

04 | INDUSTRY, TRADE, INVESTMENT AND TOURISM



4.1 Industry

4.1.1 Overview

The Government has given special attention to industrial development in the country. During the last decade, industrial sector played a significant role in country's economy showing an annual average growth rate of about 15 percent. It contributed to 28.5 percent of the GDP in 2015 and accounted for 76 percent of the total export providing gainful employment to 2.2 million persons which is about 26 percent of the total work force in organized sector. However, the experience of developing countries like Vietnam and Thailand which have reached a higher level economic development demonstrates that the rate of growth of industry has to be much faster than that of GDP.

The Factory Industry Production Index (FIPI) which is used to measure the quantity of output in factory industry has increased to 125.4 in 2015 from 114.9 in 2014. It covers production in main sub sectors such as food and beverages, textile, wood related, leather, chemical, rubber and plastics, etc.

The table 4.1.2 shows the sub total share in total industrial value added at constant prices. The performance of the various sub-sectors has not reached any significant structural changes in the industrial sector. The three sub categories, namely food, beverages and tobacco; textile, wearing apparel and leather products; chemicals, petroleum, coal, rubber and plastic products are heavily concentrated on industrial value additions and significant in the economy in general and in the industrial sector in

Table 4.1.1: Industry Sector Performance

Area	2010	2011	2012	2013	2014	2015
Contribution to GDP (Rs. billion)	1,709	2,021	2,631	2,798	2,986	3,190
Contribution to GDP (%)	26.6	28.0	30.1	29.2	28.6	28.5
Sector growth rate	8.4	9.3	9	4.1	3.5	3.0
Number of employees (million)	1.8	2.0	2.1	2.2	2.2	2.2
Employee share of total work force	24.6	24.1	26.1	26.2	26.5	26
Industrial exports (US\$ million)	6,195	7,902	7,262	7,749	8,262	7,976
As a percentage of total exports	69.7	72.4	74.3	74.6	74.2	75.9

Source: Department of Census and Statistics, Central Bank of Sri Lanka

Table 4.1.2: Industry Sector Value Addition (2002 Constant Prices) (%)

	2007	2008	2009	2010	2011	2012	2013	2014
1. Food, Beverages and Tobacco Products	46.7	46.8	48.0	47.7	47.2	47.1	47.0	46.8
Food	40.0	40.4	41.5	41.4	41.1	41.1	39.1	39.0
Beverages	2.7	2.6	2.7	2.8	2.7	2.7	2.7	2.9
Tobacco Products	4.1	3.8	3.7	3.5	3.3	3.2	5.1	4.9
2. Textile, Wearing Apparel and Leather Products	23.8	23.4	22.7	22.2	22.8	22.7	22.9	23.5
Textile	4.1	4.1	4.0	3.9	3.7	3.6	3.4	3.4
Wearing Apparel	18.8	18.5	18.0	17.6	18.3	18.3	17.7	18.5
Leather Products	0.8	0.8	0.8	0.7	0.7	0.7	1.7	1.6
3. Wood and Wood Products	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
4. Paper Products, Publishing and Printing	0.4	0.4	0.4	0.4	0.4	0.4	0.7	0.7
Paper and Paper Products	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Publishing and Printing	0.2	0.3	0.2	0.2	0.2	0.2	0.4	0.4
5. Chemical, Petroleum, Coal, Rubber and Plastic Products	15.5	15.7	15.5	16.1	16.3	16.4	16.3	16.3
Coke and Refine Petroleum Products	4.9	5.0	4.8	4.7	5.0	4.7	5.4	5.5
Chemicals and Chemical Products	3.7	3.7	3.7	3.8	3.7	3.9	3.8	3.8
Rubber and Plastic Based Products	6.9	7.0	7.0	7.6	7.6	7.7	7.1	7.0
6. Non Metallic Mineral Products	4.1	4.1	3.8	3.9	3.9	4.0	3.9	3.7
7. Basic Metal Products	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
8. Fabricated Metal Products, Machinery and Transport	8.4	8.5	8.5	8.6	8.4	8.4	8.5	8.2
9. Other Manufactured Products (n.e.s)	0.5	0.5	0.5	0.5	0.5	0.5	0.3	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Census and Statistics

particular. It is obvious that these industries are heavily dependent on imported inputs and also they are export oriented industries. This table indicates that the engineering based industries have not played significant role in transforming the economy from low levels of growth to high growth.

The table 4.1.3 depicts the overall capacity utilization for the 17 industries and utilization average was 81 percent from 2011 to 2015. However, some poor performing categories are shown. The average capacity utilization in textiles has been around 68 percent. Another industry that utilizes low capacity is paper and paper products. This industry is subject to competition from imported products. The other industries working with low capacity are chemicals and chemical products, basic metals, electrical equipment, and fabricated metal products. The pharmaceutical industry uses full capacity in production process between 2011 and 2015. Due to advanced export orders, the wearing apparel sector works at about 88 percent of capacity.

etc. appreciably contribute for the development of industry sector of the country. These institutions support industrial undertaking and enterprises in various ways including provision of capital, credit, marketing, managerial, technical facilities, consultancy and legal advice.

Government Interventions for Industrial Development through Investment

Development of industry requires investment as well as innovation, absorption of technology, proper regulations and legislation amendments. The Government proposed a strategic roadmap for improving and reforming the investment climate for industrial development.

The Government has identified a number of key areas including oil refinery, renewable energy, integrated car manufacturing, manufacturing steel bridges for the region, fertilizer and manufacturing triple super

Table 4.1.3: Capacity Utilization in Factory Industry

Category	Capacity Utilization in Factory Industry (%)					Average 2011 - 2015
	2011	2012	2013	2014	2015	
1. Food Products	86	74	82	80	78	80
2. Beverages	85	83	74	82	86	82
3. Tobacco Products	99	94	90	82	89	91
4. Textile	60	64	69	70	75	68
5. Wearing Apparel	87	89	87	90	86	88
6. Leather and Related Products	77	73	81	83	76	78
7. Wood and Products of Woods, except Furniture	83	75	75	75	78	77
8. Paper and Paper Products	47	60	60	61	61	58
9. Printing and Reproduction of Recorded Media	83	88	87	89	94	88
10. Refined Petroleum Products	99	83	83	83	73	84
11. Chemicals and Chemical Products	45	49	70	72	76	62
12. Pharmaceuticals, Medicinal Chemical and Botanical Products	99	99	99	99	91	97
13. Rubber and Plastic Products	89	85	83	86	82	85
14. Other Non - Metallic Mineral Products	76	87	79	77	73	78
15. Basic Metals	72	66	70	72	72	70
16. Fabricated Metal Products, except Machinery and Equipment	71	72	64	56	61	65
17. Electrical Equipment	44	76	74	71	83	70
Industry Average	82	80	81	81	81	81

Source: Central Bank of Sri Lanka

A number of government institutions such as Industrial Development Board (IDB), Sri Lanka Institute of Textile Apparel (SLITA), National Enterprise Development Authority (NEDA)

phosphate, satellite technology, air craft repair and logistical support, pharmaceutical industry etc as potential sub sectors for investment.

In order to attract more investment and to ensure conducive investment climate, the Government expects to remove the tax on leased land for foreigners and removal of restriction on ownership on identified investments imposed through Land (Restriction on Alienation) Act which has been an impediment for attracting investments to the country. Since, exchange rate is a key consideration factor for the foreign investment stimulation, investor friendly Foreign Exchange Management Bill will be introduced to encourage the foreign investors and taxes will be removed from dividends on investment made by non-citizens and foreign companies in listed shares.

Simplifying the administrative and registration process, applications for foreign investment will be completed within the period of 50 days by Agency for Development to ease the commencement of business by investors and investment in lagging areas will be encouraged through tax concessions of 50 percent for a period of five years (company providing 500 job opportunities) and up to 8 years (providing 800 job opportunities) where minimum investment is over US\$ 10 million.

Small and Medium Enterprises (SMEs)

More than 75 percent of Sri Lanka's enterprises are categorized as SMEs and it provides 45 percent of the total employment. Hence, SMEs have been identified as the driver of economic growth, regional development, employment generation and poverty reduction. SME sector envisages contributing to transform lagging regions into emerging regions. Therefore, SMEs are vital to ensure equitable development and enhance income generation activities of the rural people.

State Owned Business Enterprises

At present, there are 245 State Owned Enterprises (SOEs) in Sri Lanka of which 55 have been identified as strategically important State Owned Business Enterprises (SOBEs). These SOBEs make a substantial contribution to GDP and play a vital role in key sectors of the economy such as banking and finance, insurance, energy, aviation, ports, construction and transport.

Table 4.1.4: Sector wise performance of SOBEs - 2015

Sector	Total number of SOBEs	Total revenue Rs. Billion	Contribution to GDP %
Energy	2	575.1	5.14
Water	1	19.6	0.18
Ports	1	41.4	0.37
Commuter Transportation	1	34.4	0.31
Aviation	3	161.3	1.44
Construction	3	17.2	0.15
Banking and Finance	9	358.3	3.20
Insurance	4	42	0.37
Lotteries	2	26.5	0.24
Livestock	2	9.6	0.09
Plantation	6	2.8	0.03
Non-Renewable Resources	3	2.4	0.02
Health	4	29.5	0.26
Media	3	5.7	0.05
Marketing and Distribution	11	53.3	0.48
Total	55	1,379.1	12.34

Source: Ministry of Finance

Performance of SOBEs directly affects all stakeholders including general public and hence it is necessary to uplift SOEs enabling to contribute to the development of the country.

4.1.2 Issues and Challenges

Although the Industry sector shows remarkable achievements during last few years, there are some challenges which caused to hinder the development of the sector. These challenges are relating to the supply side as well as demand side. Lack of entrepreneurship, technology and management skills are some of the major impediments faced by the industry sector with regard to supply side and on the demand side, insufficient attraction of investors for manufacturing sector, shortage of skilled and unskilled labour, poor diversification of products and the quality of the domestic market as well as problems of gaining access to international market. Other key challenges can be summarized as follows and these need to be addressed in a systematic manner to ensure sustainability of the sector.

- Quality compromised by high cost of manufacturing.
- Less value addition
- Lack of proper market strategy
- Absence of proper forward and backward linkages.
- Insufficient attraction of investors to the manufacturing sector
- Less flexibility of tax administrative system
- Poor access of SMEs to appropriate and affordable modern technology
- Inadequate access to finance to invest in modernization, expansion and successful operations of SMEs
- Low quality of products, packing and branding
- High transaction cost
- Low market information and accessibility of SMEs

At present, the SOEs, have faced some challenges that hinder their performance. Low productivity and efficiency, lack of proper guidelines and financial discipline, high dependency on treasury funds and lack of managerial skills are significant among those issues.

4.1.3 Policy Directions

The Government's policy on industry sector aims at supporting private sector development especially in export oriented industries with emphasis on the diversification of products and geographical location and more effective industrial harmony, high value added and productivity driven industrialization.

The major thrusts of the industry sector are promotion of industries with export potential, promotion of industries which can produce goods in a competitive environment to replace imports and development of SMEs to ensure sustainable and balanced economic growth. Hence, SME policy framework of the country aims to create significant number of globally competitive, dynamic, innovative, technologically driven, eco - friendly and sustainable SMEs that contribute greatly to the national economic development. Also, a special attention will be given to maintain nature's capital, green growth, entrepreneurship development and women entrepreneurship.

Further, the Government's policy aims to uplift state owned enterprises as successful commercial entities with proper financial discipline.

4.1.4 Key Strategies

The Government has already intervened for the development of industry sector of the country by establishing industrial infrastructure, developing investment climate and introducing appropriate policy reforms to strengthen the industry sector. In addition, actions have been taken to encourage private sector to invest in industries and attract more Foreign Direct Investment (FDI) and Public Private Partnerships (PPP).

Currently there are 3 major industry supportive infrastructure schemes available in Sri Lanka namely Export Processing Zones (EPZs), Industrial Zones and Industrial Estates. In addition, the Government has proposed to establish some new industry and technology mega zones in selected areas such as Hambantota, Raigama, Mahaoya and Trincomalee. These zones will be provided with

infrastructure facilities and services in par with the international standards. Therefore, public investment in next five years for the industry sector will be mainly focused to establish these mega zones and upgrade the existing industrial zones. Also, the internationally accepted principles of supply chain management will be developed to upgrade the industries to the next level of competitive existence.

Further, the Government plans to establish economic corridors with the aim of unlocking the unrealized industrial potential of defined locations in Sri Lanka. These economic corridors will help to address geographic imbalances and strengthen the development of resources in border areas. Nodes and potential industries to be established along the corridors will be identified through a comprehensive study. Those will be the focal area for investment by the public and the private sector.

In addition, the following strategies will be adopted to overcome the impediments faced by the industry sector.

- Promote technology transfer programmes to support the adoption of modern technology by SMEs.
- Establish special lending window and SME desk in banks and other financial institutes to facilitate access to credit/finance.

- Develop and facilitate to build up linkages with large enterprises, which will provide opportunities to interface with larger supply chains.
- Introduce MSMEs Credit Guarantee Schemes
- Provide laboratory and testing facilities for quality assurance and to access international market.
- Establish a State Holding Corporation Limited to manage public enterprises
- Link SOEs to global value chain
- Improve productivity to increase competitiveness
- Create Public Wealth Trust and introduce a Public Enterprise Act to provide legal framework
- Sell the shares of state ventures that do not match the co-competencies.
- Revitalize underperforming enterprises within the Under Utilize Assets Act and bring the necessary revisions
- Introduce proper financial guidelines to SOEs to follow in an effective manner to uplift entrepreneurial economic successes

4.1.5 Medium Term Targets

- Increase employment in industry sector from 2.2 million up to 3 million by 2020.
- Increase industry contribution to GDP up to 30 percent by 2020.

Table 4.1.5: Investment Priority Areas

Area	Rs. Mn			
	2017	2018	2019	2020
<i>Ongoing</i>				
Small & micro industry leaders and entrepreneur promotion project	3,350	3,800	3,500	3,500
Thrust area development programme	353	520	745	880
Industrial estate development programme	434	515	645	850
Environmentally friendly solutions revolving fund	1,300	1,500	2,500	2,750
<i>New</i>				
Expansion of Lak Sathosa retail network	500	150	200	200
Expand Lak Sathosa and Osu Sala Franchise shops	1,000	450	200	175

Source: Department of National Planning

4.2 International Trade and Foreign Investment

4.2.1 Overview

International trade and Foreign Direct Investment (FDI) are important catalysts for economic growth. Trade facilitates more efficient production of goods and services by shifting production to countries that have comparative advantage in producing them. FDI is an important vehicle of technology transfer and contributes to improvements in human capital and institutions. Sri Lanka's trade liberalization in 1977 led to a structural transformation from reliance on plantation exports towards manufacturing exports. However, Sri Lankan economy is experiencing a declining trade performance mainly due to deficiencies in policy and investment environment.

International Trade

Earnings from exports increased by 4 percent to US\$ 10.5 billion in 2015 compared to US\$ 9 billion in 2010, of which the industrial exports contribution is the largest and it accounts for 76 percent of total exports. However, exports

as a share of GDP have declined from 33 percent in 2000 to 15 percent in 2010 and 13 percent in 2015. Expenditure on imports has increased by 41 percent during 2010-2015, of which the largest share of the imports was from intermediate goods and it accounts for 56 percent of the total imports. The country depicts persistent trade deficit and it has expanded by 75 percent to US\$ 8,430 million in 2015 from US\$ 4,825 million in 2010.

The total demand has steadily increased at an annual average growth rate of 5.6 percent during the period 2010-2015 (Table 4.2.1). The real exports grew at an annual average growth rate of 5.1 percent, but has recorded a negative growth of 0.2 percent in 2012. The annual average growth rate of real imports was 8.2 percent. This shows higher growth in imports compared to that of total aggregate demand during the review period. The import penetration ratio of 50 percent in 2010 has increased to 57 percent in 2015. This indicates that the domestic demand that is satisfied by the imports have increased over the years. Theoretically, the import penetration will increase the productivity of the economy and any attempt toward plugging into global value chain may increase the import penetration ratio further. Trade openness has steadily

Table 4.2.1: Aggregate Demand and Trade (Constant 2010)

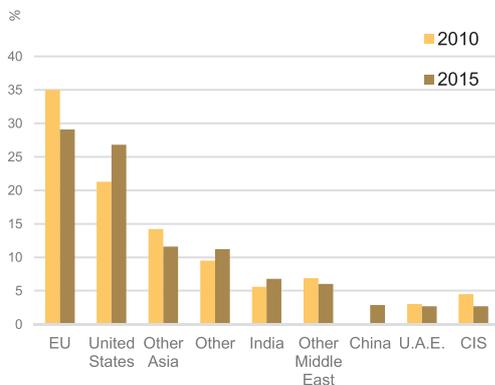
Item	Rs. Mn						Annual Average Growth Rate (%)
	2010	2011	2012	2013	2014	2015	
<i>A. Domestic Demand</i>							
Consumption	4,932,545	5,355,454	5,496,156	5,881,197	6,216,685	6,645,913	6.1
% Change	-	8.6	2.6	7.0	5.7	6.9	
Gross Domestic Capital Formation	1,522,847	1,774,951	2,060,075	2,174,090	2,128,343	2,157,168	7.2
% Change	-	16.6	16.1	5.5	(2.1)	1.4	
Total Domestic Demand	6,455,392	7,130,405	7,556,231	8,055,287	8,345,028	8,803,081	6.4
% Change	-	10.5	6.0	6.6	3.6	5.5	
<i>B. External Demand</i>							
Export of goods and n.f.s	1,254,021	1,381,932	1,379,424	1,470,967	1,533,668	1,605,147	5.1
% Change	-	10.2	(0.2)	6.6	4.3	4.7	
Imports of goods and n.f.s	1,719,605	2,125,432	2,135,750	2,103,077	2,304,271	2,548,455	8.2
% Change	-	23.6	0.5	-1.5	9.6	10.6	
Net External Demand	(465,584)	(743,500)	(756,326)	(632,110)	(770,603)	(943,308)	15.2
<i>C. Total Demand</i>							
GDP	5,989,808	6,386,905	6,799,905	7,423,177	7,574,425	7,859,773	5.6
% Change	-	6.6	6.5	9.2	2.0	3.8	
Import Penetration Ratio (%)	50	62	52	49	52	57	
Trade Openness (%)	46	50	46	46	47	48	

Source: Central Bank of Sri Lanka (n.f.s. - non factor services)

declined over the years as it was 89 percent in 2000 and 48 percent in 2015. This emphasizes the necessity to introduce relevant policy reforms and improvements to the regulatory institutions in the country.

Sri Lanka's main export markets are European Union (EU), United States (US) and India (Figure 4.2.1). However, the share of exports by EU has declined during 2010-2015 due to slower recovery from the global financial crisis. The largest import suppliers are India and China whereas the shares of the two countries have increased significantly during 2010-2015 (Figure 4.2.2). However, the share of imports by EU, Singapore and Malaysia has declined over the review period.

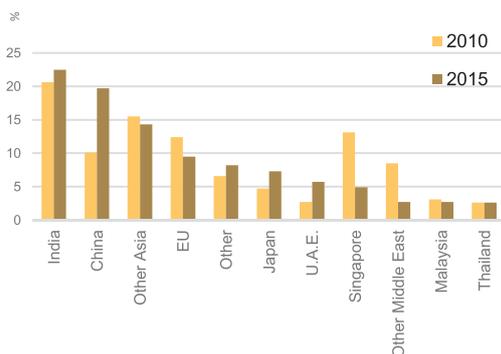
Figure 4.2.1: Direction of Trade Exports - 2010 & 2015



Source: Central Bank of Sri Lanka

Note: CIS - Common Wealth of Independent States

Figure 4.2.2: Direction of Trade Imports (2010 & 2015)



Source: Central Bank of Sri Lanka

Government Initiatives for Export Promotion

Lack of diversification of both the export products and markets and high dependence on the non-tradable sectors have reduced the export performance dramatically during the last two decades. Hence, a number of measures have been proposed by the Government for export promotion.

A high level body; the Export Development Council of Ministers (EDCM) will be setup to take policy decisions and monitor the export strategy of the country. EDCM will take remedial action in the event of any deviation and external setback for international trade. An Export Import Bank (EXIM bank) will be established to identify new opportunities and overcome bottlenecks in export promotion. The commercial sections of Sri Lanka Diplomatic Missions abroad will be encouraged to engage in export promotion activities to meet export market requirements effectively. The export insurance coverage schemes will be expanded by Sri Lanka Export Credit Insurance Corporation (SLECIC) enabling the access to new markets by the exporters.

Further, it is expected that the introduction of a new legislation to the existing Imports and Exports Control Act will create an improved level playing field for domestic industries and ensure the establishment of a more efficient import export system in Sri Lanka. In addition, the Government will take the initiative in restoring the Generalized System of Preferences - plus (GSP-plus) facility with the view of enhancing exports to EU countries.

Foreign Investment

Sri Lanka is an attractive FDI destination and FDI inflows have been growing steadily since 2010 and reached US\$ 1,161 million in 2015. This was a 125 percent increase compared to FDI receipt of US\$ 516 million in 2010. The infrastructure sector received the largest FDI inflow and then is followed by services and manufacturing sectors. The largest foreign investors for Sri Lanka are Malaysia followed by UK, China, India and Hong Kong. However, since 2011, Sri Lanka's FDI to GDP remained at 1.4 percent, which is well below the world average of 4.6 percent.

It is expected that the 45 economic zones which are proposed to be established island wide, will boost various economic activities such as manufacturing, financial services and information technology. Establishment of these zones depends largely on the inflow of foreign investment, as the domestically available resource envelope itself is inadequate to meet the investment and technology requirements of these zones. As such, not only the quantity but the type of

investment is also significant to ensure that only productive and innovative investments are attracted to the country. Investor performance is largely determined by a well-functioning investment climate. Hence, consistency in macroeconomic policies, good governance, economic stability, guarantee of property rights, rule of law and absence of corruption are some of the key requirements for improved investment climate and increased investor confidence. Therefore, the favourable FDI inflow will ensure the realization of Government's main development goals on creation of one million new and productive jobs, enhancing income levels and development of rural economies.

Doing Business Index

According to the 2016 ranking in the Doing Business Index, Sri Lanka is positioned at 107th place compared to 113th place in 2015. This indicates the Government's commitment towards improving the regulatory environment to start and operate business firms in the country. However, the country should adopt vigorous reforms in many fronts to achieve complete and effective transformation in the trade and investment sectors. As such, it is expected that the establishment of Agency for Development and other initiatives will expedite the investment decision making process as it allows efficient coordination among agencies.

4.2.2 Issues and Challenges

Compared to many emerging economies, Sri Lanka is still less integrated with the world economy mainly due to absence of a consistent trade policy framework, high trade costs and weak competitiveness. These structural weaknesses including the following connected issues have led to declining overall trade performance and poor investor confidence for Sri Lanka.

- Declining trade openness - Sri Lanka's trade openness has continuously declined due to several reasons including the increasing rate of growth in nominal GDP compared to export growth, lack of diversification of export products and markets, high competition from countries

like Bangladesh and Thailand for Sri Lankan exports and the use of poor technology in export products with lower international prices that can be copied very easily by other countries. Further, the real exchange rate appreciation has threatened export competitiveness of Sri Lanka owing to rise of lower-cost economies like China and India in the Asian region.

- Lack of diversification in both the export products and markets - Sri Lanka's main export products are 'apparels'³ and 'tea' and Sri Lankan products are mainly exported to countries like EU and US. Both EU and US are in recession or recovering slowly after the global financial crisis. As the economic volatilities of these countries impose a big impact on Sri Lanka's trade performance, it is advisable to seek new economic and trade partnerships with more favorable economies.
- Trade facilitation - Sri Lanka is positioned in a strategic location in the Indian Ocean and possesses one of the best commercial ports⁴ in Asia. However, Sri Lanka's trade facilitation is not satisfactory and ranked 89th in the Logistic Performance Index (LPI), whereas other lower-middle income economies like Vietnam (48), Indonesia (53), India (54) and Philippines (57) are well ahead of Sri Lanka. Inefficient logistics raises the cost of trading and reduces the potential for global integration.
- Low investor confidence - Frequent changes in the national policies, corruption and lack of transparency reduce the investor attraction. Complex tariffs and taxes imposed on business community and prohibitions imposed on land purchases by foreign nationals are some other concerns in creating business friendly environment in the country.
- Exclusion of Sri Lanka from the Trans-Pacific Partnership (TPP) Agreement on Trade - There is a possibility of trade diversion in the US market towards TPP member countries like Vietnam and Malaysia and increased competition for Sri Lankan exports as tariffs are phased out for TPP member countries. Therefore, there can be drastic challenges to US share in Sri Lankan exports, particularly, to the apparel exports in future.

³ The apparel exports was recorded as 39 and 46 percent of the total exports in 2010 and 2015. Similarly, the tea exports was 17 and 13 percent of the total exports in 2010 and 2015.

⁴ Colombo port ranked 30 among the top 50 World Container Ports.

4.2.3 Policy Directions

Trade and investment policy will ensure high trade performance and increased global integration by creating business friendly regulatory and operational environment while giving due consideration to the increased consumer welfare. Therefore, measures will be taken to promote exports and improve trade facilitation by entering into new bilateral and regional economic partnerships and plugging into the global value chains for enhanced market opportunities for the country.

4.2.4 Key Strategies

- Formulate a comprehensive trade and investment policy
- Promote production of high-tech export products considering the improvements in both the products and processes
- Encourage export product specialization and market diversification
- Implement the trade facilitation commitments
- Undertake researches to study the impact of service trade liberalization on economic growth to gain comparative advantage over other regional economies
- Improve business regulatory and operational environment by restructuring the regulatory institutions
- Establish Agencies for Development and International Trade to expedite the decision making with regard to international trade and investment
- Review and renegotiate the existing FTAs to harness more benefits for Sri Lanka
- Enter into new FTAs with favourable economies like Japan, India, China, Malaysia, Indonesia, Thailand and Korea.
- Assess the costs and benefits of joining the TPP Agreement

4.2.5 Medium Term Targets

- Increase exports earnings by 50 percent by 2020
- Reach a rank below 70 in the Doing Business Index by 2020
- Diversify the export basket by introducing a high-tech product by 2020.

Table 4.2.2: Investment Priority Areas

Area	Rs. Mn			
	2017	2018	2019	2020
Establishment of Agency for Development and Agency for International Trade	93	101	1	1
Initiatives for trade and investment promotion	1,000	1,197	1,558	1,824

Source: Department of National Planning

4.3 Tourism

4.3.1 Overview

In Sri Lanka, one sector that featured prominently in the post-war rapid growth is the tourism sector. The arrival of tourists increased rapidly and passed the elusive one million mark in 2012 and increased even over 1.7 million in 2015. Consequently, the tourist earnings also increased to US\$ 2.92 billion in 2015, occupying the position as the third largest foreign exchange earner to the country. The current contribution of tourism sector to GDP is around 3.5 percent.

Sri Lanka has a greater potential to promote tourism (including MICE tourism), hence, developing 'responsible tourism' through multi-stakeholder participation is crucial to prevent any tradeoff between economic gains and long-term environmental and cultural sustainability. Sri Lanka is still considered as a 'value for-money destination' and this remains as its strength.

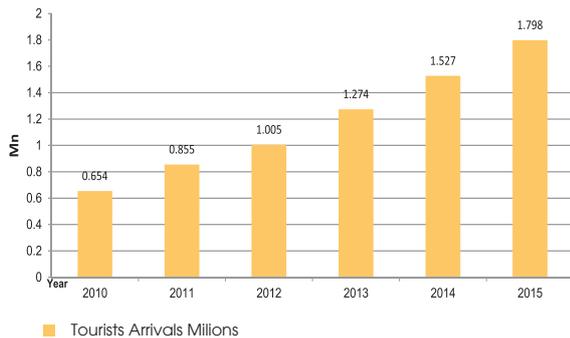
Attractions of Sri Lanka include diverse range of attractions from beaches in the border of the country to mountains in the middle of country and from natural scenery of environment to wild life. Anuradhapura, Polonnaruwa, Sigiriya, Kandy, Galle, Ampara are the cultural and historical sites which can attract tourists to the country. In addition to this, there is a greater potential to develop adventure tourism activities particularly in upcountry areas.

Since tourism is a private sector driven industry, the government plays the role of a facilitator by creating a conducive environment. In line with the government target, it is expected to create around 400,000 new direct and indirect job opportunities through tourism industry over medium term.

Area	2010	2015
Tourist arrivals (No. of tourists)	654,476	1,798,380
Income (US\$ billion)	0.6	2.92
Hotel rooms (formal sector)	14,714	19,377
Employment opportunities		
Direct	55,023	135,930
Indirect	77,032	183,506

Source: Ministry of Tourism Development and Christian Religious Affairs

Figure 4.3.1: Tourists Arrivals - 2010-2015



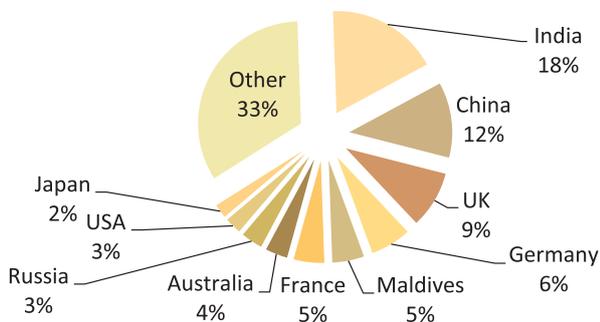
Source: Ministry of Tourism Development and Christian Religious Affairs

4.3.2 Issues and Challenges

- Increasing up-scale tourism

Currently the arrival of tourists from developed countries with a high spending capacity is low, compared to the tourists from other countries. Therefore, attracting high-spending tourists in the category of US\$ 200 per day and encouraging them to stay longer in the country are essential to reach the targeted US\$ 10 billion tourist income by 2020.

Figure 4.3.2: Percentage of Tourist Arrivals by Top Source Markets 2015



Source: Sri Lanka Tourism Development Authority

- Lack of tourism infrastructure to meet industry requirement

The number of hotel rooms as at the end of 2015 is 19,377 in the formal sector (Informal sector it is around 11,700). It is estimated that 4.5 million tourist arrivals by 2020 will require around 80,000 hotel rooms catering to the tourism industry.

- Absence of an effective tourism promotional strategy

Due to the absence of a cohesive marketing strategy for Sri Lanka, it is required to conduct a vibrant marketing campaign with private and public partnership to attract tourists from key tourist generating and potential markets.

- Low contribution to the GDP from the tourism industry

The current contribution of tourism to GDP is close to an average of 3.1 percent (2.5 percent in 2013, 3.5 percent in 2014 and 3.5 percent in 2015). Some of Sri Lanka's Asian competitors are at a much higher level of tourism sector contribution to GDP, for example, Malaysia – 12.5 percent, Vietnam – 7.5 percent and Singapore – 5 percent

- Human Resource Constraint

It is expected to increase the number of total hotel rooms to a level above 80,000 and tourist arrivals up to 4.5 million by 2020. The total number of employees working in the tourism sector at present is around 320,000 and it should be increased up to 800,000 by 2020. Although the Sri Lanka Tourism Development Authority, public training institutions, some private sector institutions and some of the universities produce trained personnel, all these trained outputs will not be adequate to meet the expansion and growth of tourism. Moreover, the quality of output, especially the proficiency in English and some other key languages do not appear to receive much attention in the current training programmes.

4.3.3 Policy Directions

The policy of the government focuses on "Transforming Sri Lanka as the World's most treasured island for tourism". Nature, cultural, historical and adventure based tourism will be promoted to transform Sri Lanka to the best tourism destination in the region. Attention will be paid more on the promotion of Ecotourism.

4.3.4 Key Strategies

- Establish Tourism Development Mega Zones to provide necessary infrastructure facilities to cater to cultural, religious and nature interested tourists. Southern, Eastern and Northern Provinces will be given more attention.
- Improve high quality facilities, safety and security standards and ample shopping opportunities to attract high spending tourists and encourage them to stay longer in the island. Further, safety standards and security aspects relating to tourism will be considered as top priorities for visitor confidence building.
- Strict policy vigilance will be conducted to minimize tourism related crimes and to combat child-sex tourism.
- Improve infrastructure and service facilities in attractive destinations.
- Integrate concept of Tourism Economy to the hotel industry, restaurants, travel agencies, transport and entertainment.
- Diversify tourism products with special emphasis on eco-tourism, under water exploration, aquatic adventure, medical and sports. Further, it is expected to encourage conservation of fauna and flora as tourist attractions.
- Develop domestic air and water based transport facilities to connect tourist destinations from the centers.
- Provide conducive policy environment to encourage better private sector participation in tourism services delivery. Hence, simplified tax regimes/ licensing procedures, unification of regulatory environment and restructuring guidelines of the tourism authority is vital to establish one stop unit for tourism investment.
- Establish a consistent vibrant marketing strategy to make Sri Lanka prominent as the most preferred destination while exploring new markets.
- Conduct awareness programmes to serve the grass root level youth on the available job opportunities in the tourism sector in collaboration with relevant authorities and improve capacity building of lecturers in tourism related training institutes.
- Improve service quality and standards of the employees in the hospitality industry to meet the future demands of the customers.

- Upgrade Sri Lanka Institute of Tourism and Hotel Management (SLITHM), (the only government sponsored institute in the hospitality industry) to degree awarding status while making affiliations with internationally recognized universities.
- Develop the curriculum in hospitality training to meet the fast developing industry standards.
- Improve productivity through building professionalism in the travel and hotel industries.
- Introduce policy and incentive regime and development of substantially high quality accommodation facilities for the benefit of domestic travellers and local tour groups.
- Advise provincial councils/ local authorities to identify lesser known attractions found in large numbers in their provinces and to develop visitor facilities such as viewing decks, car parks and service areas with a view to ease the congestion in most popular attractions.
- Promote small scale community based tourism such as agro and community tourism in parallel to mass tourism. Identified villages will be showcased under different themes such as "Pottery Tourism Village", "Handicraft Tourism Village", and "Coir Tourism Village" depending on their traditional old aged industries.

4.3.5 Medium Term Targets

- Increase tourist arrivals up to 4.5 million by 2020
- Increase average high-end tourists spending to 11 days by 2020
- Increase tourism income up to US\$ 10 billion by 2020
- Increase employment up to 800,000 by 2020
- Increase tourism related FDI up to US\$ 3 billion by 2020

Table 4.3.2: Investment Priority Areas

Area	Rs Mn			
	2017	2018	2019	2020
Construct a MICE convention center in colombo with a seating capacity of 5000	1,000	-	-	-
Investment in jetties for transportation on waterways	100	-	-	-
Expand tourist police units in tourist hot spots	50	-	-	-
New initiatives	-	1,691	2,017	2,359

Source: Department of National Planning