FCCISL NEWSLETTER

FCCISL Sri Lanka

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Sri Lanka's Economic Prospects Amidst Challenges

Business sentiments and prospects

Sri Lanka's growth forecast for 2017, as given by the World Bank, projects an economic growth below the threshold 5% level for the third year running, and even more worrisome, economic growth appears to be on a downward spiral.

Rising costs and dampened domestic demand, possibly due to falling purchasing power, have been hitting the SMEs dearly. With key economic fundamentals, such as inflation, nominal interest rates, the VAT levies, and exchange rate remaining unfavorable to SME growth and new investments, looming cost pressures due to the drought-affected food sector, in particular rice, and a possible upswing in world oil prices, and their combined pressure on energy costs are real worries.

The macroeconomic challenges arising from an already-ballooned fiscal sector and a seemingly-volatile balance of payment situation against the IMF austerity targets would result in decision-making becoming even more challenging to the SMEs. Making matters worse has been the absence of coherent long-term economic policy making and strategy.

Against this prevailing backdrop, the FCCISL welcomes the measures being taken by the Government to project a turnaround in the medium-term. Amongst the most tangible recent policy and strategic moves has been the regaining of the GSP Plus extended by the EU, and previously the lifting of the ban on fish exports. The FCCISL commends the swift and persevering actions of the Government to regain duty-free access to the largest market in the world.

The granting of the GSP Plus outcome signifies a sign of the confidence placed by the EU in the Government and should augur well for broader attention of the potential location of FDIs in Sri Lanka. As an immediate outcome, it will be a boost to the struggling apparel industry and several other export sectors.

The FCCISL also welcomes the Government's much-publicised recent vision and commitment, as articulated at a national symposium in Colombo in April this year, to a private sector-led, export- and FDI-led development strategy. The SME community, while welcoming the broadly spelled out vision, awaits a clear commitment to a policy framework and a consistent strategy that is well-supported by the coalition political establishment.

Moreover, the local SME sector, comprising thousands of medium to micro production and service units, is badly in need of a business-friendly enabling environment that promotes SME business development as a bedrock development strategy. In this regard, well-sustained policies and strategies to ease the escalating cost pressures and reverse the negative economic sentiments are most fundamental if the SMEs are to make any headway.

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FCCISL has its say on Hambantota Port development

The Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) issued the following statement clarifying its stand on the much-discussed Hambantota harbour built with Chinese bank loans amounting to $1,265.8 million.

We see the decision taken by Government of Sri Lanka (GOSL) on this matter will be of much significance especially to Sri Lankan industrialists and to the country since it has far-reaching consequences in the political, social and economic spheres of the country.

FCCISL and our member chambers in Sri Lanka have expressed their reservation about the proposed deal whereby Sri Lanka gets only $1,120 million for a 99-year period (an average lease income of mere $11 million a year).

The previous loan amount received between year 2007 to 2012 was $1,265.8 million at the (weighted average) interest cost of 3.07 per annum. The loan repayment together with interest will go on to 2036.

We note that in the proposed plan of leasing this port to a company that is 80 % owned by China, the Hambantota Port has been valued at only $1,400 million and the Sri Lankan Government is to receive a loan of $1,120 million from the Chinese investor for the proposed 99-year lease. FCCISL is surprised that the following factors were apparently not taken in to consideration in the valuation process:

Hambantota Port

- The Sri Lankan Government has already paid $400 million up to 2016 as capital and interest

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President of FCCISL has been appointed as the chairman for 8th Sichuan Business roundtable for Year 2017 - 2018

Mr. Sarath Kahapalarachchi, President of the Federation of Chambers of Commerce and Industries of Sri Lanka participated the South Asia delegation of business leaders from South Asia to Sichuan business roundtable conference in China. Mr. Kahapalarachchi represented the FCCISL at the conference. Main purpose of this conference was to create opportunities for trade and investments across SAARC region and reinforce economic and trade cooperation between China – Sichuan Province and SAARC members states. During the roundtable conference Mr. Sarath Kahapalarachchi has been appointed as the chairman for 8th Sichuan Business roundtable for Year 2017 – 2018.

"Building bridges through innovation and technology for Smart cities, Agriculture and Youth" is the focus for this year round table.

FCCISL

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International Relations

Sri Lanka-Romania Business Forum

Head table from left: FCCISL Secretary General Ajith D. Perera, Embassy of Romania in Sri Lanka Ambassador Dr. Victor Chiujdea, FCCISL President Sarath Kahapalarchchi, Honorary Consul Geoff Aloysius and Andreea Anghel-Dissanayaka from the Office of the Honorary Consul of Romania in Kandy

The Federation of Chambers of Commerce and Industry of Sri Lanka in collaboration with Embassy of Romania and Honorary Consulate of Romania in Kandy organised the Sri Lanka-Romania Business Forum on 20 January from 3 p.m. to 5 p.m. at Hotel Renuka. The Ambassador of Romania met with the Sri Lankan importers at the event to promote bilateral trade with Sri Lanka. The forum was focused on imports of electrical items, vehicles and vehicle parts machinery, cereals steel and iron sunflower seeds, oils, wood articles of wood, rubber and articles paper and paperboard instruments and apparatus inorganic chemicals organic chemicals from Romania. The forum provided the market awareness on doing business with Romania and also an opportunity to directly consult with the Ambassador and Honorary Consul to identify potential suppliers from Romania. However, that necessarily did not restrict the exporters to gain some buyers reciprocally for their products in Romania.

Editor's Note

Shirley Jayewardene

FCCISL newsletter is published every three months. It highlights the activities carried out by the FCCISL within this period and the opportunities provided to the member chambers and associations.

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FCCISL Sign MOU with Georgian Chamber

MOU was signed between Federation of Chambers of Commerce & Industry of Sri Lanka (FCCISL) with Georgian Chamber of Commerce and Industry (GCCI) to explore new opportunities for economic and industrial cooperation between Sri Lanka and Georgia.

Sarath Kahapalarachchi president of FCCISL (seated, left) is seen here signing the MOU with Hon David Jalaganiya - Deputy Minister of Foreign affairs of Georgia– (Seated left) while H E Archil Dzuliashvili, Ambassador of Georgia to Sri Lanka, Ajith D Perera secretary General / CEO - FCCISL and Nana Gaprindashvili Head of division of Asian countries at ministry of foreign affairs of Georgia witnessed the proceedings.

SLNCCI hosted Business Forum

Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) in collaboration with Sri Lanka Nepal Chamber of Commerce and Industry (SLNCCI) hosted the Sri Lanka – Nepal Business forum on 22nd February 2017 in Colombo.

This said forum is organized to create the platform specifically for Nepal Companies to find ideal Sri Lankan Businessmen for joint ventures and for Sri Lankan businessmen to find prospective Nepal Companies to start-up businesses and expansion of trade. Ms. Dhana Kumari Joshi – Charge de Affairs of Nepal embassy in Sri Lanka and higher officials from Board of Investment, Export Development board, Ministry of Foreign affairs, Department of Commerce & Tourism board attended to this forum.

Inaugural Ceremony of BIMSTEC EXPO 2017

Secretary General Ajith Perera of FCCISL at the above event

FCCISL signed a MOU with Skills for Inclusive Growth Program at the launch of Sri Lanka Australia skill development fund

Mr. Sarath Kahapalarachchi, President of FCCISL signed a MOU with Ms. Christine Molitor, Chief Executive officer, Scope Global – Managing Contractors for the implementation of the sills for inclusive growth program in Sri Lanka on 21st of July 2017 at the launch of Sri Lanka Australia skill development fund.

(Seated) MS. Christine Molitor, Chief Executive Officer, Scope Global – Managing Contractor for the Implementation of the Skills for Inclusive Growth Program, Sri Lank and Mr. Sarath Kahapalarachchi, President, Federation of Chamber of Commerce and Industry Sri Lanka (FCCISL)

(Standing) Ms. Charlotte Blundell, Consular Department Foreign Affairs and Trade (DFAT), Mr. Bryce Hutchesson, Australian High Commissioner to the Sri Lanka and Maldives Hon, Minister Chandima Weerakkody, Ministry of Skills Development and Vocational Training. ,Mr. P.Ranepura, Secretary to the Ministry of Skills Development and Vocational Training

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Federation Activities

FCCISL Entrepreneur of the Year 2017

22nd Sri Lankan Entrepreneur of the year awards 2017 media launch was held on 10th of March 2017 at the Hilton Residence, Colombo. The Grand Final event will be held on Monday, 11th of December 2017 at the BMICH, Colombo 07 under the distinguished patronage of His Excellency, Maithripala Sirisena, President of Democratic Socialist Republic of Sri Lanka.

This long running national award scheme organized by the FCCISL is the first and most comprehensive award scheme to recognize outstanding entrepreneurs. It evaluates local business based on a multi–faceted requirements list that includes financial strength, management style, employment generation capacity, technology used, competitiveness, innovativeness and future viability. The award has also been a pioneer in recognizing entrepreneurs who were not in the limelight.

A unique feature of the FCCISL Sri Lankan Entrepreneur of the Year Awards is its emphasis on recognizing regional business talent. The national level awards are the combination of regional shows that recognize businesses in the Southern, North Central, North Western and Central, Western, North, East, Uva and Sabaragamuwa provinces.

FCCISL will recognize entrepreneurs under the categories listed below.

- Sri Lankan Entrepreneur of the Year
- Woman Entrepreneur of the Year
- Young Entrepreneur of the Year
- Differently-abled Entrepreneur of the Year

FCCISL forms Panadura Chamber Academy

Federation of Chambers of Commerce & Industry of Sri Lanka together with Kalutara District Chamber of Commerce recently formed the Panadura Chamber Academy. The academy is located in Panadura Pan Asia Building, 3rd Floor (no 505, 1/3, Galle Road, Panadura).

The objective of forming the Academy is to do workshop, seminar & training programmes for school leaves, Job applicants & employees to develop their professional skills. Officers from Federation of Chambers of Commerce & Industry of Sri Lanka, Kalutara district Chamber of Commerce and businessmen in Kalutara district attended the inaugural session. To get more information about the chamber academy, please log on to www.fccisl.lk

FCCISL strives for development of National Skills for Youth & women Entrepreneurs

Group photo – Participants with Colombo Plan Secretary General His Excellency Kinley Dorji, Dr. Thomas Scaria (Senior Programme Officer – Colombo Plan), Mr. Ajith D. Perera (Secretary General – FCCISL), Mr. Gamini Herath, FCCISL staff and officials of Puttalam District Chamber

Federation of Chambers of Commerce & Industry of Sri Lanka (FCCISL) in collaboration with Colombo Plan & Puttalam District Chamber of Commerce, Industry and Agribusiness (PDCCIA) organized the 04 day Workshop on "National Skills Training for Youth & women promotion of Small & Medium Enterprises". This workshop was held from 08th to 11th February 2017 at Far inn Beach hotel, Chilaw. Total of 34 youths and women participated at the workshop.

Speaking at the opening ceremony, Mr. Sarath Kahapalarachchi –President of FCCISL emphasized Promoting youth entrepreneurship will be a solution for youth unemployment which lead to three armed insurrections in Sri Lanka. Further he pointed out, entrepreneurship is one of key factor that drives economic growth in any country.

The training programme was conducted by Gamini Herath, President of CEFEF NET Sri Lanka. The training focus on identifying business opportunities, marketing, financial management, preparing business plans etc. At the end of the training programme each participant prepared viable business plans. The trainer pointed out various sources from which aspiring entrepreneurs can obtain capital.

The closing ceremony was held on 11th February 2017 with the particpation of His Excellency Kinley Dorji – Secretary General of Colombo Plan, Dr. Thomas Scaria - Senior Programme Officer of Colombo Plan, Mr. Ajith D. Perera – Secretary General of FCCISL and officials of Puttalam District Chamber of Commerce, Industry and Agribusiness. Speaking at the closing ceremony, His Excellency Kinley Dorji reiterated commitment of Colombo Plan for youth empowerment. He added "Entrepreneurship not only creates wealth but also creates jobs and promotes innovations which will pave the way for prosperous society". Further, he mentioned that Colombo Plan would like to organize international youth training programme in Colombo with FCCISL during this year. Addressing the gathering Mr. Ajith D. Perera (Secretary General of FCCISL) explained the various initiatives of FCCISL to promote entrepreneurship in Sri Lanka. He mentioned about the entrepreneur of the year award ceremony organized by FCCISL annually which is the only award ceremony in Sri Lanka that recognized the achievements of Sri Lankan entrepreneurs nationally as well as regional level with special categories for youth entrepreneurs and differently abled entrepreneurs.

SAARC Investment Forum & Exhibition











FCCISL on SAARC Trade barriers

By Ayanthi Gurusinghe - Karpos Consultants (Pvt) Ltd

With the world's growing demand for an efficient trade increase with new changing industries particularly in South Asia, improving the efficiency of international trade by reducing the burden of NTMs is becoming increasingly important. At present, NTMs have created significant legal and regulatory obstacles to market access, hurting the competitiveness of exporters and delaying (and sometimes even preventing) businesses from entering into new markets and taking advantages of new opportunities.

SAARC – NTM Desk of Sri Lanka was instituted at Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) to identify Non – Tariff Measures and Non – Tariff Barriers (NTBs) which exist and restricts trade between Sri Lanka and rest of the SAARC Countries. The objective of the desk is to identify the NTMs/NTBs and to propose recommendations to regulators of trade and commerce to take counter measures to reduce these barriers.

The NTM Desk has identified products which Sri Lanka could increase in exports into SAARC Countries including traditional exports such as spices and rubber. Furthermore, it was identified floriculture and ornamental fish as potential exports / imports to Sri Lanka in 2020

includingfresh fruits, fruit juices and apparel products that were identified as part of SAARC regional value chains by SAARC TPN.

The NTM Desk of FCCISL together with Karpos Consultants (Pvt) Ltd carried out series of forums, interviews and field visits to understand the issues faced

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FCCISL has its say on

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- The value of 1,500 acres of land occupied by Hambantota Port
- The commercial value of the bunkering storage facility
- Investments already made by local entrepreneurs and investment proposals from others in the Port City

FCCISL finds that the average instalment for a year is in the region of $60 to 63 million which has to be within the means of the Government of Sri Lanka (GOSL) which has a national debt that is aequal to 76%of GDP. In fact, Sri Lanka's position is much healthier as opposed to a country like Singapore which has a national debt figure of 104.70 % as a percentage of its GDP. FCCISL is of the view that GOSL can also look to reducing the level of corruption and waste which prevails in our country to improve our financial efficiency.

In the circumstances FCCISL wishes to express its deep concern over the proposed deal with the Chinese investor which does not appear to bring much benefit to this country.

Solutions to the issue: Once again for the interest of readers, we would like to reproduce the suggestions made by our member chamber, the Chamber of Young Lankan Entrepreneurs (COYLE), which drew a considerable amount of interest amongst the Sri Lankan business community and general public:

- GOSL can form a consortium consisting of local entrepreneurs and private bankers to take over the loan repayment and give 51% of the port to SLPA and 49% to the new consortium.
- GOSL can find foreign direct investors on a supply, operate and transfer (SOT) basis, for one to two terminals to operate them for a 30-year period as already being done in Colombo port.

Lesson from China

FCCISL also learns that in China itself there has been a trend to list a number of ports in the Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZE) and the Hong Kong Stock Exchange (HKG). It is important to understand that compared to other countries, China has the highest share of listed port groups in the world!

Measured in share of total throughput per port, an estimated 39% are already listed today and with three major upcoming IPOs, this will increase the Chinese share to about half of the total port market. These Chinese companies are unlike other port group around the world, in that they own a substantial part of not only the general port infrastructure, but also the terminal operations in their respective ports. In 2011, the listed port groups reported an asset base in excess of one quarter trillion renminbi.

In this context why can't Sri Lanka too adopt such a strategy without entrusting a massive asset to another company of foreign origin.

Another matter now being discussed among the business community is the company which is to strike a deal with Sri Lanka is a provincial government company with a lesser rating than State companies under the Central Government of China.

FCCISL also sees lack of strategic thinking on the part of the GOSL. The importance of strategic location of the Hambantota Port will naturally be increased after the proposed 'Kra Canal' which is to be built through Thailand, as a joint investment with China. This new project will make the sailing time much faster from South China Sea to Indian Ocean. Once built, all ships will have better options and will naturally seek the better logistics available from Hambantota harbour and avoid the Singapore harbour.

The other issue related to port agreement is the leasing of 15,000 acres of land to the Chinese company. FCCISL sees that releasing of such a vast land would have far-reaching consequences due to social resentment resulting from removal of famers and residents from their traditional lands for the proposed development.

In these circumstances, FCCISL being the apex body of the chamber movement in Sri Lanka, wishes to fervently request both Minister of Ports and Shipping Mahinda Samarasinghe and Minister of International Development Strategies and International Trade Malik Samarawickrama to reconsider Sri Lanka's stand on the proposed deal in a much more favourable manner to bring greater value to Sri Lanka.

Sri Lanka's Economic

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Moreover, a holistic policy and strategic framework and action hold the key to any prospects of creating a competitive SME sector and national competitive advantage in general. Without creating Sri Lanka's competitiveness directed at a sustained export drive, and also supporting import competing local industrial and service SMEs, front-end actions of promoting FDI and FTAs alone will yield little positive outcomes, and in a worse scenario, even adverse outcomes.

Economic growth forecasts

The Sri Lankan Central Bank Governor recently predicted that the forecast economic growth would be 5-6.0% in 2017, while the Minister of Finance projected an even more optimistic 5.7-6.0%. However, the business community in general is less convinced.

As reported in a local web-based business journal, local private business and policy forecasters predict a growth of 4.5% in 2017 while a Singapore-based economic forecaster predicted a figure as low as 3.5% citing prevalent tight fiscal and monetary stances as a "drag" on growth.

The growth forecast released by the World Bank for South Asia places Sri Lanka's economic growth for 2017 at an estimated 4.7%, a marginal rise from its provisional growth estimate of 4.4% in 2016. This growth forecast, in perspective, appears a low-end performance when South Asia is forecast to achieve 6.8% in 2017, sustaining its 6.7% achieved in the previous year.

Clearly, against a promising South Asian growth forecast, Sri Lanka cuts a sorry picture with growth estimates. Even more concerning is that, while the forecast growth is well outside highly optimistic official growth forecasts, it is placed at the sixth place in the ranking of South Asian countries, just ahead of the Maldives and Afghanistan.

This predicted growth performance, even if one assumes to be a plausible estimate, does not augur well for the country, the people and the business community. Last year's economic growth, having been revised down several times, ended up at 4.5%, worse than growth of 4.6% in 2015. Ironically, Sri Lanka seems to have failed to capitalise on exceptionally favourable prices for oil and other commodities seen in 2015, and a very favourable domestic political climate with the induction of a new regime on a good-governance platform.

The very toxic, politically-motivated, and unprecedented fiscal excesses in the 100-day Budget derailed the most sought-after sustained economic growth prospects that would have been realised through a better-managed economic strategy and political establishment. With business sentiments running subdued and the political establishment seemingly under duress while social pressures are mounting, there clearly seems little room for policy maneuvering.

Fiscal sector and growth

Recent statements by the World Bank and the IMF about the prospects of fiscal improvement commended Government efforts taken so far to consolidate the budgetary position, especially revenue and deficit targets. While this outturn should augur well for some kind of improvement of the Government's fiscal scorecard, it remains to be seen how the increased revenue measures impact upon SMEs, and on growth prospects in general.

If the improvements could enable the Government to ease its grip on revenue collection through VAT and other indirect taxes it tightly holds now, the possible outcome should contribute positively to catch up some domestic demand and hence production. However, with the Government having no choice over its maligned policy of raising salaries of the 1.2 million-strong public sector, which adds an estimated Rs. 12 billion of extra expenditure every month, and several other populist measures granted though the past budgets, any prospects of easing the Government's tight grip on VAT collections this year will be almost unrealistic. It appears that the perceived Government fiscal position could only come about at the expense of economic growth prospects.

Inflation beckoning on the horizon

Annual inflation, which was measured in CCPI (2013 base year), was estimated to 8%, according to March 2017 estimates released a few days ago. Such a scenario has added a further concern to the SMEs which are reeling from poor economic growth outturn.

Inflation will turn a major worry soon, as it affects a wide range of economic inputs across the board and adds a further premium on escalating costs. It may however be recalled that, until the first half of 2015, inflation measured by the CCPI and its core inflation index measures, fell to a historical lowest of 1%, and moreover, showed signs that inflation was stabilising within a 'no worry' zone.

It's most unfortunate however that Sri Lankan inflation had turned around from its downward trajectory when in fact global inflation has remained dampened and when that could have been exploited to make gains to push for growth, in particular manufacturers, and notably trade competing sectors.

Inflation expectations, which provide a barometer of inflation to come, were at low level at the beginning of 2015 with cost-push pressures at bay, as oil prices, which usually have been a main culprit of inflation cost pressures, hitting rock bottom. Contrary to the early-held low inflation expectations, rising cost pressures have been eating into the profitability of SMEs. Simultaneously, inflationary expectations have been eroding the purchasing power of workers giving rise to predictable wage pressures in the immediate and the short-medium term.

The SMEs also fear that the Government, under pressure for populist policies, will de-facto remain a passive spectator or even pressurise the private sector to comply with wage pressures for short-term political gains as provincial elections loom large on the horizon. These concerns are not quite unfounded given the basis of policy actions taken in the last two years. Adding insult to injury, rising exchange rate depreciation pressures and signs of upward movement in oil and global commodity prices will only lead to more inflationary outcomes in the months ahead.

With inflation comes pressure on interest rates and exchange rates

Besides the broad concerns on the inflationary front, the sudden jump in interest rates has been real and growing concern to the SMEs. Over the last several months, escalating costs of finance has severely eroded the ability of the SMEs to remain afloat as going concerns, leave alone the prospects of being profitable.

The spikes in interest rates at most unexpected times, in particular when the SMEs were gearing for a lower interest regime, was most destructive to all the SME sectors and their subsectors. It severely dents business confidence for medium- and long-term investments, essential replacement and new capital outlay efforts. Those who had such plans in the pipelines in 2015 and 2016 were hit by a severe blow. Some have been trapped in

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business propositions where they have no easy way out should they wish to minimise the effects of the economic fallout.

As the interest rate rise registered an unprecedented jump of over 500 basis points, equivalent of over 5% rise, since the first quarter 2015, the SMEs were affected by both the absolute real time costs and downward revisions of profitability forecasts. It's our informed understanding that many SMEs are struggling with a heavy burden of debt with survival as a day-today business strategy. Last but not least, the heavy shift towards increased VAT had created a major dampener on consumer confidence.

With the Government increasingly under a debt burden cloud, especially domestic short-term debt, which was evidently was self-inflicted since its populist Robin Hood style budget in 2015, the expectations that the policy environment will calm the situation down has turned bleak. As the Government is running out of viable options, having exploited all short-term exit routes, including the much controversial printing of money which has become the norm over the last several months, the prospects of turnaround any time soon remains a horizon too far. Adding further to the economic misery have been the inconsistent policy positions within the Government, including the political gaps within the coalition that are now conspicuous in the public domain.

Looming over the horizon, as concerns recently expressed by the Governor of the Central Bank, is a rising property bubble that was apparently triggered by monies pouring into property which provide lucrative returns when other sectors were underperforming. Excessive money creation through the Central Bank while holding interest rates down is likely to have created a toxic mix of optimism towards property investment and shift towards import financing. Both outcomes are loaded heavily against true real economic sectors and the SMEs.

Impact on SMEs

If the current economic trends provide a yardstick of future economic scenario, the predicted snail's pace of the economy will have a lasting negative impact on SMEs in particular (which contribute nearly 60% to the country's GDP), and which are already hit with a double whammy of rising costs and dwindling sales.

With regard to the immediate short-term, the situation looks even bleaker. As a recent study stated, this year's Avurudu sales, which usually provide some respite to an otherwise below-expected performance, has been down by as much as over 40% compared to last year. While the prevailing drought provides a partial explanation, the persistently-falling purchasing power of people and dwindling business sentiments remain among the main underlying factors. The SMEs, which are usually cash-strapped and are commonly heavily-geared, when faced with a prolonged downturn take a serious hit on cash flow and jeopardises their very continuity as a business enterprise.

Way for the medium and long-term

Perennial productivity issue: Sri Lanka's inherent issue has been the lack of efficiency and productivity which directly affect exports and eventually the GDP of the country. Industrial sectors across the board are faced with acute productivity issues that make our products uncompetitive in the world market. While there are micro-level or firm-level issues of productivity, much of the issues are beyond firms and industry levels.

Broad macroeconomic policies, including fiscal policies, provide no encouragement; firms are grappling with excessive costs wrought on them due to wrong policy measures and the lack of an institutional framework that promotes productivity and competitiveness. It's the widespread opinion of the SME community that, without adequate measures to address productivity and competitiveness issues, Sri Lanka's attempts to enter into Free Trade Agreements with countries such as Singapore and Korea which maintain very high productivity levels across their industries could make the situation worse. However, we note that despite these mixed sentiments, the country needs to enter into FTAs selectively and appropriately to enable local firms to gain more business opportunities.

It's inevitable that FTAs would result in restructuring of local industries and some may even have to be closed down if they fail to meet the new challenges posed. Yet, it should enable more opportunities for firms to adjust to competition and reap the benefits. Hence, the Government also needs to create the right business environment for SMES to adjust and adapt.

It is also noteworthy to mention that Sri Lanka has still not been able to reap expected benefits from the FTAs signed so far, and in reality, many SMEs face extinction. Low-priced, often substandard imports from the Indian sub-continent have flooded the Sri Lankan market, when Sri Lankan exports to the Indian sub-continent have faced non-tariff barriers and other trade obstacles.

Back to development banking

In the least the SMEs expect policy consistency and management of the present economic challenges to avoid them turning into catastrophic proportions. In this regard, it's important to pay attention to contemporary economic discourse on a Sri Lankan strategy. In a speech at a recent seminar in Colombo Prof. Howard Nicholas lamented the foolhardiness of Sri Lankans to have converted the only two development banks into commercial banks and underscored the fundamental necessity to provide funds at low cost with adequate risk cover to local investments to create a competitive economic environment.

Sri Lanka to plug into exports through value chain

Dr. Nicholas further stated that the global economy is heading for a recession in 2017-19, and countries like Sri Lanka should gear to reap the best in a worst scenario. For that it's imperative that we get out of these economic uncertainties sooner and concentrate on creating the mood for competitiveness and promote SMEs to launch into exports and import competing manufacture.

The global recession would create opportunities as the Asian economies that enjoyed sustained growth momentum over the last decades look to relocate their businesses into yet-unexplored locations like Sri Lanka. This provides openings for SMEs to partner with such relocating businesses. This will enable an export drive and technology sharing for a sustained manufacture-based export growth.

A vision for the future – A lesson from Singapore

Given below is an extract of Singapore's experience and strategy to reach the level as the top most position of the World Competitiveness Index Back. With the right vision, and commitment to a well implemented strategy it reached its goal. What Sri Lanka needs is a leaf from Singapore success. We share the relevant extracts below as the FCCISL believes

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FCCISL on SAARC Trade

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by the selected sectors on Non-tariff measures affecting when trading within SAARC region. It was clearly understood that non-tariff measures (NTMs) continue to create major challenges for exporters, importers and policymakers. Defined as *"policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both"*, there is a wide spectrum of NTMs used in international trade today.

Within the region, India and Sri Lanka enjoy a vibrant and growing economic and commercial partnership with bilateral trade growing rapidly in the last decade and a number of leading Indian private sector companies investing in Sri Lanka and establishing a presence in this country. Sri Lanka is India's largest trade partner in SAARC. India in turn is Sri Lanka's largest trade partner globally. Much of the impetus for the current level of our economic interaction stemmed from the signing and entering into force of the Free Trade Agreement (FTA) in 1998 and 2000 respectively, While Sri Lankan exports to India have increased substantially during past 12 years since 2000 when ISFTA came into force, they have lagged behind the high growth in India's exports to Sri Lanka, resulting in a widening of the trade balance. This is largely because of the lack of export capacity from Sri Lanka to service Indian requirement and also due to increase in imports from India because of competitiveness of our exports. Interestingly, over 80% of our exports to Sri Lanka are outside the list of products covered by the FTA, thereby indicating their overall competitiveness in the Sri Lankan market.

Most of the issues identified and highlighted during the interviews were related to India and Pakistan. Despite Sri Lanka having FTA's with both countries, the effectiveness of the agreements needs to be revisited. The chamber conducted a series of meetings (focus group meetings) with each sector identified in consultation with trade associations, exporters and importers to find out the persistent NTMs affecting when trading within the region. On 09th February 2017, all highlighted trade issues were addressed with the policy makers at the "Policy Advocacy Group" to verify all issues identified and to seek possible mechanisms to be applied to eliminate barriers. Unfortunately, some of the issues continued to exist for a long time. However, an effort was made by all representatives of the policy group where most departments confirmed and stated their plans to address most of the NTMs to support trade. "We look forward to share all identified NTMs through a publication which will be handed over to Department of Commerce" said by the NTM desk from FCCISL. They further thanked SAARC Trade Promotion Network (SAARCTPN) and (GIZ) GmbH for the project extended to Sri Lanka and to the region in their support to eliminate non-tariff barriers affecting trade with the SAARC countries.

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that Sri Lanka needs to believe in itself, its people and put together a set of policy framework supported by the political establishment with meticulous planning and commitment to achieving them with a definite time frame. We have missed the bus many a times in the past. It's not too late yet that we learn from the mistakes and move forward to creating the promise of South Asia.

Singapore story

In 2010, the Economic Strategies Committee (ESC) reporting to the Prime Minister was tasked with making Singapore more competitive and getting Singapore to the top of the World Competitiveness Index. They put together a team of 1,000 people from the Government, universities, private sector, think-tanks, etc. After forming and working on their plan, they achieved second place in the World Competitiveness Index for six years in a row, from fifth position in 2007-08.

Singapore's ESC 2017 plan

Singapore's ESC 2017 plans to achieve an average GDP growth of 2-3% per year over the next decade. This can be achieved through the seven mutually-reinforcing strategies it proposed.

1. Deepen and diversify Singapore's international connections
   - **Press on with trade and investment cooperation**
   - **Set up a Global Innovation Alliance**
   - **Deepen knowledge of Singapore's markets**

2. Acquire and utilise deep skills
   - **Facilitate acquisition of deeper skills**
   - **Strengthen nexus between acquisition and utilisation of skills**

3. Strengthen enterprise capabilities to innovate and scale up
   - **Strengthen Singapore's innovative ecosystem**
   - **Support enterprises to scale up**
   - **Catalyse the private sector to provide more growth capital**

4. Build strong digital capabilities
   - **Help SMEs adopt digital technologies**
   - **Build deep capabilities in analytics and cybersecurity**
   - **Leverage data as an asset**

5. Develop a vibrant and connected city of opportunity
   - **Invest in Singapore's external connectivity**
   - **Continue to plan boldly for growth and city rejuvenation**
   - **Build partnerships for a vibrant city**
   - **Develop exportable capabilities**

6. Develop and implement Industry Transformation Maps (ITMs)
   - **Tailor ITMs for each industry**
   - **Take an open, cluster approach to maximise synergies across industries**

7. Partner each other to enable innovation and growth
   - **A greater role for Trade Associations and Chambers (TACs) and unions**
   - **Create a regulatory environment to support innovation and risk-taking**
   - **Use lead demand to support the development of promising industries**
   - **Review and reshape Singapore's tax system**
   - **Create a sustainable environment**