

NEWS ROUND UP

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Changing to a tradable economy crucial: PM

Transforming Sri Lanka's economy from a non-tradable focus to create more tradable goods is the basis of the economic restructuring targeted by the Government, Prime Minister Ranil Wickremesinghe said yesterday, calling on the private sector to become dynamic partners in the conversion.

Wickremesinghe was speaking at the ceremony to award the 'Most Admired Companies of Sri Lanka' at Shangri-La, Colombo. The awards were organised in partnership with the International Chamber of Commerce, Sri Lanka (ICCSL) and the Chartered Institute of Management Accountants (CIMA) Sri Lanka.

While congratulating the winners, Wickremesinghe pointed out that Sri Lanka's economy was earlier driven by policies that promoted non-tradable sectors such as infrastructure development, resulting in tradable goods such as exports declining.

The resulting debt could only be managed by promoting investment and exports to push growth through greater integration with global value chains.

"It is certainly not the best of times as far as the global economy is concerned and it can become even more volatile in the future. Nevertheless, challenges have to be faced and what we are doing is restructuring our economy back to tradable goods. I would like to remind those present here that the merchandise exports of Sri Lanka as a percentage of GDP have declined from 33% in 2000 to 13% of GDP by 2017. That is the hard truth. Trade openness has also reduced from 77.4% to 37.14%," he said.

Even when Sri Lanka enjoyed growth rates of 8% in the years after the war concluded they were fuelled by growth in the non-tradable sector, mainly construction driven by public infrastructure. Since then growth has been subdued, usually falling between 4% and 4.5%, and impacted by weather challenges, he pointed out.

"The investment activities that took place in the preceding period were not targeted to sectors that had the potential to sustain high economic growth, capacity expansion and productivity improvement. Exports only make up one-third of GDP growth. Foreign loans were largely channelled to infrastructure projects," Wickremesinghe noted, adding that the Hambantota port, Mattala airport and the Norochcholai power plant created debt of Rs. 1.7 trillion. He said that about a quarter of the \$ 12 billion debt Sri Lanka would have to pay over the next few years was comprised of foreign debt repayments.

"The widening trade and current account deficits and the increased reliance on foreign borrowings were the inevitable consequences of growth dependent on domestic demand. Although foreign borrowings have increased significantly in the past 10 years such borrowings have not been invested in supporting and promoting the tradable sector of the economy. As the tradable sector has not expanded this continues to contribute to higher debt servicing pressure. However, the expansion of the non-tradable sector has not yielded the envisaged growth. This is what we are up against and it is a big challenge."

The Prime Minister acknowledged debt servicing remains a daunting task, especially given the appreciating dollar but outlined plans to give a boost to local companies by tinkering with tax policies that were introduced recently.

"Debt servicing means collecting higher revenues. Tax proposals that are now being implemented are not arbitrary. Certainly they are results of discussions with the IMF but we realised there were going to be problems and we said let the first year go by and then make adjustments. Already we are in discussions with the private sector on what amendments have to be made and those have been fruitful discussions."

Sri Lanka has to join the fourth industrial revolution taking place in other East Asian countries to become developed and escape hefty debt repayments. Wickremesinghe, borrowing a phrase from a previous speaker at the event who described successful companies as those being able to evolve to changing market lifecycles that have the lifespan of a fly while still having the staying power of a tortoise, as winners, quipped that he did not mind which animals local companies personified as long as they grew.

“A restructuring means refocusing on tradable goods and in this game there will be winners and losers. Inevitably the losers will complain and the winners will stay quite. We took on a challenge and we still have 2019 to get through and with good economic management we will do that. But it does mean that we need a private sector willing to take up this challenge. I won’t distinguish between the fly and the tortoise, as long as they are moving forward, that is all I want. We have to think of our future.”

A Trade Assistance Package, the draft of which has already been released to the public for feedback, would be part of government policy to assist companies to adapt as the economy continues to liberalise.

“We are also bringing out a new paper on trade adjustment and how to help Sri Lankan companies in the next five to 10 years as we adjust to a more global economy. This paper has been approved in principle by the Cabinet and has been put forward for discussion with the private sector. The Government can’t be an ostrich. We can’t hide our heads and shout slogans all the time, certainly not this Government. It is far better to realise that politics is the art of the possible and go ahead.”

PM off to Vietnam to attend ASEAN Economic Forum

On the invitation of the World Economic Forum (WEF), Sri Lanka Prime Minister Ranil Wickremesinghe will leave Monday (10) for Vietnam to attend the ASEAN Economic Forum in Hanoi.

Prime Minister Ranil Wickremesinghe will join the ASEAN heads of state as well as several senior cabinet ministers from South Korea, Thailand and other countries at the World Economic Forum on ASEAN in Hanoi, Vietnam from 11-13 September.

More than 800 leaders from business, government, civil society and the media are expected to join these heads of state and senior ministers to discuss issues ranging from the region’s geopolitical friction points to entrepreneurship and employment in the Fourth Industrial Revolution.

At the inaugural session of the conference, Vietnam Prime Minister Nguyen Xuan Phuc will deliver the welcome address, while Singaporean Prime Minister Lee Hsien Loong and Chinese Deputy Prime Minister Hu Chunhua will address the opening session.

The Sri Lankan delegation will include Development Strategies and International Trade Minister Malik Samarawickrama, Secretary to the Prime Minister Saman Ekanayake, Additional Secretary Saman Athaudahetti and Special Assistant Sandra Perera. (DailyFT)

Joint feasibility study on FTA with Bangladesh

The Government will continue to steam ahead on trade deal negotiations with the next round of discussions with Thailand in two weeks and a joint feasibility study for a Free Trade Agreement (FTA) with Bangladesh set to kick off, a top official said recently.

Development Strategies and International Trade Ministry, Agency for Development Managing Director Mangala Yapa, speaking at the panel discussion on FTAs organised by the Young Professionals Organisation (YPO) of the UNP, noted that the Government remained dedicated to integrating with the global market.

Negotiations for an FTA with Thailand were launched by President Maithripala Sirisena and Thailand Prime Minister General Prayut Chan-o-cha in an attempt to boost bilateral trade between the two countries. The first round of negotiations was held on 13 July.

“The next round of negotiations should take place within two weeks,” said Mangala Yapa. He added that the 11th negotiation for the Economic and Technical Co-operation Agreement (ETCA) with India would also be held within two weeks.

“We are also thinking about getting into an agreement with Bangladesh, there is a joint feasibility that will soon be completed,” he further mentioned.

Speaking on the importance of staying in line with other countries within the region, Yapa said that Sri Lanka should stay integrated with the growing global market.

“One way of getting into the regional market is by getting into bilateral agreements. It is not about one or two agreements that we are coerced into because of external pressure, it is an important part inclusive in our development strategy.”

Finance Ministry Economist and Advisor Deshal De Mel said that since Sri Lanka surpassed the Per Capita GDP barrier to become a middle-income country in 2007, the country had lost access to concessional borrowing and had become dependent upon commercial borrowing.

“The loans we borrowed in the '80s and '90s were from agencies such as the Asian Development Bank and the World Bank with easy and manageable repayment terms. After we became a middle-income country for the last decade we have been reliant on commercial borrowing such as sovereign bonds and syndicated loans,” he said, stressing that this had led to a significant rise in debt service obligations.

“Exports as a percentage of GDP have declined over the last two decades,” he said.

He noted that the country needed a new strategy in terms of foreign direct investment and exports and needed to realign the development strategy to get more international exposure.

On a similar note, De Mel said that bringing down tariffs and custom duties could not have a substantial impact on increasing foreign investment and boosting exports in the long term as it could be changed back by a future government.

“What investors and traders constantly look for is certainty for the foreseeable future in terms of the trading environment and investment climate they are looking to operate in.

“That is why FTAs play a vital role. More than the liberalisation of trade which could even be done unilaterally, it gives a country a binding commitment that in turn reassures and encourages investors and traders,” he mentioned.

De Mel stated that FTAs could pave the way for Sri Lanka to get into more dynamic value added and end product-based trade. He added that the international market access provided by FTAs could further encourage export-oriented FDIs.

Lakshman Kadirgamar Institute (LKI) Global Economy Programme Chairman Dr. Ganeshan Wignaraja, elaborating on the significance of FTAs, stressed the need for getting into FTAs with large markets. “Getting into trade agreements with major markets will reap major benefits,” he said.

He noted that FTAs genuinely open up a country to trade and investment as they reassured that the country had proper governance.

“Bringing in more open market policies in a gradual and cautious manner is the key to success as a country,” he asserted. (DailyFT)

Colombo Port tops global rankings with fastest growth in 1H

The Port of Colombo has been ranked as the world’s fastest growing port from among the top 30 container ports for the first half of 2018.

In container handling, the Port of Colombo recorded a 15.6% growth for the first half of 2018 according to Alphaliner Monthly 2018. This the first time in history the Port of Colombo reached this rank. With this growth, the Port of Colombo has leaped ahead of many other Asian ports, major European ports and Dubai.

According to Alphaliner global port rankings, the top container growth ports such as Singapore marked 11.6%, ranking second, Guangzhou 8.6% establishing itself in third, Antwerp (Belgium) 8.3% in fourth and the Port of Xiamen – (China) 7.6% in fifth.

The Alphaliner that makes the analysis is the first-choice knowledge base used by many port authorities’ terminal operators, logistics companies, shippers, research companies and banks and other financial institutions.

Recently the three terminal operators at the Port of Colombo - the Jaya Container Terminal (JCT) under SLPA, the South Asia Gateway Terminal (SAGT) and the Colombo International Container Terminal (CICT) - reached a Memorandum of Understanding (MOU) to operate collectively to promote the Port of Colombo.

Under the new collective agreement, it is expected to minimise the total turnaround time of all container vessels. Further, through the new agreement, terminals will also be able to promote the Port of Colombo collectively and collaboratively in the arena of international maritime business.

Under the leadership of Ports and Shipping Minister Mahinda Samarasinghe and instructions of Sri Lanka Ports Authority (SLPA) Chairman Dr. Parakrama Dissanayake, the positive increase at SLPA-controlled terminals and especially the Jaya Container Terminal (JCT) is reasoned towards direct and straightforward decisions.

The recognition of credibility towards the management has encouraged the employees of SLPA to contribute towards an efficient service along with the support of all parties and stakeholders engaged in the port operations to keep SLPA’s productivity at a steadily and sustainably increasing rate. Creating history, the Port of Colombo for the first time has recorded 6.2 million container operations in 2017.

The Drewry Port Connectivity Index at its most recent release had ranked the Port of Colombo as the 13th best Connectivity Port in the world for the fourth quarter of 2017, up by five places from its previous rank. According to the rankings, the Port of Colombo is also the top best connectivity port in South Asia.

For its dedicated performance to uplift the position of the Port of Colombo on the world maritime map, the Sri Lanka Ports Authority (SLPA) was awarded the Ports Authority of the Year Award by the Global Ports Forum (GPF) in 2018. (DailyFT)

CEB and PUCSL call truce but tense over details

The tussle between the Ceylon Electricity Board (CEB) and the Public Utilities Commission (PUCSL) over the Long-Term Generation Plan drew to an end this week with the licensee showing readiness to work with the regulator on the next plan but objecting to details in the schedule of activities outlined.

The CEB, upon receiving the letter from the PUCSL indicating the timeline of the schedule of activities for the approval process for the Least Cost Long-Term Generation Plan (LCLTGEP) 2020-2039, wrote to the latter last week saying that the activity “stakeholder consultation on input data and constraints” does not have provisions in the Sri Lanka Electricity Act.

However, the CEB also indicated its willingness to commence other activities in the schedule and attend meetings on the LCLTGEP 2020-2039 upon receiving a revised schedule bringing the drawn out battle between the two entities to a close.

In the letter sent by the CEB General Manager on 4 September, referring to the PUCSL’s letter on the approval process and schedule and “subsequent reminders to attend meetings on the same emphasising the importance of timely completion of the activities identified”, the CEB also agreed that it was important for the two institutions to reach a common agreement on the process followed to develop the long-term generation plan. The CEB also draws upon the tussle the two institutions were engaged in before the PUCSL finally granted approval for the LCLTGEP 2018 -2037 which was only approved earlier this year.

The disagreement between the regulator and the licensee resulted in both President Maithripala Sirisena and Ranil Wickremesinghe getting involved in the matter. A commission was then appointed by the Prime Minister to study the LCLTGEP submitted by the CEB and make recommendations as the power generator refused to develop a new plan or accept the one approved by the PUCSL after amendments. (DailyFT)

More payment gateways mooted to expand Sri Lanka e-commerce

Sri Lanka’s government could allow more payment gateways and reduce fees to expand electronic commerce, a draft road map on reforms in the sector has suggested.

The Consumer Affairs Authority (CAA) and interested parties should actively work to increase the presence and participation of national and international e-commerce companies, the report prepared by the Geneva-based International Trade Centre (ITC) said.

“The participation of several companies shed new light into current operational challenges, but wider participation from major international players such as PayPal may help to identify specific reforms to improve electronic payments.”

The paper, presented at a forum on e-commerce reforms held by the CAA and ITC with European Union funding, said Sri Lanka’s payments system was consistently identified as a key barrier to widespread adoption of e-commerce.

“Consumer and financial regulators in Sri Lanka should work to identify potential reforms that may result in new market entrants offering innovative payment systems in the country,” it said.

“They may include efforts to reduce transactional fees, the availability of new entrants, more payment gateways, increased speed of payments, and reduced delays of customs officials.”

The ITC suggested the central bank could lead on implementing a framework for payments in co-ordination with the Inland Revenue Department, Customs and Telecommunications Regulatory Commission. (Economy Next)

Enterprise Sri Lanka cheap credit only for start ups: Finance Minister

Subsidized credit made available under an 'Enterprise Sri Lanka' branded scheme to develop entrepreneurial culture is only intended for new businesses and banks should not extend loans to old customers, Finance Minister Mangala Samaraweera said.

Some banks were attempting to give loans to existing customers, and they were instructed not to do so, he told reporters.

"We have had reports that some banks were talking in ways that discouraged new customers from taking loans," he said. "

"We have also had reports that some banks were trying to give them to old customers since the rates were very attractive.

"We will establish a toll-free hotline. People can call 2025 for inquiries and complaints."

The finance ministry will also require period reports of loan recipients who had benefitted from the scheme, he said.

The intention was to build 100,000 new entrepreneurs, he said.

Enterprise development workshops at an Enterprise Sri Lanka exhibition held in Moneragala in Sri Lanka's Uva promise had been very popular, among young persons, he said.

"They learned about, starting businesses, registration, book-keeping and preparing project reports," he said.

The Industrial Development Board and Export Development Board had helped with advice on international trade and producing several products.

"A workshop by David Peiris Motor Company to train female mechanics was extremely popular," Samaraweera said.

"In fact we could not accommodate all the applicants."

He said 5,175 persons had registered for Enterprise Sri Lanka credit at the exhibition. The Treasury subsidizes part of the interest on credits given under the scheme..(Economy Next)

Conflicting rules at SriLankan Airlines weaken sales agents monitoring

Lack of clear responsibility to monitor general sales agents at state-run SriLankan Airlines had compounded a problem where agent commission had been increased, contracts renewed without review even when sales revenue and targets fell, a commission of inquiry heard.

Witnesses at a commission of inquiry into alleged irregularities at SriLankan Airlines and Mihin Lanka, a failed budget carrier was told that two departments which could have monitored GSAs had conflicting responsibilities and in some cases none had done a cost-benefit analysis.

Top management had ignored analysis, when they had beendon.

Ex-Industry Affairs Manager Yasmeen Majeed testified at a Presidential Commission of Inquiry that it was the responsibility of the Revenue Accounting division to conduct financial reviews of GSAs prior to signing, and regular cost-benefit analysis, according to the manual in the Industry Affairs division.

Revenue Accounting Senior Manager Upekha Abeysekera testified that according to the 2014 manual in their division which formalized past guidelines, the responsibility for the reviews was with Industry Affairs.

“The practice is that Internal Affairs Manager has to send financial statements to the Senior Manager Revenue Accounting,” she said.

“We don’t get involved with GSAs before their appointment, so we are not aware of anything.”

“There’s nothing to stop us from asking, but we are not aware of what is happening unless someone tells us,” she said.

The Revenue Accounting division is responsible for authorizing payments to GSAs.

Abeysekera was questioned on whether her division raises questions when payment authorizations were requested from GSAs which had been appointed without a financial review.

“Industry Affairs has to request for documents from GSAs.”

“According to our guidelines, the responsibility for conducting the review lies with the department that the agreement originates from,” she said.

She was asked whether she was aware of the contents in the Industry Affairs division manual.

Abeysekera said she was.

“There’s a contradiction in the two manuals,” she admitted.

She said no employee has ever informed the director board of the loophole.

The commission of inquiry was informed by earlier witnesses that SriLankan had signed GSA agreements with companies which were in poor financial position, and in the limited number of cases when the required financial reviews were done, the recommendations were ignored.

The airline had also continued to increase commissions for GSAs not achieving set targets. Commissions were also increased without justifiable reasons, the commission heard.

There was no mechanism for regular review of GSAs until guidelines were changed in 2015, witnesses said. Before then, the GSAs were reviewed only when their agreements were up for renewal. Contracts were extended even when targets were not achieved, the commission heard.

Then Chairman Nishantha Wickramasinghe and then chief executive Kapila Chandrasena had interfered with the process of appointing GSAs, which were done in at least one case with outside influence, the commission heard.

Abeysekera testified that the Management Accounting division of the airline had done a one-off cost-benefit analysis of four GSA territories in 2014, and found that converting SriLankan offices to GSAs had been beneficial in Singapore and Malaysia, and worse-off for the airline in Dubai and Bangkok.

“The general understanding is GSAs are better because of less administrative costs, but a cost benefit would have helped to identify that,” she said, adding that such studies could have been done at the stage of converting country offices to GSAs.(Economy Next)