

Export Sector in Sri Lanka: Issues and Challenges

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Presentation Format

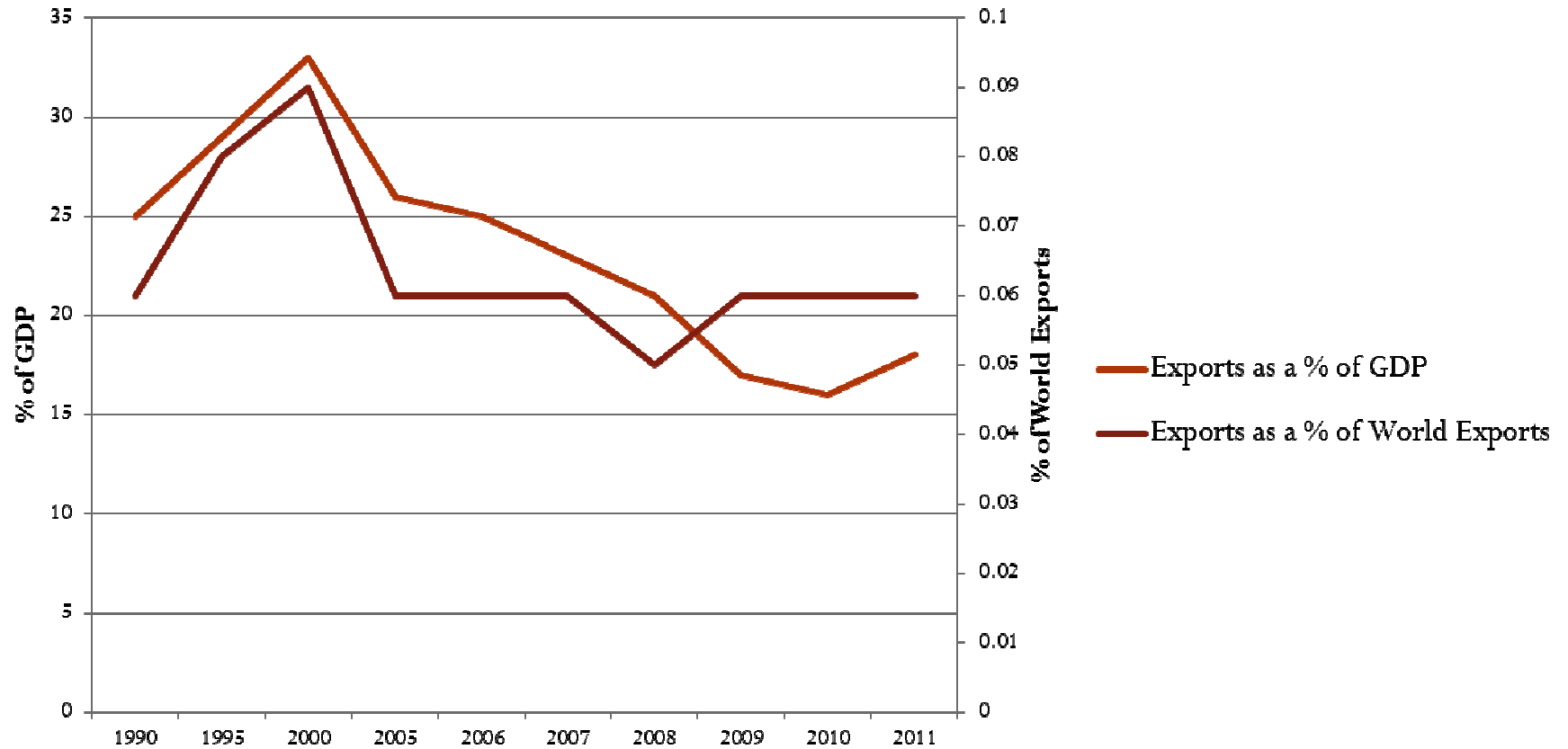
- Emerging Picture at the Macro and Disaggregated level
- Comparing current performance and overall performance with some competitor countries
- Major concerns on the export sector
- Way Forward

Overall Macro Picture of Exports

- Sri Lanka's export performance since 2000 has not been satisfactory
- Sri Lankan share in global exports has been on the decline
- Sri Lankan exports as a share of GDP has been on the decline
- Sri Lanka witnessed a decline in absolute earnings of exports in 2012
- Expanding trade deficit in 2011 and 2012 is partly explained by the unimpressive performance of the export sector

Declining Export Share

Sri Lanka's Export Share, 1990-2011



Sources: Central Bank of Sri Lanka & IMF Direction of Trade Statistics

Reflected at the Disaggregated Level

- This decrease in export share in the global market is reflected at the disaggregated level of exports
- The decline in absolute export earnings in 2012 is also reflected at the disaggregated level
- There was hardly any improvement in the trade deficit in 2012 because of the decline in growth of exports in 2012

Declining Export Share: Disaggregated Level

- Stagnant or declining shares for most key products

Sri Lanka's Share in World Exports, 2005 & 2010

HS Code	Product Description	Share in World Exports (%)	
		2005	2010
61	Articles of apparel, knitted or crocheted	0.9	0.9
62	Articles of apparel, not knitted or crocheted	1.1	0.9
09	Coffee, tea, mate & spices	4.6	4.2
40	Rubber & articles thereof	0.4	0.4
71	Pearls, precious stones, metals	0.2	0.1
69	Ceramic products	0.1	0.1
14	Vegetable plaiting materials	0.8	1.3
03	Fish, crustaceans, molluscs, aquatic invertebrates	0.2	0.2

Source: Export Development Board, 2012.

Decline in Absolute Export Earnings

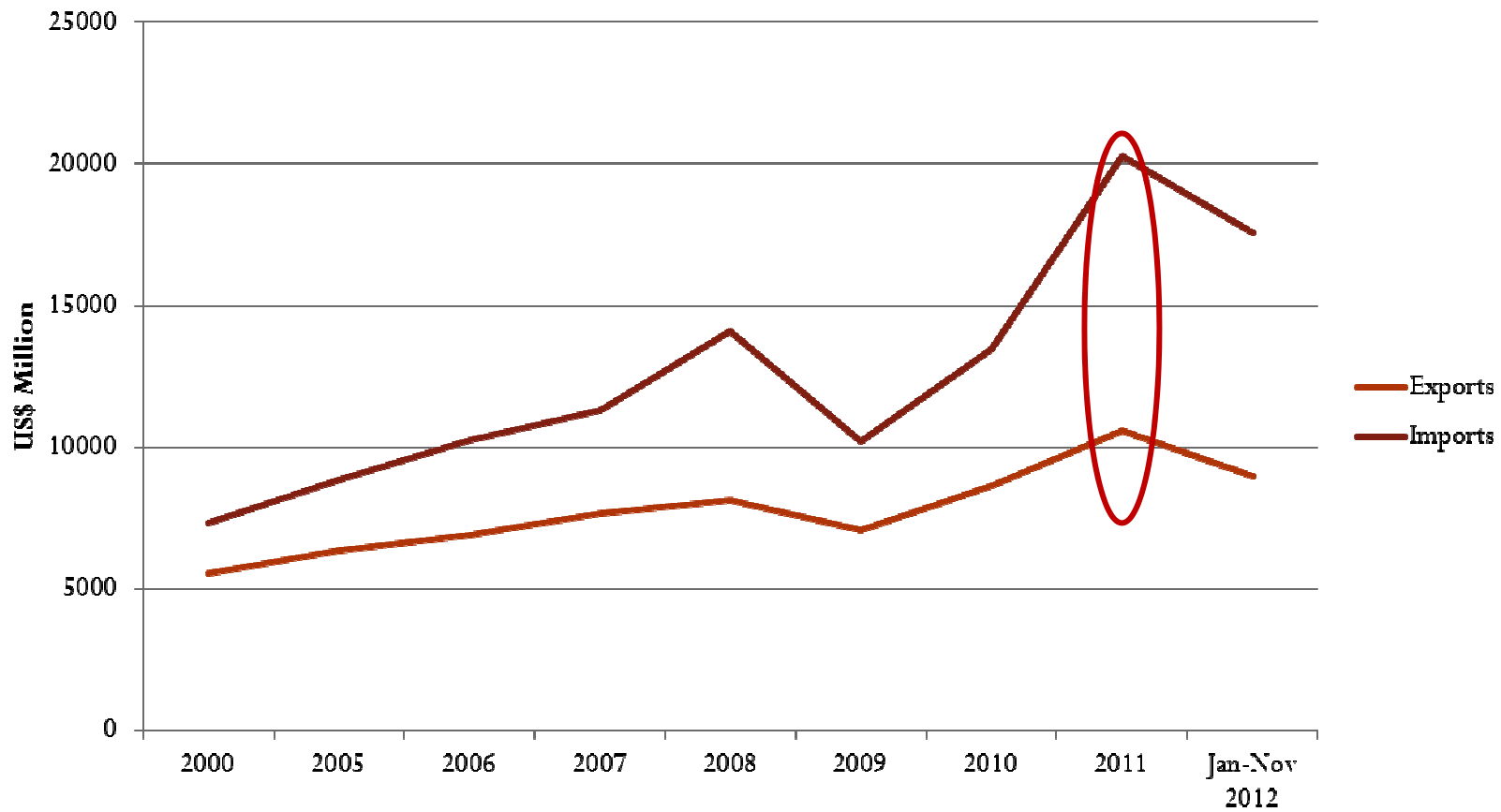
Export Earnings of Sri Lanka, 2011 & 2012

Category	Jan-Oct 2011 (US\$ Mn)	Jan-Oct 2012 (US\$ Mn)	Growth (%)
Total Exports	8739.7	8163.8	-6.6
Agricultural Exports	2052.2	1855.7	-9.6
Tea	1220.9	1136.1	-7.0
Natural Rubber	184.4	109.2	-40.8
Fisheries Products	156.9	170.7	8.8
Other crops	302.3	303.5	0.4
Industrial Exports	6334.4	6000.4	-5.3
Textiles & Garments	3445.3	3245.3	-5.8
Diamonds, Gems & Jewellery	454.9	485.0	6.6
Manufactures	1986.8	1875.0	-5.6
Petroleum Products	447.5	395.1	-11.7

Source: Export Development Board, 2012.

Expanding Trade Deficit

Export and Import Earnings of Sri Lanka, 2000-2012



Source: Central Bank of Sri Lanka

Sri Lankan Performance compared with Competitors ?

- Is it the global economic downturn that has been responsible for the unimpressive export performance in 2010 and 2011 ?
- We will examine the performance of some competitors of Sri Lanka in 2010 and 2011
- We will then highlight two countries that have well overtaken Sri Lanka in export performance

Comparing Sri Lanka with Competitors

- In 2010 Sri Lankan exports grew at **18.2%** compared to India- **40.5%**, Vietnam **26.4%**, Thailand **28.1%**, Philippines **34%** and Mauritius **18.7%**
- In 2011 Sri Lankan exports grew at **5.4%** compared to India - **29.3%**, Vietnam – **33.3%**, Thailand- **17.4%**, Pakistan **29.3%**, Bangladesh **41.5%** and Mauritius **23%**
- Clearly the global economic downturn is not the only reason for the low export growth in Sri Lanka

Story of Vietnam

- Post-conflict economy whose export were on par with Sri Lanka in 1990 – US\$ 2 bn
- In 2011, Vietnam's exports amounted to **US\$ 96.8 bn** compared to Sri Lanka's **US\$ 10 bn**
- Diversified products: clothing, shoes, marine products, crude oil, electronics, wooden products, rice, and machinery
- Diversified markets: US (20%), Japan (11%), China (10%), South Korea (4.5%)

Story of Bangladesh

- In 1990, **Bangladeshi** exports were **US\$ 1.7 bn** compared to **Sri Lanka** at **US \$ 2 bn**
- Bangladeshi overall exports in 2011-2012 amounted to **US\$ 24 bn** compared to Sri Lanka at **US\$ 10 bn** in 2011
- Bangladesh is the 2nd largest ready-made garment exporter of the world (after China) and in 2011-2012 amounted to US\$ 19 bn (compared to Sri Lanka's US\$ 4 bn); a global leader in the low-end RMG exports
- Bangladesh is now focusing, among other items, on ship building and pharmaceuticals and exporting them

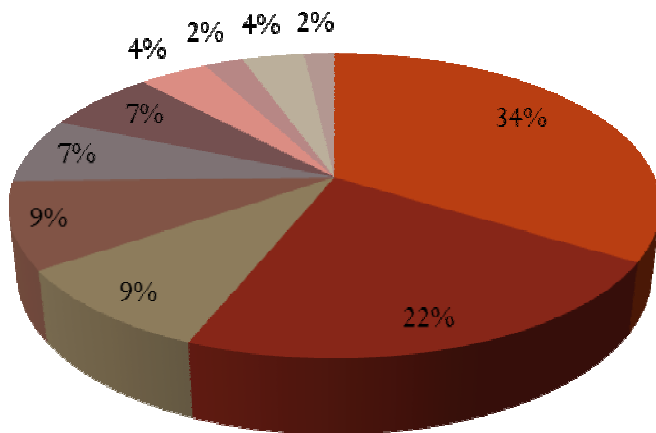
Major Concerns of the Sri Lankan Export Sector

- Export sector is characterized by product concentration: ready-made garments and a few manufactured items amount to 62% of overall exports
- The sector is also characterized by heavy dependence on few markets: EU and NAFTA amounting to 54% of the market

Product and Market Concentration

- Heavy concentration of export markets/products:

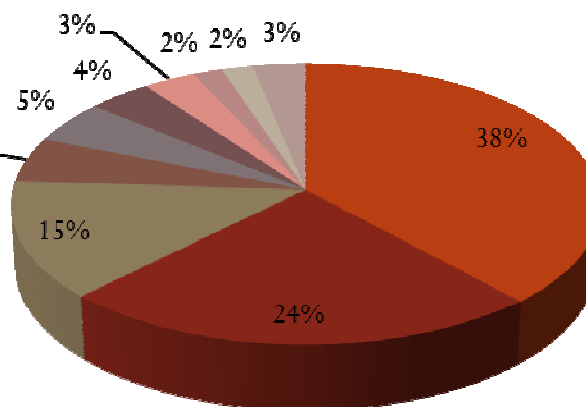
Exports by Region, 2011



56% to the EU & NAFTA

Exports by Product, 2011

- EU
- NAFTA
- Middle East
- BRICS
- ASEAN
- SAARC
- CIS Countries
- Latin America
- Others
- Africa



- Textile & Garments
- Manufactures
- Tea
- Petroleum Products
- Diamonds, Gems & Jewellery
- Coconut
- ICT
- Fisheries
- Rubber
- Others

62% of earnings from garments & manufactures

Source: EDB, 2012

Focus on Simple Products

- Close to 99% of Sri Lankan exports are simple products that could be copied by competitors easily
- Value of high-tech exports in Sri Lanka have fallen sharply from US\$ 102 mn in 2008 to US\$ 57 mn in 2010
- Sri Lanka's share in high-tech exports averages at **1.8%** compared to 75% in Korea, 27% in Thailand and over 50% in Singapore and Malaysia

Way Forward

- In addition to creating the conducive macroeconomic policy environment (flexible exchange rate, lower interest rates, trade facilitation, etc)
- Identify emerging new export sectors and the government should promote/encourage them
- Make maximum use of existing preferential and free trade agreements
- Increase investment in R&D by the private sector
- Change from simple products to more complex products
- Should recognize innovations in the export sector

Emerging Sectors/Markets

Products	Description	Potential Markets
Light engineering products	<ul style="list-style-type: none"> Supplies parts & spares for machinery, equipment and tools Currently uses only 20% of its capacity 	Singapore, India, EU, US, Hong Kong, Japan
Plastic products	<p>Main exports:</p> <ul style="list-style-type: none"> Polyethylene bags, (door knob bags, shirt bags and food wrap bags etc.) Packaging products to exporting industries such as garments, food processing & jewellery exports. 	US, SAARC region, EU, Japan, China, UAE, Vietnam, Philippines
Printing services	<p>Considerable export potential in:</p> <ul style="list-style-type: none"> Print packaging materials and labels and tags, stationery products Opportunities in typesetting, colour separations, offset printing, web offset printing, gravure printing, carton gluing, screen printing 	SAARC region, the Middle East, Russia, UAE, China, Kenya, Australia

Emerging Sectors/Markets Cont.

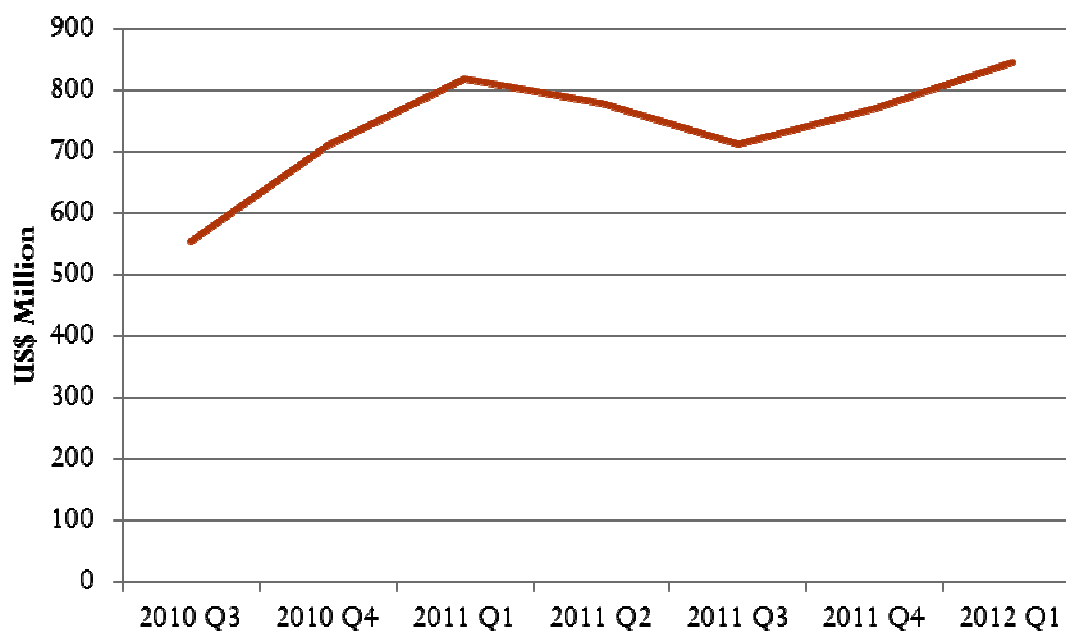
Products	Description	Potential Markets
Toys	<p>Main exports:</p> <ul style="list-style-type: none"> • Plush toys, rag dolls and animals, puzzles, mobiles, educational toys, pull along toys, skittles, children's furniture, wooden boats 	US, EU, India, Canada, Australia, Hong Kong, UAE, New Zealand, Japan
Wooden furniture	<p>Export potential in:</p> <ul style="list-style-type: none"> • Household furniture (bedroom & living room, kitchen furniture, garden furniture). • Office furniture (computer tables, office tables etc) • Commercial and institutional furniture (furniture for hotels and schools, hospitals etc) 	India, Australia, UAE, EU, New Zealand, Maldives, US, Thailand, China

Source: Export Development Board, 2012. Export potential in:

Services Exports

- Performance of services exports more promising:
 - **55.4%** growth rate in 2011 over 2010 compared to **5.4%** for goods exports
 - **3.2%** growth rate in 2012 Q1 over 2011 Q1

Services Export Earnings of Sri Lanka, 2010-2012



Source: UNCTAD Statistical Database

Emerging Sectors/Markets Cont.

IT/BPO

- SL ranked **among top 25** in A.T. Kearney's Global Services Location Index in 2011
- **5th largest export revenue earner** for the country with US\$ 392 Mn in 2010
- Has been resilient in the face of the global recession
- 100% value addition
- Key area: Financial & Accounting Outsourcing (FAO) – SL ranked **among top 20** centres of excellence for FAO
- Current export markets include North America, EU, Australasia & East Asia
- Significant opportunities emerging in the Middle East – ICT sector in ME expected to grow at 8-10% annually compared to a global average of 3%

Way Forward

- Sri Lanka's export share in India is 5%, Pakistan 0.7%, and China 1%. It is time to fully exploit ISLBFTA, PSLBFTA, SAFTA, and APTA to penetrate these markets further
- Growing markets are in China, India, East Asia, and Middle East and they are the future markets and early mover advantage has to be gained
- How long can we move forward with low cost labour based comparative advantage ?
- There is a need to increase R&D expenditure in export firms – it is true that the overall R&D expenditure is low (0.11% of GDP) but what is alarming is the private sector share in this is only 18%, where as in other successful exporting nations private sector share is above 65%
- South Korea's Hyundai and KIA are the most fuel efficient cars today; Brazil's Embraer is one of the leading jet manufacturers and has partnership with both Boeing and Airbus; Taiwan's Acer and Asus are now two leading Notebook manufacturers in the world; South Korea's Samsung Galaxy smart phones have a competitive edge over Apple i-phones and Samsung will become the top home appliance maker by 2015, etc.

Way Forward

- These possibilities have emerged from investing in R&D and focusing on innovation
- Export innovation is the way forward for Sri Lanka and it is high time that we have an Awards Scheme for rewarding innovations in the export sector
- NCE already has one award for innovation, however with the recent MOU signed with the NSF, NCE should consider expanding these awards to cover more sectors
- Thank you