

Beyond 60

Japan - Sri Lanka Economic Relations: Trends and Opportunities

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Japan-Sri Lanka Bilateral Relations: a Brief History

- Diplomatic ties were first established by the San Francisco Peace Treaty, which came into force on 28 April 1952
- Sri Lanka was a major voice in the campaign for post-WWII Japanese freedom, refusing to accept war reparations that would harm Japan's economy
- *'We extend to Japan the hand of friendship and trust that with the closing of this chapter in the history of man, the last page of which we write today, and with the beginning of the new one, the first page of which we dictate tomorrow, her people and ours may march together to enjoy the full dignity of human life in peace and prosperity'*

J.R. Jayawardene,

Speech at San Francisco Peace Treaty meeting

Japan-Sri Lanka Bilateral Relations: a Brief History

- In subsequent years, the two states have developed strong bilateral ties
- The early years of the bilateral relationship were characterised by cultural ties based on Buddhism and other shared values
- It later evolved into an important economic relationship, marked by large flows of Japanese aid to Sri Lanka, as well as ties formed through trade and investment
- This presentation considers the significance of these economic ties over the last 60 years, and discusses opportunities for deepening and extending them in the future

Japan and ODA

- Japan's assistance to SL began under the Colombo Plan, with a US\$ 5 million loan in 1965
- By 2000, Japan was SL's largest aid donor, while SL was Japan's 8th largest aid recipient
- Japan's economic assistance to SL through JICA has taken the form of technical assistance, grant aid and loan aid
- Importantly, Japanese ODA has played an important and conscious role in Sri Lanka's economic development. This is partly through:
 - I. filling infrastructure gaps
 - II. aiding the growth of the industrial sector
- This has helped to create an environment conducive to shifting the focus of Japan-Sri Lanka ties from aid to trade and investment in later years

Japan and ODA: Filling Infrastructure Gaps

- During 1970-1977, a US\$ 12 million grant was partly targeted at developing training facilities for deep-sea fishing, assisting the Peradeniya Teaching Hospital and providing construction materials for the government's project of building 100,000 houses
- The large (and increasing) volumes of Japanese aid received during the post-1977 were of key importance in filling the resource gap and infrastructure needs
- These include the Colombo port extension project, Mahaweli development project, Samanlawewa and Kukule Ganga hydropower projects, Colombo airport project, telecommunication network improvement project, railway and road rehabilitation projects
- Japan is the second largest international donor in Sri Lanka (2011)

Japan and ODA: Growing Industrial Production

- Considering changes over time in the sectoral allocation of Japanese aid reveals an interest in growing SL's industrial production.

Sector	1965-1969		1970-1976		1977-2000		1965-2000	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Commodity loan	9	100	23.08	100	47.43	9.29	79.38	14.62
Transportation	0	0	0	0	176.26	34.51	176.26	32.47
Telecommunication	0	0	0	0	60.75	11.89	60.75	11.19
Electricity power	0	0	0	0	80.11	15.68	80.11	14.76
Irrigation	0	0	0	0	15.99	3.13	15.99	2.95
Agriculture, Forestry & Fishery	0	0	0	0	22.78	4.46	22.78	4.2
Water Supply/ Drainage/Environment	0	0	0	0	45.17	8.84	45.17	8.32
Industry	0	0	0	0	17.58	3.44	17.58	3.24
Other	0	0	0	0	44.73	8.76	44.73	8.24
Total	9	100	23.08	100	510.80	100	542.88	100

Units: yen (billion), %

Source: W.D. Lakshman (ed.), *The Distant Neighbours*, 2003.

Japan-Sri Lanka: Trade Ties

- Japan has consistently been an important SL trade partner in the post-WWII period
- This importance increased significantly following SL's switch policy in 1977
- SL's top 10 exports to Japan during 2006-2010 were tea (bulk, packets, bags); garments; prawns; rubber products (crepe rubber, gaskets, washers, seals, etc. of hard rubber, pneumatic and retreated rubber tyres and tubes); telephone sets, A/V equipment and parts; and ceramic tableware and kitchenware
- Major imports from Japan include vehicles; plastic, iron and steel articles; electrical machinery and chemical products
- Bilateral trade between the two countries is close to US\$ 1.2 billion (2011)

Sri Lanka's Top Exports to Japan

Product Description	Value (US\$ Million)		
	2009	2010	2011
Coffee, tea, mate and spices	42.55	50.75	57.94
Fish & crustaceans, mollusks & other aquatic invertebrates	16.95	16.50	30.99
Rubber & articles thereof	12.01	17.92	29.34
Articles of Apparel and clothing accessories, not knitted or crocheted	7.89	14.87	17.25
Other vegetable textile fibres; paper yarn & woven fabrics of paper yarn	6.83	8.02	10.59
Electrical machinery & equipment and parts thereof	4.67	7.72	8.35
Articles of Apparel and clothing accessories, knitted or crocheted	4.51	4.15	5.75
Miscellaneous manufactured articles	5.83	5.60	5.70
Ceramic products	3.68	4.67	5.12
Preparations of vegetables, fruit, nuts or other parts of plants	3.40	3.12	4.02

Source: Department of Customs of Sri Lanka

Sri Lanka's Top Imports from Japan

Product Description	Value (US \$ Million)		
	2009	2010	2011
Vehicles other than railway or tramway rolling-stock, & parts & accessories thereof	57.91	341.25	712.35
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	51.65	68.80	115.02
Electrical machinery & equipment and parts thereof	13.34	53.81	49.49
Plastics & articles thereof	15.62	23.85	24.35
Articles of iron & steel	11.31	11.25	18.08
Optical, photographic, cinematographic, measuring, checking, precision, med	7.71	7.42	13.72
Rubber & articles thereof	9.52	12.63	13.33
Man-made staple fibres	6.14	5.39	7.64
Miscellaneous chemical products	4.18	5.20	7.28
Organic chemicals	1.69	3.22	6.26

Source: Department of Customs of Sri Lanka

Japan-Sri Lanka: Trade Ties

- Japan is SL's 10th largest export destination

Country	2007		2008		2009		2010(b)		2011(c)	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Largest Export Destinations										
United States of America	217,925	25.8	202,510	23.0	181,154	22.2	192,348	19.7	237,142	20.3
United Kingdom	112,618	13.3	118,125	13.4	117,655	14.4	111,903	11.5	122,969	10.5
Italy	43,683	5.2	48,215	5.5	50,286	6.2	52,689	5.4	67,453	5.8
Belgium – Luxembourg	44,276	5.2	46,085	5.2	41,799	5.1	42,594	4.4	62,516	5.4
India	57,002	6.7	45,320	5.2	37,004	4.5	53,587	5.5	57,388	4.9
Germany	48,437	5.7	43,903	5.0	39,869	4.9	45,244	4.6	56,387	4.8
Singapore	8,871	1.0	8,189	0.9	9,943	1.2	57,788	5.9	45,206	3.9
United Arab Emirates	23,139	2.7	27,370	3.1	24,294	3.0	32,536	3.3	32,972	2.8
Russia	22,412	2.7	23,913	2.7	22,116	2.7	27,504	2.8	31,119	2.7
Japan	17,660	2.1	17,225	2.0	16,008	2.0	19,329	2.0	24,653	2.1

Units: Rs. Million

Source: Central Bank of Sri Lanka

Japan-Sri Lanka: Trade Ties

- Japan is SL's 5th largest source of imports

Country	2007		2008		2009		2010(b)		2011(c)	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Largest Import Origins										
India	288,742	23.1	373,449	24.5	209,179	17.8	290,523	19.1	489,882	21.9
Singapore	123,736	9.9	134,952	8.8	122,486	10.4	177,133	11.6	234,834	10.5
China, People's Republic of:	102,195	8.2	120,737	7.9	118,268	10.1	140,210	9.2	231,309	10.3
Iran	93,388	7.5	129,381	8.5	103,106	8.8	102,475	6.7	177,170	7.9
Japan	45,706	3.7	46,147	3.0	25,739	2.2	66,042	4.3	113,285	5.1
Malaysia	31,359	2.5	38,842	2.5	33,083	2.8	43,487	2.9	75,683	3.4
Switzerland	19,326	1.5	16,961	1.1	13,861	1.2	17,329	1.1	74,552	3.3
United Arab Emirates	36,862	2.9	46,273	3.0	46,909	4.0	55,851	3.7	72,534	3.2
Hong Kong	80,181	6.4	75,248	4.9	59,448	5.1	65,539	4.3	69,871	3.1
Thailand	25,533	2.0	32,353	2.1	31,107	2.7	35,676	2.3	53,273	2.4

Units: Rs. Million

Source: Central Bank of Sri Lanka

Japan-SL: Trade Enhancement Opportunities

Although Japan is already one of SL's major trade partners, various opportunities exist for extending the scope and scale of this bilateral trade relationship

- **Tea:**

Tea is already one of SL's major exports to Japan.

Nevertheless, Japan's ITOCHU Corporation has expressed interest in marketing SL tea to Chinese as well as Japanese markets

- **Fisheries:**

Japan is already aiding SL in the promotion of sea cucumber trade.

SL currently exports sea cucumbers to China, Singapore and Hong Kong, and the industry supports approximately 4000-5000 families

Japan-SL: Trade Enhancement Opportunities

Manufactured Goods

- SL's comparative advantage in manufactured exports vis-à-vis Japan is primarily in low skill, labour-intensive goods
- Nevertheless, despite the past success of neighbouring states such as India and Pakistan in exporting textiles and garments to Japan, SL has failed to take full advantage of potential trade with Japan with regard to this industry
- For instance, garment exports to Japan were valued at merely US\$ 19.04 million in 2010
- Efforts to promote manufactured goods exports to Japan are thus to be desired

Japan-SL: Trade Enhancement Opportunities

- **Tourism:**

Approximately 20,000 Japanese tourists arrived in SL in 2011.

SL needs to determine what attracts Japanese tourists and promote tourism in these areas, e.g. golf

Could promote religious tourism – the fact that SL and Japan practice different types of Buddhism could be an advantage or a disadvantage here

Need to train tourist-sector workers to speak Japanese in order to overcome language barriers

- **Health Workers**

Japan's ageing population provides an opportunity for SL to export health workers (esp. nurses) to Japan

Japanese FDI

- With the Yen appreciation and Japanese cost of production increasing in the late 1970s/1980s, a number of Japanese companies migrated to East Asia
- Japanese FDI played a key role in the East Asian 'flying geese' model of FDI
- South Asia missed this wave of Japanese FDI due to controlled investment regimes in South Asia (1991-2000 -- South Asia attracted only 4.8% of Japanese investment in Asia)
- With the first liberal economic regime in South Asia Sri Lanka stood high to attract Japanese FDI
- Sony, Sanyo, Marubeni, Bank of Tokyo were in the pipeline for investment in Sri Lanka just before the riots in 1983, but pulled out of Sri Lanka in the aftermath
- Japan would have been a large FDI supplier to Sri Lanka if not for the separatist conflict of 1983-2009

Japanese FDI in SL Classified by Industry Type (1951-2000)

Type of Industry	Cases	Investment	Share of Cases	Share of Investment
Manufacturing Sector	110	18218	67.07	23.07
1. Food	1	5	0.61	0.01
1. Textiles	24	1075	14.63	1.36
1. Wood & Pulp	1	10	0.61	0.01
1. Chemicals	4	484	2.44	0.61
1. Metals & Non-Metallic	5	480	3.05	0.61
1. Machinery	-	-	-	-
1. Electrical Appliances	9	2019	5.49	2.56
1. Transport Equipment	6	1289	3.66	1.63
1. Other	60	12853	36.59	16.27
Non-Manufacturing Sector	54	60729	32.93	76.89
1. Agri. Forestry & Fishing	16	2129	9.76	2.70
1. Mining & Quarrying	-	-	-	-
1. Construction	1	59	0.61	0.07
1. Trade	9	650	5.49	0.82
1. Financial Institutions	2	950	1.22	1.20
1. Transport & Travel	2	30074	1.22	38.08
1. Housing & Real Estate	10	11548	6.1	14.62
1. Other Services	14	15255	8.54	19.43
TOTAL	164	78979	100	100

Units: Yen million, %

Source: W.D. Lakshman (ed.), *The Distant Neighbours*, 2003.

Potential Areas for Japanese FDI

- Sri Lanka has largely failed to attract Japanese FDI into high-tech assembly-type production – war period was an era of missed opportunities
- There are about 37 Japanese FDI-related companies in Sri Lanka
- UNCTAD report has highlighted the sudden increase in Japanese FDI to the world in 2011
- Sri Lanka has a number of new areas for consideration for FDI by Japan
- Apparel, ITO/BPO services and outsourcing, call centres, agriculture, agro processing & agro technology, fresh vegetables & fruit exports, shipping & logistic, motor vehicle assembly, warehousing, cold stores, deep sea fishing, fish canning processing industries, urban commercial leisure and property development, marina related property development, tourist transportation & leisure activities

Japan-SL: Investment Opportunities

A number of opportunities for developing Japan-SL investment links have arisen in the last few years. These should be encouraged and every effort made to bring such plans to fruition:

- Japan's 'Tuna King' Kiyoshi Kimura recently visited SL and has agreed both to invest in SL's fisheries industry and to provide technical assistance in order to develop the industry
- A group of Japanese investors visited SL earlier this year to look into the possibility of introducing Ayurvedic medicine into elders' homes in Japan, for the purpose of treating various illnesses, skin diseases and birth defects. They also plan to open 500 Ayurvedic Spa centres in Japan and, possibly, some in Sri Lanka
- Teoria Investment Co. Ltd recently tied up with a local company to form Shinagawa J Capital (pvt.) Ltd., to invest in hotel property down-South Sri Lanka

Japan-SL: Investment Opportunities

- Bansaj Securities, a leading Tokyo investment house, plans to invest JPY 10 billion (about USD 125 million) in SL government treasury bills and bonds over the next year.
- Efforts are being made to encourage Japanese investment in the apparels and handloom sector. A national Handlooms Task Force has been set up for this purpose
- Zuc International plans to open a solar panel factory in Mirigama in early 2013, and to set up a 10MW power plant that involves an investment of nearly US\$ 50 million
- The Japanese government has enlisted a construction industry specialist to conduct a study of prospects, opportunities and trends in SL's property and real estate market, as well as of its business and investment climate

How the Indian Market Could be Aimed

- FTA with India and Pakistan give a huge market opening for market-seeking Japanese investments
- More than 4000 tariff lines are now duty free to the Indian market
- FDI in services for India: Colombo Dockyard (with 51% Japanese investment) does services for the Indian shipping sector; Noritaki Porcelain does services for the Indian tourists who visit Sri Lanka (largest source of tourists)
- India has given a 8 million duty free quota per annum for Sri Lankan apparel exports which could be used by Japanese exporters as it remains not fully utilized
- Chennai is now emerging as the “Detroit” of South Asia with number of Japanese motor vehicle companies shifting some of their operations
- With other companies like Toshiba moving in now there is close to 300 Japanese companies in operation in Chennai

Tapping the Indian Market

- Can Japanese FDI in vehicle parts be located in Sri Lanka to cater this growing industry ? For example, Kelani-CEAT rubber company exports rubber tyre to the Indian motor vehicle industry
- For instance, tariff arbitrage based industries could also operate – Vanaspathi and bakery shortening were such industries during 2004-2007 period
- Type of goods that could be catered to the Indian market by Japanese FDI based in Sri Lanka needs a study
- Japanese investment now increasing in the world with some Japanese investment moving out of China
- Myanmar seems to be attracting such investment, now is the chance for Sri Lanka

Concerns on Sri Lanka's Investment Regime

- Limited size of the market
- Consistency and predictability of policy
- Problems of the investment regime
- Concerns on the macroeconomic stability
- These are the usual problems of South Asian countries and there are reasons to believe that they will get rectified with time
- Many successful investors in Sri Lanka have found ways of overcoming problems that come from time to time from the overall investment environment

Sri Lanka has its Advantages

- Living standards – reasonably higher than the neighbouring countries and some countries in ASEAN
- Modern city/Japanese restaurants/quality medical services/international schools for children
- Sri Lankan Airline flights between Colombo and Narita-Tokyo are available 4 times a week
- Ranked 58th out of 142 countries in the Prosperity Index compiled by the London-based Legatum Institute surpassing, for instance, Philippines
- Human touch in Sri Lanka with smiling people – when Tsunami struck Japan in March 2011, 32 ambassadors and half a million expatriates left Japan but the Sri Lankan embassy staff went to the disaster struck areas and assisted

Thank you

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