



Sri Lanka **Economic Summit** 2021 | Springboard for revival: Opportunity to reset

Findings and Way Forward

KEY TAKEAWAYS



Global growth prospects augur well for Sri Lanka's exports and tourism trajectory



Global inflation is likely to be more persistent than transitional



External Debt refinancing and building up reserves are the twin short-term macro priorities



Policy Options: Continuing to attract inflows via swaps/credit lines/loans compared to either discussions with IMF or Restructuring of Debt



PPPs can cover a variety of sectors, learnings from past is crucial to better structure future ones



Exporters should place more emphasis on brands and authentic stories to promote existing exports



IT/BPM Service Exports to drive the next stage of economic growth and export earnings



Green economy, Digitization and embedding Sustainability to FDI are new instruments to grow exports

SESSION 01

Sri Lanka's Opportunity to Reset in the New Global Norm

Highlights

- Most economies in 2022 are expected to grow beyond the growth average of 2015 to 2019 period.
- Inflation is likely to be enduring than transitory and higher than 2015-2019 period; China and USA CPIs are at two decade highs.
- Key Opportunities – 4IR to leapfrog (major opportunities in services sector), opportunities arriving from post COP26 to mitigate climate impact (green financing), proximity to India and China's belt and road initiative
- Informal sector can leverage on increase in productivity in services sector.
- Sri Lanka in the context of South Asia is one of the four hardest hit economy by the pandemic. But the silver lining is that the economic impact from the 2nd and subsequent waves are much more muted.
- Central Banks are expected to tighten in 2022- Fed to raise by 50 BPS in 2H22; CBSL likely to raise rates by 100-150 BPS



"FX reserves management and improving debt sustainability remain two macro challenges for Sri Lanka"

Mr. Saurav Anand
Economist-South Asia
Standard Chartered Bank



"Biggest opportunity Sri Lanka has is its Port. Demand for deep ports is increasing and this can be a big opportunity for Sri Lanka"

Ms. Kasturi Wilson, Group CEO
Hemas Holdings PLC

Key Recommendations

- Broaden the tax base, improve tax administration, provide autonomy to CBSL to conduct data driven, proactive monetary policy
- SOEs to have pricing policy that enable full cost recovery and social protection should be through well designed income transfers.
- With the pandemic, alternative hubs are being considered. If Sri Lanka positions right, it can be a transitional hub and have good regional distribution warehouses with SL being much closer to Europe than other Asian countries and India next to us.

KEYNOTE SESSION

Springboard for revival: Opportunity to reset

Highlights

- Need to revive the Economy by introducing a substantial growth element, 6% plus growth momentum
- Need to gradually adjust the Debt profile
- Revive and replenish the external sector, improve doing business framework
- Reset in a way that lockdowns are not required
- Getting macro fundamentals in shape to improve investor confidence
- Carrot and stick approach to bring in more remittances and other inflows
- Lifting debt moratoriums can introduce some pressure so need to focus on a “soft landing”



“Every crisis has a sliver lining, never waste crisis to build back better”

“We are now on the that path to debt sustainability. We are changing our debt profile.”

*Mr. Ajith Nivard Cabraal – Governor,
Central Bank of Sri Lanka*



“We are at a crucial point in our economic development trajectory. The steps taken now by the Government and private sector will determine how we emerge from our current challenges and signal the direction for the nation’s economy and the prosperity of its people”

*Mr. Duminda Hulangamuwa
Deputy Vice Chairman, CCC*

SESSION 02

Setting the Macro Foundation for Growth

Highlights

- Its not just the budget deficit but lack of Industrialization
- Understand realities of economy: higher deficits, lower revenue, higher debt and reserve reality
- Government policies does not match with the revenue projections of the budget. In 2020, there was a 23% gap between actuals and budgeted revenue. Interest cost is about 6% of the GDP and 71% of total revenue.
- Discussion on the merits of approaching the IMF for BoP support, Pre-emptively restructure the debt
- Role of anchors investors/projects in driving inflows
- Port city provides opportunity for Sri Lanka to create an environment for investors. Thus Port city can be used as the spring board to bring some multinationals in to the country.
- Sri Lanka could be made into a financial hub and IT hub in South Asia



"Budget Deficit is not a cause, it's a symptom. If Sri Lanka get the Budget deficit under control, this will solve the issues of inflation, growth and BOP"

*Dr. Howard Nicholas, Senior Lecturer
International Institute of Social Studies*



"Sri Lanka pays the highest proportion of revenue as interest in comparison to countries with high debt to GDP. Debt restructuring is the last resort for help"

*Dr. Nishan de Mel- Executive Director
Verite Research*

Key Recommendations

- There are two debt related problems Sri Lanka that needs to solved;
 1. Building reserves at least up to four months of imports
 2. Improve Credit rating
- Recommended solutions:
 1. Keep interest rates in a single digit level (no higher than inflation)
 2. Keep the primary deficit under 3%
 3. Depreciation can be no higher than inflation

SESSION 03

Public-Private Sector Collaboration in Seizing the Opportunity to Reset

Highlights

- COVID-19 pandemic has shown how Private- public can collaborate intensively well together
- Many PPPs are available ranging from public health, economic development, education, humanitarian relief and etc.
- Critical success factors for Infrastructure PPPs- Complementary objectives, revenue potential, specific and concrete milestones. clear roles and responsibilities and innovation culture
- Collaboration is seen in terms of social aspect.
- The success of many projects depend on the efficiency and the learning curves of the prior projects.
- Port city PPP is a unique structure and the risks are allocated between the private and the public sectors.
- Role of capital market in PPPs is an enabling function and further is a core part of financing
- Yet to realize maritime hub potential despite progress



" Sri Lanka...

Destination as tourism, we are known. Destination as a business, we are not known"

*Mr. Thulci Aluvihare-Deputy Managing Director
CHEC Port City Colombo (Pvt) Ltd*



"Public sector sees private sector as a proprietor and private sector see public as a regulator. This vision has to change"

*Mr. Dumith Fernando-Chairman
Colombo Stock Exchange*

Key Recommendations

- Private Sector/ Chambers can learn from CII philosophy- bring forward the industry perspective/viewpoint over the company's.
- There are many opportunities around building industries around the port, improving warehouses, expanding the scope by introducing value addition center for unloaded goods and creating a digital platform as well.

SESSION 04

Charting a Path towards a Technology Hub

Highlights

- Sri Lanka's rank in the affordability index is at; 20th in fixed broadband; 13th in mobile broadband; 7th in mobile voice.
- The ICT/BPO industry has grown consistently between 7-8% and is aiming to be USD 5 Bn industry in 2025.
- Central banks or Governments have not regulated cryptocurrency. Therefore, a paradigm shift is required in order to adopt to it.
- Resource scale up is a challenge. Focus required on capacity building of talent and promoting women technopreneurs.
- ESG Prioritization - Promoting Sri Lanka as a destination to become the world's first green ICT/BPO sector.
- Growing infrastructure at the GS level.
- Data Protection Bill has been gazetted; Cabinet approval received for Cyber Security Bill
- Start up Hubs - new startups coming out of Colombo



"Science and maths skills in Sri Lanka is better than any other country we've worked with"

*Ms. Srimathi Shivashankar
Corporate VP and Program Director
New Vistas, HCL*



"We have come from agricultural exports, then we went to manufacturing with apparel, but I think the greatest and the most accelerated foreign exchange growth is going to be this industry. And what we need to do is to invite the traditional companies that have been in both agriculture and manufacturing to get involved in our industry."

*Mr. Dinesh Saparamadu, Chairman
hSenid Business Solutions*

Key Recommendations

- Improving the human base and driving the industry's growth exponentially can be achieved by; a) providing nano degrees which are 4-6 month concentrate courses; b) conversion programmes particularly for Arts graduates; and c) building more universities
- Enabling the next generation of startup
- Accelerating the opportunities in traditional and non-traditional tech firms

SESSION 05

Resetting the Export Portfolio

Highlights

- Continuous engagement with SME exporters –much greater connection with SME exporters now.
- Look at non-traditional EU markets, other non-EU markets which have special arrangements with the EU.
- From around 7,000 EU GSP+ eligible products from Sri Lanka only around 60% of the products utilize the scheme.
- Awareness required around current and future EU policies such as Green Deal, new GSP scheme, proposed Sustainable Textile, Organic products requirements etc.
- New EU GSP will have 6 additional conventions for the same list of products so Sri Lanka can target that to develop exports.
- Fabric parks will improve lead time, increase domestic addition of exports.
- Pandemic has increased regulatory requirements for good as they help to improve product quality and improve competition
- Need to move from commodity to value added growth
- We need to create an ecosystem where start ups can launch freely. New thoughts and brands should be given opportunity.



“We need to create more brands to exports. That is what is going to generate a premium. Plan your Brands”

*Mr. Shalin Balasuriya
Co-Founder, Spa Ceylon*



“Ultimately what matters is not how much you export, but at what price you export”

*Mr. Dilhan Fernando
CEO, Dilmah Tea*

Key Recommendations

- Use authenticity / culture/knowledge to brand in overseas markets
- Create a Direct to Consumer brand incubating Sri Lanka
- Government facilitation can come from creating conducive environment for FDIs which can increasing value addition as well as capitalise on the opportunity with businesses moving out of China
- Negotiating trade agreements including GSP and FTAs with Far East Asian countries; proper policy environment and directions and, consistency; and efficiency in approval processes

SESSION 06

New Instruments - Springboard for Exports

Highlights

- 3 new Frontiers: The green economy, Digitalization, Embedding sustainability in FDI
- Dual approach: (i) Greening existing industries; and (ii) Accelerating growth and development in green products, services, and technologies.
- Learn from greening efforts of other developing countries.
- Build in ESG considerations in the 5 key strategic sectors & 17 sub sectors identified by the BOI to promote FDI.
- Build few other one billion export products including pharmaceuticals.
- Driving Sustainability along with market branding.
- Factors that lead to global trade changes is geo politics, environment, social, competitiveness and shorter lead times.
- Need to focus on manufacturing value addition eg:- Highest quality quartz in the world are available in Sri Lanka.



"Investment is the pillar of growth and development and investment is the lifeline of the economy."

*Mr. Ashish Shah- Director
Division of Country Programmes
International Trade Centre*



"We are seeing a huge shift from industries shifting out of China. This trend is an opportunity but it will not last long"

*Mr Arun Miranda
Founder / Managing Director
Trinity Steel Pvt Ltd*

Key Recommendations

- Provide a package of comprehensive support to enable SMEs to go green
- Develop digital services which can have spillovers for the local economy such as ICT, fintech, agtech.
- Trade partnerships can act as a tool to move from traditional exports to new products and markets.

SESSION 07

Survival to Recovery: Reviving Tourism Inflows

Highlights

- Global travel demand likely to recover by 2023 – driven by leisure and business lags.
- Consumers have more savings than before: and want to spend this on travel
- Recovery in Asian Hotels is mixed so far: countries with domestic markets lead
- Mckinsey projects slower recovery for leisure travel in Sri Lanka, due to limited domestic market and reliance on long-haul and China
- SL has the first mover advantage with the bio-bubble
- Data will help navigate the post pandemic recovery
- Addressing the needs of the new demographics like luxury millennials



"It is not the fear of the virus that limits the travel but the travel resistance"

*Mr Steve Saxon
Partner, McKinsey & Company*



"In Dubai there is a huge amount of tourists going for business and leisure. We should look at the country from the eyes of the tourists"

*Mr Chandana de Silva
Area Manager for Sri Lanka and Maldives
Emirates*

Key Recommendations

- Ensure simple, easy and well communicated entry requirements.
- Development of the domestic segments to fill capacity.
- Be ready for a long road to China's return; develop other regional markets in the mean time.
- Product development based on the real time data.



THANK YOU

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