

# Exporting Sri Lanka...



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Prof G L Peiris, Minister of Enterprise Development and Investment Promotion, speaks to Business Today on exports as a propelling force of the Sri Lankan economy and the future challenges it is likely to face.

**By Harin Fernando**

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## **On Export Performance**

Export performance is one of the strongest areas of Sri Lanka's economy at the present time. It can be best described as a growth area.

If you were to take exports as a whole, there has been an improvement of around 14% across the board, in terms of the foreign exchange that was realised by Sri Lankan exports. However, in some sectors, the growth has been very much more. For example, in the electronic sector, it is as high as 80%, with rubber performing at 45%, wooden products at 57%, and so on.

I would also like to emphasise that the government's policy is not restricted to enhancing the quantum of foreign exchange that we earn from exports. Earning more foreign exchange is important as the country requires it, but we do not intend to stop there. This is a necessary condition but we do not see it as being sufficient.

One of the main policy objectives of President Mahinda Rajapaksa's government is to ensure that all benefits percolate down to the grassroots level.

In other words, there has to be an equitable distribution of wealth and income right throughout the country. We are all very proud that Sri Lanka is no longer considered as a LDC (least developed country), and that Sri Lanka is today referred to as a 'middle income country' with a per capita income of US\$ 1,370.

However, one of our problems is that the distribution of income within the country is far from equitable. A good example of this is the fact that the per capita income in the district of Colombo is seven times what it is in districts such as Monaragela, Pollonnaruwa and Hambantota. Thus we need to address the inequities that are inherent in that situation.

This is why the present government is putting a particular emphasis on the concept of 'export promotion villages' that are being developed around the country.

The EDB works to a top-down approach as we do not make decisions and then impose them on different sectors of the economy.

We engage in a very candid dialogue with different people in various sectors and we then ask them to identify their priorities. The whole approach of the EDB is to provide a service depending on the priorities identified by the industry itself.

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## **On Outsourcing**

For example in the Thambuthegama area of the Anuradhapura district we have

established 'export promotion villages' that concentrate on fruit and vegetable production. Hence we try and match geographical factors, soil conditions, climate and cultural traditions to the industry we propose for that particular village. So we associate particular products with particular 'export promotion villages.'

Another example would be in the Ratnapura district, where the emphasis is on gems and jewellery, sapphires, rubies, etc. In the coconut triangle, Chilaw, Puttalam, etc, coir products, in Galle, 'beeralu' lace and kiri ala (yam) production. In the Uva, Paranagama area we are doing a large project that involves drip irrigation. In Embilipitiya we have a plantain project and also a kithul project in Kolonne.

The object of all these initiatives is to encourage high quality products for the export market. What my ministry has also been doing on a continuous basis is establishing direct links between farmers and exporters. Otherwise the farmer toils hard but does not enjoy the benefits of his labour because there are unconscionable profits made by a series of middlemen. We have, therefore, invested a great deal of time, effort, and energy in establishing a direct connection between the farmer and the exporters.

A good example of this is to be found in the Eppawela Thambuthegama, Talawa areas. Here we have started a kiri ala (yam) project utilising 100 acres. What is being produced on these lands is being purchased by CBS International (Consolidated Business Services), a company owned by Shanthi

Wijesinghe.

The benefit of this agreement is that the farmer enters into a forward contract with CBS, thus the farmer can sell his produce at a pre-agreed price. This cuts down the risk and acts as a form of insurance. If there is a downward trend in the market then the farmer will not suffer. On the other hand, if the price were to increase, then the farmer will also get a proportionate increase in his or her return, in accordance with the agreement.

What we are working on is an outsourcing system, where a particular company makes the seed material and know-how available to the farmer. Then when the product is ready, it is purchased at a pre-agreed price. We firmly believe that outsourcing is a method to develop exports in a manner that makes the benefits of exports available to the rural hinterland of Sri Lanka. This ensures that a very large community benefits from exports.

## **On Value Addition**

This is a very important consideration from this Ministry's point of view. This enables the nation to generate much-needed foreign exchange.

A while back we exported latex, but this is no more the priority. Given the infusion of technology that enables us to manufacture gloves for medical and other industries, for example, we are resorting increasingly to the export of products of this kind.

Another example is Loadstar, a company that is engaged in the manufacture of heavy duty tyres. Loadstar commands close to 20% of the world market in heavy duty tyres and also generated very high levels of foreign revenue during 2007. In the spices sector cinnamon has also boomed recently. With the help of GTZ (a German entity), we are working with the farmers to improve the peeling process. This country also no longer concentrates principally on the export of bulk teas; instead we are focusing on the export of tea bags, tea packets, and flavoured teas. Companies such as Dilmah and Mlesna have made their presence felt in the global arena. Value addition also means employment generation, particularly the provision of employment opportunities for the youth of Sri Lanka. This is a crucial consideration.

We must also develop our existing markets such as Western Europe and North America. But simultaneously, we must also enter newer markets. Recently, with the facilitation of the President, a delegation that comprised of myself and other ministers had the opportunity to visit the nation of Azerbaijan, where we had the opportunity of a fruitful discussion with the President of that country.

Azerbaijan is an outward-looking oil-rich nation with a high disposable income. In this regard, Azerbaijani citizens are on the look out for high quality products from around the world. Thus far, when Azerbaijani citizens thought about jewellery, they would either refer to gold or platinum, but now, Sri Lankan gems (coloured stones) have very much caught their interest. Also high on the list are high quality ceramics from Sri Lanka (dinner sets, floor tiles, etc.).

It is this ministry's view, that nations such as Turkey to the West and Vietnam to the East hold large potentials in terms of boosting our exports in acting as 'new markets.'

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### **On Bilateral Investment**

Sri Lanka has FTAs (free trade agreements) with both India and Pakistan and

these are subject to review periodically. The Pakistan FTA was reviewed some six months ago in Islamabad. During these talks, I was able to persuade my counterpart in Pakistan, Hon. Humayun Akhtar Khan, Commerce Minister, to do away with the ceiling on the quantum of betel leaves to be exported under this FTA to Pakistan. He readily agreed and the ceiling of 1,200 metric tonnes of betel as the quantity qualifying for concessionary treatment was done away with.

Betel is a principal export of Sri Lanka into Pakistan, and as a result of the removal of this ceiling, the districts of Kegalle, Kurunegala and Gampaha have seen dramatic changes in their micro-economies. Thus we have now linked the farmers with the exporters to the mutual benefit of all parties involved in a practical manner.

During my talks in Pakistan, I was also able to persuade the Government of Pakistan to review certain export items that were on their 'negative list.' Following this, 'ayurvedic herbs' was one of the items that were removed and Samantha Kumarasinghe's Nature's Secret and Asoka Hettigoda's Siddhalepa were amongst the business entities to instantly benefit.

I also recently met with Shri Kamal Nath, the Indian Minister for Commerce and Industry, who informed me of his government's satisfaction that Sri Lankan companies are also investing in India and this is no longer a one-way street.

An example of this would be the significant investment made by Brandix in Andhra Pradesh. The Indian government has cited this investment, as a model project, as it has enabled over 40,000 Indian women to graduate out of poverty.

Ceylon Biscuits owned by Mickey Wickremesinghe has also made inroads when it comes to investing into India, so has MAS Holdings. Thus we are seeing reciprocity of investment going across the Palk Strait.

### **On Free Trade Agreements**

The FTA (Free Trade Agreement) with India was entered into in 1998, and this was a landmark action as it was the first FTA India signed with any country. The FTA began to be implemented in 2000, when the value of trade between our two nations was US\$ 500 mn. This figure was US\$ 1 bn within four years, and as of today, the trading value stands at close to US\$ 2.4 bn. Thus the FTA has brought unequivocal benefits to our two nations.

Last week, there was a very successful meeting in New Delhi organised by the Confederation of Indian Industry. It was evident that there was a great deal of interest in investing in Sri Lanka. I stated that there should be a much greater

awareness of the opportunities available under the FTA with India.

Little known to many is that global companies, were they to invest in Sri Lanka and subject to meeting the value addition criterion, are able to avail themselves of access to the Indian market at a concessionary rate. This must be used as a 'unique selling proposition' when we market Sri Lanka to the rest of the world. We must sell ourselves, not just as a domestic market of 19.5 million consumers, but as also a market gateway to the nation of India, its markets and the entire sub-continent. This is a dimension which needs to be appreciated more extensively.

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### **On GSP +**

We must also reinforce the advantages offered to nations investing in Sri Lanka via the GSP+ scheme that offers market access for over 7,000 products to the European Union. Subject to meeting value addition and rules of origin criteria, investors from other countries can avail themselves of the facilities granted to Sri Lanka by the GSP+ scheme. I must at this time note that Sri Lanka is the only Asian nation to be bestowed such a status by the European Union.

GSP+ was granted from 2005 - 2008 and the main reason for Sri Lanka to be granted this status was the exemplary conditions that were present in Sri Lankan garment factories. There was no prison or child labour.

Thomas Friedman in his book 'Lexis and the Olive Tree' pays tribute to the conditions in Sri Lanka factories, and cites as an example MAS Holdings.

Mid-2008 will see the GSP+ scheme up for review. We are now in the process of presenting our case to the European Union in order to secure a further three-year extension.

### **From Products into Services**

We are presently in the process of negotiating and entering into with the Government of India, a 'Comprehensive Economic Partnership Agreement (CEPA).' At an official level, we have had 11 rounds of discussions to date. At the time the Sri Lanka-India FTA was being negotiated, there were certain

reservations from our side; this was to do with the economies of scale and the confidence of our manufacturers to cope with the size of India.

Almost a decade after the FTA was signed, however, the general consensus is that it has been a positive experience for Sri Lanka. With regard to CEPA, I must state that whatever actions we take has to have the support of the business community (sectoral committees representing every export sector and the OPA), and as such, we have involved their representatives in every stage of the CEPA discussions from their inception.

We plan to focus on a few sectors that would be of immediate benefit and we hope the momentum gathered will then push forward the proceedings to a broader consensus.

We believe in a combination of multilateral and bilateral techniques. We believe that for a country like Sri Lanka, this approach would bear the most fruit.

To this end, in addition to our two FTAs, we are also members of SAFTA (South Asian Free Trade Agreement) for which a review meeting took place in Kathmandu early last year.

Sri Lanka is also a part of APTA (Asia Pacific Trade Association). The clear benefit to us here is that both China and India are members in addition to Bangladesh and Laos. Over the years, the volume of trade between Sri Lanka and APTA countries has boomed in a significant manner.

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### **On the WTO and the Doha Round**

Here we have to consider the interest of our country primarily. I do not think that 'free trade' is an absolute principle, as you cannot just remove all barriers and simply open up the floodgates.

Every country has a duty to protect its local industry and agriculture. With this in mind, it is important as we see it, to consolidate our position with regard to food security, livelihood security, and rural hinterland security.

We are looking for reasonable protection in these areas and we do not want to be pressured to reduce our already low tariff structure. We are also aware about the possibility of 'dumping' and the serious effect it would have on local industry.

Essentially, what we are asking for is not a handout, or philanthropy, but rather to

be able to compete based on our merits in markets abroad. If you were to look at Bangladesh, a LDC, it has concessionary access to the markets of the United States. Since we have graduated beyond a LDC status, we find ourselves at a distinct disadvantage. There is a need to consider the requirements of small and vulnerable economies as well.

The Doha Round and the WTO generally talk about small economies, tsunami-affected economies, vulnerable economies, etc. All we ask is the opportunity to compete on equal terms with no restrictions being imposed, with an appropriate focus on equity.

With regard to the progression of the Doha Round, I have spoken to Pascal Lamy - Director-General of the WTO in Geneva, and also to Supachai Panitchpakdi, UNCTAD Sec-retary-General.

Countries operate on the basis of 'enlightened self-interest,' and thus, any progress made will certainly not be rapid unless fundamental conflicts are resolved.

### **On the West's growing concern over human rights violations and the exit of the GoSL from the CFA**

We disagree with this, as we believe we have a very strong case to present. GSP+ status is granted on the fulfilment of a number of criteria. This ministry has been working on this subject for a long time.

In this regard, I have visited Peter Mandelson, EU Trade Commissioner, in Brussels, and have also been in touch with Julian Wilson, the Head of the EU Mission in Sri Lanka. The first step is the submission of our proposal to Brussels, which we are currently in the process of drafting.

It is our view that our record on human rights poses no serious problem and we will engage in dialogue with all member states in order to state our case in a convincing manner. Another factor is that the EU is not going to gain anything by depriving Sri Lanka of GSP+ status. We have some 350,000 individuals directly employed and some one million indirectly employed as a result of the GSP+ scheme.

If we were to fail in renewing this GSP+ status, the first direct hit will be taken by hundreds of thousands of innocent employees, who would find themselves unemployed and on the street. This would create social tension and the dissemination of poverty and deprivation, something that is not in line with EU policy. This will also increase the divide between urban and rural society.



It is to be noted that the 'Global Compact' document prepared by Mary Robinson adopts the approach that concessions granted on the basis of merit in the trade sphere should not be withheld because of political factors.

Of course we are not perfect as we have a conflict and this in turn causes a fallout, but the government is in a position to demonstrate that it has dealt with all of these with sincerity.

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### **On the 13th Amendment**

Only a few days ago, the government presented a political proposal and the chief merit of that proposal is that it is pragmatic and based on practical premises. Instead of talking about all the things you can do in the future, you start by implementing what is already there. The proverbial bird in the hand.

Thus, in terms of the 13th Amendment, which is an integral part of Sri Lanka's Constitution and a sequel to the Indo-Sri Lanka Accord of 1987, extensive devolution is possible and that can be shown convincingly with regard to law and order, education, health, irrigation, infrastructure, and social rehabilitation, etc.

In all of these sectors, there is a very considerable volume of authority that has been devolved to the provincial council. Although dating back to 1987, four successive governments have failed to implement these recommendations despite their existence. If implemented genuinely, it will result in a very significant devolution of power, but successive governments have lacked the political will to do this.

So the most sensible thing to do is use this as a point of departure, not the culmination but the initial step. After all, it is the duty of a government to implement an existing law, particularly that which is part of the constitution.

Once you do what is possible in terms of the 13th Amendment, you are then in a position to identify any gaps that may exist. And I must state that there is no merit in considering constitutional amendments because without a two-third majority, this cannot be achieved. So discussion on this point tends to be futile and the tragic history of this matter is that successive governments have been contemplating various changes that have never seen the light of day.

Proposals have been presented and debated only to gather dust on a shelf. The present government is thus demonstrating what can be achieved on the ground

via existing legal instruments. This, in our opinion, is a very attractive point of view and we want to explain to the international community our objectives and how they are to be accomplished. We think this is a cogent and compelling case and we have no reason for diffidence as we enter discussions with the member states of the EU.

### **On moving beyond the SL - India FTA to the CEPA**

The core difference of the CEPA is the availability of the services of professionals either from Sri Lanka to India, or vice versa. The FTA has an emphasis on physical products whilst the CEPA deals with services.

There is a misconception that CEPA will open the floodgates and there will be a mass exodus of professionals. But this is not so as there will be a vetting process, a quota for each sector, in addition to standard visa requirements. This is a lever of control that will always be in the hands of the Government of Sri Lanka.

All discussions include parties and stakeholders involved and we believe the CEPA, properly structured, is a positive step as it echoes global trends in this regard.

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### **On Pushing the BPO Sector**

Sri Lanka's cardinal strength is in the calibre of its human resources. Every country must structure its export strategy having regard to its inherent or intrinsic strengths. When it comes to BPO operations, HSBC has been a pioneer in this field. What we do need to focus on however is the English language capability of those employees. Training is very important in this regard, and there needs to be a pool of talent available.