

SRI LANKA

A FRESH LOOK AT MARKET OPPORTUNITIES FOR U.S. COMPANIES

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Sri Lanka's economy has been open to foreign investment since 1978, long before its South Asian neighbors, and it offers opportunities to U.S. businesses looking to invest in the region. Sri Lanka's human development achievements, including a literacy rate of more than 90 percent, per capita income of \$837, and life expectancy of 72 years, rank well above those of other countries in the region. With a population of approximately 19 million, and a government committed to seeking peace, improving the country's economic conditions, and opening its economy to international competition, Sri Lanka could be a promising market for U.S. firms.

For more than two decades, the government of Sri Lanka has worked to deregulate, privatize, and open the country's economy to international competition. While Sri Lanka has experienced 20 years of civil war and associated political and social unrest, the new government has concluded a cease-fire agreement and is making serious efforts to achieve permanent peace. It is also taking steps to improve social and economic conditions, and in so doing is working to improve the Sri Lankan business environment. Together, these actions could lead to the creation of a more attractive business environment for foreign

companies in the near future, including U.S. companies that choose to invest in Sri Lanka at a time when opportunities exist in several business sectors. As a result of recent political and economic trends in Sri Lanka, 2002 could prove to be a critical turning point for the country's economic and political future.

POLITICAL AND ECONOMIC CONDITIONS

Since 1983, political and economic conditions in Sri Lanka have been influenced by the violent activities of the Liberation Tigers of Tamil Eelam (LTTE), an armed insurgent group that has sought an independent state in the North and East of the country through civil war and terrorism. While foreigners have not been specifically targeted in any LTTE activities, several have been injured in attacks, and expatriate business representatives should be aware of the current political climate. U.S. business representatives traveling to Sri Lanka, or expatriates doing business there, should also be aware of security concerns described in the State Department's Consular Information Sheet for Sri Lanka. However, the LTTE initiated a unilateral cease-fire in December 2001 and signed a formal, open-ended cease-fire agreement with the government of Sri Lanka in February 2002. The government of Norway is working with both parties to facilitate talks toward lasting peace. In the meantime, fighting in Sri Lanka has ceased, while the new government elected in December 2001 is taking steps to

implement economic reforms in accordance with an International Monetary Fund standby arrangement.

Price controls and quotas in Sri Lanka have been largely eliminated, and import licenses have been liberalized. In general, imported raw materials and intermediate goods generally face a 10 percent tariff, while the tariff on finished goods is 25 percent. The government of Sri Lanka has sold 80 state-owned companies, reduced tariff levels on many items, and made privatization a priority in its current budget. With plans to privatize its majority stake in Sri Lanka Telecom, and with the Railway Department, Bandaranaike International Airport, the National Insurance Company, Lanka Marine Services, Shell Gas Lanka, the Lottery Board, and parts of the Ceylon Petroleum Corporation in various stages of privatization, the government is clearly taking positive steps to improve the business environment for foreign investors.

U.S.-SRI LANKAN RELATIONS

The United States and Sri Lanka enjoy cordial trade relations. U.S. assistance to Sri Lanka has totaled more than \$1.6 billion since the country's independence in 1948. Through the assistance of the U.S. Agency for International Development, the United States has contributed to the country's economic growth with projects designed to, among other

things, reduce unemployment and improve competitiveness. During a visit to Washington, D.C., in July 2002, Prime Minister Ranil Wickremesinghe met with President Bush to discuss bilateral relations in the highest level exchange between Sri Lanka and the United States in more than a decade. A bilateral trade and investment agreement was signed during the prime minister's visit. The United States and Sri Lanka had previously concluded a bilateral investment treaty and an intellectual property rights agreement in 1993, and a double taxation treaty has been under review and is nearing completion. Another positive step toward a closer business relationship between the United States and Sri Lanka is the recent establishment of the Sri Lanka-America Business Council (SLABC). The SLABC's primary objective is to promote mutually beneficial private sector relationships between the United States and Sri Lanka in trade and tourism, direct investment, and the transfer of technology through advocacy and education.

U.S.-SRI LANKAN TRADE

Sri Lankan global exports total approximately \$4.8 billion annually. These exports include tea, garments, rubber products, gems, textiles, coconuts, and refined petroleum. U.S. exports to Sri Lanka totaled \$183 million in 2001 and imports were valued at \$1.9 billion. The United States is Sri Lanka's largest export market and the destination of an estimated 40 percent of the country's exports (primarily apparel and leather goods). Approximately 62 percent of Sri Lanka's garment exports are bound for the United States. By way of comparison, Sri Lanka imports an estimated \$6 billion in total goods each year, yet the United States ranks seventh among countries supplying Sri Lanka, with a market share of only 3.7 percent. Thus, opportunities exist for increased exports to Sri Lanka by U.S. companies and for narrowing the trade gap between the United States and Sri Lanka.

The best prospects for U.S. exports include both agricultural and non-agricultural products. Agricultural products best suited for export to Sri Lanka are wheat, cotton, and pulses. The best prospects for exports of non-agricultural products are telecommunications equipment, power and energy, electrical machinery, textile fabrics and machinery, other machinery and mechanical appliances, medical equipment, paper and paper products, and environmental services and equipment.

U.S.-SRI LANKAN RELATIONS

Several organizations that operate in the region are available to assist U.S. firms in identifying the best business opportunities in Sri Lanka. The economic and commercial section of the U.S. embassy in Colombo sponsors catalog exhibitions to promote U.S. products and services, and it provides support and advocacy as needed. The American Chamber of Commerce in Sri Lanka has more than 250 members and sponsors monthly meetings and activities that provide members of the business community with useful information about doing business in Sri Lanka. ■

BUSINESS IN SRI LANKA

U.S. GOVERNMENT

Trade Information Center
International Trade Administration
U.S. Department of Commerce
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E-mail: tic@ita.doc.gov
Web site: www.export.gov/tic

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U.S. Department of State
Consular Information Sheet for Sri Lanka
Web site: http://travel.state.gov/sri_lanka.html

Bureau of South Asian Affairs
Web site: www.state.gov/p/sa

Country Information for Sri Lanka
Web site: www.state.gov/p/sa/ci/ce

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OTHER RESOURCES

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