

Sri Lanka: Asia’s emerging wonder

Decades of excellent political and trade relations between Sri Lanka and Japan are being reinforced in the light of a newly stable nation determined to shine.

With a peaceful domestic environment, business-friendly government policies and improved investor confidence, Sri Lanka has enjoyed economic growth averaging a rate of 8 percent since the civil war ended three years ago, largely on the back of a booming services sector and increasingly strong industrial sector.

Situated at the crossroads of major shipping routes connecting South Asia, the Far East and the Pacific with Europe and the Americas, the beautiful country is located next to the fastgrowing Indian subcontinent with close proximity to Southeast Asia and the Middle East. It boasts more than 100 weekly flights to India alone.

As well as excellent transport links, Sri Lanka is also connected to the SEA-ME-WE 3 and 4 (South East Asia – Middle East–West Europe) fiber-optic communication backbone. Such excellent connectivity and resources are buoying a government determined to build a strategically important economic center by developing five specialist hubs for knowledge, commerce, naval and maritime services, aviation and energy.



Basil Rajapaksa
Minister of Economic Development

and made sure our tea goes out as Sri Lankan tea. We are doing the same with our cinnamon.

“Our apparel industry is growing very fast: in the past, we used to do the tailoring, now we also produce the raw material. When the war ended in 2009, we knew we had to invest in tourism. Sri Lanka has so much to offer — beaches, jungle, safari and heritage, to name a few attractions.

“Tourists want a special type of hotel and food. Unfortunately, we still haven’t developed that, so we are now inviting Japanese investors to help us achieve that goal.

“We launched a promotional campaign in Japan with



Nishantha Wickremasinghe
Chairman, Sri Lankan Airlines

tea. Japan recognizes our reconciliation process and economic development.”

Rebuilding a nation

Today’s Sri Lanka is all about rebuilding, whether it be in the form of international relations, infrastructure or investor confidence. Gotabaya Rajapaksa, Secretary to the Ministry of Defense and Urban Development, explains what is happening.

“When peace came to Sri Lanka, windows of opportunity began to present themselves. Many investors suddenly had an interest in Sri Lanka, and tourism improved. A lot of money was put into infrastructure and many roads and bridges have been built. A complete transformation has taken place.

“We have many opportunities such as fishing and the agricultural industry. Our land is unpolluted, so there are excellent possibilities for those wishing to cultivate organic food. Sri Lanka is also ideal for renewable energies.

“Many investors have started building condominiums and developing real estate projects. There are shortcomings in our capital, Colombo, and we have received a \$270 million loan from the World Bank to make it more people-friendly. There are also great opportunities in the transport sector.”

Airport and Aviation Services (Sri Lanka) Ltd. (AAS) is among the country’s top profit-making blue-chip companies. A state-owned entity, AAS is marching

toward making Sri Lanka an aviation hub for the region. Responsible for Bandaranaike International Airport (BIA) in Colombo, and 13 other domestic airports, the company is delighted to have received JICA funding for BIA’s development.

“BIA’s capacity is currently around 6 million passengers a year and 250 metric tons of cargo. It has reached saturation point and become a priority to double passenger capacity there, as well as expanding all Sri Lankan airports. I am happy to note that we are working very closely with the Japanese government and have been working with Japan since our inception,” says AAS chairman Prasanna J. Wickramasuriya.

JICA is funding the second phase of the BIA’s development, a ¥29 million (\$370,000) project. The estimated completion time is 2015, so there are plenty of chances for Japanese investors to get involved. Tenders will be published soon.

“We are also building another international airport in the south, in Hambantota, that will add a million passenger capacity initially and will be open early next year. This will be a great entry point for tourists who will have easy access to Yala National Park, the surfing area at Arugam Bay and tea plantations at Nuwara Eliya. We will add another 5 million capacity to that airport by 2017. So in total the country will have an 18 million passenger capacity and 450,000 metric tons of cargo.”

The AAS chairman goes on to explain that the Hambantota Airport will be linked to Hambantota Port, which offers a number of opportunities for

cargo shipping.

“We will have a free zone, and welcome Japanese companies to bring their light, medium and heavy industries here to take full advantage of these facilities.”

AAS is also developing more private aircraft facilities. “We have seen a 28 percent rise in the use of private planes so are planning to ease the traffic by building a new airport close to Colombo specifically for smaller aircraft,” Wickramasuriya says.

The company has identified some key sectors within the aviation industry that it will be focusing on in terms of industry, such as airplane maintenance, aircraft painting, a flying academy and other light aircraft industries. It is also looking to develop leisure and residential areas and hotels to cater for passengers.

“Airports can’t operate in isolation but have to operate as cities, so I would also like to mention that at BIA we are looking to develop shopping malls and hotels as we know the importance of creating revenue from non-airport services,” Wickramasuriya says.

“We would like to develop in a similar fashion to the Japanese airports I had the pleasure of visiting recently. Meanwhile, because of our strategic geographical location, we can shorten flight routes to Africa from Asia, thereby cutting fuel costs and bringing big savings to the airlines.”

One of the priorities for Nishantha Wickremasinghe, chairman of Sri Lankan Airlines (SLA), is to persuade Japanese tourists flying to Male, the Maldives’ capital, via Colombo, to spend a few days in the city.

“We are Male’s official carrier

‘When peace came to Sri Lanka, windows of opportunity began to present themselves. A complete transformation has taken place.’

Gotabaya Rajapaksa
Secretary to the Ministry of Defense and Urban Development

‘We will soon have a free zone [at Hambantota Airport] and welcome Japanese companies to take full advantage of these facilities.’

Prasanna J. Wickramasuriya
Chairman
Airport and Aviation Services (Sri Lanka) Ltd.

and take 70 percent of tourists there,” he says. “They may have the beaches, but we have some of the best surfing in the world at Arugam Bay. SLA has a vital role in developing tourism. We have been invited to join a prestigious frequent flyer program with Cathay Pacific, our destinations are improving and we are investing in both technology and new aircraft.

“We are keen to increase the frequency of destinations so that we have daily flights to all our major links. We will soon have direct flights from Narita to Colombo. To build a market, you must have a presence there.”

Insuring the nation

Thanks to a strong economy and a robust financial sector, the middle-income country is now seeing a rise in demand for insurance services. The state-owned Sri Lanka Insurance Corp. (SLI), which celebrates 50 years in business this year, grew by a staggering 36 percent between 2009 and 2011.

“You have to be innovative,” says Mohan De Alwis, managing director and CEO of SLI. “When I took over in 2010, we noticed that some of the larger businesses in the financial sector were working in isolation. We saw that if we got into strategic partnerships we could do very well, so we partnered with National Savings Bank, Bank of Ceylon, Sri Lanka Telecom and some large leasing companies. We use their databases and their branches to target clients.

“These synergies have been extremely successful and we have been the leader in our field since then. Our tagline is: Insurance for all because we

want to penetrate every area. As I said earlier, penetration here is very low so we want to cover everything and go to the masses.”

The dynamic company has also been expanding overseas, with one branch set up in the Maldives and in another country to be opened by 2015. It is also looking for strategic foreign partners.

As De Alwis says: “We deal with all ethnic groups. We have got eight new branches in the north and are building up branches in the east. We are absolutely happy and I think the facts speak for themselves in terms of how we perform professionally. Three years down the road, there have been no issues. As more and more people come into Sri Lanka, the true message will go out. This is a beautiful country, with lots of opportunities. We have a highly literate population and there is huge knowledge in the ICT sector, which is a plus for any investor.”

Indeed, IBM has been doing business in Sri Lanka for more than half a century, and a digital revolution is now on the horizon. For Lalith De Silva, CEO of Sri Lanka Telecom Mobitel, links with Japan have been a crucial part of the telecoms landscape.

“When Sri Lanka Telecom was privatized in 1997, Japan’s NTT took shares and invested a lot while bringing the right skills to the country,” he says.

“In that time, we have built a very strong added-value service portfolio. We are actively improving the lives of Sri Lankan citizens, particularly in the rural areas. We want to ensure our customer platform is No. 1 and to become an enterprising solution provider.”

SRI LANKA'S INTERNATIONAL GATEWAYS

Bandaranaike International Airport - Phase II



Hambantota International Airport - Opening Soon





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Sri Lankan commerce soars

A booming industrial sector is helping to turn Sri Lanka's fortunes around, with Made in Sri Lanka-stamped exports now reaching ever wider markets.

With tempting government incentives and major investment in infrastructure contributing strongly to investor confidence, progress is now being made in all sectors. Peace, and a renewed sense of national unity, also enabled growth last year to hit its highest level since the country became independent from Great Britain in 1948, with an impressive rate of 8.3 percent.

Export remittances exceeded \$10 billion in 2011, tourism numbers surpassed 850,000, and the IMF (International Monetary Fund) has praised Sri Lanka's economic performance. The country is undoubtedly in excellent shape today, and ripe for new business, with foreign direct investment expected to surge to \$2 billion this year.

For Rishad Bathiudeen, Sri Lanka's minister of industry and commerce, there are still bottlenecks to growth, including the recession in major markets and a dependency on international oil imports—but he outlines a confident strategy to attract more FDI.

"Industrial exports have accounted for 74.2 percent of our total exports this year so far. That shows the growing importance of our industrial sector, which now makes up more than 30 percent of our GDP (gross domestic product)," he said.

"Thriving industries include apparel, rubber products, gems and jewellery, IT/BPO services, tourism, urban commercial and leisure real estate and property developments, marine and ocean-related services, shipping and logistics, among others. The



Rishad Bathiudeen
Minister of Industry and Commerce

SME sector has also become the backbone of our economy, representing 70 percent."

As the potential economic hub of Asia, Sri Lanka also boasts skilled human resources, wide use of the English language, a friendly population, an investment-friendly, open economy, stability, bilateral investment protection agreements with 27 countries, double-taxation avoidance agreements with 38 countries and tax incentives for strategic development projects.

Tax holidays range from four to 12 years, and there are safeguards in place for expropriation and non-commercial risks thanks to Sri Lanka's membership in the World Bank's Multilateral Investment Guarantee Agency. The Board of Investment (BOI) which comes under the Ministry of Economic Development's umbrella, is a specially instituted focal agency for foreign investors.

"Sri Lanka now ranks 52nd in the Global Competitiveness Rankings and its strategic

location as a hub in the Indian Ocean to West Africa, South Asia and Southeast Asia makes it highly competitive to other regional economies," Minister Bathiudeen suggests.

Powering the economy

Much is also being done to ensure the country's energy future, as Bathiudeen explains: "Sri Lanka has a total installed electricity capacity of about 2,700 megawatts of which 49.5 percent is thermal power and 50.5 percent is hydropower. Some 5 percent of the FDI received in 2011 went to the power sector.

"Sri Lankan energy use per capita stood at 318 kilowatts per person in 1989; by 2009 it had increased to 449 kW per person. With the increasing demand, total primary energy requirement is expected to increase to about 15,000 kilo-tons oil equivalent by the year 2020 at an average annual growth rate of about 3 percent. These numbers signify that energy use has increased across all sectors in the country.

"A total of 48,000 industrial power connections were active in 2010 and power demand for industries from the Ceylon Electricity Board alone increased by 14 percent, while Lanka Electricity Co. separately reported 10.1 percent demand growth from industries.

"Since December 2011 and with a \$39,500 investment, my ministry has implemented much-needed industry grade energy efficiencies at factory level, using the public-private partnership (PPP) model. We

are targeting to reduce industrial energy consumption by 10 percent initially.

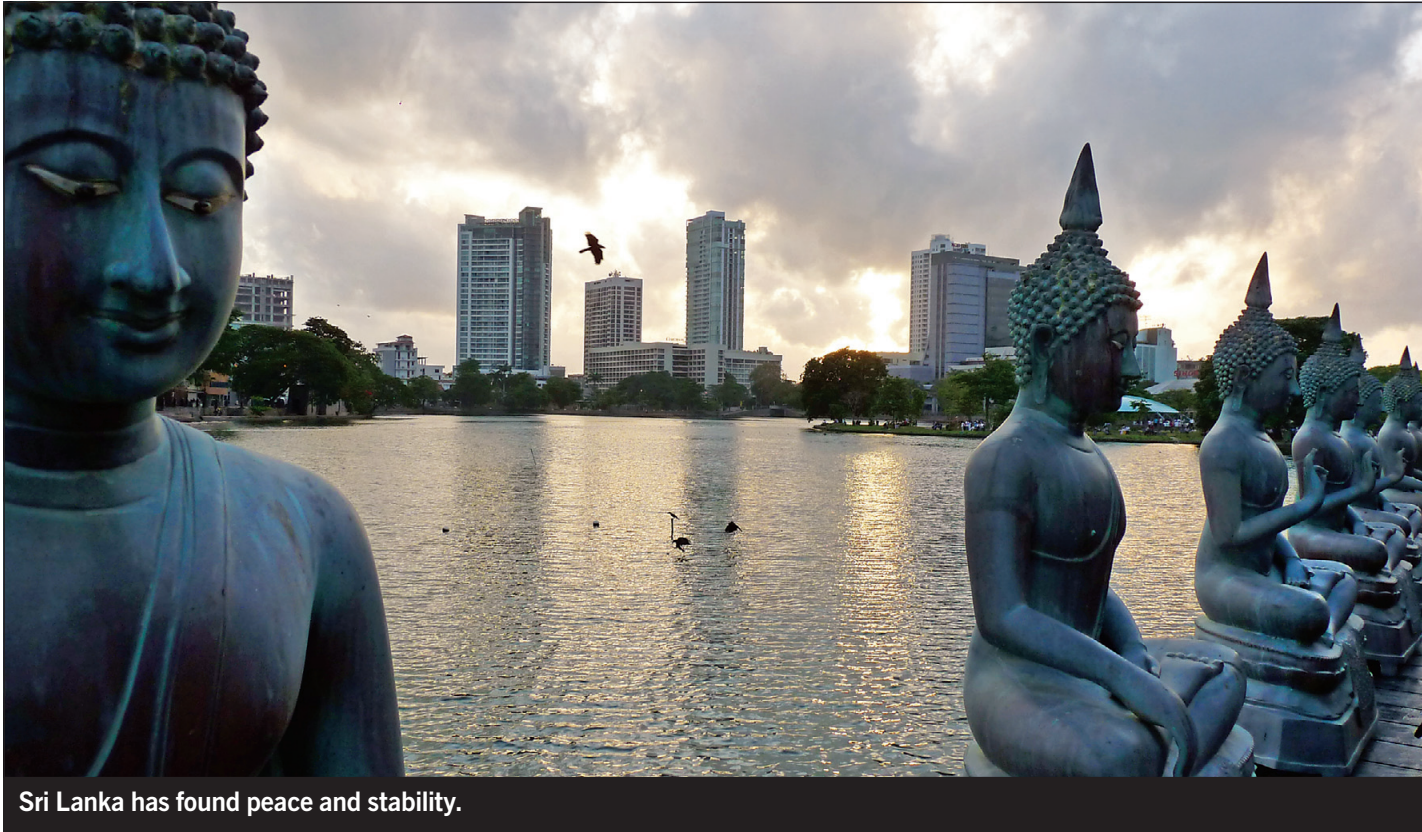
"It's also time for alternative energy. We support the latest initiative by the United Nations Industrial Development Organization (UNIDO) in Colombo for their hydrogen fuel pilot project in Sri Lanka. I believe that successful application of hydrogen fuel in the transport sector could lead us to use it for our industrial energy supply so that our manufacturing costs could be lowered, thereby giving us a cost advantage in international markets."

The Japanese factor

Sixty years of diplomatic relations between Japan and Sri Lanka have had a huge impact on the latter's socioeconomic development. Bathiudeen explains that Japan has also been a key trading partner and a generous donor.

"We remember with the highest regard and gratitude the multitude of crucial Japanese assistance extended to Sri Lanka, among them the granting of the first island-wide TV network Rupavahini, the strengthening of Sri Lanka Telecom, a grant for Sri Jayawardanapura General Hospital, and grants to develop various road networks, and enhance education and academic scholarships. These have been solid pillars of generous Japanese assistance to Sri Lanka," he says.

"The total trade turnover, which stood at \$493 million in 2002, increased to \$1,249.03 million in 2011.



Sri Lanka has found peace and stability.

"Although the balance of trade with Japan is unfavorable to Sri Lanka, due to imports of high-value motor vehicles, total trade significantly dropped in 2009 due to the impact of the global recession, but increased in 2011. Tea has been the main export item from Sri Lanka to Japan, and accounted for 29.8 percent of the total value of exports to Japan in 2010."

Other Japan-bound goods include shrimps and prawns, apparel and clothing, precious and semi-precious stones, natural rubber, machine parts and accessories, brooms and brushes, tires, vegetables, fruit and nuts. Bathiudeen continues: "Imports of motor vehicles from Japan accounted for more than 50 percent of the value of total imports from Japan in 2010.

'The total trade turnover, which stood at \$493 million in 2002, increased to \$1,249.03 million in 2011.'

Rishad Bathiudeen
Minister of Industry and Commerce

Other import items from Japan include electrical machinery, self-propelled bulldozers, iron or steel, parts and accessories of motor vehicles, etc.

"In 2009, the value of total imports from Japan to Sri Lanka was the lowest value since 2002, but it increased in 2011 due to the duty reduction.

"Since 1996, a number of large multinational conglomerates including NTT, Mitsui Group, Kawasho Corp. and YKK have committed substantial investments in large infrastructure and manufacturing projects.

"At the same time, existing Japanese enterprises in ceramics, Noritake Lanka Porcelain, Dankotuwu Porcelain

(International Ceramics Corp. of Japan), and Dainichi Creations Lanka; and in electronics, FDK Lanka (Fuji Electro Chemical), have expanded their investment in Sri Lanka.

"There are already 60 Japanese enterprises operating in Sri Lanka under the BOI with a total investment of \$350 million, providing more than 12,000 people with employment."

A free trade agreement between the two countries is also under negotiation, and there is widespread upgrades of technology and equipment under way.

A new chapter has opened up for Sri Lanka, and it will be the savvy investor that reaps such exciting potential rewards.

This report was produced by Global Insight and can also be read online at: www.japantimes.co.jp/international-reports

'Made in Sri Lanka' products cause a stir in world export markets

Thanks to a diverse range of high-quality products—from apparel to tea, and fruit to fish—and a renowned openness to enterprise and doing business, Sri Lanka is enjoying outstanding success in export markets. In this report, Global Insight investigates the work of the Sri Lanka Export Development Board, focusing on the mutually beneficial relationship enjoyed by Sri Lanka and one of its strongest and most solid trade partners, Japan.

Sri Lanka and Japan are maintaining a historical relationship in the fields of politics, culture, trade and economics. Diplomatic relations between the two countries were established in 1952, and since then, have nurtured a long-standing relationship that dates back many centuries.

Sri Lanka was one of the first countries in the world to receive technical assistance from the Japan International Cooperation Agency (JICA), and the Asian powerhouse has helped Sri Lanka develop large-scale infrastructure projects, power and energy plants, health and educational services and initiatives, TV and information technology networks, and other activities.

"Japan has been a major trading partner for us since our economy was liberalized in 1977," says Janaka Ratnayake, chairman and chief executive of the Sri Lanka Export Development Board. "It maintained a leading role in total trading activities for 20 years, after which it was superseded by India. Japan is still the third-largest market for Sri Lanka in Asia—after India and Singapore—and was our 10th largest export market in 2011.

"We exported black tea, apparel, shrimps and prawns, ceramic and porcelain, coconut products, rubber and rubber products, gems and jewelry and food items to Japan at a value of \$224 million in 2011. And we expect to increase this to \$1 billion in 2015."

The Export Development Board promotes the following products for export to Japan:

- "Ceylon Tea" (value-added and bulk)
- Sri Lanka apparel and accessories
- "Ceylon Cinnamon"
- Gems and jewelry including "Ceylon Sapphire"
- Rubber products including industrial and surgical gloves, auto parts, and tires and tubes
- Porcelain, ceramic items and minerals
- Electronic apparatus, chips, etc.
- Wooden and educational toys
- Activated carbon
- Coconut, desiccated coconut, cream and milk powder
- Coir, coir dust and thawashi brushes
- Confectionary and processed food
- Fruit, vegetables, vegetable fats and oils
- Cut flowers and foliage
- Ornamental fish
- Ayurvedic, herbal and organic products
- Spices and essential oils
- Beverages, such as Sri Lankan arracks and beer
- Sashimi-quality fish and processed fish
- Information technology/business and knowledge process outsourcing

Export Products Recorded High Growth Rate

Fresh or chilled fish, tea in bulk, garments, prawns, packeted tea, brooms and brushes, and coir fiber comprise 57 percent of Sri Lanka's exports to Japan. These products have been showing a high growth rate over past few years.

Air Links Between Sri Lanka and Japan

Sri Lanka's flagship carrier, Sri Lankan Airlines, operates direct flights from



Janaka Ratnayake
Chairman and Chief Executive
Sri Lanka Export
Development Board

Colombo to Narita three times a week. Connecting flights are also available through Asia's major airports.

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Janaka Ratnayake, Chairman and Chief Executive
Sri Lanka Export Development Board

Bilateral Business Cooperation Between Sri Lanka and Japan

Sri Lankan businessmen and entrepreneurs have been given many training opportunities in Japan and are therefore able to adopt the Japanese style of management.

The Sri Lanka Expo 2012, a premier international trade fair organized by the Export Development Board, took place from March 28 to 30, 2012, in Colombo. The event, which featured an international exhibition, a symposium with internationally acclaimed keynote speakers, business meetings, networking sessions, seminars, a cultural event and a fashion show was a distinct success. More than 370 stalls showcased the best of Sri Lankan products and around 1,000 international buyers visited the event. The 50-member delegation from Japan comprised representatives from industries such as tea, gems and jewelry, food and drink, spices, rubber, garments, ICT and BPO, light engineering and organic products.

The EDB is now planning to organize Sri Lanka Expo 2014 and would like to invite Japanese business delegations to visit this event in order to further strengthen bilateral trade between the two countries.

"2011 was a very good year for exports, with performance exceeding both expectations and our revenue target of \$10 billion. If export services were added, this would be even higher," Ratnayake said. "The improved performance was driven by agricultural exports, which grew by 10.6 percent and industrial products, which grew by 27.3 percent."



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of Sri Lanka
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Some countries have too much of a good thing. In Sri Lanka's case, it could be our superb quality Ceylon Tea or Cinnamon, our scintillating Blue Sapphires and other precious gems, our rubber, our apparel...the list is long.

At the Sri Lanka Export Development Board, we select and nurture the best of our products so that discerning markets like Japan can enjoy the tastes, textures and specialness of Sri Lanka through strong, long-lasting partnerships.



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