NEWS ROUND UP

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Over $ 16 b investment projects under discussion with Singapore: BOI

Sri Lanka is gearing to reap the benefits of the Free Trade Agreement with Singapore, with four mega projects being discussed by the Board of Investment (BOI).

According to the BOI, the projects with a total investment value of over $ 16 billion in manufacturing mainly for exports are the first projects to realise since the Sri Lanka-Singapore FTA was implemented on 1 May.

The largest of these is an export-oriented oil refinery valued at $ 14.8 billion in Hambantota. The second is a $ 1 billion investment in a steel manufacturing plant in Trincomalee. The other two projects will both be in Hambantota - a $ 200 million sugar refinery and a $ 50 million flour bill, for both local and export markets. These proposals are being evaluated and will be implemented as soon as land is identified, the BOI said.

Last week, Sri Lanka held a highly successful investment forum in the city state, targeting Singapore companies encouraged by the FTA. The forum was attended by Prime Minister Ranil Wickremesinghe, Minister of Development Strategies and International Trade Malik Samarawickrama, and officials of the BOI, Sri Lanka Customs and MODSIT. The Singapore delegation was headed by Senior Minister S. Iswaran. Presentations were also made by two recent Singapore entrants to Sri Lanka in the food and beverage sector who highlighted the strong investor facilitation now being offered by the BOI and the high living standards, including housing, healthcare and education facilities, which make it easy for job creating investors and their families to be based in Sri Lanka.In the early years of Sri Lanka's open economy, Singapore was one of the largest investors with marquee investments by companies such as Shin Kwan Group and Prima Group.

While Singapore's outward FDI has skyrocketed over the past two decades, Sri Lanka's portion had trickled downwards.

The FTA is expected to place Sri Lanka firmly on Singapore's investment map, and the serious interest is an indication of a massive upswing now underway. (DailyFt)

Export fraternity says plea for new era has fallen on deaf ears

- Notes country seems to be in political limbo with a wait-and-see mindset
- Cautions that looming trade war between the US and China will not help SL exporters struggling to be competitive in global marketplace
- Says success of NES will depend entirely on political will, calls on President or PM to personally oversee implementation process
- Insists on transparency, accountability and implementation from current and future governments and policymakers
- EASL to share its latest document with all parties concerned about development of exports

Exporters last week said that their plea to usher in a new era had failed to move the Government into action, as the country seems to be stuck in political limbo with a wait-and-see mindset.

"Time and again the Exporters Association of Sri Lanka (EASL) has stressed the importance and need for a strong and positive political will and vision to drive the exports sector of our country to reach its full potential. But sadly it seems that our pleas have been in vain," EASL President Harin Fernando said while addressing the association's 21st Annual General Meeting last Friday.

Fernando said the export fraternity's expectation of working with a government which was focused on bringing about good governance and ushering in a new era for the country's exports had not panned out as they had hoped.

With the looming trade war between the US and China, he also cautioned that it would not help Sri Lankan exports which are struggling to remain competitive in the global marketplace.

Noting that the EASL had always been vocal in requesting incumbent governments to include the association in its endeavors to shape export policy through public-private partnership, he commended the opportunity given during the formulation of the National Export Strategy (NES), which will be launched this Thursday (19) under the patronage of Prime Minister Ranil Wickremesinghe.

However, Fernando noted that the success of the strategy would depend entirely on the political will and ability of the incumbent government to drive the NES.

"It is absolutely imperative that either the President or the Prime Minister personally oversees the implementation process of the recommended policies in the NES. The private sector cannot be called on to drive this on behalf of the Government," he added.

Highlighting that over the past two years the EASL has come up with two documents under the recommendations of the NES, he said that this year too they had prepared another document which the association hoped to share with all political and interested parties concerned about the development of exports.

According to him, all three documents highlight the most critical issues challenging the export fraternity that need to be addressed at the highest levels of government. However, in the third document, the EASL focuses on five main aspects such as driving NES, improving the investment climate for exports, addressing constraints for market access and promotion, proactive engagement in trade liberalisation and fostering innovation to drive exports.

"I will like to go on record and state that transparency, accountability and implementation are what EASL is requesting from the current and future government and policymakers," he urged.

He said these expectations were paramount in ensuring that initiatives such as the National Single Window (NSW), Trade Information Portal (TIP) and revision of the Customs Ordinance will bring the desired benefits to the export industry of Sri Lanka. (DailyFt)

Economic sentiment continues to deteriorate: Survey

Sentiment surrounding the economy remained dim in June, according to the latest LMD-Nielsen Business Confidence Index (BCI) survey, as almost all respondents believe that the state of the economy will 'stay the same' (55%) or deteriorate (44%).

In terms of business prospects, 12% and 14% of those polled expect to witness improvements in the short and long terms respectively with survey respondents expressing a range of views.

One executive finds it difficult to say if business activities will improve in the coming months "due to the constant changes in government policies." In contrast, another corporate executive observes that "several business opportunities seem to be arising in the country especially in the tourism industry."

The leading business magazine reveals that the investment climate is viewed unfavourably by the majority of survey participants as 63% consider it to be 'poor' or worse, compared to only 3% of respondents who hold a positive view.

In one businessperson's opinion, the risk of investment is too high "due to a lack of trust in both the economy as well as the investment climate."

This sentiment is echoed by another respondent, who says: "We do not expect the investment climate to improve anytime soon due to inconsistent decision making and constant policy changes by the government."

LMD's publisher Media Services says the July edition of the magazine has been released to leading supermarkets and bookstores in Colombo and the outstations. (DailyFt)

CSE to host briefing event for potential Empower Board sponsors

The Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka (SEC) recently launched "Empower", a listing platform fostering capital raising and growth opportunities for Sri Lankan Small and Medium Enterprises (SMEs).

SMEs around the country now have at their disposal a range of new capital raising methods, and entities listing on this platform will be offered guidance during the listing process by both the CSE and an independent sponsor.

SMEs listing on the Empower Board are therefore required to submit such applications through an independent sponsor registered with the CSE, a party defined as a company or individual with experience in investment banking or corporate finance and in handling listing applications for issuers in the past. Specifically, sponsors will be required to hold, at minimum, five years of experience in the field of investment banking or corporate finance, out of which three years of experience is required to be in handling listing applications of issuers.

Sponsors are set to be pivotal to obtaining a listing on the Empower Board in terms of offering SMEs direction and the CSE is presently in the process of evaluating potential sponsors to be registered and endorsed by the exchange to facilitate listings on the Empower Board.

A briefing event for potential Empower Board sponsors will be held on Wednesday from 2.30 p.m. onwards at the CSE Auditorium, where participants will be offered a comprehensive perspective on the requirements to be a sponsor and the registration process. The CSE invites individuals and companies interested in pursuing a registration as a sponsor for the Empower Board to participate at the event.

Further details on the event and registration could be obtained by contacting Lasitha Wijayagunawardane on 011 2356515, or Nilma Samarasinghe on 011 2356559. Prior registration is required for participation.

NDB secures $ 74 m loan with Commerzbank Aktikengsellschaft Germany

National Development Bank successfully negotiated a loan up to $75 million from Commerzbank Aktikengsellschaft Germany recently.

The Dubai-based Alpen Capital Ltd., was the lead arranger to this loan facility. Repayable in 42 months, the purpose of this loan is to be mobilised in NDB's general banking business, without restrictions on any specific sector.

NDB is presently driven on an ambitious mid-term strategy targeting year 2020, with the goal to become a systemically important bank in Sri Lanka. This loan from Commerzbank Aktikengsellschaft Germany will provide much impetus in expanding the Bank's balance sheet and steering it towards this goal.

Commenting on this loan, NDB Director/ CEO Dimantha Seneviratne mentioned that the Bank wishes to disburse these funds to customers at competitive rates. He also mentioned that NDB is glad to be a stakeholder of this facility, which saw a renowned foreign bank's investment in Sri Lanka, and the influx of foreign currency in to the country.

NDB is committed to the development of the country and its citizens, as a trusted financier with a track record nearing 40 years. It is of the firm conviction that the disbursement of these funds across individual, micro financing, SME and corporate clients will further contribute to NDB's mission in ensuring the success of its customers, and the country at large.
(DailyFt)

Six ASEAN Free Trade Agreements: A brief overview of performance

1. ASEAN-China Free Trade Area – July 2005

Over the past decade, trade and investment between ASEAN member states and China have expanded significantly under the ambit of the ASEAN China Free Trade Area (ACFTA). Under the agreement, the six original ASEAN members and China decided to eliminate tariffs on 90% of their products by 2010, while Cambodia, Lao PDR, Myanmar, and Vietnam – commonly known as CLMV countries, had until 2015 to do so. Since the signing of the agreement, China has consistently maintained its position as ASEAN's largest trading partner.

In 2015, ASEAN's total merchandise trade with China reached $ 346.5 billion, accounting for 15.2% of ASEAN's total trade. Additionally, ASEAN received $ 8.2 billion in foreign direct investment (FDI) from China in 2015, placing China as ASEAN's fourth largest source of FDI. By 2020, ASEAN and China are committed to achieving a joint target of $ 1 trillion in trade and $ 150 billion in investment through ACFTA.

2. ASEAN-India Free Trade Area – 1 January 2010

The ASEAN-India Trade in Goods Agreement entered into force on January 1, 2010. The signing of the agreement paved the way for the creation of one of the world's largest free trade area market, creating opportunities for over 1.9 billion people in ASEAN and India with a combined GDP of $ 4.8 trillion. AIFTA creates a more liberal, facilitative market access, and investment regime among the member countries. The agreement set tariff liberalisation of over 90% of products traded between the two dynamic regions. Accordingly, the tariffs on over 4,000 product lines were agreed to be eliminated by 2016, at the earliest.

3. China-Singapore Free Trade Agreement (CSFTA) – 1 January 2009

Tariff elimination for about 95% of Singapore's exports to China from 1 January 2010 ensures tariff free importing for most products. More than 85% of Singapore's exports to China have enjoyed zero-tariff rates since 1 January 2009 and an additional 10% have been duty-free since 1 January 2010. According to the statistics of Singapore, in January-June 2013, China-Singapore bilateral trade totalled $ 42.45 billion with a year-on-year growth of 6.1%, of which, $ 21.61 billion was export to China and $ 20.85 billion was import from China, up by 3.2% and 9.2% year-on-year respectively, with a trade surplus of $ 760 million, down by 58.6%. China is Singapore's third largest export market and the largest source of imports. Singapore exports to China are mainly such products as machinery and electronic products (53.1%), mineral products (13.6%), chemical products (10.3%) and plastics and rubber (9.4%). Singapore imports from China are mainly machinery and electronic products (60.2%) as well as mineral products, base metals and chemical products.

Singapore's FTAs have been instrumental in helping Singapore-based businesses to strengthen cross-border trade by eliminating or reducing import tariff rates, providing preferential access to services sectors, easing investment rules, improving intellectual property regulations, and opening government procurement opportunities.

4. Japan-Singapore Economic Partnership Agreement (JSEPA) – 30 November 2002

The Japanese market has always been a tough case for foreign exporters and firms with its numerous barriers; tariff and non-tariff trade barriers, as well as institutional, cultural barriers, etc. As such, the liberalisation measures brought about by this bilateral FTA are expected to have a significant positive impact on both export and import flows between the two countries. Since Singapore is a country with relatively few trade barriers in place and Japan is taking on more of the trade barrier reductions in this FTA agreement, Singapore's exports to Japan are expected to be more affected by the implementation of this FTA.

This agreement led to an increase in Japan's zero-tariff commitments from 34% of total tariff lines under the World Trade Organization (WTO) to 77% (Singapore FTA Network). In particular, tariffs were removed from 98.5% of Japan-Singapore trade in goods from an initial level of 65%. It was also termed "new age partnership agreement as it further included issues like regulatory reforms, cooperation in science and technology, media and broadcasting, electronic commerce, human resource development, promotion of SMEs in both countries and collaboration on education and training. Singaporean exporters expected to gain the most from this FTA are those of chemicals and petroleum, electrical and electronic products, plastic goods, pharmaceuticals, instrumentation gear, transport equipment and fabricated metal products (Business Times Singapore English, 2007). The liberalisation following the JSEPA was also significant in the service sector with Japan expanding its commitments from 103 services sectors under WTO to 135 (Singapore FTA Network).

Regarding the impact on income elasticity, the hypothesis of an increase in income elasticity of demand for both exports and imports is expected to hold true here since the removal of trade barriers via this bilateral FTA will enable a more timely response by both to variations in income. For Singapore's exports to Japan, the JSEPA is predicted to have a reinforcing effect on the price elasticity of demand based on the assumption that the trade liberalisation measures will increase the responsiveness of export demand to variations in prices.

5. US-Singapore Free Trade Agreement – 1 January 2004

It was the first US FTA signed with an Asian nation and the first FTA signed by President George W. Bush. The FTA resulted in immediate zero tariffs on all US products. Overall Trade in Goods between the United States and Singapore was $ 35.7 billion in 2005, an increase of 2.24% over 2004. Trade in 2004, the first full year of implementation, was $34.9 billion, an increase of 10.3% over 2003's trade of $ 31.6 billion. US exports to Singapore grew to $ 20.6 billion in 2005 compared to $ 19.6 billion in 2004, a 5.3% increase. US exports to Singapore in 2004 increased 18.8% over 2003's $ 16.5 billion. US imports from Singapore decreased to $ 15.1 billion in 2005 from $ 15.3 billion in 2004, a 1.6% decrease. US imports in 2003, prior to the FTA implementation, were $15.1 billion. The US trade surplus with Singapore tripled during the first year of FTA implementation, reaching $ 4.3 billion in 2004, and $ 5.5 billion in 2005. In 2005, Singapore was our 11th largest trading partner (exports and imports combined). Singapore ranks 2nd on the World Bank Group's Index on 'Ease of Doing Business in 2006', one position above the United States and just below New Zealand.

6. The Viêt Nam-South Korea Free Trade Agreement – 20 December 2015

Le An Hai, deputy head of the Ministry of Industry and Trade's Asia-Pacific Market Department, said bilateral trade between the two countries had soared 87-fold, from $500 million in 1992, to $ 43.4 billion last year. Last year, South Korea was the third largest trade partner (after Hong Kong and mainland China) and the fourth largest export market for Viet Nam, according to the General Department of Customs. There are 6,130 FDI projects from South Korea in Viet Nam, with total registered capital of $ 54 billion, according to the ministry.

In addition, the free trade agreement (FTA) between Viet Nam and the Republic of Korea (VKFTA), which took effect in 2015, reduced more than 90 per cent of tariffs in a bid to increase Vietnamese exports to the country, according to Hai. The FTA has created new export opportunities for more than 500 Vietnamese products, especially agro-forestry and aquatic products such as shrimp, crab and fish.

(DailyFt)

Asia Stocks Slip as China Shows Signs of Slowdown: Markets Wrap

Asian stocks declined as data indicated a slowdown in China's economy in the second quarter. Crude slid and the yen traded near the weakest level since January.

Equities from Sydney to Shanghai dropped, while those in Hong Kong recouped losses during the morning. Volumes were down in most markets with Japan shut for a public holiday. The yen held its recent losses after posting its biggest weekly slide in 10 months. Oil fell below $71 a barrel amid speculation the Trump administration is considering tapping into emergency crude supplies. U.S. equity futures ticker higher after Friday's gains pushed the S&P 500 back above 2,800, with a pause in trade tensions outweighing a mixed start to the earnings season.

Trade tensions have eased somewhat as officials in Beijing appeared to moderate their response to President Donald Trump's tariff threats amid a slowing economy, falling stock market and weakening currency. Data Monday showed China's economic expansion slowed down slightly from the previous quarter, with industrial output in June missing estimates. Later this week investors expect Federal Reserve Chairman Jerome Powell to lay the groundwork for further tightening.
Why the Fed Is Not Your Fed Anymore

Watch Bloomberg's discussion of the U.S.-China trade war, the Federal Reserve and the risk of a recession.
Source: Bloomberg

Terminal users can read more in Bloomberg's Markets Live blog.

These are some key events coming up this week:

- Earnings season continues with reports due from companies including: Bank of America, BlackRock, Goldman Sachs, Morgan Stanley, American Express, Netflix, Microsoft, Taiwan Semiconductor Manufacturing, Unilever, Johnson & Johnson and IBM.
- U.S. President Donald Trump and Russian President Vladimir Putin hold their first summit together.
- Fed's Powell delivers the semi-annual Monetary Policy Report to the Senate Banking Committee and answers lawmakers' questions.

And here are the main market moves:
Stocks

- Hang Seng was little changed as of 11:31 a.m. in Hong Kong, having slipped as much as 0.7 percent earlier. Hang Seng China Enterprises Index down 0.6 percent.
- Shanghai Composite declined 0.5 percent.
- Australia's S&P/ASX 200 Index fell 0.3 percent.
- South Korea's Kospi index slipped 0.2 percent.
- Futures on the S&P 500 Index were up 0.1 percent. The underlying gauge rose 0.1 percent Friday.

Currencies

- The Japanese yen slid 0.1 percent to 112.46 per dollar.
- The offshore yuan rose 0.1 percent to 6.7075 per dollar.
- The euro was little changed at $1.1686.
- The British pound rose 0.1 percent to $1.3241.
- The kiwi dollar climbed 0.2 percent to 67.67 U.S. cents.

Bonds

- The yield on 10-year Treasuries dipped two basis points to 2.83 percent Friday.
- Australian 10-year government bond yields were steady at 2.63 percent.

Commodities

- West Texas Intermediate crude declined 0.5 percent to $70.69 a barrel.
- Gold fell 0.1 percent to $1,243.64 an ounce.

(Bloomberg)