

# Sri Lanka

## An overview of the economy and of the business environment



Situated along the southern coast of India in South Asia, Sri Lanka is categorized as a lower-middle-income nation. On February 4th, Sri Lanka marked its 76th political Independence Day, celebrating the liberation from British rule. During the last celebrations, President Ranil Wickremesinghe delivered his Independence Day message, inviting all Sri Lankans, at home and abroad, to contribute their utmost energy to rebuilding the country.

In April 2022, Sri Lanka announced its insolvency, facing a debt of over \$83 billion, with over half of the amount owed to foreign creditors. It has been the most severe economic crisis since gaining independence in 1948. This financial crisis triggered a political turmoil, compelling the then-President Gotabaya Rajapaksa to step down in 2022.



Subsequently, the parliament elected Wickremesinghe as the new president. Under Wickremesinghe's leadership, the economic conditions have seen improvement, alleviating severe shortages in food, fuel, and medicine. However, public discontent has surged due to the government's attempts to boost revenue through higher electricity bills and substantial new income taxes on professionals and businesses, aligning with the IMF conditions. Sri Lanka aims to reorganize \$17 billion of its outstanding debt and has already secured agreements with certain external creditors.

The government aims to position Sri Lanka as an export-oriented economic hub, enhance trade logistics, attract export-oriented FDI, and strengthen firms' global competitiveness. However, the recent sovereign default has led to credit rating downgrades by major agencies, limiting the government's ability to issue sovereign guarantees and access international markets.



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Sri Lanka's economy developed during British rule with a modern sector focused on plantation agriculture, mainly tea, rubber, and coconut. The traditional sector included subsistence agriculture, while manufacturing played a minor role. Banking and commerce were largely connected to plantation agriculture, and the country heavily relied on imports for food and manufactured goods. After gaining independence, the government aimed for equity through social welfare and import substitution policies. These included subsidies on food, price controls, and free education and health services. However, while social welfare measures improved mortality rates and literacy, they also hindered economic growth, leading to unemployment and low incomes. Import substitution policies faced challenges in industrial growth and quality standards.

In the late 1970s, there was a shift toward liberalizing the economy, emphasizing private investment and export-oriented activities. Initially successful, these policies boosted economic growth, but the ethnic conflict from the mid-1980s disrupted progress.



Sri Lanka's resource potential includes minerals like gemstones, graphite, and minerals in beach sands. Agriculture, particularly rice production, expanded post-independence, driven by colonization schemes and technological advancements. Plantation agriculture remained significant, but its long-term trend was declining due to low investment and government interventions.

Forestry and fishing played minor roles, with deforestation for settlement and agriculture. Industries included gem mining, graphite, and other mineral extraction. Manufacturing, dominated by state-owned enterprises, underwent significant changes in the late 1970s through liberalization policies, leading to privatization and foreign investments. Tourism and construction industries grew, and hydropower from the Central Highlands became a major energy source. Banking, currency, and commerce were controlled by the Central Bank, with the post-liberalization period seeing the emergence of private banks and a stock market.

Presently, Sri Lanka is undergoing a shift from a predominantly rural economy to an urbanized one, emphasizing manufacturing and services. Over the past decade, the services sector has constituted approximately 60% of the nation's GDP, with industry making up around 30%, and agriculture contributing about 10%.



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Sri Lanka boasts several prominent industries that significantly contribute to its economy:

**Tea Industry:** Regarded as one of Sri Lanka's main sectors, the tea industry operates under the Ministry of Public Estate Management and Development. The country's central highlands offer an ideal climate for tea cultivation. Ceylon Tea, now the leading agricultural export in Sri Lanka, sustains the livelihoods of almost 1 million individuals through direct and indirect employment. Approximately 4% of the nation's land, encompassing nearly 203,000 hectares, is dedicated to tea plantations.



**Apparel and Textile Industry:** Primarily exporting to the United States and Europe, Sri Lanka's apparel industry, with approximately 900 factories, caters to renowned brands like Victoria's Secret, Liz Claiborne, and Tommy Hilfiger. Europe increasingly relies on Sri Lankan textiles due to labor cost considerations. The production, crafting, and global export of textile and apparel items stand as one of the largest sectors in Sri Lanka, significantly contributing to the nation's economic progress. Employing approximately 15% of the workforce, the Sri Lankan apparel industry holds a pivotal position, representing roughly half of the nation's overall exports. Relative to its population, Sri Lanka ranks among the leading countries globally in terms of apparel production.



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**Rubber Industry:** As the world's 6th largest exporter and 8th largest natural rubber producer, Sri Lanka excels in providing various rubber types and grades. Renowned for crepe rubber, it leverages advanced manufacturing systems and skilled professionals, ensuring competitive pricing.



**Coconut Industry:** Once a leading global player, Sri Lanka's coconut industry faces challenges leading to a decline in its market position.

With over one million acres under plantation, efforts are underway to boost production through subsidies, aiming to achieve an annual target of 3.5 billion nuts.

**Tobacco Industry:** The tobacco industry has emerged as a lucrative commercial sector in Sri Lanka. Over the past decade, the Ceylon Tobacco Company (CTC) implemented various incentives, including technical guidance and the provision of resources to rural farmers, aiming to boost tobacco cultivation.

**Shipping Industry:** Sri Lanka's shipping industry is poised for continuous growth, driven by various mega port development projects initiated in the past five years. The government actively supports sector expansion through policies, including opening free areas in key ports like Colombo, Hambantota, and Trincomalee.

**Telecommunication Industry:** Sri Lanka Telecom (SLT), a state-majority-owned company, faces a growing number of private competitors offering diverse services such as cellular mobile telephony, paging, fax, data transmission, mobile radio trunking, and payphones.

**Petroleum Refinery:** Lanka IOC, a subsidiary of Indian Oil in Sri Lanka, stands as the sole private oil company alongside the state-owned Ceylon Petroleum Corporation (CPC) operating retail petrol/diesel stations. Holding the top position among the island nation's listed companies, Lanka IOC commands a market share of about 43.5%. In a competitive bunker market, it provides bunker fuels and lubricants at key ports, including Colombo, Trincomalee, and Galle. Additionally, Lanka IOC plays a crucial role as a major supplier of lubricants and greases to Sri Lanka's Defense services, investing progressively to deliver top-notch petroleum products and services to local customers.



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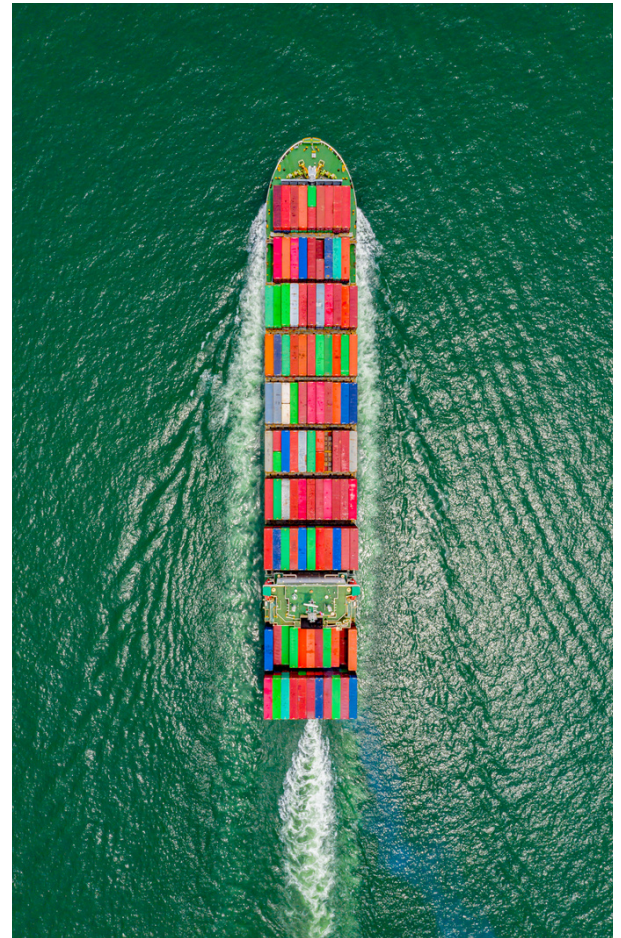
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Sri Lanka's economy is predominantly driven by the service sector, employing 45 percent of the workforce and accounting for around 60 percent of the GDP. Major elements of this sector include tourism, banking, finance, and retail trade.

Regarding import and export, the top export destinations of commodities from Sri Lanka in 2022 were: USA, United Kingdom, India, Germany, Italy, Netherlands, United Arab Emirates, Canada, Belgium, France.

The top exported commodities: articles of apparel and clothing accessories; coffee, tea, mate and spices; rubber and articles thereof; natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewelry; coin; electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles; fish and crustaceans, mollusks and other aquatic invertebrates; mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes; nuclear reactors, boilers, machinery and mechanical appliances; parts thereof; edible fruit and nuts; peel of citrus fruit or melons.



The top import sources of Sri Lanka were India, China, United Arab Emirates, Malaysia, Singapore, USA, Russia, Pakistan, Indonesia, other Asian countries. While, the most imported commodities are mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes; knitted or crocheted fabrics; nuclear reactors, boilers, machinery and mechanical appliances; parts thereof; electrical machinery and equipment and parts thereof; plastics and articles thereof; cotton, cereals; paper and paperboard; articles of paper pulp, of paper or of paperboard; pharmaceutical products; man-made filaments; strip and the like of man-made textile materials.

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Despite the economic difficulties and challenges it is currently facing, Sri Lanka remains a country that offers many opportunities for business partnerships. Therefore, it is important to deepen the understanding of both potential and existing partners in order to operate profitably and securely.

SkyMinder enables access to comprehensive and up-to-date credit and business information for all companies in Sri Lanka, leveraging the expertise of local providers. Through SkyMinder, all reports pertaining to Sri Lankan businesses undergo recent and thorough investigations, with local provider analysts having access to various registries and adeptly gathering information through interviews.



With the assistance of SkyMinder, one can gain enhanced insights into business partners. This capability aids in proactively managing business risk by making informed choices when selecting customers or suppliers.

All SkyMinder Full Reports include the following information (if available at local sources):

- Complete company identification details: correct company name, address(es), contact details such as phone, fax, email, webs, etc.
- Company registration details: our local providers try to access local registries and to get registration number, company id, fiscal code, and any information that can be retrieved at the local registry
- Directors and company structure: board of directors, shareholders and related companies
- Financials: balance sheet and profit and loss (if available and if companies is willing to disclose them during the interview).
- Credit rating and suggested credit limit
- Number of employees
- Activity details: sector and industry of the company, when possible also information on import and export activities.
- Negative information on the company
- Banks information



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In addition to the Full Report including all complete details on Argentinian companies, on SkyMinder it is possible to order other type of reports allowing you to get an in-depth and exhaustive knowledge of your business partners:

- Compliance Check Report and Extended Check Report: Through SkyMinder you can access the Lexis Nexis Risk Solutions platform and check if a business partner is involved in financial crimes, bribery, corruption and money laundering actions.
- Patent Due Diligence Report: a report with an in-depth analysis of the patents owned by a company
- Cyber Risk Report: thanks to the test performed to a company website and related domains and emails, you can understand in advance if a partner or potential partner is vulnerable to a cyber-attack.
- Company registries and LEI documents.

Sources: <https://research.hktdc.com/>; <https://www.cbsl.gov.lk/>; <https://www.adb.org/>; <https://www.focus-economics.com/>; <https://www.worldbank.org/>

