

## **SRI LANKA, EXPORTS AND DCI**

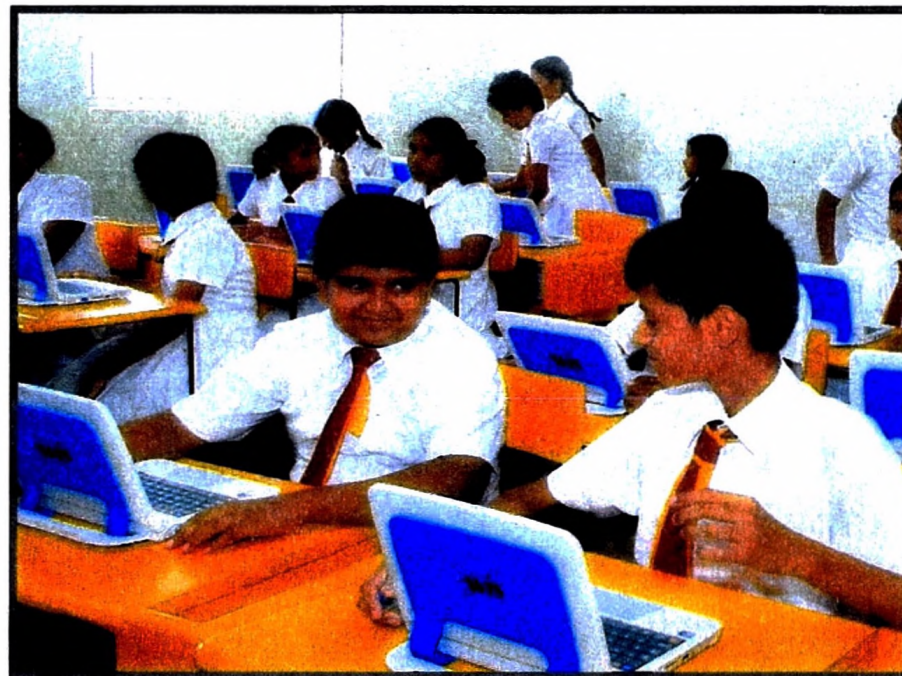
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### **Quote:**

*“Whilst the export base dispersion is positive, the need of the hour is deeper product penetration in the new markets as even today a few countries account for almost half our export proceeds.*

Even though Sri Lanka recorded a negative growth of 6.09 in 2012 and in the first half 2013 we are trailing by 7.9%, the good news is that from a export market dispersion perspective we are right on track strategically with the index moving from 40.9 way back in 2002 to positive number of 26.8 in 2011 which is a healthy sign. However, a point to note is that even though the export dispersion is wide the dominance of a few countries contributing to a major share of exports continue and this needs to be corrected in the years to come. Whilst stating same, the overall direction from a market development perspective can be viewed as very positive and now can be developed with depth by way of product penetration into these new markets.



***E-Wis launching a locally assembled computer to School Children can target the export market next***

### **DCI Index**

To support the claim that Sri Lanka being on the right track on the market diversification, the index that can be analysed is called the Destination Concentration Index(DCI). In simple words it means the dispersion of exports over markets. As mentioned before this index moving from 40.9 to 26.8 is a positive development but three countries like US, UK and India accounting for half of Sri Lanka's exports indicate that sharper work is required to get the benefits of a strong DCI indicator.

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**Destination Concentration Index Sri Lanka (DCI)**

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Destination Concentrated Index( DCI)</b>	40.9	38.4	37.1	36.2	34.1	32.1	29.8	29.6	26.8	26.8

( Source: Sri Lanka Customs)

How this can be done is by investing on R&D in a few focused markets like China, Japan and Brazil and linking the private sector to cut in with deeper product penetration. The good news is that Sri Lanka Tea Board is doing this with a planed Market research study in selected markets which ideally other export agencies and chamber organizations must replicate. This is strategic market developments at its best in my view.

From a policy perspective, Preferential Trade Agreements with countries like China and Japan will fast track the private sector work and the good news once again is that this is been championed by the Ministry of Finance in partnership with the Ministry of Industry and Commerce. Once implemented this will be another classic private-public partnership initiative that can replicated in markets like Brazil, Iran, Mauritius Belaurus and Russia in the years to come.

**Trade Imbalance**

From a balance of trade perspective we see that much needs to be done quickly given the widening gap, almost touching a ten billion dollars. The Free Trade Port needs to be utilized by the private sector with the support from policy makers on infrastructure needs. I know of some companies already making arrangements for the manufacture of global fashion brands with the above macro strategies. But the focus must be value addition so that the related domestic market will also get a boost given that it's a fact that economic activity is slowing down.

Lets accept it that peace devidence benefit is flatnining-out, given that the agricultural sector boom in the North-East happned in 2010 -2012 and the Tourism pent up demand coming to play in the last three years. Now we need to see a new infusion of economic activity to drive a new wave of development. The new tourism hotel properties will hit the market numbers only in 2016 onwards so we have to have a short term country strategy at play.

**Trade Imbalance Sri Lanka 2002 - 2012**

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Trade Imbalance ( In Rs. US\$ Millions)</b>	-1407	-1538	-2243	-2516	-3370	-3556	-5981	-3122	-5205	-9710	-9313

( Source: Sri Lanka Customs)

Some can argue that the trade imbalance is mainly due to the economic downturn impacting the export agenda of the country. But this does not hold ground given that countries like Bangladesh and Vietnam was hovering around two billion dollars way back in 1990 when Sri Lanka was also registering the same value in export revenue. But today, Bangladesh is at 24 billion dollars and Vietnam touching 97 billion dollars in value. Sri Lanka is will be around 10 billion dollars at the best in 2013 is my view. Which clearly indicate that the push on exports have not happened in the last twenty years and the outcome is very clear. I would attribute this to the focus Sri Lanka was on to eradicate terrorism that has resulted in this situation. Now that this is behind us, its time that we as a nation focus on this agenda with a private-public partnership. I can see how the Sri Lanka Tea board is on track with the private sector driving the initiative but with responsibility that I say that the policy support has not been very supportive given the political economy at play. There is some improvement seen on this front lately and let's see how this unfolds in the months to come. When it does hit the market place the rest of sectors can emulate the "Ceylon Tea Global Campaign" as a model to my mind.

Another sector that is on the export agenda is the ITBPO sector that announced that it has registered a 700 million dollars in exports. The silent achiever is working under a SLASCOM umbrealla very effectively. There is Sri Lankan IT-BPO branding strategy that has been sketched together with value chain development that includes human capital which is yet another positive case study for Sri Lanka. Companies like Millennium IT linking up with the London Stock Exchange augurs well to the AT Keaney report that Sri Lanka is a top destination in the BPO market. I would like to commend the new initiative of companies like Ewis that have ventured into locally assembling of computers targeting children, can ideally be developed to hardware exports out of Sri Lanka under the Ethically Manufactured theme. Which happens ti be same positioning that the Apparel and Tea Industry has shaped it business.

#### **2010:**

To get into the detail of Sri Lanka's non focus on the export agenda as against regional counterparts, if we track back to a good year like 2010, where we crossed the 8.9 billion export revenue mark at a growth of 18.2% our regional counterparts outpaced us. India grew their exports at a blistering 40.5%, Vietnam at 26.4%, Thailand recorded a export growth of 28.1%, Philippines at 34% and little island Mauritius at 18.7% which just indicate that Sri Lanka was losing out on the global share on export proceeds.

#### **2011:**

Even in 2011, we saw a repeat of the 2010 performance. Sri Lanka grew by 5.4% crossing the 10.5 billion dollar mark whilst India grew by 29.3%, Vietnam by 33%, Thailand 17.4%, Bangladesh by 41.5% and Mauritius by 23% which Sri Lanka was blind to, just because we were showing a positive growth. The responsibility to this numbers cannot be just left with the public sector but also the business chambers as the task of the chambers to guide the government with meaningful engagement. It's strange how some sectors have done this in the likes of Apparel but the rest not been that successful.

## **No 2 Export: Tea**

The ramification of a non focused export strategy can be explained by way of the Tea Industry of Sri Lanka. Let me share the details. If one examines the top 10 destinations of Ceylon Tea in the 1960's, 1985 and in 2010, we can see that every fifteen years we are challenged with the task to find new markets.

In 1960 the top 5 markets were UK, Australia, USA, Iraq and South Africa that accounted for 70% of the exports. In 1985 the top 5 were replaced with Egypt, Iraq, Syria, Saudi Arabia and UK falling to no 5 position at 13.4 million kilograms of tea from the 69.1 million kilograms it did way back in 1960.

By the year 2010 the top 5 countries were Russia, UAE, Iran, Syria and Turkey which just explains the crunch issue that we are up against. This may be due to economic blocks formation and due to trade agreements by different tariff adjustments coming to play. But the fact remains that if we had a strong branding campaign this impact could have been mitigated given that consumer loyalty could elucidated for which people will be ready to pay a premium.

## **What next**

- 1) Focus on some high tech export products given that export proceeds have come down from \$102 million dollars in 2008 to 57 million in 2010. We have to grow this business from the current 1.8% contribution to at least 15% by 2020. Korea is at 75%, Thailand at 27% and Singapore at 50%. We must support the SLINTEC initiative with some top dollar funding linked to selected private sector companies. This is how Samsung came to being in Korea which beat mega brands like Sony and Apple brands.
- 2) Fast track the Preferential Trade agreements with China and Japan and then drive the Brazil and selected African countries that will have a comparative advantage. We must not just practice export diversion as that is not the healthy way to do business. Vanaspathy debacle must not be allowed to happen in Sri Lanka ever.
- 3) Link up the development of Industrial estates with specific product sectors that can be targeted to global markets. Atchchuveli Industrial zone that is the 1<sup>st</sup> post war industrial zone can ideally be shaped into this structure as a case in point. Or for that matter the other zones in Mannar or Vavuniya in the future. This can attract donor funding too.

- 4) The export levy like PAL(3%) and NBT(2%) can be removed for specific sectors like investment technology and Machinery so that it can stimulate exports in the future.
- 5) Development of a banking system so that SME;s can be given a special rate of 3% as interest can be persued for a ten year duration. The SME's happen to be the backbone of the Sri Lankan economy and it needs focused attention.
- 6) We must drive the GSP+ agenda even though its politically tough. We have to rise above the bar on this one if we are to really energize the industry.
- 7) Re-organise the private sector with the trade chambers globally so that greater connectivity can result is business expansion.
- 8) As a matter of priority the global campaign on Ceylon Tea must be launched so that Ceylon Cinnamon can follow suit and may the next high end Rubber industry.