



Exporters Association of Sri Lanka

SUMMARY OF RECOMMENDATIONS FOR A NATIONAL EXPORTS DEVELOPMENT STRATEGY (NEDEVS) 2016-2020

**Exporters Association of Sri Lanka ,
C/O 50, Navam Mawatha, Colombo 02, Sri Lanka
Tel: +94 11 5588871, 5588898 (Dir), 5588800 (Gen) Fax: 94 11 2449352, 2437477 ,
Email: easl@chamber.lk ,Web: www.exporterssrilanka.net**

Summary

The External sector of the country is presently at a vulnerable position owing to declining external reserves, negative growth in exports, rising external debt service payments due to high external debt etc while economic growth has been moderate. To accelerate growth and address the external sector issues in a sustainable manner it is imperative that an aggressive exports development program be initiated.

Sri Lanka's poor performance in exports, relative to its competitor countries, can be mainly attributed to the small basket of exportable products where nearly 60% of the merchandise exports are accounted for by the two product categories of tea and garments. While our main export markets have remained with the USA and EU, the scope for market diversification has been limited due to the product basket.

The Exporters Association of Sri Lanka (EASL) strongly advocates to the Government to give high priority to build the competitiveness of exports by developing a National Exports Development Strategy (NEDEVS). However, as past experience provides ample proof it is not sufficient to simply develop a strategy but it is essential that the Government extends its fullest commitment towards implementation of the strategy.

The EASL has identified several key factors that impact on the competitiveness of the export sector and recommendations to address them which are detailed in the attached paper. These include strategies to increase exports of the current product mix by deeper penetration into existing markets and to new markets and investment in new products and services through attraction of both foreign and local investments. We have identified the recommendations in terms of priority level to initiate action as either high (within one year) or medium (within three years). The priority level has been assigned on the basis of importance as perceived by the EASL and other factors such as budgetary constraints and ease of implementation. In instances where the Government needs to allocate funds we have placed it under medium priority even if it needs urgent action as the budget for this year has already been approved. The proposals have been grouped under a few key themes. It is proposed that these be considered in developing the NEDEVS. The following paragraphs provide a summary of the proposals.

Primarily it is important to create a macroeconomic environment that is conducive to exports including a competitive exchange rate and managing fiscal and monetary policy to maintain inflation and interest rates at low levels avoiding wide fluctuations. Concurrently it is vital to introduce necessary institutional reforms to support export development. In particular, this requires the reactivation of the Export Development Council of Ministers as the Policy making body for exports and restructure of the Export Development Board, the executive arm of the Council, which is entrusted the task of driving exports.

The needs and expectations in the global market changes rapidly and Sri Lankan exporters lack knowledge about the buyers requirements and changes in consumer demand patterns in overseas markets. The Sri Lankan foreign missions can be used to fill this lacuna. They can identify the consumer demand patterns and regulatory changes in the respective countries, pick products and services that have potential to be exported from Sri Lanka and communicate the information to Sri

Lanka. This should be disseminated among the local exporters facilitating exporters to align their products to the buyers needs.

Apart from obtaining market intelligence, export promotion has to be strengthened. The limited funds available for promotional activities has to be put to best use by synergising the work carried out by public sector promotional institutions. Private sector needs to be encouraged and supported to develop brands to compete in the intensely competitive niche markets. Encouragement could be provided by introducing a national branding program whereby a brand mark is given for products and services meeting selected criteria. In addition, since registration of trademarks and branding are very costly, exporting companies should be financially supported to meet the related costs.

Global supply chains have been gaining ground in recent times as evident from the increased sales in intermediate products. Sri Lanka should identify products/ components/ services for which we have a comparative advantage and develop strategies to tap into those supply chains.

The potential for export of services is not exploited world over. In Sri Lanka, services exports have grown at a much faster pace than that of goods over the last decade; 16% growth in services vis-a-vis 7% growth in merchandise exports, but there is much more scope for increasing services exports. The geographical location provides further advantage to Sri Lanka and may even provide quick win solutions. Therefore it is important to identify exportable services and develop strategies to enhance services exports.

Foreign direct investments are an important source that provides easier access to export markets, to technology and knowhow that is not available within the country and access to capital to set up new export ventures. Sri Lanka has not been successful in drawing significant values of foreign investments to the country vis-a-vis the newly industrialised countries or emerging economies. A few large scale export oriented foreign investments can have a major impact on the country's export landscape. However, this requires the entire investment facilitation framework to be reviewed and upgraded for Sri Lanka to be perceived as a more attractive investment destination. This will entail among others, upgrade of the export processing zones to international standards, introduction of clear transparent and consistent rules and regulations, expeditious processing of applications for establishing new ventures and continuous investor facilitation support even after implementation of the project.

To attract investments, a country should make its factors of production accessible easily to the investors and more productive. There are several bottlenecks in accessing these in Sri Lanka; difficulties in identifying a suitable land and the long drawn and cumbersome procedures to obtain it, archaic and rigid labour laws, difficulties in finding trained labour and high cost of capital and difficulties in accessing loan capital specifically for SMEs due to collateral based lending practiced by the banking sector in Sri Lanka. These issues need to be addressed to enhance productivity of the factors of production and for Sri Lanka to become a attractive investment destination.

As indicated at the outset Sri Lanka has a very limited basket of exportable goods and services and the expansion of the basket requires new products and services. The small domestic market makes it difficult for us to produce standardised products for mass export markets and it is better suited for Sri Lanka to focus on differentiated and new products for niche markets. A main source of such products and services is the outcomes of research and innovation. As spending on research is very

low in Sri Lanka it is necessary to increase this to develop the capacities of the research institutes. In addition greater linkages should be fostered among the research institutes and with the private sector to ensure that research is market driven. Private sector should also be encouraged to engage in research to develop new and varied products and services. The culture of research and innovation should be nurtured starting from the young at school level.

Competitiveness is also very much affected by the cost of transactions. The time taken to register and establish a business, to get necessary approvals to set up a investment or conduct transactions, to ship/clear a consignment etc as well as the costs involved impact on the cost of a product or service. Sri Lanka is placed at 107th position out of 189 countries in the Ease of Doing Business ranking for 2016, its position having deteriorated from 81 in 2013. A concerted effort with inputs from private sector is required to reduce the transaction costs and improve the ranking.

Similarly standards imposed by importing countries impede our exports. Our infrastructure deficiencies and the high costs involved in complying with the standards and in obtaining certification on standards are barriers to enhance our exports. To overcome these, the capacity of Sri Lanka Standards Institute has to be strengthened and testing and laboratory services in the country have to be upgraded. In addition, exporters need to be financially supported to obtain certification. Sri Lanka should also endeavour to negotiate and sign Mutual recognition agreements on standards with countries to which we are exporting goods to avoid further delays and costs for our exports at the importing country.

A Strategy will be of limited effect if the commitment to implement the strategy is weak. It should receive the fullest support and commitment of the head of the state and head of Government. Moreover, it is crucial to put in place a mechanism to monitor and follow-up on progress with the participation of exporters and other relevant stakeholders. EASL also believes in close dialogue with the stakeholders in policy development and monitoring. The success of the strategy will depend on commitment of all stakeholders therefore it is important to get their acceptance or perception of ownership to drive the strategy.