OUR THOUGHT

SL'S FOREIGN DIRECT INVESTMENT CONUNDRUM

Sri Lanka is dollar hungry. As a country with an export income of little over US $ 11 billion and debt obligations of US $ 4 billion on average for the next few years, Sri Lanka's prime focus should be towards bringing in more dollars into the country. The best two ways to do this is to increase exports and get foreigners to invest in the country.

Sri Lanka took 17 years to double its exports from US $ 5.5 billion in 2000 to US $ 11 billion in 2017. But the imports during the same period rose almost three times to US $ 21 billion. As very correctly pointed out by Economic Reforms and Public Distribution Minister Dr. Harsha de Silva, at a recent gathering in Colombo, Sri Lanka should move from "simple to complex" with regards to its exports.

What he meant was the transformation Sri Lanka needs to undertake to produce and export products that are technologically advanced, which can fetch higher prices in the world markets, instead of simple products, which many other countries in the world could also produce.

Sri Lanka has a very shallow export basket and apparel and tea make most of it. Hence, going forward, export diversification towards more technologically advanced exports remains imperative for Sri Lanka to raise the required dollars.

The major economics topic in Sri Lanka for the last couple of years has been the country's unsustainable external debt pile. That is because of Sri Lanka's reliance on debt in the absence of enough exports and FDI. The country is borrowing more to settle its previous debts, which as anybody could guess, is not sustainable to say the least. But at the moment, Sri Lanka has no other option.

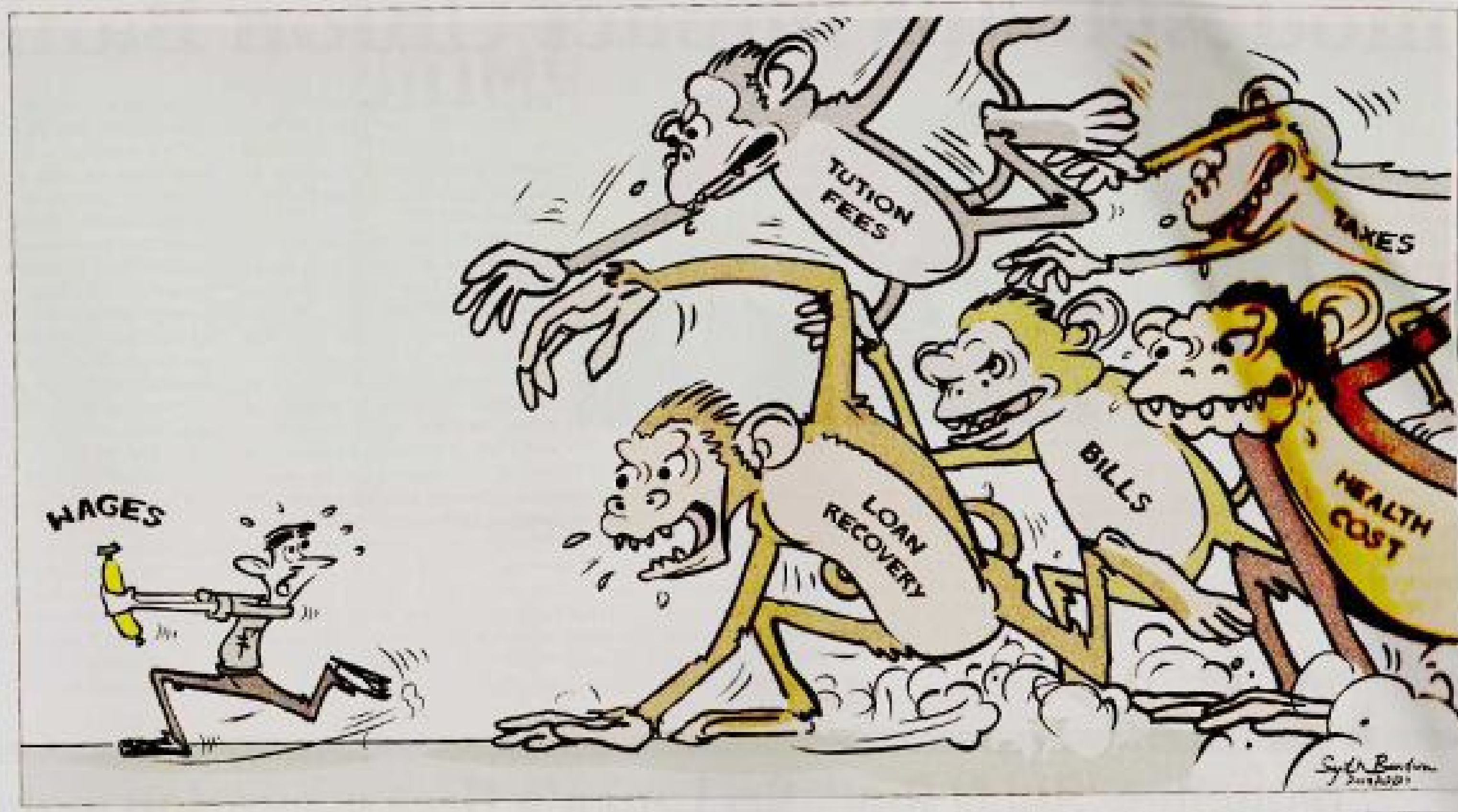
Due to the precarious situation the country's economy is in, the borrowing costs have also gone up significantly, rubbing salt into the wound. The recent rating downgrades on debt servicing risks due to the heightened political uncertainty are also not helping Sri Lanka's case.

Attracting more FDI requires several simple ingredients. But getting those simple ingredients right may not always be an easy task. Political stability, policy predictability, ensuring of property rights, a reasonable tax regime and less corruption would be some of those key ingredients.

Cheap labour and tax holidays are not considered major FDI enticers anymore as automation is increasingly making cheap labour irrelevant while tax incentives are as good as when they are directed to attract certain types of investment rather than to increase the overall investment flows into a country.

Sri Lanka achieved record FDI in 2017 and 2018. According to International Trade and Development

Mirror Biz Toon



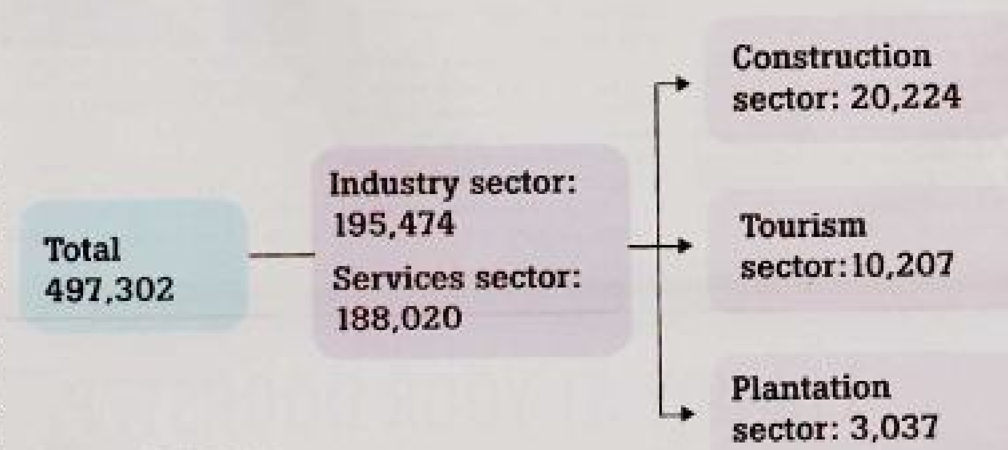
REGULATING FOREIGN WORKERS NOW A TOP PRIORITY

BY DINESH WEERAKKODY

Sri Lanka is today facing a domestic labour shortage in some key sectors and industries. Demographic issues, social attitudes, expansion of the economy and outward labour emigration are contributing to the shortfall. Generally, the lack of interest in certain types of jobs, low salaries and benefits, lack of qualified people and poor terms and conditions contribute to this overall shortage. Labour shortages are recorded in projects with foreign investments as well as in Sri Lankan-owned companies.

According to the Census and Statistics Department, there were nearly half a million vacancies in medium and large-scale private sector enterprises in 2017. The hardest to fill vacancies

Sri Lanka is facing a labour shortage



Source: DCS 2017