SRI LANKA EXPORTS, DCI AND NEXT STEPS

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Quote:

"Whilst the export base dispersion is positive, the need of the hour is strategic decisions from a policy perspective"

Even though Sri Lanka recorded a growth rate of 6.09 in 2012 and in the first half 2013 we are recording 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.

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.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Destination Concentration Index(DCI)	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 planned Market research study in selected markets which ideally other export agencies and chamber organizations must replicate. This is strategic market development 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 being 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 be replicated in markets like Brazil, Iran, Mauritus, 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.

Let's accept it that peace devidend benefit is flatnining-out, given that the agricultural sector boom in the North-East happened 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.

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

(Source: Central Bank)

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 were 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 will be around 10 billion dollars at the best in 2013 is my view. Which clearly indicates that the push on exports has 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 significant given the political economy at play. There is some improvement seen on this front lately and lets 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 to 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 an 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 is to guide the government with meaningful engagement. It's strange how some sectors have done this in the likes of Apparel but the rest have not been that successful.

Case in point: Tea

The ramification of a non focused export strategy can be explained by way of the Tea Industry of Sri Lanka which is the number two export earner for 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 persuade people to pay a premium.

Immediate action required

Since the Bangladesh issue of ethical labour is becoming an issue for the key trading partners like the EU and US we see a positive swing to Sri Lanka and in fact as at August 2013, Sri Lanka has reversed the negative trajectory. Hopefully we can see a positive growth in exports by end 2013. Given this development as a matter of urgency the following key action can be initiated.

1) Clear VAT refund issue – *builds positivity*

One of the key cries of the private sector is to clear the backlog and reduce the time lag on the VAT refunds. Many exporters last week went on to say that they do not need any hand outs but just to get the VAT refunds due to them can ease out the working capital issues they are up against given the high interest rates that they are contracted to pay. This clearly dawned on many of us that exporters are on survival mode due to the economic downturn in Europe and a slowing down in the US. It had nothing to do with technological investments or mind boggling blue ocean strategies that we see people writing on. The question is how can this be worked out. Even reports in the media mention the cash crunch in the system.

2) EDRS Scheme – *to support winners*

A point mentioned here was that whilst noting that the scheme was discontinued in 2009, there were payments due to exporters prior to discontinuation of the scheame, which have been invested by the Exporters. I feel such issues need to be corrected and thereafter may be a cost benefit analysis need be done if this scheme should be introduced. The logic being I visited a South Korea export board and they mentioned that the country was clear on their policy. Winners were selected and supported by the government instead of a blanket approach of financial schemes.

3) Streamline the TIEPS scheme

There were many claims and counter claims on gaps in procedure that is making the TIEPS scheme a hassle than an enabler. Given that technology is developing rapidly there is no option but move to driving this online. It will bring in a positive vibe given that anyway it will have to be paid on a later date. The question is the cash flow available to make the online strategy feasible.

4) Fixed Freight charges

Interesting point that was raised. Many exporters claimed that the regular ad hoc freight charges change affects the overall pricing strategy of the products. Apparently a policy is in the process of being introduced. If this can be firmed up we can give some stability of price to the export industry. This does not require Blue Ocean Strategies for sure but some aggressiveness to get the job done.

5) **Industrial Zone linkage**

Given that almost 73% of the exporters are SME's a point highlighted was that all trade fair participation as well as any technology transfer training to be informed to the Industrial Zone coordinators in the country. Aparently there are 47 Industrial estates in the country that house around 18-20 SME's. Which once again did not require innovation but a simple email that goes out to the respective focal points and then some degree of facilitation that can be done by the chambers.

6) **Ceylon Tea campaign**

With the Tea sector closing on to the 2 billion dollar mark a key strategy requested was the launch of an aggressive Ceylon Tea Campaign with a focal advertising agency at the helm. If one examines the exports in 2012, in volume and value Sri Lanka has declined. In quality by -0.85% and in value -5.30% whilst the key markets that has performed are Turkey at +16.7% and Libya at +118.4%, Ukraine at +14.3% but key markets like Russia has declined by 19% in the Tea Packets, Syria too at –23% and UAE at -30%. A point highlighted by the private sector was that we must ensure a sustainable process in the activation of the campaign so that it can be replicated later on. The availability of funding for the campaign that was directed by the private sector is a case in point for other industries to follow suit is my view. This can include Rubber, Cinnamon at the inception.

Strategic Direction

The key issue here is that we see 5% of exporters contributing to around eighty percent of export revenue. Hence, unless we move out of a SME driven policy on the export front game changing actions cannot be done from pivotal export organizations. On this premise some directional change is required on the export promotion end. Following are the specific directional changes that can supplement this strategy.

1) **Drive ICT –*growing at 34%***

More focus must be given to the ICT sector given that it it growing very strongly. This includes Soft ware development, Net work management, Web application, the BPO business, Designing and quality checking, Data mining, Embedded system designing, e-publication, ICT consultancy, KPO, Customer care and call center support just to name a few. May be at the outset an analysis must be done on the current status of the industry and then look at complex things like branding this sector given the gaps of collecting the data. This sure does not require Blue Ocean strategies or thinking in my view.

2) Focus on High tech exports

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 Samsumg came to being in Korea which beat mega brands like Sony and Apple brands.

3) FTA with China

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.

4) Country specific Industrial zone

Link up the development of Industrial estates with specific product sectors that can be targeted to global markets. Atchchuveli Industrial zone that is the 1st 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.

5) Take away PAL and NBT

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.

6) EU GSP Issue

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 private sector

Re-organise the private sector with the trade chambers globally so that greater connectivity can result is business expansion.

8) SL-India FTA – *10 sectors*

Given that exports into India have declined by almost 21% in the 1st quarter of 2013, it would be necessary to identify some key sectors and work ruthlessly to drive business.

Apparel is growing by 24% into India. Insulated wire and cables are up by 9% to almost ten million dollars as at March 2013. Boat Building and Cloves is also in a positive trend. Glass and Glass ware, Pepper, Woven Fabrics, Toys and Sports requisites are also doing well together with a strong performance in the boat building segments. Which are interesting categories though most of them are unbranded in nature. Rather than trying to drive strategies like blue ocean, may be a better option is to identify the bottlenecks like certification requirements, tests etc and see how we can move the overall export number to achieve last year's performance by end of third quarter 2013 from the current -21%.

9) Drive Cess to the industry

Even though many state organizations support the export sector the fact remains that the Cess collections by statute must be directed to the relevant agency that must invest on R&D and systemic development of the industry. This is what was happening and must happen given the experience of countries that have developed their export base.

10) Export Bank

Have a dedicated export industry led bank that can channel development finance targeting the SME sector. This can also drive in strategies like the Export Oriented Investment Support system(EOISS) which will be on the incremental export earnings. This mechanism can also ensure the export trade brings in the money earned in to the country. Interesting thought though may not be very popular.