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INVESTMENT POLICY REVIEW OF SRI LANKA

Chairman's Summary

1. The Investment Policy Review (IPR) of Sri Lanka was presented on 6 October 2004. The high-level delegation of Sri Lanka was led by H.E. Mr. Arjuna Ranatunga, Deputy Minister of Industry, Tourism and Investment Promotion. The Chairman of the Sri Lankan Board of Investment, Mr. Saliya Wickrasuriya, was also part of the delegation.

2. The lead discussants included the Ambassadors of China, India and Singapore, the representative of the State Secretariat for Economic Affairs of Switzerland, and the Deputy Chief of the Embassy of Japan in Sri Lanka. Two private sector commentators from the Japanese affiliate FDK Lanka Pvt Ltd based in Colombo and Galvao Gems of Switzerland gave their views on the investment climate in Sri Lanka. The Resident Representative of UNDP in Sri Lanka also participated in the meeting and shared lessons from the Invest-in-Peace project in Sri Lanka, of which the Investment Policy Review had been a component. Other commentators included the representatives of Afghanistan, Algeria, Peru, Rwanda, Venezuela and the International Confederation of Trade Unions, and regional coordinators for Africa, Asia and China, Latin America and the Caribbean, the LDCs and the Group of 77.

3. In presenting the main findings of the IPR of Sri Lanka, the representative of the UNCTAD secretariat noted that Sri Lanka's FDI performance, influenced by prevailing economic policies, had been negligible until 1977, when there had been a partial liberalization in the context of the economic processing zones. FDI had expanded in the 1990s due mainly to the privatization programme. Regionally, Sri Lanka compared well with the South Asian countries but it lagged behind the dynamic South-East Asian economies. The positive impact of FDI had not been sufficiently far reaching due to low overall inflows, and this had been reflected in the low level of change in the productive structure since 1970.

Sri Lanka had the potential to attract more FDI and to increase the benefits from it. The Government would be following up on the implementation of the recommendations of the IPR, which related to modernizing the FDI entry regime, strengthening Board of Investment (BOI) core functions and reforming the tax regime on investment.

4. The Deputy Minister for Industry, Tourism and Investment Promotion thanked UNCTAD for a high quality report and the useful recommendations, which could be put to practical use in the framework of the new Government's policies to strengthen economic policy, increase FDI, promote SMEs and reduce poverty. Sri Lanka remained open to trade and investment as a means to achieve the goals of poverty reduction. The country's productive human capital base, good port facilities, ease of business immigration and Free Trade Agreement with India were attractive factors for FDI. The Government would implement the IPR recommendations to meet the goals of social and economic development, and looked forward to working with UNCTAD and UNDP to improve the investment climate. He welcomed a constructive dialogue.

5. Most participants underlined the importance of FDI in promoting private sector development, employment creation, encouraging transfer and diffusion of technology, export diversification, and meeting the goals of poverty reduction. Delegations recognized that UNCTAD's IPRs had assisted developing countries in improving the investment environment. Participants also welcomed the Investment Policy Review process as a constructive mechanism for countries wishing to attract FDI. It allowed for an exchange of views in a friendly setting and provided feedback on policies to Governments keen on attracting FDI. UNCTAD was commended for its thorough, balanced and high-quality report. Many speakers underlined that it was important to implement the follow-up recommendations of the IPR, and the Sri Lankan Government’s commitments to do so was appreciated. There was an expression of overall confidence that Sri Lanka could do better. It was widely recognized that its key assets were a trainable labour force, relatively low wages, tax incentives, generally good-quality governance (a low level of corruption) and the existence of a dynamic domestic private sector. These assets were buttressed by more than two and a half decades of open market policies, which had created a business-friendly environment favourable to investment and economic growth. Sri Lanka was also complimented for its development efforts in difficult circumstances. The private sector participant from Switzerland underscored that Sri Lanka was well poised to attract more investment from SMEs, which reflected the current global trend. However, as SMEs were more risk-averse, there was a greater need to ensure stability and good fundamentals.

6. The private sector commentator from Japan was upbeat about the firm's investments in Sri Lanka. Attracted by trainable and productive labour, the company had started its operations in 1990 and had today expanded its output, capital investment and employment more than tenfold. The private sector commentator from Switzerland emphasized Sri Lanka's low labour costs and high skill levels, which had attracted his firm to Sri Lanka 10 years before. However, some factors in the environment today might be discouraging to investors, particularly the heavy bureaucracy, the lack of coordination between ministries and departments, the and poor customs' administration. He cited a JETRO survey in November 2003, which highlighted certain weaknesses, namely political instability, the labour laws, slow VAT refunds and poor infrastructure.

7. The commentators from China, India and Singapore, which had growing economic relations with Sri Lanka, were optimistic that Sri Lanka could do better in expanding trade and investment, especially in view of its continued efforts in pursuing economic reforms. They were also confident that free trade arrangements would help companies to use Sri Lanka as a regional export base. The Sri Lanka/India Free Trade Agreement, signed in 2000, had already led to a quantum jump in FDI from India to Sri Lanka, and in fact about 40 per cent of India's total outward investment to SAARC countries was to Sri Lanka. India and Sri Lanka would cooperate further under a Comprehensive Economic Partnership Agreement (CEPA) that would include investment and services, in addition to goods.

8. The commentator from the International Confederation of Free Trade Unions (ICFTU) welcomed the integration of labour market issues into the IPR and to a degree supported its policy recommendations, including the desirability of a formula to calculate labour severance payments. Government approval should continue to be necessary for layoffs involving over 25 people. Also the BOI should stop dealing with industrial relations issues, particularly in the economic processing zones. This role should rest with the Ministry of Labour. Unfair labour practices and unfair dismissals should be dealt with quickly and seriously, and the Government should not undermine trade unions' right to organize by accepting employees' councils in the economic processing zones.

9. The Resident Representative of UNDP in Sri Lanka shared his experience on the Invest-in-Peace initiative in Sri Lanka, a strategy that focused on revitalizing private investment to promote peace building. On key lessons for post-conflict dimensions, he underlined that business leaders tended to be pragmatic problem solvers and were comparatively free of ideological rigidity. The smaller local firms and regional business leaders had been quickest to enter into the peace building process. Public-private sector partnership could be a powerful force, and in Sri Lanka, the Ministry of SMEs had partnered the project's Business for Peace Alliance of regional Chambers of Commerce to facilitate SMEs' access to affordable commercial bank credit and to implement quick starts for low-budget projects by building capacities in the construction industry in former conflict areas. Ultimately, however, Invest-in-Peace could not succeed without courageous regulatory reforms, as the framework must be transparent, equitable and responsive to be competitive. Representatives of Afghanistan and Rwanda endorsed the Invest-in-Peace initiative of Sri Lanka as timely for their countries, which had emerged from conflicts. The representative of Afghanistan underscored that institutional reforms to promote predictability and transparency in the investment area had been put in place in his country, and an IPR under an Invest-in-Peace type of initiative could help his country to pursue reforms and adjustments to attract FDI.

10. In concluding, the Chairperson emphasized that many delegates had appreciated the commitments expressed by the Minister with regard to implementing the recommendations of the IPR and taking them fully into account in the reform process. She noted the interest that delegates had expressed in the "Invest-in-Peace" initiative. Many countries, particularly those in post-conflict situations, would follow with great interest the further development of this initiative in Sri Lanka.

11. In his concluding remarks, the Deputy Minister for Industry, Tourism and Investment Promotion of Sri Lanka thanked delegates for the constructive feedback and their solidarity with Sri Lanka in its continuing efforts to make economic progress. He also thanked UNCTAD and UNDP for their continued valuable contribution to peace building and post-conflict reconstruction. He credited UNCTAD with developing individual studies of national investment situations that did not apply a “one size fits all” approach. He also underscored the priority that the Government of Sri Lanka gave to building strong economic integration with its neighbours.

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