international payment regime
- ❖ And protection through Investment promotion and protection agreements and double taxation avoidance agreements
- ❖ Therefore I invite all of you to look at Sri Lanka as a sourcing destination and as an investment destination. I am sure you will not regret and will be fascinated by Sri Lankan hospitality



Thank You