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NEWS ROUND UP

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Govt. told foreign investors seek policy consistency, stability

As Sri Lanka looks to position itself as an attractive foreign direct investment (FDI) and trade destination in its pursuit of economic reforms, Stax Founder and CEO Rafi Musher pointed out that policy consistency and stability would remain key over the next couple of years before investors began to trust the process.

Delivering the keynote address at the launch of the whitepaper titled 'FDI Landscape and Investor Sentiment in Sri Lanka' organised by the American Chamber of Commerce in Sri Lanka (AMCHAM) yesterday, he said the way forward required clarity, particularly with a portfolio approach.

The AMCHAM, in collaboration with global strategy consulting firmStax, compiled a detailed analysis of the private sector's views of the local business environment and the major operational challenges faced by potential investors with a view to bring various aspects of FDI together as one complete story which helps facilitate discussion and development in key areas.

The first copy of the whitepaper was handed over to Development Strategies and International Trade Minister Malik Samarawickrama by AMCHAM President Kumudu Gunasekera.

Musher outlined the need to streamline agencies for FDIs under one umbrella, policy stability, negotiate favourable and clearly defined trade policies, define and articulate Sri Lanka's value proposition across industries and capabilities, improve transparency and corporate governance, make more tools available and increase financial incentives to bring in capital across sectors and invest in education and vocational training to match industry needs and potential.

Policy instability was highlighted as a key issue, which has been felt by investors across a range of issues amplified by shifts in the political landscape over the last few years.

"Changes in tax policy such as VAT rates, import duties and sudden shifts in economic strategies have all contributed to sending negative signals to prospective investors looking to bring FDIs to Sri Lanka," he stressed.

Musher cautioned that Sri Lanka,as a developing economy,would face similar competition from regional players like Bangladesh, Vietnam and Myanmar in its bid to attract foreign investments. In terms of value proposition, high performers in the region such as the Philippines and Vietnam were likely to pose a more direct threat, he said.

The AMCHAM and Stax survey estimates for FDI inflows into Sri Lanka over the next five years were "somewhat positive" with FDI inflows expected to be around $1 billion over the next year and double over the course of the next four to five years to hover around $2 billion past 2020. This FDI growth is expected to be driven primarily by key investment projects around the Hambantota Port and Colombo International Financial City.

He also said that a firmographic survey of CEOs and owners on investor sentiment indicated a higher proportion of businesses to be in the services (37%) and manufacturing (30%)sectors.

With FDI being a key indicator in assessing Sri Lanka's growth, he noted that in recent times there had been some discrepancy in FDI data reported by various sources and called for one agency for data collection supported by technology.

"Data is collected from a range of sources, including the Central Bank, Colombo Stock Exchange (CSE) and the Board of Investment (BOI). However, the Central Bank is the final authority on inflows. However, FDI data specific to the BOI is also published by the Central Bank. These figures are not according to the standards of the International Monetary Fund (IMF) definitions and do not paint an internationally comparable picture of FDIs. Under these circumstances it is critical to have clarity around the data. It is timely to setup one clear authority for FDI data collection, which will be digitised," he said.

The decline in FDI inflows from $1.5 billion in 2014 to $970 million in 2014 has been attributed to a policy shift on tax concessions granted by the BOI. In addition, according to the Central Bank, two national elections held in 2015 contributed to further political instability resulting in a cautious approach by potential investors, while the global outlook, including the FED rate hike, also played a contributory role.

It was pointed out that the FDI inflow into Sri Lanka primarily originated from Asia which includes Malaysia, India, Netherlands, China and the UAE with telecommunication, tourism and manufacturing being key sectors.

However, Musher noted that some important FDI attracting sectors may not be adequately accounted for in the current compilation methodology.

"The IT/BPM sector draws in foreign investors and has an average annual export growth of 18%-19%, yet the impact on FDI is not well-taken," he emphasised.

He said that despite the US being among the top 10 countries of origin, they accounted for only 4% BOI investment in 2017, noting that the current quantity of FDIs from the US was insignificant. The primary barrier appears to be a difference in standards for transparency and governance. Therefore, he suggested that addressing these concerns would be important in attracting FDIs from the US to Sri Lanka.

"Sri Lanka clearly has strengths and opportunities," Musher said.

Sri Lanka's strategic geopolitical positioning and quality of labour were highlighted as primary factors that led to businesses considering the country as an FDI destination. In addition, access to key markets, literacy and language skills, tax incentives, quality of infrastructure and economic conditions were also key aspects.

Musher said labour was also at the forefront in terms of operational challenges with businesses citing a lack of sufficient labour supply as a major hindrance for operating in Sri Lanka, while high cost and low employee productivity relative to salary too ranked as top labour-related concerns.

In addition, policy instability, a high cost of space, cost of setting up business, regulatory concerns and a lack of space were outlined as major operational challenges faced by businesses.

"There is a ton of talent in Sri Lanka. It is a lot easier to find talent here than anywhere in the world. However, to overcome the labour constraints the Government will need to ensure that education, training and development is aligned with the new growth sectors," he added.

Noting that Sri Lanka was at a pivotal juncture, Musher said that if private sector concerns were not addressed, the vision of being an attractive FDI and trade destination would likely remain a pipedream. (Daily FT)

WB approves $ 200 m loan to improve primary healthcare services

The World Bank Board of Directors today approved a $200 million loan to help increase the use and the quality of Sri Lanka's primary healthcare services.

The Primary Healthcare System Strengthening Project builds on years of experience and lessons in Sri Lanka's health sector and will focus on detection and management of non-communicable diseases in high-risk population groups, responding to the needs of the poorest of the population.

Sri Lanka's health system has demonstrated remarkable performance in achieving universal coverage with maternal and child healthcare services and effective control of infectious diseases.

But the country has the fastest ageing population in South Asia, with the population over 60 expected to double in the next 25 years.

This demographic transition has an impact on Sri Lanka's health profile: 87% of deaths in Sri Lanka are caused by non-communicable diseases.

Out of pocket spending on health is at 38 percent of the total health expenditure, which is most burdensome for the poor.

"People are at the centre of this project which aims to bring better healthcare services, particularly to the poor and the vulnerable," said Idah Z. Pswarayi-Riddihough, World Bank County Director for Sri Lanka and Maldives.

"It is designed to detect symptoms and provide remedial measures, including the promotion of healthy lifestyles to better manage the burden of non-communicable diseases at the community and primary health care levels."

The Ministry of Health will implement the project, which is designed around the recently-released positioning paper 'Reorganising Primary Health Care in Sri Lanka: Preserving Our Progress, Preparing Our Future'. The World Bank will provide technical and financial support to implement the primary healthcare system reorganisation and strengthening and provide implementation support through innovation grants.

"The project should serve as a catalyst for revitalising Sri Lanka's Primary Health Care system and preparing the country to address the future health sector challenges." said Kanako Yamashita-Allen, Senior Health Specialist and Task Team Leader

The project, financed by the International Bank for Reconstruction and Development loan, with a maturity of 33 years including a grace period of six years, will be implemented during a five-and-a-half-year period.

Monopoly in film distribution: DC extends enjoining order against Film Corp.
The Colombo District Court yesterday extended its interim order, against the decision allowing the National Film Corporation to distribute films, to 25 July.

District judge R.P.D.P.P. Ratnayake issued this order consequent to the complaint filed by private film distributors E.A.P. Films and Theatres Ltd, Movie Producers and Importers Ltd, Lanka Film Distributors Company Ltd. and Cinema Entertainment Ltd. citing the National Film Corporation as the Defendant.

President's Counsel S.A. Parathalingam with N.R. Sivendran and Achini Ranasinghe, instructed by Anoma Goonetilleke, appeared for the plaintiff.

The plaintiffs state that it was brought to the notice of the Cabinet that the monopoly over the entire local cinema industry, which was in the hands of the National Film Corporation, has not proven effective both in formulating policies to meet new developments and in the management of the distribution of local films and other related activities.

They say that a Cabinet decision was taken in regard to handing over the distribution of films to the private sector.

They state that consequent to the applications made by them, a written agreement was entered into. They also state that the National Film Corporation under 'Rithma' distribution equally distributes films islandwide to the various theatres and there are 61 theatres under Rithma distribution. (Daily FT)

CICT says Rs. 19.4 m donation to Pushpa Rajapaksa Foundation was a CSR commitment

Colombo International Container Terminals Ltd. (CICT) in a statement yesterday reiterated that its payment of Rs. 19,410,000 (equivalent to $ 150,000), to the Pushpa Rajapaksa Foundation was a donation, in good faith, for the construction of houses for the less privileged.

In a statement prompted by media reports on this payment, the company said:

"This donation was made long after the project concession agreement for the Colombo South Terminal had been signed and construction work on the terminal had already commenced. This payment is clearly reflected in our audited accounts for the relevant year. We therefore categorically reject the implication that the payment is tantamount to a bribe.

"This issue had already been brought up in the media and was investigated by the relevant authorities three years ago. However, in the wake of these latest reports, we reiterate and bring to the notice of the media and the general public that CICT made a donation to the said foundation, as part of its commitment to Corporate Social Responsibility (CSR), and did not intend it to be, nor believe it to be otherwise.

"CICT has already provided the required information on this matter to the relevant authorities. The company has no further information to provide on the matter, other than for what has already been provided.

"For the record, we wish to reiterate that this donation was a part of CICT's CSR commitment, and in keeping with this commitment, we have also supported other deserving projects such as providing support to the victims of the Koslanda landslide in 2016 with cash donations and rations; major

sponsorship of the Wheelchair Tennis program of Sri Lanka Tennis Association (SLTA); and a donation through the China Merchant Charity Foundation of foldable intraocular lenses and cartridges worth $ 60,000 along with an allocation of $ 200,000 for cataract surgeries for needy patients under the 'Tribute to love, China-Sri Lanka Free Cataract Surgery Campaign,' etc.

"Once funding is allocated, CICT believes that the funding so allocated would be utilised for the said projects by the receiving agencies, without CICT having to play a supervisory role as to the implementation of such projects." (Daily FT)

Asia markets on course for positive end to tough week

Most Asian markets rose again on Friday following a record close on Wall Street as trade war fears are tempered by hopes China and the US will eventually reach a compromise, while attention turns to the start of earnings season.

Equities have had a rollercoaster week, with strong US jobs figures providing initial support before Donald Trump's threatened tariffs on another $200 billion of Chinese imports sent investors running for the hills on Wednesday.

However, Beijing's measured response to the warning and indications from both sides that they are willing to talk has instilled trading floors with a little optimism heading into the weekend.

US Treasury Secretary Steven Mnuchin on Thursday told lawmakers the White House was "available" for discussions with China.

That came after China's Vice Minister of Commerce Wang Shouwen said the economic superpowers "should sit down and try to find a solution to this trade problem".

Expectations that US companies will report a surge in April-June earnings have also helped deflect attention from the possibility of a damaging trade war.

All three main indexes ended higher in New York with the Nasdaq hitting a fresh record thanks to a rally in the tech sector.

And those gains filtered through to Asia, with the Nikkei in Tokyo ending the morning session 1.3 percent higher thanks to a weaker yen, while Hong Kong added 0.7 percent. Seoul gained more than one percent, Singapore added 0.1 percent and Taipei, Manila and Jakarta were also well up.

- Trump rattles pound -

However, Shanghai dipped 0.3 percent after jumping more than two percent Thursday, while Sydney was 0.2 percent lower.

Hannah Anderson, global market strategist at JP Morgan Asset Management, said: "Our baseline view is that trade policy uncertainty will continue driving higher levels of volatility but will not fundamentally alter the direction of markets over the next 12-18 months.

"Moderate, negotiated solutions remain our base case outcomes for NAFTA and China trade disputes. There is a rising risk, however, that if these disputes drag on or intensify, market reactions could become deeper and more persistent."

On currency markets the upbeat mood has helped high-yielding currencies higher against the dollar, with the Chinese yuan -- which has taken a hit in recent weeks on trade war fears -- benefitting from words of support from state media.

The dollar is sitting at six-month highs against the yen, which is considered a safe bet in times of turmoil, while the US unit is holding recent gains against the pound.

Sterling has been hammered this week by fresh concerns about Prime Minister Theresa May's political future after her pro-Brexit foreign minister resigned over her plans for leaving the EU.

The selling picked up Thursday when Trump, on a visit to Britain, criticised her handling of Brexit and warned that a US trade deal would be dead if the country did not fully leave the bloc.(Economy Next)

Sri Lanka policy instability stability, lack of qualified labour holding FDI back: survey

A shortage of qualified labour and policy instability were the biggest problem facing foreign investors and more qualified labour, though the strategic location and the quality of labour and access to markets, were key positives, a survey has found.

A survey among members of the American Chamber of Commerce (AmCham) in Sri Lanka found that perceptions of business environment were 'neutral' leaning slightly towards the poor side and the good side.

Rafi Musher, head of Stax, a Chicago-based consultancy that had also invested in Sri Lanka 12-years ago said.said policy instability was a 'huge hurdle'.

In Sri Lanka there was a lot of discussion over tax issues even now.

"The US also has a lot of the same challenges this year," Musher said. "We also do not have some of the guidance on tax issues in the US. But it is a huge hurdle here.

"Streamline in get it right, give some people some consistency and it is going to bring a lot of money."

In Sri Lanka tax inconsistency is a given critics say with each budget celebrated for secretly hatched tax changes that are slammed on people the day after the budget, even without an underlying law until last year.

However Sri Lanka still has a law which allows import and excise taxes to be slapped at midnight, while citizens are sleeping, with no prior notice making a mockery of the parliament and the principle of taxation by consent.

Donald Trump, a white nationalist, has started slapping import duties by executive order, and there are now discussions about reigning in executive powers as the negative effect of nationalism is becoming more evident.

Analysts say Sri Lanka's policy sways between short forays to policies that provide more freedom to consumers and investors, to nationalist and pro-ruler policies such as expropriation that undermines property rights, and retrospective taxes.

Meanwhile Musher said he personally found that there was a lot of technical talent in the country, more than was generally perceived. The tech sector, which was employing increasing number of high earning talent, was not adequately captured in statistics, he said.

However the survey respondents said shortfalls of qualified labour was a key constraint. Investors also cited the high labour costs, insufficient employee productivity as reasons.

There were investors in manufacturing (mostly apparel), in services (40 percent logistics and 40 percent information technology and consulting), who may face different problems with labour.

Of the overall FDI that was coming a lot of money was now going into tourism. Manufacturing was still growing, he said.

"Sri Lanka used to be one of cheapest labour places, but the fact is labour rates are going up, so you are going to need to invest in technology to be competitive with Africa and countries with lower costs," Musher said.

Sri Lanka has tried to give cheap labour by permanently depreciating the currency or unsound inflationary money, which analysts say could lead to brain drain in the services sector and brawn drain in others, while creating political instability.

Investors and people in countries like Vietnam which had a chronic unstable and weak currency due to a bad central bank - especially before strong growth started in the mid 1990s backed by a more stable currency - had escaped poverty by dollarizing salaries and large sections of the economy, analysts say.

An International Monetary Fund report noted last week that following an extended period of stable currency since the end of the great recession, another bout of of 'de-dollarization' had begun in Vietnam.

A depreciating currency will destroy financial capital making investments to boost productivity less easy, while also keeping interest rates chronically high, critics have said.

Cost of setting up a business was also a problem faced by a fifth of respondents. Senior management running around figuring out what the tax policy or regulations was a cost, he said.

About 19 percent of investors also cited the high cost of office space he said. In countries which had plenty of capital flowing into real estate, set-up costs were lower, he said.

In Chicago, when Stax was set up, the real estate firm had given 6-month free rent because a 5-year contract was signed, which allowed them to invest the money in setting up office build out, because there was so much capital flowing into real estate, Musher said.

"Something that people do not realize is that in the rest of the world, where there is so much capital flowing into real estate developers can actually front the build out and give you free rent for a period of time," Musher said

"In our Chicago office of Stax, there was six-month of free rent, which paid for all the furniture and build out, because we were signing a 5-year lease," Musher recalled.

"In our Sri Lanka office they want six-months (rent) ahead and plus all the furniture and build-out." (Economy Next)

Fears that Sri Lanka death penalty moves will hit GSP+ access

Fears are rising that Sri Lanka's plans to execute drug dealers, ending a 42-year moratorium on carrying out the death penalty, may endanger the GSP+ free trade concessions with the European Union (EU), industry analysts say.

The European Union frowns on the death penalty, which is no longer carried out in many countries, and calls itself 'the leading institutional actor and largest donor in the fight against death penalty worldwide'.

"Capital punishment is inhumane, degrading and unnecessary," the European Commission says.

"As a matter of fact, there is no valid scientific evidence to support that the death penalty deters crime more effectively than other punishments.

"Furthermore, any miscarriage of justice, which is a possibility in any judiciary no matter how advanced it is, could lead to the intentional killing of an innocent person by state authorities."

An apparel industry association representing exporters said it would consult with members and legal experts on the possible fallout of carrying out the death penalty on GSP+ concessions.

The EU Delegation to Sri Lanka and the Maldives has not commented on the matter so far, but may issue a statement later, according to diplomatic sources.

Sri Lanka must follow 27 international conventions to remain in the GSP+ programme.

Of these, the International Covenant on Civil and Political Rights calls for the death penalty to only be given to those who have committed 'the most serious crimes in accordance with the law in force at the time of the commission of the crime'.

Sri Lanka also stopped carrying out the death penalty in the 1970s though the punishment itself is in the books.

Successive leaders have refrained from signing death warrants.

"Although there are certain opinions regarding capital punishment in a Buddhist society, if a large number of criminal acts spread in such a society despite religious sermons, it will be necessary to take some timely actions to control crime," President Maithripala Sirisena was quoted as saying on Wednesday.

Opposition activists have also called for a so-called 'Hitler' and authoritative rule to combat crimes, several of which have grabbed headlines.

President Sirisena said that propaganda which said that crimes have risen under the current administration was "carried out by opponents with political agendas," but he was concerned about widespread drug use and its effects on children and society.

Official statistics show that while reported grave crimes have fallen dramatically in recent years, reported drug crimes, have increased.

Police raids and seizures of soft and hard drugs have increased. A part of the increase in raids may also be due to less political interference to act against the drug trade, some analysts say.

The apparel industry is most likely to be affected by the move, since around 60 percent of Sri Lanka's exports to the EU are apparel, according to official data.

GSP+ allows Sri Lanka duty free access to its second largest market which bought 29.1 percent of Sri Lanka's exports worth 3.3 billion US dollars in 2017, with a growth 6.4 percent from the previous year.

Sri Lanka lost the trade facility in 2010 over allegations of human rights abuses during a 25-year civil war, and regained GSP+ in mid-May 2017, following lobbying made by the current government.

In the 12-months from June 2017 to May 2018, Sri Lanka's apparel exports to the EU increased 9 percent to 2.1 billion US dollars. (Economy Next)

Chinese firm in Sri Lanka admits funding Rajapaksa family foundation

A major Chinese company in Sri Lanka Thursday said it made a "donation" of millions of rupees to a private fund linked to former president Mahinda Rajapaksa's family amid allegations that the Chinese funded his failed re-election bid.

The Chinese-controlled Colombo International Container Terminals Limited (CICT) said it paid nearly 20 million rupees the "Foundation" of then minister Basil Rajapaksa's wife Pushpa Rajapaksa as part of the company's "corporate social responsibility."

The admission came after deputy minister Ranjan Ramanayake published a copy of a cheque for nearly 20 million rupees made out by CICT to Pushpa Rajapakasa's foundation on May 21, 2012.

The Chinese company said the money was for housing the poor, but it did not identify the poor or say how many homes were to be build the money. Instead, the CICT said it did not supervise what was done with the cash.

"Once funding is allocated, CICT believes that the funding so allocated would be utilised for the said projects by the receiving agencies, without CICT having to play a supervisory role as to the implementation of such projects."

It also said that the payment to the Rajapaksa foundation was made "long after" the "project concession agreement" was signed and construction of the CICT terminal began. "We therefore categorically reject the implication that the payment is tantamount to a bribe," it said implying that any money given before signing an agreement would amount to a bribe.

The Chinese funding for the Rajapaksa foundation came shortly after the New York Times renewed allegations that the Mahinda Rajapaksa campaign received millions of dollars from Chinese state-owned companies.

Campaign donations are not illegal, but if a foreign entity is funding a political party or an individual it would amount to an external interference in local politics and could also trigger money laundering charges.

The Times also accused China of pushing Sri Lanka into a debt trap.

However, last week, the Chinese embassy in Colombo vowed to keep providing financial help, including loans, to Sri Lanka under its massive "Belt and Road" infrastructure plan.

Dismissing "Western media" claims of a "debt trap", the embassy also rejected the Times' report about alleged corruption in Chinese projects.

However, neither the embassy nor the Chinese company concerned, the China Harbour Engineering Company, have explained the payments specified in the Times report.(Economy Next)