

# Towards the 2020 Vision of US\$ 20 bn Exports and Beyond

## Pressing Concerns and Emerging Opportunities

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# Contents

- Introduction
- Current Export Performance in the Context of Sri Lanka's Competitors
- Policy Framework -- where changes are necessary
- Challenge of Value Addition to Exports
- Way Forward

# Introduction

- The GoSL has set an ambitious target of achieving an export turnover of US\$20 Billion by 2020
- This means doubling current export turnover over the space of 5 years
- Achieving this target would require exports to grow at an average annual growth rate of 14.82%
- Given past performance and its current standing, achieving this is challenge unless a number of pressing concerns are addressed with priority

# Current Export Performance in the Context of Sri Lanka's Competitors

# Background

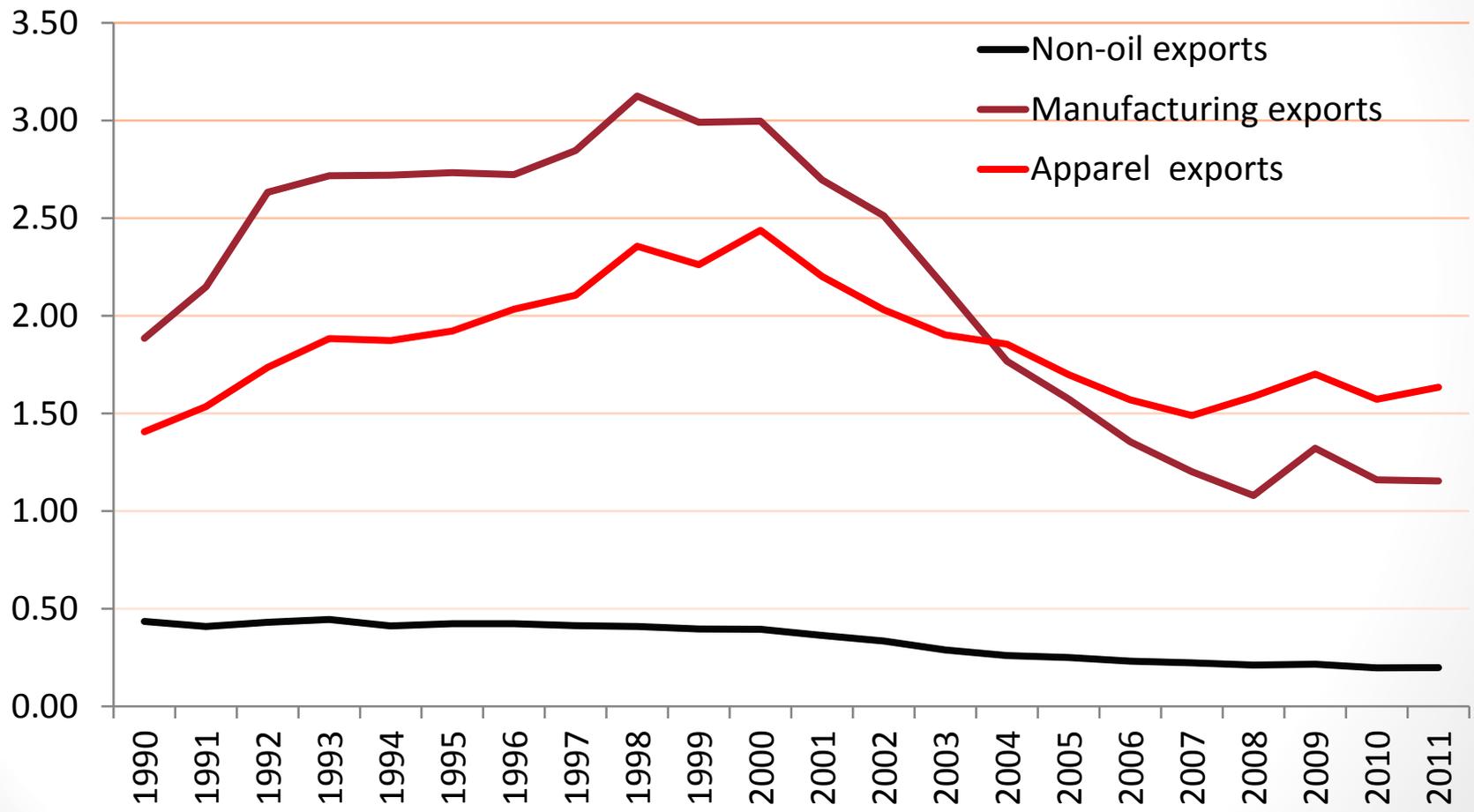
SL's recent export performance has been far from satisfactory since 2000:

- Declining exports/GDP ratio
- Declining world export share
- Steep fall in SL's share of exports from developing countries
- SL has fallen behind its competitors

Thus SL's export problem is fundamentally 'homegrown' – cannot be blamed on world markets

# Declining Export Share

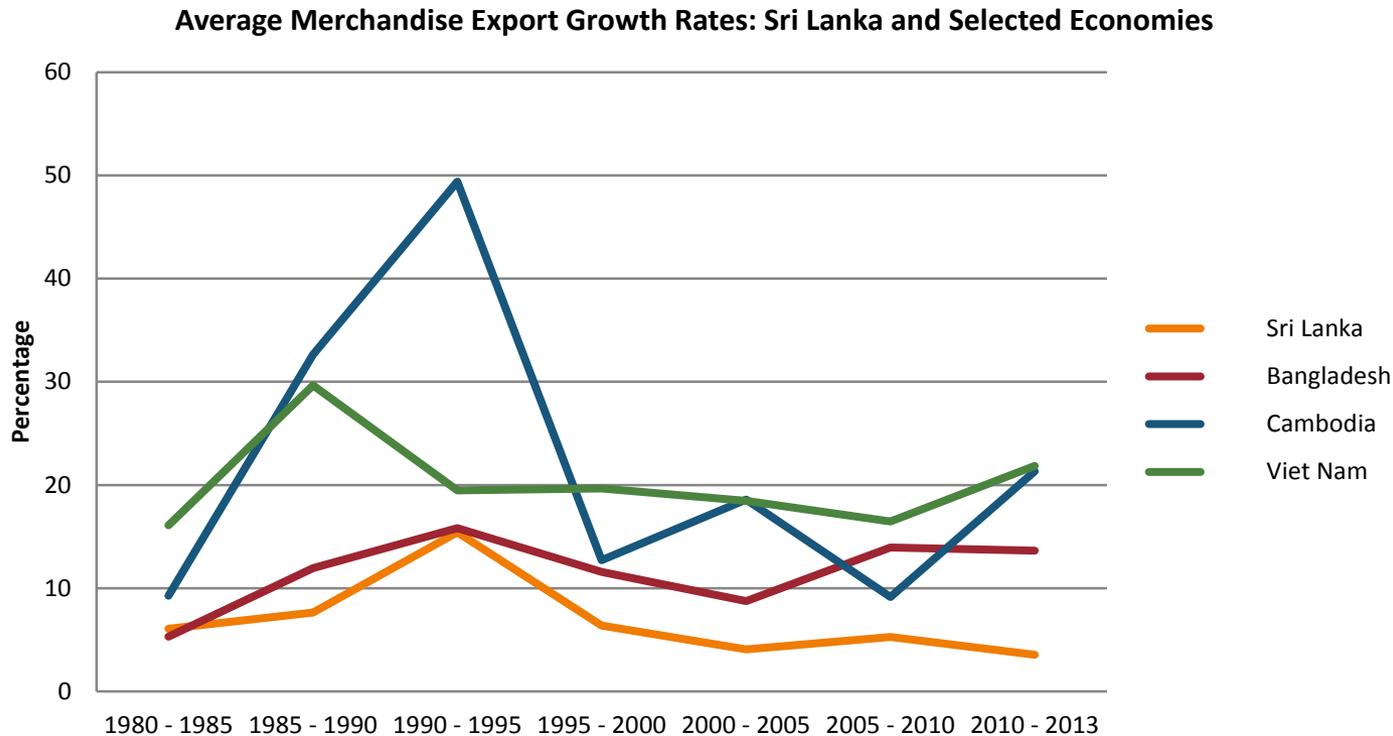
## Sri Lanka's Share in Exports from Developing Countries, 1990-2011



Source: Athukorala, 2013

# Slowdown in Export Growth

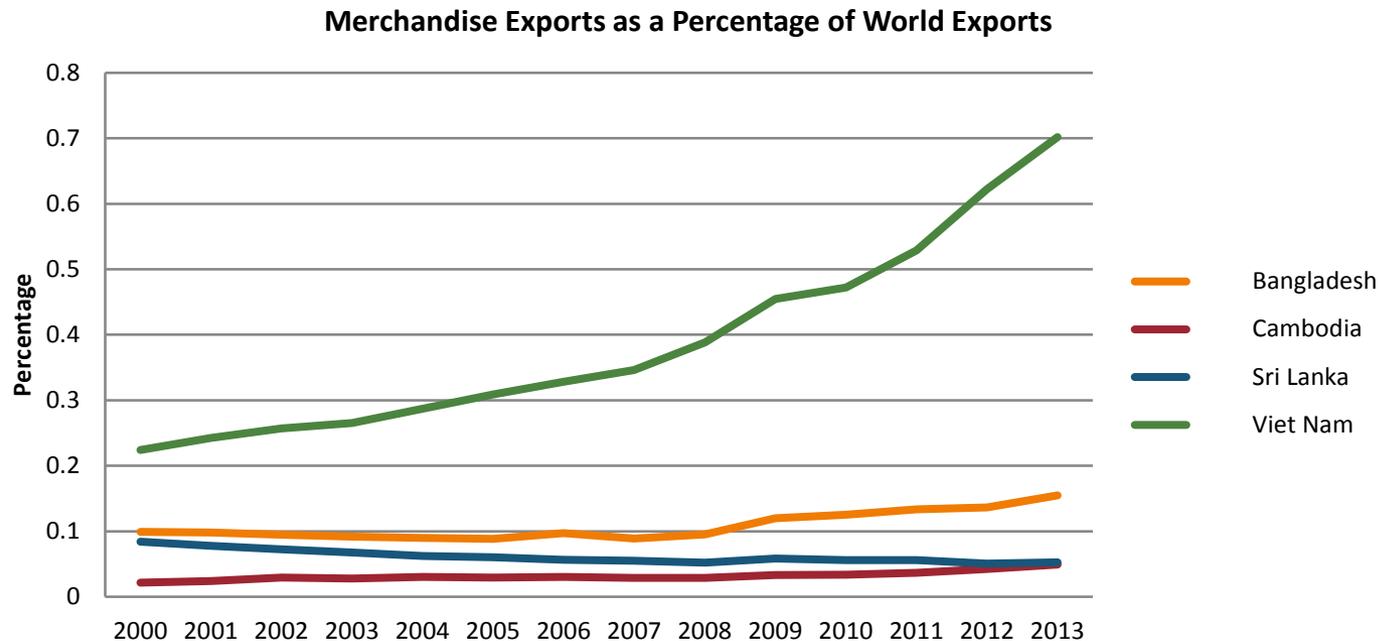
- Export Performance over the past two decades has been far from satisfactory
- Significant deceleration in export growth



Source: UNCTAD (2015), Statistics Database

# Losing out on World Market Share

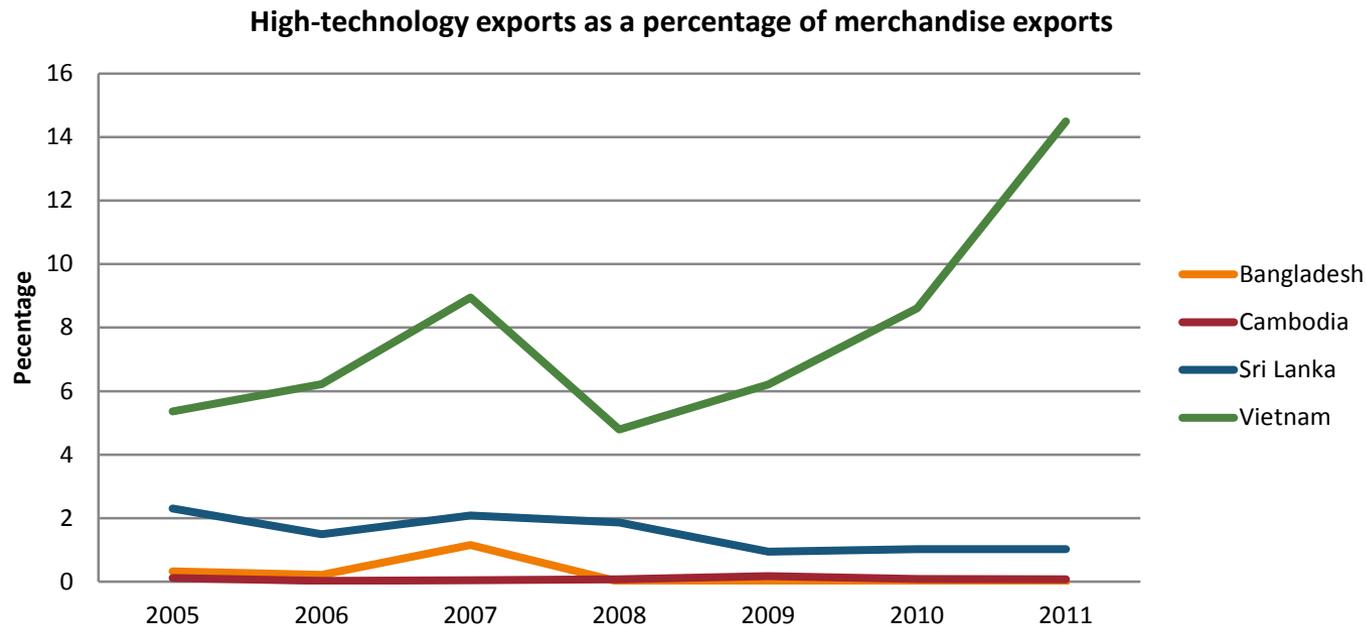
- Sri Lankan exports have also been gradually losing out on world market share
- Vietnam in particular has been able to make significant inroads into the world market



Source: UNCTAD (2015), Statistics Database

# Inability to penetrate high technology exports

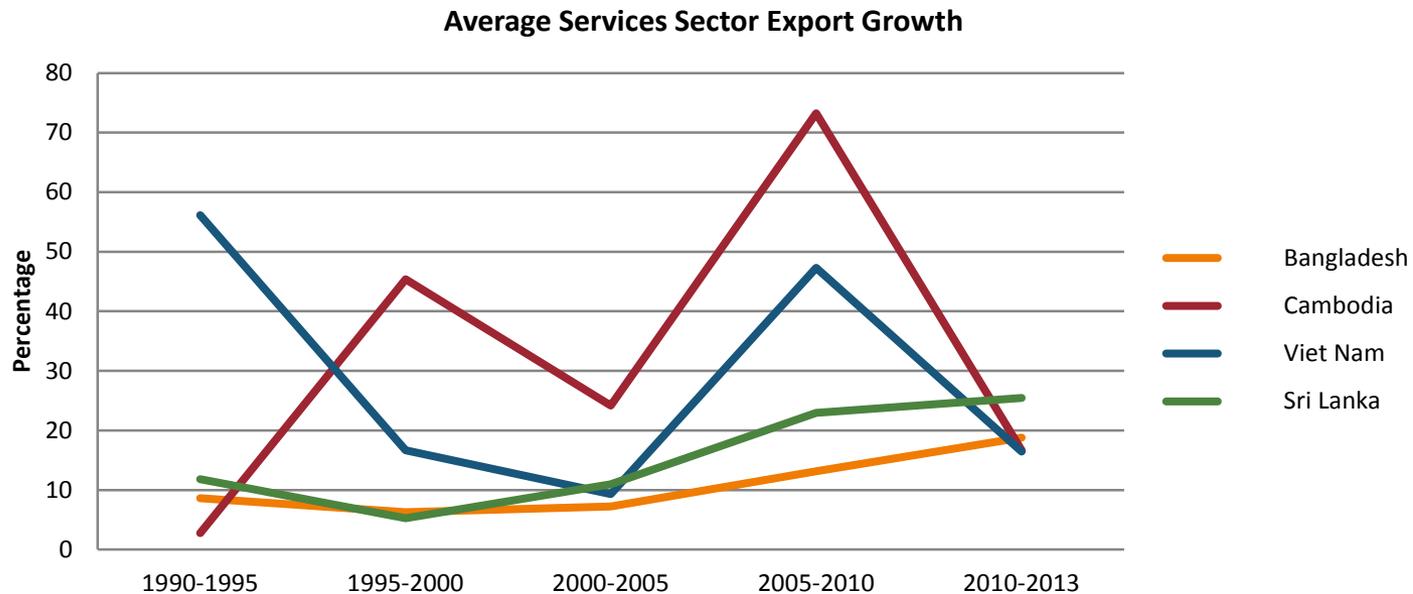
- Sri Lanka has not been as successful as Vietnam in moving into exporting higher value added products
- Current export basket is heavily concentrated in a few low-value added products
- Limited diversification in terms of export market



Source: World Bank (2015) World Development Indicators Database

# Stronger Services Sector Export Growth

- Unlike merchandise export, Sri Lanka fares better in terms of Services Exports
- Especially since the mid 1990s Services sector growth has been relatively better off



Source: UNCTAD (2015), Statistics Database

Policy Framework -- where changes  
are necessary (selected areas)

## Loss of EU GSP+

- From 15 July 2005 to 15 August 2010, Sri Lanka enjoyed preferential market access under EU GSP+
- Textiles and apparels, plastics and rubber products and processed food items were the major beneficiaries under GSP+
- Upon identification of significant shortcomings in respect of Sri Lanka's implementation of three UN human rights conventions, EU withdrew GSP+
- Despite optimistic statements by some officials that GSP+ withdrawal related losses would be negligible, it was revealed in Parliament that in the apparel sector alone 25 factories were closed down with 10,000 employment losses and US\$ 780 mn plus earning losses due to GSP+ removal (Daily FT, 24<sup>th</sup> October 2013); overall hit was around US\$ 1.5 bn
- Even a 6-7% duty cut which the GSP + offered is crucial especially at the time when EU market is slow in recovery after the 2008 global crisis

# Regaining GSP+

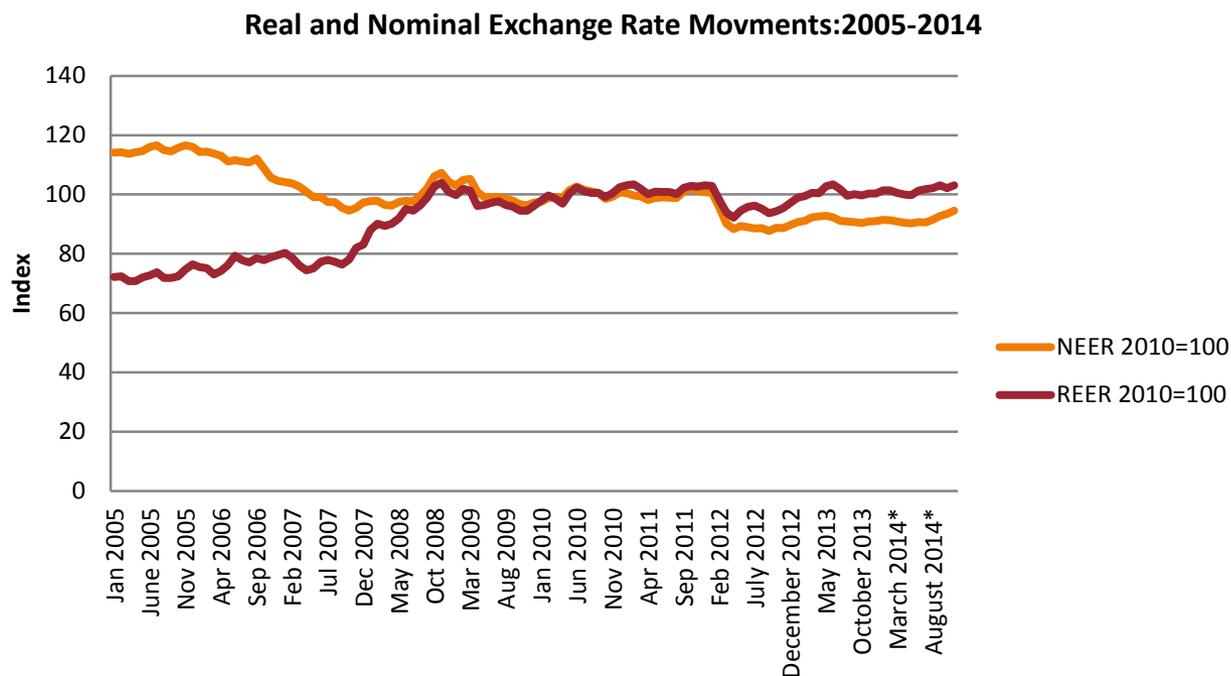
- In 1997, Myanmar was suspended from the GSP scheme on grounds that the country had seriously and systematically violated core international conventions on forced labour
- After having undertaken reforms in 2011 to address these shortcomings, Myanmar was reinstated to the GSP in 2013
- Given that the EU is a major export market, Sri Lanka seriously needs to reconsider its position on regaining access to GSP+

## EU Fish Import Ban and Possible Removal

- Sri Lanka is one of the largest exporters of high value fisheries products such as swordfish and tuna to the EU.
- In 2013 Sri Lanka exported 7,400 tonnes of fish valued at US\$ 94 million, however beginning 15<sup>th</sup> January 2014, the European Union imposed a temporary ban on the import of Sri Lankan fish and fisheries products
- The ban was put in place as a result of Sri Lanka not effectively undertaking reforms to tackle illegal, unreported and unregulated (IUU) fishing
- Sri Lanka is not the only country that has been subject to such kind of sanctions. In March 2014, Belize, Cambodia, and Guinea were all banned from selling fish to the EU.
- In October 2014, the EU however decided to uplift the ban on imports from Belize as the country had demonstrated its commitment to reforming its legal framework and adopting a new set of rules for inspection, control and monitoring of vessels

# Exchange Rate Misalignment

- Policy Adjustment of February 2012, saw a significant depreciation of the Rupee both the nominal and real exchange terms.
- The real exchange rate depreciation, however has been short lived. In fact REER is back up to the level in January 2012 before the large fall in the currency.



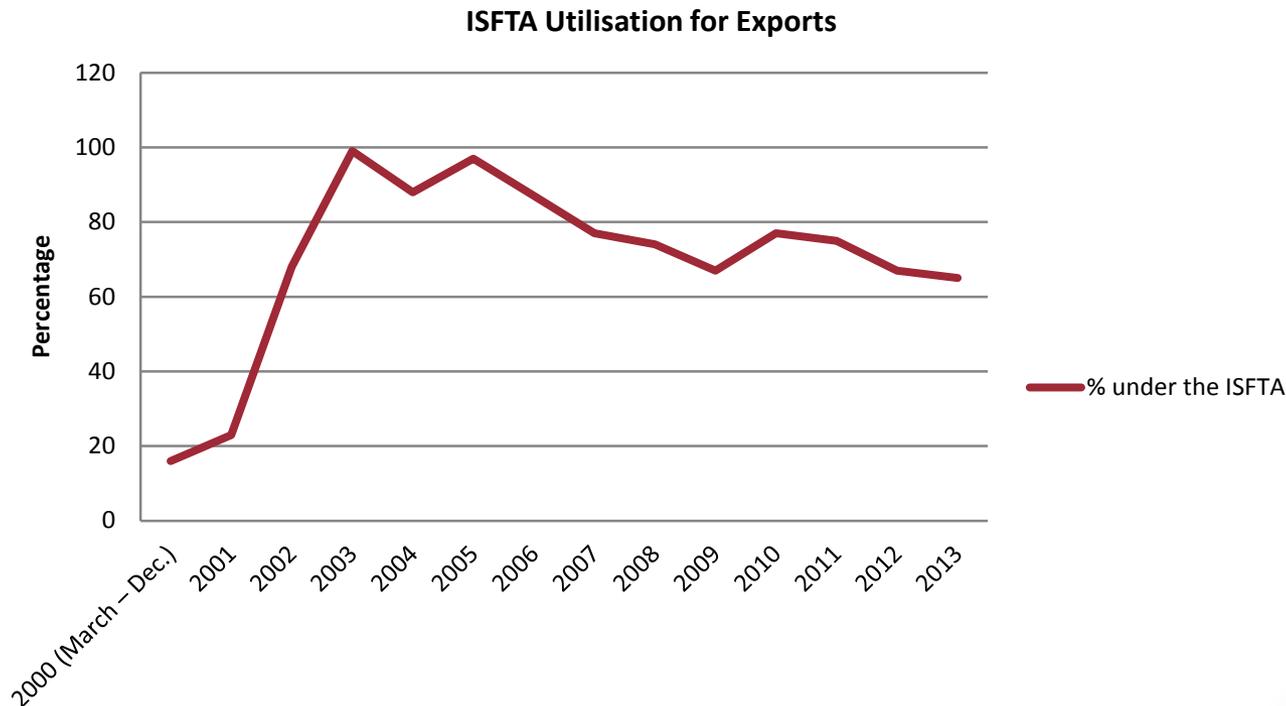
Source: Central Bank of Sri Lanka (2015)

# A Fresh look at the Exchange Rate

- Exchange rate should reflect as well as compensate for the increase in cost of production to the exporters
- Exchange rate management was determined more by the following factors during the past: (a) debt repayment burden, (b) assurances given to foreign investors in the Treasury Bills and Treasury Bonds (opened 12.5% to foreigners); (c ) cost-push inflation fears, etc.
- Policy framework towards exchange rate management should change in favour of exports – which is the largest/stable/employment creating foreign exchange earner to the nation
- The decline in global oil prices provides an opportunity to pay attention to exchange rate realignment

# Underutilization of ISFTA

- Sri Lanka's trade with India increased almost 6 folds since the ISFTA. India is the third largest export destination. Increasingly higher value added products are penetrating the Indian market.
- Despite the success, ISFTA utilization rates have been falling, a possible indication that more trade takes place across product lines in the sensitive list and/or export are facing difficult in meeting ROOs



Source: Department of Commerce (2014)

# ISFTA needs revision

- ISFTA is important as India is Sri Lanka's largest and the most balanced trading partner (accounts for 6% of exports and 20% of imports)
- Exporters frequently complain about Non-Tariff Barriers (NTBs) in the Indian market, these NTBs are encountered by other trading nations with India also, but they seem to have successfully overcome them
- For example, China's exports to India increased from US\$ 1.5 bn in 2001 to US\$ 55 bn in 2012/3 without any FTA in place; if Indian NTBs are such a large barrier for market access as claimed by some exporters, how was this possible ?
- Since the India-Sri Lanka trade dialogue came to a standstill after the unsuccessful CEPA negotiations, the forum for discussing new issues and revising the FTA needs to be revived

# Challenge of Value Addition to Exports

# Need for Value Added Exports

- Value addition is the key to increase export earnings in the modern day world
- Tea exports need more value addition and one way forward is by liberalization of the importation of foreign teas within a regulatory framework or within a designated free port
- Can the SL Commercial Hub Operations No. 01 of 2013 which has declared identified areas as free ports and bonded areas facilitate this ?
- Most minerals like Graphite, ilmenite, Zirconium, Titanium, etc., are mostly exported in raw form due to the capital-intensive nature of value addition
- Need to explore FDI for value addition in the mineral sector and China-Sri Lanka FTA provides some opening in this case

## Identify Potential Exports: Processed Food Exports

- Processed food has emerged as a dynamic export product line for developing countries

### Share of Processed Food in Total Food Exports

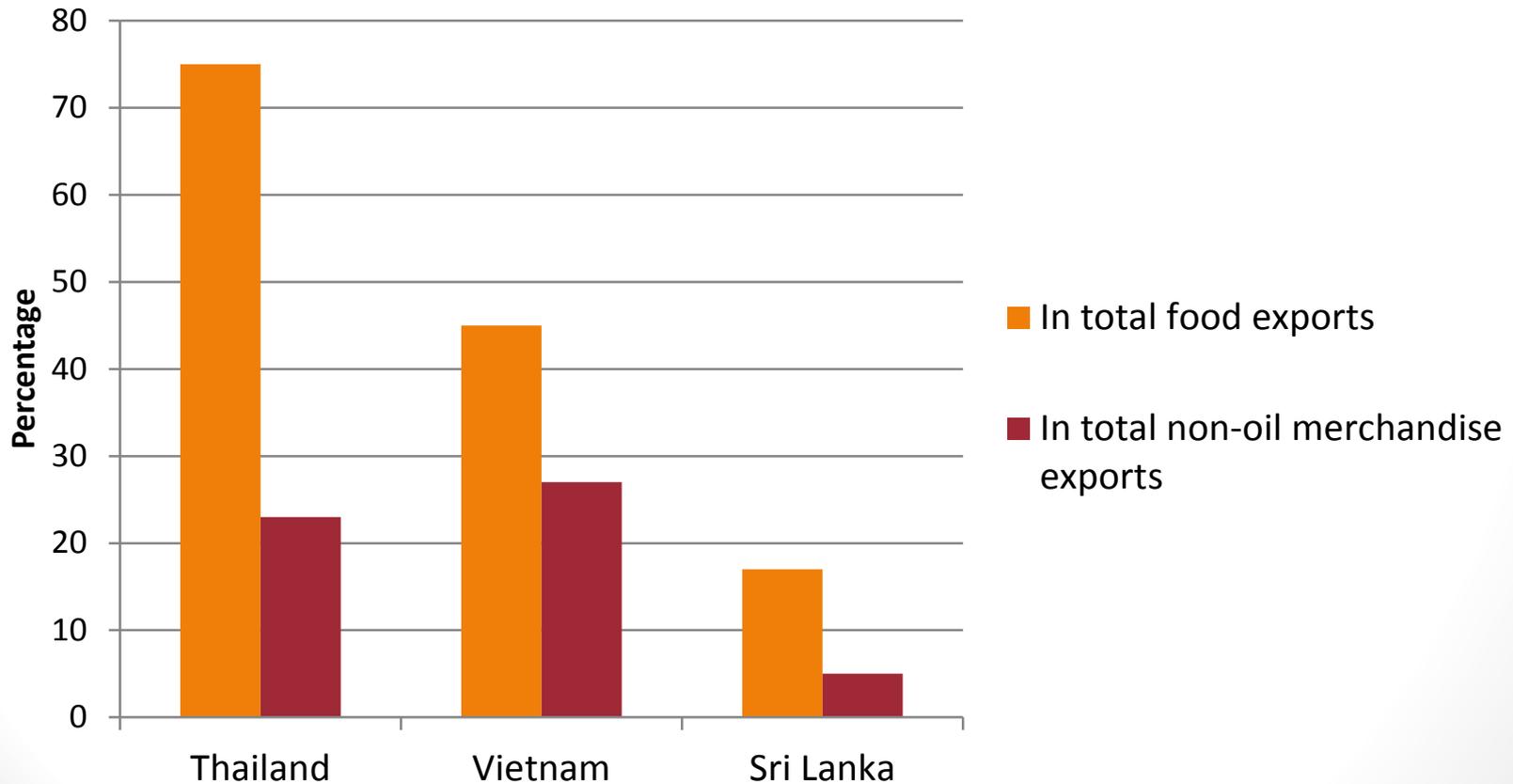
	1990-81	2000/01	2010-11
Developed countries	42.5	63.5	70.3
Developing countries	40.5	55.7	62.5
Low-income countries	27.2	33.5	43.5
<b>Middle-income countries</b>	<b>38.5</b>	<b>54.0</b>	<b>59.0</b>
High-income countries	54.8	59.9	64.1
World	49.1	60.9	65.1

Source: Athukorala, 2013

# Processed Food Exports Cont.

- SL has so far failed to capitalize on this opportunity

Share of Processed Food Exports (2010-11)



Source: Athukorala, 2013

# The Rise of Global Value Chains (GVCs)

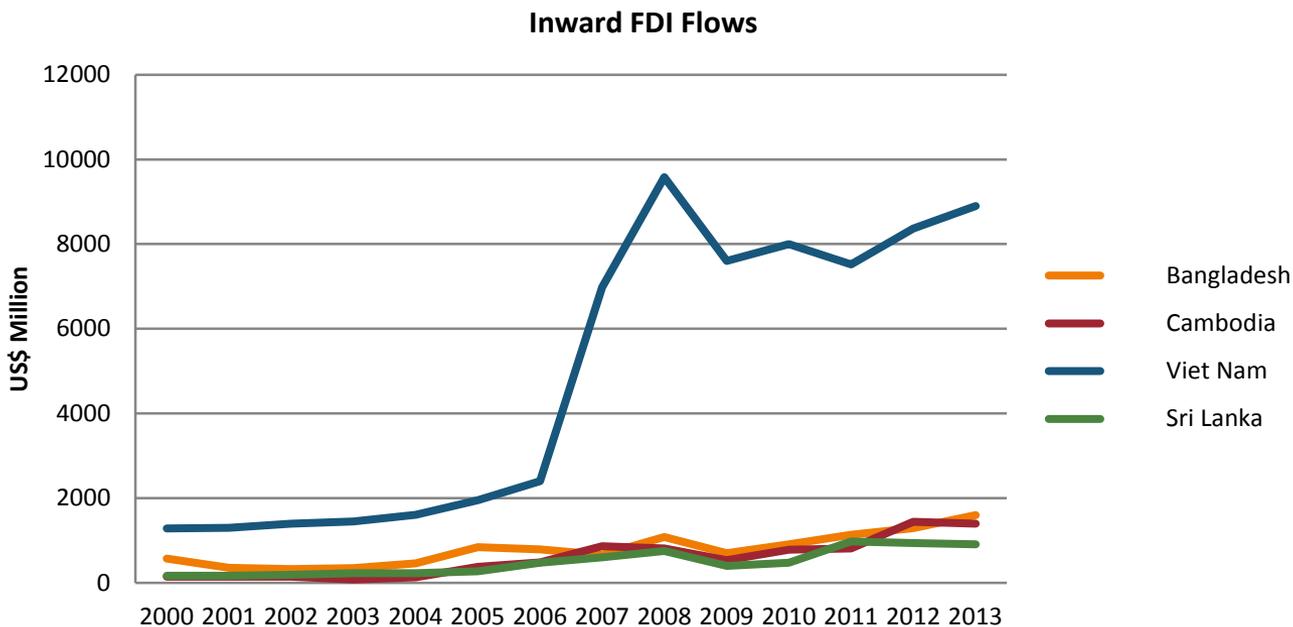
- As per UNCTAD estimates close to 60 per cent of global trade consists of trade in intermediate goods and services
- The fragmentation of production processes and the international dispersion of tasks and activities within them have given rise to global factories also referred to as GVC
- With the advent of GVCs, countries and firms now, need not specialize in carrying out all tasks along a products value chain
- Rather they could specialize in carrying out a specific task of the production process; such as assembly of the final product/product components or specialize in the manufacture of a specific product component
- Take for instance the production of an Apple 'iphone'. Its production is dispersed across 5 different countries and involves 9 companies, With each country/firm specializing in the manufacture of a specific component which feeds into the final products

# Plugging into GVCs: The Role of FDI

- Countries can either attract foreign investors or support internationalizing of domestic firms
- FDI option includes more direct access to foreign know-how and technology
- Costa Rica, Thailand, Malaysia and of late Vietnam, have been most successful to attract FDI and turn it into sustainable GVC participation
- Domestic firms have the opportunity to participate in GVC either by forging backward or forward linkages with the foreign firms
- Sri Lankan apparel success story could be traced back to the involvement of foreign firms and their participation in low tiers of the global apparels value chain

# Attracting the Right Investors

- Governments must seek to identify and attract 'the right' foreign investors
- 'Efficiency seeking' investors are viewed to having the greatest potential in facilitating GVC participation
- Bulk of FDI into Sri Lanka of late has been of the nature of 'market seeking' investment with little potential for GVC participation



# Lessons from Vietnams Export Success

- Throughout much of the 1980s and 1990s, Vietnam like Sri Lanka was exporting standard labour intensive products
- From about the early 2000s a number of foreign investors begun to enter into assembly activities in electrical and electronics industries
- Exports comprises of parts and components of information technology products (office, accounting and computing machinery, and electrical machinery and apparatus), that feed into the electronic value chains of East and South East Asia
- In 2010, Intel the world largest semiconductor manufacturer set up a US\$ 300 Mn semiconductor testing lab
- In 2014, it was announced that by July 2015 Intel anticipates to assemble 80% of world's computer chips in Vietnam

# Lessons from Vietnams Export Success

- Notably in 2010 only three Vietnamese firms could supply parts for the Intel plant, four years later this figure risen to 16
- It is safe to argue that Vietnams export expansion over the last decade could largely be attributed its participation in the global electronic value chains and the role of FDI in forging the linkages
- The key lesson that Sri Lanka should draw from this is that the country needs to move into higher value added global value chains of the likes of electronics and automobiles
- Sri Lanka should look to attract foreign investors in these areas to forge value chain linkages and in this context the proposed China-Sri Lanka FTA provides a great opportunity
- A possible area to look into is the booming Indian automobile industry, especially given the geographical proximity and the opportunity to leverage on the ISFTA

# Way Forward

# Way Forward

- Doubling export turnover within the next five years, requires achieving a sustained average annual export growth rate of 14.82%.
- Current export performance is not too impressive and a number of pertinent issues are stifling the export expansion
- Sri Lanka must move quickly to effect policy reforms to get reinstated into the GSP+. It also has to move quickly in addressing issues pertaining to the EU fishing ban
- Overvalued exchange rate is eroding export competitiveness. Exchange rate policy should be better aligned to reflect the global realities and support export competitiveness
- ISFTA utilization rates have been falling, it may be time to reevaluate and renegotiate the ISFTA to better reflect contemporary developments to gain a stronger foothold of the growing Indian market

## Way Forward

- Global Value Chains have opened up a whole new dimension for latecomer industrializing countries to expand exports. Developing countries can now industrialize and engage in exports by joining GVCs instead of building their own value chain from scratch
- Sri Lanka must draw both lessons and inspiration from the Vietnamese experience and seek to engage in more sophisticated global value chains such as electronics and automobile by seeking to attract the correct types of FDI and forging linkages with domestic firms as well
- Both the government and the business community has a pivotal role to play in identifying which type of GVCs that best plays to the strengths of the country's prevailing industrial and economic structure
- All state institutions associated with exports need strengthening: EDB, SLECIC, BOI, Department of Commerce, SLSI, Customs, etc.
- Non-state initiatives such as NCE's the NIOE will be vital for giving the much needed additional boost for exporters

Thank You  
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