

Sri Lanka's Economic Agenda in the Region

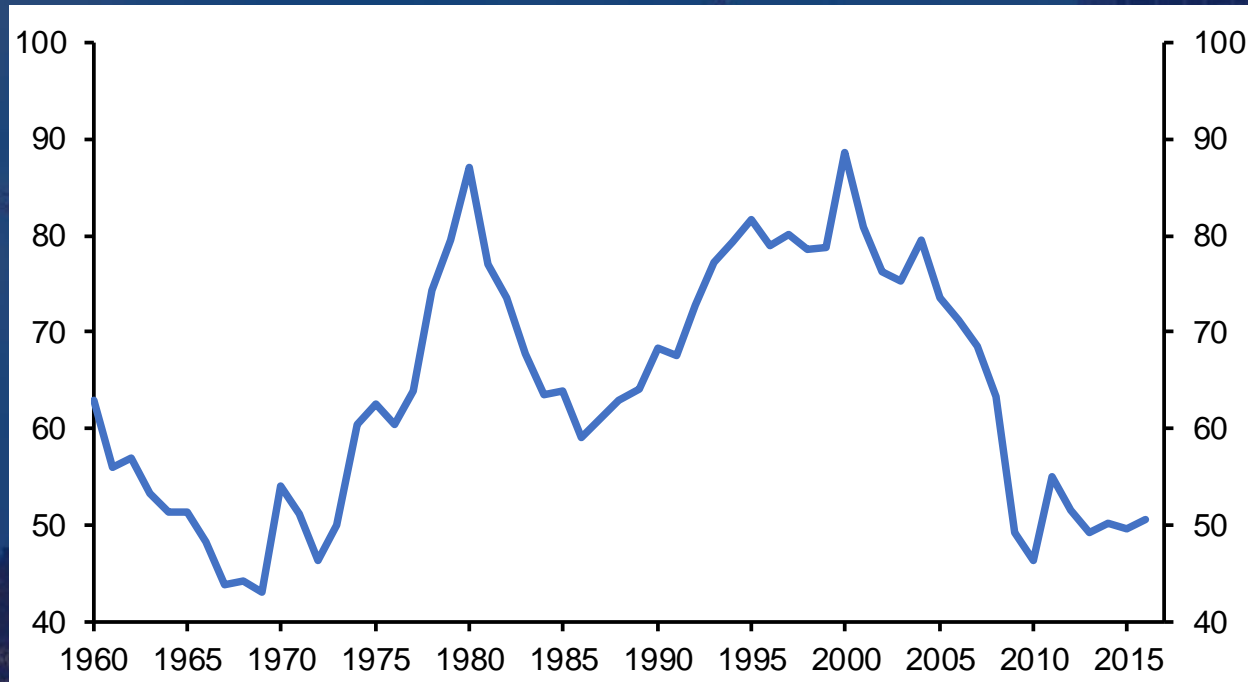
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Agenda

- A (very) brief history of Sri Lanka's external economic links.
- The government's current external economic strategy.
- Opportunities and challenges for the future.

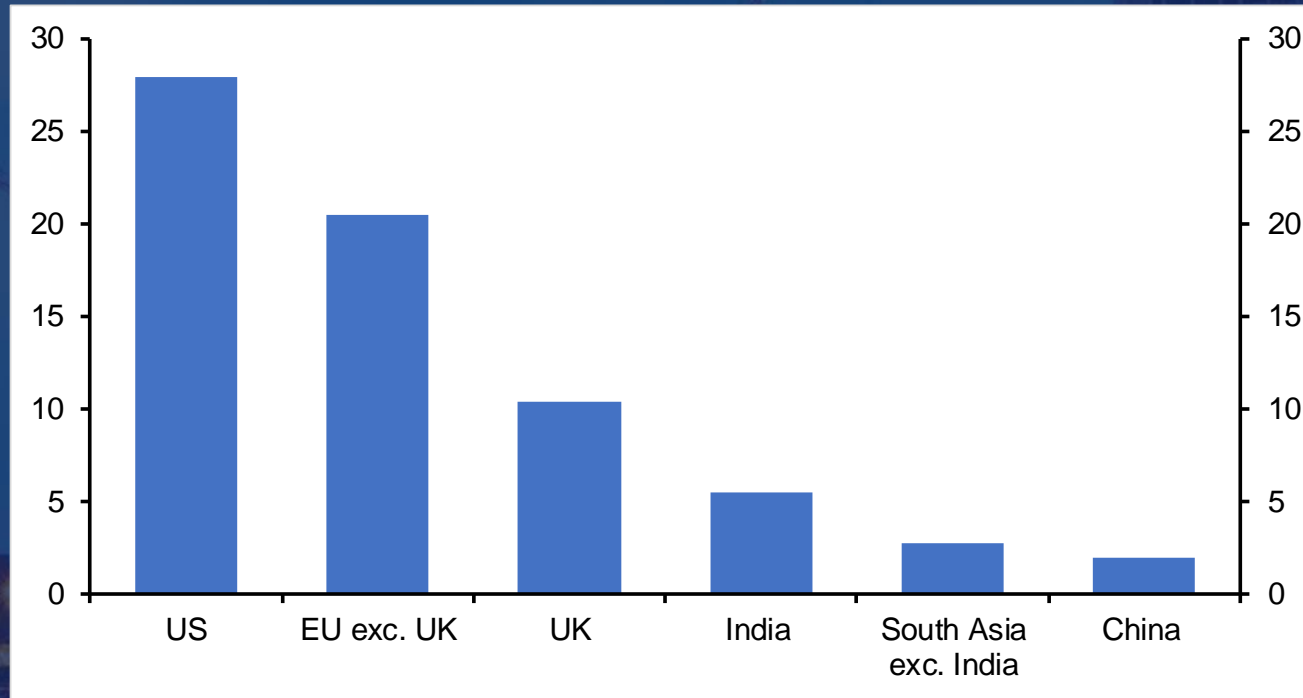
Trade as a Share of GDP (%)



Source: World Bank

#1 Most exports go to major developed markets

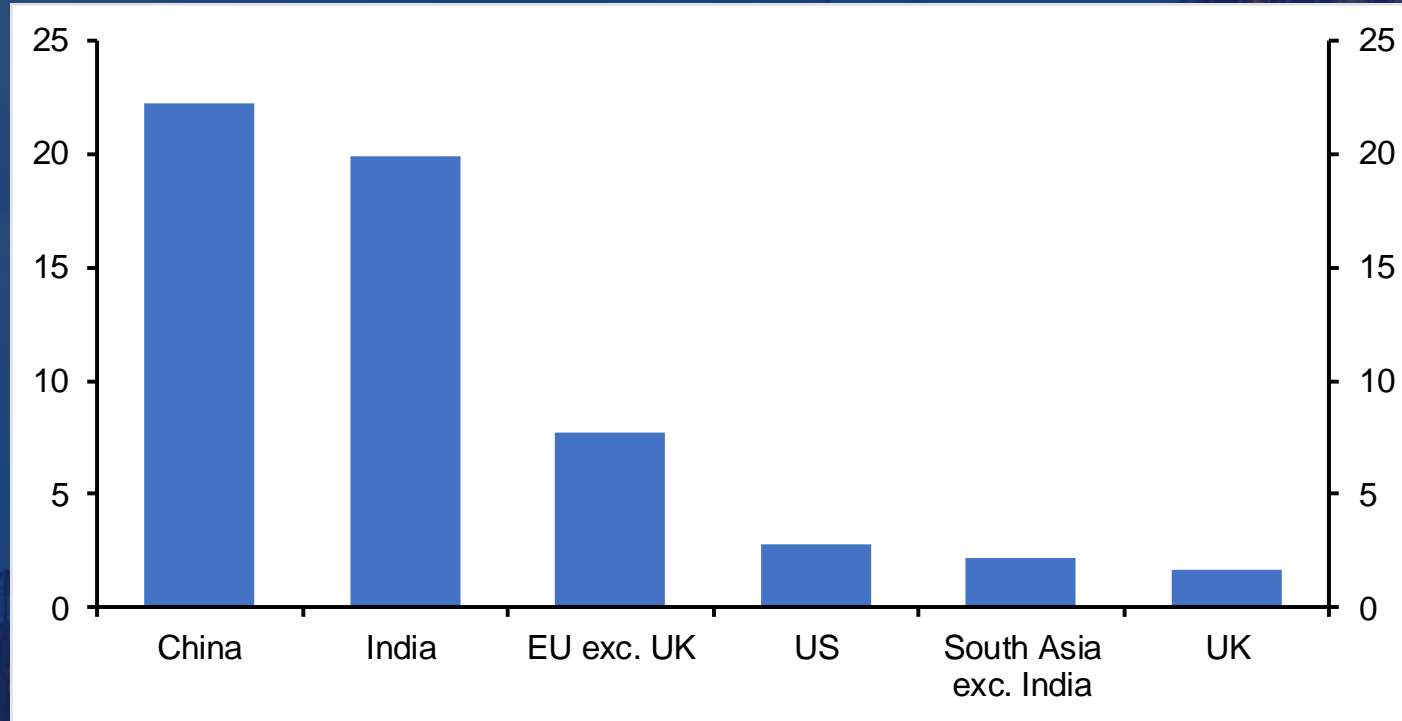
Destination of Goods Exports (% of Total, 2016)



Source: IMF, LKI

#2 Most imports come from India and China

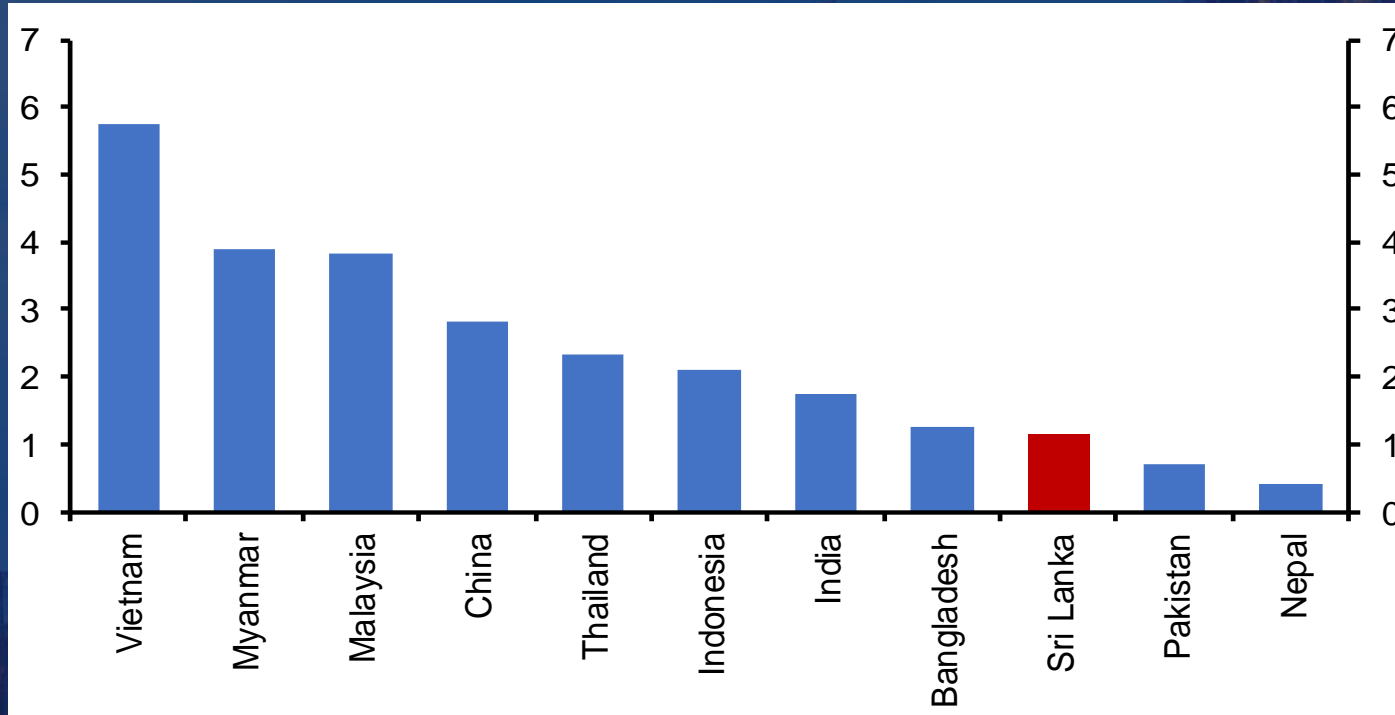
Origin of Goods Imports (% of Total, 2016)



Source: IMF, LKI

#3 Foreign investment performance has been poor

Average Net FDI Inflows (% of GDP, 2010-2016)



Source: World Bank

The Government's Current Strategy

Vision 2025 – A Country Enriched

- “We will position Sri Lanka as an export-oriented economic hub at the centre of the Indian Ocean”
- “Over the next three years...we will aim to raise per capita income to USD 5,000 per year, create one million new jobs, increase FDI to USD 5 billion per year, and double exports to USD 20 billion per year.”

Free Trade Agreements

- Domestic reforms play an important role, but the linchpin of the foreign policy strategy is bilateral FTAs.
- Sri Lanka-Singapore FTA has just been signed. An agreement with China and an updated FTA with India are under negotiation.
- New FTAs (including with Singapore) will have an investment chapter to encourage greater FDI, as well as exports.

Hub in the Indian Ocean

- The government also wants to diversify exports, particularly into services. Logistics services are a key area of potential growth.
- At the same time, it wants to link the economy into global supply chains across Asia to attract more investment and boost exports.
- Securing freedom of navigation in the Indian Ocean is a necessary condition in order to achieve these two goals.

Future Opportunities and Risks

Opportunities

- Sri Lanka is next to the fastest growing major economy in the world (India), as well as prosperous South-East Asia.
- An FTA with China, would mean that Sri Lanka has preferential access to India, China and the EU (through GSP+).
- Can the manufacturing sector go beyond textiles and integrate into global value chains?

Risks

- The export-led (manufacturing) growth model may become difficult to follow.
- If not done correctly, trade liberalisation could generate a public backlash that could lead to a reversal of reforms.
- The necessary domestic reforms to boost export competitiveness and attract more foreign investment may stall.

Conclusions

- Sri Lanka has historically not been well integrated with other economies in South Asia or the wider Indian Ocean region.
- The government's current strategy is an attempt to address this by boosting trade and investment, primarily through FTAs.
- While there are risks to this strategy, there are also important opportunities and there are tentative signs that it is working.