" The 21st April was an eye opener that Sri Lanka must not be dependent on the Tourism Industry, given the worst recession predicted globally next year..... We require a disruption in the overall economy and the export industry if we are to be competitive"

SRI LANKA REQUIRES A DISRUPTION IN THE EXPORT SECTOR

Dr. Rohantha Athukorala

President/CEO of Clootrack - Sri Lanka, Maldives & Pakistan

The Easter Sunday attack made a statement to the policy makers of Sri Lanka on the vulnerability of the Sri Lankan economy due to the skewness to one sector- Tourism. The latest business confidence index released by Nielsen (BCI) has dropped to 81 whilst the Consumer Confidence Index (CCI) has dropped in the last two years to a low ebb of 36 which is very alarming.

The banking sector is yet trying to get traction of the Sri Lankan economy as the NPL's have increased and even after rescheduling the performance is below fifty percent as shown by the data emerging. I guess the exact number will start getting reported after the elections given the political economy that we live in.

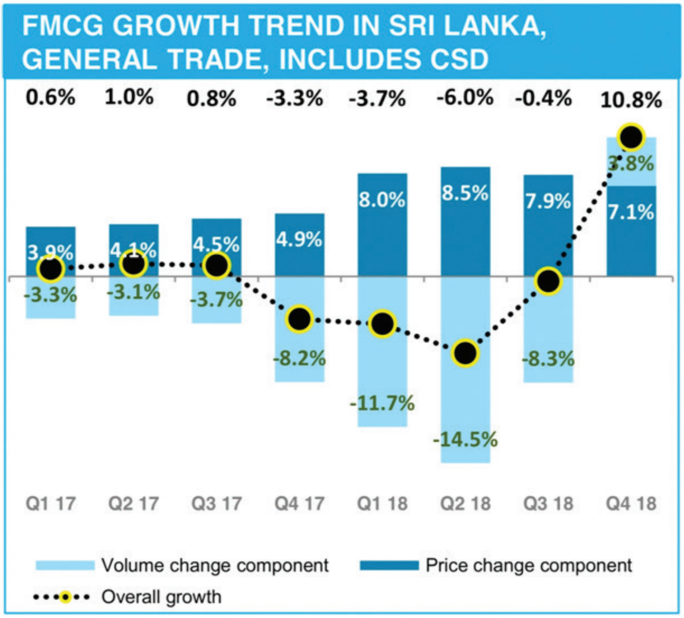
The key take out from the challenging quarter 2 of 2019, is that we have no option but to diversify the export base and thereby reduce the vulnerability to the economy. In essence, we have no option but create a disruption in the economy and strategically develop the export sector. Hence we must move the economy to a manufacturing economy than the organic shift that was happening to the service sector which was driven by tourism.

Sri Lankan Consumer- snap shot

In the backdrop of the falling CCI to 36, If we do a reality check of a Sri Lankan consumer purchasing even prior to the Easter Sunday attack was very rough at the household end. The overall household volume consumption had dropped the whole year of 2017 and in 2018 upto Q3 (for almost 2 years in a row).

To be specific, in the first quarter 2017 by -3.3%, the second quarter by -3.1%, the third by -3.7% and in the final quarter by -8.2% . Then in 2018 the volumes dropped by -11.7%, a staggering -14.5% in Q2, 2018 and then reversed to -8.3% in Q3 but now things are beginning to improve with many tax breaks given by the government than household income increasing.

However, in the last 3-4 months things have once again become very challenging to the Sri Lankan household with even consumption of ‘milk powder’ contracting which means a typical household is bound to take a drastic decision at the next elections.



Exports at $17 billion?

It was great to see the communique that Sri Lanka has reached $ 17 billion in exports in 2018, registering a growth of 15% in the backdrop of the Colombo Stock Exchange reporting the worst trading recorded in the last 10 years. By the way only 3% of exports comes from new products in the recent past whilst we can see how competitor countries are touching almost 10% contribution to the export revenue from new products.

In my view the 2018 export performance is commendable. The export community must be congratulated whilst we also see how the exporters are giving leadership to the country when Sri Lanka was caught up in a chaotic political crisis which has resulted in the economy reeling this year at 2.7%.

But a point to note is that Sri Lanka product portfolio in the exports basket is essentially on products categories which have a low GDP. Which is why a total disruption in the Export basket is required if we are to make Sri Lanka competitive in the global market. What we mean by disruption is the focussed development of a market from bulk to branded products and thereby over the years Sri Lankan brand names like Akbars, Dilmah, etc to name a few. Let us do a deep dive to get a better understanding of the challenge by taking Ceylon Tea as the case in point.

Ceylon Tea- case study ?

Ceylon Tea is a classic example to demonstrate how we have fallen back on consumer orientation of a key industry in Sri Lanka. The point is that if we do not bring in new thinking to the sector with policy support, this industry will be the next ‘ Kodak’ disaster of Sri Lanka.

Way back in 1960, Sri Lanka commanded a production share of 20.8% globally and an export share of 35.1%. By 2017 our share has fallen to 8.8% on global production and 18.8% on exports. What is more alarming is Sri Lanka has failed to build brand equity and hold on to its consumers over time. Every 15 years we are challenged with the task to find new markets and develop new relationships with consumers which is the most costly exercise that one is challenged in a business as per the graph below.

Top 10 Destinations of Srilankan Tea (Volume – MT)

Year: 1960			Year: 1985			Year: 2010			Year: 2016		
Country	Volume	%	Country	Volume	%	Country	Volume	%	Country	Volume	%
UK	69,113	37.2%	Egypt	32,229	16.3%	Russia	44,383	14.5%	Russia	32,150	14.3%
Australia	19,649	10.6%	Iraq	28,464	14.4%	UAE	31,140	10.2%	Iran	31,352	14.0%
USA	18,534	10.0%	Siyia	14,717	7.4%	Iran	29,122	9.5%	Iraq	30,800	13.7%
Iraq	15,589	8.4%	Saudi Arabia	14,390	7.3%	syria	28,176	9.2%	Turkey	24,772	11.0%
South Africa	11,985	6.4%	UK	13,415	6.8%	Turkey	19,330	6.3%	U.A.E	17,527	7.8%
Canada	7,978	4.3%	USA	10,057	5.1%	Jorden	17,692	5.8%	Syria	11,100	4.9%
New Zealand	6,541	350.0%	USSR	8,640	4.4%	Iraq	13,052	4.3%	Libya	10,421	4.6%
Iran	4,885	2.6%	Pakistan	7,468	3.8%	Kuwait	11,600	3.8%	Azerbaijain	9,535	4.2%
Netherlands	3,804	2.0%	Iran	7,425	3.8%	Japan	11,185	3.7%	Japan	7,037	3.1%
Chile	3,324	1.8%	Yemen	7,014	3.5%	Libya	10,735	3.5%	China	6,920	3.1%
Others	24,473	13.2%	Others	53,761	27.2%	Others	89,337	29.2%	Other	43,082	19.2%
Total	**185,875**	**100.0%**	**Total**	**197,580**	**100.0%**	**Total**	**305,752**	**100.0%**	**Total**	**224,696**	**100.0%**

Source: Sri Lanka Exports

In 1960 the top five markets were UK, Australia, USA, Iraq and South Africa. In 1985 the top five were replaced with Egypt, Iraq, Syria, Saudi Arabia and UK falling to no. 5 position at 13.4 million kilograms of tea from the 69.1 million kilograms it did way back in 1960. By the year 2010 the top five countries were Russia, UAE, Iran, Syria and Turkey which just explains the crunch issue that we are up against.

By 2016 we see again a similar situation in some markets like UAE which is a key market for Ceylon Tea. This may be due to the formation of economic blocs or due to trade agreements or by different tariff adjustments coming to play but the fact remains that if we had a strong marketing campaign for Ceylon Tea, we could have mitigated this impact and protected the consumer share in these markets. Hence we see as a case in point how overall disruption required for Ceylon Tea to maintain the status quo.

HY 2019 performance ?

If we go back to the macro picture, the 2019 half year performance of the export community has registered only a marginal growth of around five percent in the first half of the year as reported by Central Bank. This performance is commendable given the Easter Sunday attack and the logistical issues that took place for almost two months in the 2nd quarter of 2019 post 21st April. The point to note is that if we are serious about export revenue to reach the $28 billion by 2025 we will have to grow by 15% YOY. If not, we will not be able to reach the target set by the National Export Strategy 2018-2022. The current performance of five percent growth appears not satisfactory at all.

One set of data- Exports

The $17 billion export value reported by the Government agency that is in charge of exports is commendable with an growth of 15%. A point to note is that if this data is right then the export value in 2017 should have been around $ 14.7 billion to register the reported 15% growth in 2017. But the Central Bank website reports export earnings at $ 11.3 billion which is way below this number. Two government agencies EDB and Central Bank cannot report two sets of numbers.

The media also reported that way back in 2015 the export value was $ 13.5 billion but the Central Bank website states that the 2015 export value was $ 10.5 billion. We guess that the Central Bank data does not include the 'Export of services' component, hence the disparity. Personally we feel the higher number is right, but it is important that we report one number to the outside world. If not, the credibility of the data becomes a question.

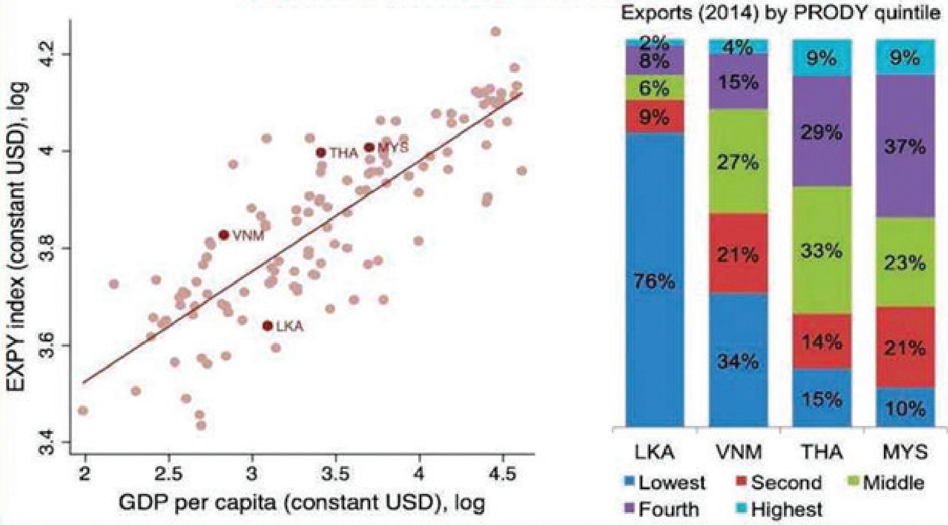
$ 20 billion in 2019?

The communique also stated that Sri Lanka is targeting $ 20 billion in 2019 which is excellent. The logic is that way back in 2005 when Sri Lanka export revenue crossed the $ 6 billion mark, many of us were elated with the performance but little did we know that after almost 10 years we as a country was struggling, with the number just doubling to $ 12.5 billion (once again this data is as per Central Bank website, which is without the export of services component).

A point to note is that way back in 1990 Sri Lanka, Bangladesh and Vietnam were all at the $ 2 billion export mark. However, as at now Vietnam has crossed the $ 150 billion mark whilst Bangladesh is touching $ 40 billion which indicate how Sri Lanka is lagging behind the other countries in the region. Hence the new numbers reported on export targets are very motivating.

Appendix 1

Unlike comparators, exports are almost entirely composed of products associated with low GDP



Source: calculations based on data from COMTRADE and WDI ***GDP and EXPY data form 2010***

Appendix 2

By sector, Sri Lanka is concentrated in apparel and vegetable products and lacks machinery and electrical manufactured exports versus comparators

HS Chapter	LKA	IND	IDN	PHL	VNM	CHN	THA	CRI	MYS	SGP
Textiles & Apparel	46%	12%	8%	3%	17%	11%	3%	0%	1%	0%
Vegetable Products	19%	7%	14%	6%	6%	1%	5%	13%	7%	1%
Plastics & Rubbers	9%	3%	5%	2%	3%	4%	12%	2%	5%	5%
Stone & Glass	6%	14%	2%	2%	1%	3%	5%	1%	2%	3%
Machinery & Electrical	4%	8%	10%	60%	36%	46%	34%	68%	46%	33%
Food Products	3%	2%	4%	3%	2%	1%	7%	3%	2%	2%
Animal Products	3%	5%	2%	1%	5%	2%	2%	1%	1%	0%
Other Manufactured	2%	2%	3%	5%	6%	10%	4%	7%	4%	5%
Transport Equipment	2%	8%	3%	4%	1%	3%	11%	0%	1%	2%
Chemical Products	2%	12%	4%	2%	1%	4%	5%	1%	3%	13%
Wood Products	2%	1%	6%	2%	2%	2%	2%	1%	2%	2%
Footwear & Headgear	1%	1%	3%	0%	9%	3%	0%	0%	0%	0%
Extractives	1%	19%	30%	8%	6%	1%	5%	0%	21%	23%
Metals	1%	8%	5%	4%	3%	8%	4%	1%	4%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Exports per capita	543	242	745	774	1,619	1,725	3,530	6,472	9,591	50,299

Source: UN Comtrade ***Data from 2014***

Quality of exports

Whilst Sri Lanka is targeting to increase exports as per the National Export Strategy that was launched last year, what Sri Lanka must focus on is the quality of the exports marketed and not the value.

The logic is that as per the Harvard Diagnotic study done in 2018 the insight shared was that almost 76% of the merchandise exported are associated with low GDP products whilst we see a country like Vietnam has strategically developed their export product basket where low GDP merchandise account for only 34% of the business as per Appendix 1.

If one does a deep dive on the product mix, we see that countries that are moving towards industrialisation tend to move from exporting apparel to 'Machinery and Electrical'. For instance Philippines has an export skew of 60%, Vietnam at 36% and China at 46% as per Appendix 2.

We see how Sri Lanka is lagging behind at 4% exports contributed by Machinery and Electricals, which is where reforms must happen in Sri Lanka. In simple words a stronger linkage between university and the private sector with the backing in infrastructure support by the Government is the way forward.

According to Arancha Gonzalez, the Executive Director of the International Trade Center (ITC) *"Sri Lanka needs to move away from the cosmetic side of exports to real hardware changes through policy reforms if we are to make Sri Lanka competitive in the global export arena."* Now the challenge is how this can be driven with strong leadership. Sadly the performance of exports in the first half of 2019 does not indicate that we are on track to the targets set for Sri Lanka.

$ 37 billion by 2025

Whilst authorities plan to increase Sri Lanka's export revenue to $ 37 billion by the year 2025, our view is that Sri Lanka must push for $ 50 billion by getting into the Trans Pacific Partnership (TPP) agreement. Whilst the FTA with Singapore and the proposed FTA with Bangladesh and Thailand can be attractive, TPP will give a stronger edge to Sri Lanka as the agreement will sure get teeth in a few years when the US and EU join in.

As at now there are 11 member states – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The US was a large contributor to the formation of the trade deal but President Donald Trump pulled out of the deal soon after taking office on an ethos of 'Making US great again'. This protectionist strategy will not hold ground in the long term and if there is a change in the political leadership of US, the thinking will surely change. As at now US has pursued a bilateral trade deal with Japan, the largest member of TPP, which is totally against the original spirit of the discussion.

Advice from Sivaratnam

Whilst we can be excited on the demand side number of $ 20 billion in 2019 and let's say $ 37 billion by 2025 in export earnings, we wish to highlight the words of wisdom from the sixth Chairman of Sri Lanka Export Development Board, Sivaratnam who once stated "*The problem in Sri Lanka is in the supply chain development and not in the demand chain*".

This insight yet holds ground and we guess it's time Sri Lanka addresses this key issue given the looming BoP crisis that Sri Lanka is up against as highlighted by Nobel Laureate Joseph E. Stiglitz recently.

In our view if we do not address this by a joint private-private partnership at this turning point of our economy, the National Export Strategy 2018-2022 will be just another piece of paper.

TPP is worth $ 28 trillion

If I track back at the TPP, it was in the trade agenda of the Obama administration and the countries in the network is estimated to reach 800 million consumers and worth $ 28 trillion with the combined GDP being 40% of the world economy.

At a time when Sri Lanka's exports are being challenged and the world demand is sluggish, this will be an ideal opportunity to link Sri Lanka's economy with this network. However, we as a nation must be very clear on the Sri Lanka agenda and how the supply chain can be developed to be a $ 50 billion business.

TPP – Pros and cons

Just like the FTA with India and Pakistan, Sri Lanka must be cognisant that any agreement has its merits and limitations. For instance a hotly-debated feature of the TPP was the Investor Dispute Settlement feature (ISDS).

In our view for a country like Sri Lanka which is just coming out of the Chinese funded Port City saga, the ISDS will be an ideal platform to give investor confidence in the environment. This is just one of the many issues that needs careful discussion and deliberation before inking to the TPP, the other issues being increased competition, stringent quality standards and sharper IP laws.

However, from a pragmatic perspective it is a sure thumbs-up provided that we pick up the lessons from the FTA with India that was signed within just a space of two years. Some attribute the flaws to the speedy signing of the agreements with the much-hyped issue being the Vanaspati fiasco which resulted in 27 companies closing down and thousands of Sri Lanka workers losing their livelihood. In this background let us share some of the key benefits of TPP for Sri Lanka.

1. Marginal short-term impact

Sri Lanka has two Free Trade Agreements – India and Pakistan – and two trade partnership agreements – US and EU. There is also a possible technological economic partnership with India coming to play with ECTA, so additional benefits from the TPP may be incremental. TPP countries represent a large market for Sri Lanka, accounting for around 50% of its total trade in goods and considerable FDI contribution. Exporters in categories such as frozen fish can benefit immensely.

2. Indirect benefits

While the direct benefits might be few, Sri Lanka could be an indirect beneficiary of increased trade between other TPP nations. Companies which provide services such as BPOs and KPOs and partnerships with ASEAN countries could benefit from increased trade between the big players.

3. ASEAN springboard

Developing regional economies, such as Malaysia and Vietnam, will benefit strongly from the trade deal, and there will be payoffs for Sri Lankan from the growth in activity. Many Sri Lankan companies operate in Vietnam especially in the apparel sector, partnerships with fruit and vegetable companies in Malaysia will benefit the country. Vietnam could see a 10% boost to its economy by 2025, while Malaysia could experience a 5.5% expansion in the same period, based on a Peterson Institute for International Economics study.

4. Opening up new markets

New markets can open up for companies operating in Ceylon Sapphire, Ceylon Cinnamon and Ceylon Tea. Private sector companies must invest in consumer insight research so that once the TPP is signed, we can spruce up exports immediately.

5. Removal of foreign equity restrictions

The TPP will lift curbs on foreign ownership of companies in private healthcare, telecommunications, courier, energy and environmental services in Brunei, Malaysia and Vietnam. While this will benefit Sri Lankan investors keen on those markets such as Sri Lankan oil palm companies that have domestic restrictions, it remains to be seen how much headway foreign firms will be able to make.

6. Provisions for cross-border

Trade deals have, traditionally, focused on easing the flow of goods between countries, but the TPP is one of the few with comprehensive provisions for the services trade. The pact will open up markets in TPP countries for Sri Lankan firms offering services such as consultancy and urban planning.

7. Government procurement opening up

The TPP will enable Sri Lankan companies in the IT, construction and consultancy sectors to bid for Government procurement projects in markets such as Malaysia, Mexico and Vietnam, which were previously closed to foreign bidders.

8. Reducing non-tariff barriers

The TPP will reduce “behind-the-border” or non-tariff regulatory barriers to ease the flow of trade and investment. This means countries will be required to make Customs laws, regulations and procedures more transparent, and also tackle hidden costs impeding business operations, such as corruption which will help policy makers of Sri Lanka move to swift reforms.

9. A 21st Century agreement

The TPP addresses emerging concerns faced by businesses and consumers, such as intellectual property and the growth of the digital economy. It sets in place rules on e-commerce to ensure that government regulations do not impede cross-border data flows, or impose requirements that force businesses to place data servers in individual markets as a condition for serving consumers in that market.

TPP governments have agreed to put in place laws protecting consumers from fraudulent and deceptive commercial activities online. The deal also commits countries to implement common standards across major types of intellectual property, including patents, copyrights and trademarks which can be beneficial for Sri Lankan companies operating this space.

10. Accessibility to SMEs

With its special provisions for Small and Medium-sized Enterprises (SMEs), the trade deal aims to make it easier for these companies to participate in regional production and supply chains. The TPP countries will set up websites with information targeted specifically at SMEs. They will also develop capacity building programmes for SMEs, to help firms take advantage of the provisions in the deal. SMEs make up 73% of companies in Sri Lanka and are a key government focus as the SME sector accounts for more than two-thirds of the GDP of Sri Lanka.

FTA's and link to Exports

Whilst the TPP is an opportunity for Sri Lanka, we have seen in the recent past the heat on the FTA with Singapore that was signed around a year back. Whilst there can be merits to this argument, we have to keep in mind that when a country is struggling at 3% GDP growth and a debt stock that is stacking up due to currency depreciation, we have no option but pursue an FTA/economic partnership-driven growth agenda just like many countries have pursued globally.

To be specific, Bangladesh, Indonesia, Vietnam and Mexico are classic examples in today's world of countries due to economic woes that were pushed into opening their economies to the world and today they are trailblazers.

Table 1 - Indian Trade agreement analysis
India's trade negotiating times: Some illustrations

Country	Start	Finish	Total time	No. of Consultations
Sri Lanka	Aug-98	Nov-98	4 months	4-5 Consultations
SAFTA	1999	2004	5 years	Almost 20
Singapore	2003	2005	2 years	Almost 40
ASEAN	2004	2009	5 years	Almost 70
S. Korea	2006	2009	3 years	Almost 30
Thailand	2004	Not concluded	6 years	Almost 50
BIMSTEC	2004	Not concluded	6 years	Almost 50
EC	2007	Not concluded	3 years	Almost 30
Japan	2007	Not concluded	3 years	Almost 30

Source: *Rajan Ratna WTO* Daily FT GraphicsDesk

FTAs hurt

If one tracks back to each of the countries mentioned above, when the decision was taken to 'connect to the world' with economic partnership, there was agitation. But, once the benefits started kicking into the system, things settle.

It will be interesting to see the independent report that will be presented by respected economist W.D. Lakshman to the President on the FTA with Singapore. Given the democratic model at play, when a Coalition Government is running the country it leads to a very strong share of voice on media on issues such as 'opening the economy to the world' that upsets even the diplomatic relations of the two countries that have signed the very agreement. We saw this on the Indo-Lanka FTA 15 years back and now we are seeing history being repeated on the FTA with Singapore.

Sri Lanka's FTA utilisation below 20%

The bone of contention that the private sector has on FTAs is that, the Indo-Lanka FTA with India even after 15 years is not performing up to standard with just a 0.5-1.0 billion dollars in exports from the Sri Lankan end. This comes in the backdrop of the booming opportunity in India of the middle class customer base of over 400 million.

The key strategic sectors of apparel and tea are struggling with the FTA utilisation below 20%. Some companies who have ventured out in the confectionery business have got burnt without any light at the end of the tunnel, which ultimately led to the Sri Lankan chambers issuing a statement that until the FTA anomalies are corrected Sri Lanka must not pursue the ETCA economic partnership agreement.

There have been many conferences to iron out the issues but now the key issues happen to be more of political nature than being trade centric. India's view on the status quo is slightly different. They believe that the anomalies of the current Indo-Lanka FTA will be corrected when ECTA is implemented. In my view, in fairness to Sri Lanka exporters we have to see some course correction on the current trade agreement before we ink new trade linkage. The logic being that we need to see the political will for change before the private sector invests money to drive business.

Burning issue – 4.5% unemployment

Whilst many are focusing on the demand side policy changes, the core issue in Sri Lanka that needs to be focused is the current unemployment rate of 4.5% up from the 2017 number of 4.1%.

This number of 4.5% means that technically Sri Lanka has a people issue on the 83 billion dollar economy. A point to note is that in the last seven years we have seen how the employment at the public sector end has gone down from 15% to 14% as per the Central Bank Annual Reports. On the other hand those employed in the private sector had increased from 40% to 44% as at Q1, 2018 which is positive.

The unemployment being at 4.5% the key question to ask is, how can we move exports from 11.3 billion dollars to 28 billion dollars as per the target set by the National Export Strategy launched recently by the Prime Minister?

Even if the current export revenue takes into account the construction exports, etc. and the total comes to around 15 billion dollars, Sri Lanka will need to import people to fill the gap. In my view construction and apparel sectors, etc. can absorb imported human capital but the tourism industry must maintain the Sri Lankan hospitality rhythm. If this key policy decision is not taken on this front, the tourism industry will lose the identity and high satisfaction scores we currently clock in.

The best case in point is a popular restaurant down Flower Road which employs Indian staff and I wonder how the customer perception is given that foreign visitors would like to have touch and feel of Sri Lankan hospitality. This argument might hold ground in the BPO/IT sector too, if there is some human interaction with international customers.

On the skill gap argument, the point to note is that there will have to be a policy change including visa regulations on employment that will need Parliament approval. This will be a political nightmare given the year of elections coming to play in Sri Lanka in 2019 and 2020. Hence we see Sri Lanka is in a Catch 22 situation.

Mexico – lesson for Sri Lanka

An interesting parallel was seen from a similar country, Mexico, which was also struggling with industrial unrest, low GDP growth and unstable political climate. Mexico has a population of 127 million and poverty and crime are burning issues of the country.

In the 1990s the export income was similar to Sri Lanka with many supply chain issues and exports being in the lower spectrum of the value chain. The country was fighting for political reform to make it competitive whilst debt issues were prevalent just like any other developing third world country.

Mexico – 11 FTAs and 46 countries

Mexico had no option just like Sri Lanka in the 1990s where the country had to integrate with the world and drive up the value chain on exports. Typically a country’s development agenda moves from exporting apparel to machinery and then to electronic components. Mexico was at the first stage of growth and it took the hard decision to move to an FTA driven growth agenda. A strategic objective that was not explicitly said was to reduce the dependency on the US economy.

As at 2018, Mexico has 11 FTAs covering 46 countries that included the geographic belt of US, Canada, Chile, Colombia, Costa Rica, Nicaragua, Peru, Guatemala, Honduras whilst from the rest of the world EU, Israel, Japan and has made the country a 1.1 trillion dollar economy with exports crossing 406 billion dollars which has come from the reform agenda which was hurtful initially but the benefits started coming in over time.

Mexico exports – $ 406 billion

Between 1994 and 2016, Mexico's drive on exports increased from $60.8 billion to $374 billion at a growth of 515%. Even though the current trade deficit is at $13.2 billion what is important is the quality of the export basket. From motor vehicles, motor vehicle parts, automatic data processing, electronic integrated circuits to electronic apparatus for telephones indicate how the nation has moved from apparel production to machinery exports and now at the higher stage of the value chain with electronic items. Sri Lanka on the other hand is yet at the stage of apparel dominating the export basket. Hence we see the leapfrogging that Sri Lanka will require, if we are to be competitive.

Sri Lanka Export Strategy 2018-22

Whilst the EDB must be congratulated for launching the National Export Strategy, the fact of the matter is that we should have had this in place by mid-2016 given that the new Government came to play in January 2015.

Whilst the target of $28 billion set by the government is commendable the reality is that to add almost 12-13 billion dollars when the unemployment level is at 4.5% means that radical reforms will have to be implemented. This to be actioned in an election year will be an absolute challenge.

Even if we implement changes to employment and overcome the issue by bringing down people from Bangladesh and China the question is, how can average export growth of 7% in the last five years be moved to 10% during the period 2018-2022? This comes in the backdrop of a 6.7% export growth in the first five months of 2018 means that the target set is a stretched number.

In our opinion, if we do not invest on R&D from the current 0.1% to around 2% of GDP Sri Lanka will not be able to compete with global players. We will not be able to move to the machinery and electronic export trajectory all countries like Thailand, Vietnam and South Korea have done. By the way South Korea invests around 4% of GDP to R&D to keep the country competitive.

Conclusion

Whilst we accept the challenges in the Sri Lankan market internally and in the export side, the essence of the data discussed is that Sri Lanka needs a revolution in the economy and a overall shift on policy towards the export sector. If we do not do same, the country will become uncompetitive in the global market place.