Members' Forum by Ceylon Chamber of Commerce

Trends for Middle Income Countries to Boost International Trade

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By

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Introduction

1. Global and regional competition for Foreign Direct investment (FDI) is increasingly intense. To achieve the target of becoming the "Wonder of Asia", Sri Lanka must take cognizance of international trends in international trade, assess its position and make necessary investments from both the Government and private sector to meet the identified gaps.

2. In other words, Sri Lanka has to "bite the bullet" and avoid sugar coating its shortfalls. Having won the long and protracted 30-year war against the LTTE, Sri Lanka certainly is not short on resolve and determination. If Sri Lanka could apply the same formula with which the war was won to uplift its international trade position, I believe that "wonder" can be a reality.

Characteristics of trade in middle income countries

3. I have selected three middle income countries, People's Republic of China, Malaysia, and Thailand as comparisons with Sri Lanka. The Islamic Republic of Iran and the Maldives are not included since one is subject to trade sanctions and another is an island state with only 300,000 population.

4. Based on the GDP per capita in 2009 as given in the latest UN Statistics Department, National Accounts Database, Sri Lanka's was at US$2,112, China's at US$3,769, Thailand's at US$3,894 and Malaysia's at US$6,967. However, this GDP per capita does not reflect the strength of the nations' trade position.

5. In terms of exports and imports, Sri Lanka has a trade deficit of US$3,122 million in 2009, which worsened to US$5,205 million in 2010. As a trading nation, its exports' share of global trade represented 0.059 and imports 0.07 of the total in 2009. In comparison, China's exports share of merchandise goods was 9.67 and 7.97 of the total in 2009. Malaysia's was 1.26 for exports and 0.98 for imports. Thailand's was 1.22 for exports and 1.07 for imports. This indicates that other middle income countries that are performing well in global trade like China, Malaysia and Thailand have a much greater share than Sri Lanka which in comparison has an extremely small international merchandise trade.

Sri Lanka – Import/Export

	2009 (US $ Million)	2010 (US $ Million)
Total Export Value	7,085	8,307
Total Import Value	10,207	13,512
Trade Balance	-3,122	-5,205
BOP-2009	2,725	

Source: Central bank of Sri Lanka

6. In terms of exports and imports of services in 2009, a similar pattern emerged that Sri Lanka's share of the global services trade was only 0.05 for exports and 0.07 for imports. In comparison, China's was 2.72 and 4.88, Malaysia's was 0.84 and 0.84 and Thailand was 0.88 and 1.17.

Importance of FDI

7. For a trading nation, the role of investment, both public and private, in the production and services sectors cannot be overly emphasized. Based on conventional wisdom, increase in percentages could be misleading considering the size of the base that we are calculating. Here, we also can find the huge difference between Sri Lanka and the three other middle income countries we have selected for comparison. China is by far the highest recipient of inflows of FDI in the world at US$95 billion in 2009. Malaysia received FDI worth US$1.381 billion while Thailand had US$5.949 billion. Interestingly, Indonesia also received US$4.87 billion and the Philippines at US$1.948 billion. Sri Lanka received an inflow of FDI of US$404 million, with an outflow of FDI at US$20 million, resulting in a net FDI of US$384 million. I need to point out here, that this figure is not the same as that given by the Annual Report of the Central Bank of Sri Lanka which gave the figure of US$602 million for inflows of FDI, the same US$20 million for FDI outflow, resulting in a net FDI of US$581 million in 2009. However, the issue is that inflow of FDI in Sri Lanka needs to be promoted at least four or five times its current level to be comparable to other middle income countries in the region.

8. For the services sector, the government of Sri Lanka is certainly on the right track to promote the country as a tourist destination. As earlier mentioned, the 46% increase in 2010 is indeed impressive. However, we have to take cognizance of the base which was only about 450,000 incoming tourists. Another expected 15% increase in 2011 would bring this figure to three quarter million arrivals. Given the available infrastructure and hotel facilities this figure might be on target. This however, has to be reviewed in terms of trends in other middle income countries like Thailand with 15.84 million tourist arrivals, Malaysia with 23 million and China with 55.98 million. Therefore, there is still substantial gearing up that could be done here in Sri Lanka which will enable the tourism sector to contribute more in the development of the services sector.

Investors Perceptions

9. To promote FDI, investor's perception is very significant deciding factor. In the Transparency International Corruption Perceptions Index of 2010, the following are given:

Rank	Country	Score
1	Denmark	9.3
2	New Zealand	9.3
3	Singapore	9.3
91	Sri Lanka	3.2
178	Somalia	1.1

Source: Transparency International

10. Although this Index presents some controversy but as a perceptions survey, it does provide the relative positioning of a country. This is exacerbated by another survey by the Economic Intelligence Unit of livability Survey of 2009. In this particular survey, it surely did not help that Colombo is ranked among the bottom 10 worst livable cities. Of course, it was due to the fact that the country was just emerging from the throes of war which only concluded in May 2009.

Ten Worst Livable Cities

140. Harare (Zimbabwe)
139. Dhaka (Bangladesh)
138. Port Moresby (Papua New Guinea)
137. Lagos (Nigeria) 136. Algiers (Algeria)
135. Karachi (Pakistan)
134. Douala (Cameroon)
133. Tehran, (Iran)
132. Dakar (Senegal)
131. Colombo (Sri Lanka)

Source: The Economist Intelligence Unit's Livability Survey February 2009

Infrastructure Development

11. To move up in the supply chain, there is a need to put in place certain infrastructure as prerequisites. Firstly, the financial infrastructure needs to be there to assist in export-import promotion such as an Export-Import Bank or expand facilities in existing banks to meet such needs of exporters and importers. Currently, Sri Lanka has 23 licensed commercial banks, 31 registered finance companies and 14 licensed specialized banks. Such a need is shown by the fact that the Government has availed itself of the foreign loans and credit facilities from the EXIM Banks of India, China, Republic of Korea, Malaysia and Hungary to finance various development projects. Such savings from the EPF maybe channeled into a National investment fund that could invest in export industries as was done in both Japan and the Republic of Korea. This investment will increase the physical output capacity for both domestic consumption and exports. This measure has taken Korea from a GDP per capita of US$84 in 1966 to its current level of US$19,000 as an OECD country.

12. In terms of manpower in the trade sector, there are a total of only 91 registered agents who belong to the Sri Lanka Freight Forwarders Association. However, the unofficial unregistered agents number more than 300. Thus, we can see as an example, that there is a need to develop manpower in this component of the supply chain. Currently, a lot of inefficiencies and non-transparent dealings occur which are highly discouraging for potential trade. On a personal level, I have experienced such a situation when my staff has to teach the agent how to clear the import of a private vehicle. It took more than 8 days for me to get my car out of the dockyard and another 2 weeks to get it registered.

13. The transport network is all important to move goods and people. Here, clearly road, rail and air links are vital. I am happy to note that in the Mahinda Chintana, there is going to be a strategic move towards this direction. Investing in quality infrastructure that is adequate and relevant is the key to releasing the multiplier effects in the economy. In Malaysia, with the North-south highway, a journey of 400 kilometres take about 4 hours and commuting 40 kilometres one way is undertaken in half an hour. Turnaround time at the port is also significant. Investment in export-oriented industries means an investment also in the required manpower development. I have been here for more than 3 years and have a fair idea about the need for an internationalisation of a trainable labour force here - in terms of language, relevant skills and the critical mass.

Institutional and Policy Cohesion

14. For trade promotion, efforts undertaken need to be undertaken in a coherent and concerted effort. Therefore, it means that usually a one-stop agency will be more effective. Rationalization and streamlining appears to be the important thing to do. As all of you are aware, there are several agencies charged with export promotion as given below:

1. Export Development Board (EDB)
2. Sri Lanka Export Credit Insurance Corporation (SLECIC)
3. Board of Investment (BOI)
4. Department of Export Agriculture, Ministry of Minor Export Crops Promotion
5. Department of Rubber Development
6. Department of Textile and Industry

15. Frequent dialogue between industry associations and the Government is a very helpful mechanism to gauge the strategic needs and adopt consistency in approach. It may take the form of an annual industry dialogue just before the budget is finalized or quarterly review meetings to discuss issues such as a simplified tax regime, export diversification and value-adding exports of commodities such as tea, rubber and precious gems. This is more useful than any export business information.

Conclusion

16. Without sounding didactic, it is indeed my intention to highlight the vast potential that Sri Lanka has. In the aftermath of the war, the right moves will of a certainty propel the country further as a middle income country.

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Statistical Annex

	FDI	Net FDI inflows Net	FDI outflows
		US $ million	
2008	889	827	62
2009	602	581	20

Source: Central Bank of Sri Lanka Annual Report 2009

GDP per capita, 2009	US $	GDP Growth Rate (%)
1. Malaysia	6,967	-1.7
2. Iran	4,863	1.8
3. Maldives	4,131	-3.9
4. Thailand	3,894	-2.3
5. People's Republic of China	3,769	9.1
6. Indonesia	2,349	4.5
7. Sri Lanka	2,112	3.5
8. Bhutan	1,783	6.3
9. Philippines	1,747	0.9
10. India	1,075	7.7

Source: UNSD, National Accounts Main Aggregates Database

Value and Share of Annual Merchandise Exports/Imports- 2009

Country	Exports		Imports	
	Value (US $ Millions)	Share	Value (US $ Millions)	Share
China	1,201,790	9.67	1,004,170	7.97
Malaysia	157,489	1.26	123,693	0.98
Thailand	152,068	1.22	134,832	1.07
Sri Lanka	7,345	0.059	9,753	0.07

Value and Share of Annual Exports/Imports of Services - 2009

Country	Exports		Imports	
	Value (US $ Millions)	Share	Value (US $ Millions)	Share
China	129,500	2.72	158,900	4.88
Malaysia	28,733	0.84	27,410	0.84
Thailand	30,198	0.88	38,038	1.17
Sri Lanka	1,892	0.05	2,522	0.07

Source: UNCTADstat Online Database