



**THE EMBASSY OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

**TO BELGIUM, LUXEMBOURG AND THE EUROPEAN UNION**

## **Sri Lanka – Belgium Economic Relations: Retrospect and Prospects**

**Address by**

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### The setting

Sri Lanka which lies in the pathway of major sea lanes in the Indian Ocean, is renowned as a meeting point for traders from the East and the West. Having come under successive colonial rule since 1505 by the Portuguese, the Dutch and the British, Sri Lanka regained her independence in 1948. One of Asia's oldest functioning democracies, Sri Lankans, both male and female, have enjoyed universal adult franchise since 1931. Sri Lanka has also for long led the South Asian region in human development indicators. Sri Lanka is ranked 97 in the HDI index, with a life expectancy of 74.9 years and adult literacy rate of 90.4%.

We were the first country in South Asia to liberalize our economy as early as in 1977. A founder member of the Multilateral Investment Guarantee Agency (MIGA), investors in Sri Lanka are provided with preferential tax rates, constitutional guarantees on investment agreements, exemptions from exchange control and facility to repatriate profits, making it easy to do business in Sri Lanka. English is also widely spoken in the country and is the main language used by the business community.

Sri Lanka is also a preferred destination for locating production for many companies, due to the easy access from the country to the wider South Asian market, particularly given the Free Trade Agreements signed with neighbouring countries – India and Pakistan. It has also become a regional hub, with the Colombo Port ranked by the Lloyds Register as the No. 01 port of South Asia and the 27<sup>th</sup> in the world, as well as the Bandaranayake International Airport (BIA) which is used by major airlines and operates frequent flights to important cities in Europe, Middle East, Far East, Australia, and the Indian Sub Continent. Additionally, our business friendly laws, the judicial system based on the British system of justice, continuous simplification of the investment process and cutting out the layers of red tape – for instance – all foreign direct investments is handled by a one-stop-shop, the Board of Investments, has helped position Sri Lanka as a regional hub for trading and production.

Sri Lanka's vibrant economy has also shown considerable resilience, having withstood the internal challenge of terrorism for over three decades and weathered the external shocks of the global economic crisis in recent years. The country's currency, the rupee, being un-officially pegged to the US dollar, has remained within very tolerable levels of fluctuation with the Euro and the British Pound, and investors have reaped some impressive returns since the market was opened up for foreign direct capital market investment as far back as 1991, long before any of the other south Asian markets.

In more recent years, after successfully ending a 30 year period of terror by a ruthless group of terrorists – the Liberation Tigers of Tamil Eelam (LTTE) - in May 2009, the Government of President Mahinda Rajapaksa has embarked on major infrastructure development projects such as harbours, airports, highways, hotel complexes and power generation which are laying the foundation to transform the country into an economic hub concentrating on trade, finance, shipping, travel and knowledge based industries.

In 2010, the economy recorded an impressive GDP growth rate of 8%, stock prices grew by nearly 250%, unemployment reduced to 4.3%, the level of poverty decreased to 8%, exchange rates have remained largely stable, inflation is at 6%, the foreign reserves level is up to five and a half months of imports, while Sri Lanka's sovereign ratings by international institutions have been upgraded for a second year in succession. The World Economic Forum 'Global Competitiveness Index' 2011/2012 ranks Sri Lanka 52<sup>nd</sup> - having climbed ten places over the past year, while the IFC/World Bank 'Doing Business Index' 2012 ranks Sri Lanka 89<sup>th</sup> – having climbed nine places over the past year. These improvements have largely been a result of strengthening of investor protection and reducing taxes on business by abolishing the turnover tax and social security contribution and by reducing corporate income tax, value added tax and nation building tax rates.

In the former theatre of conflict, the Northern province, infrastructure development has ensured improvements in livelihoods and availability of essential resources. Highways, bridges, irrigation systems and reinforcement of electrical grids and telecommunications systems has been embarked upon which will give further momentum to the local economic activity. This has resulted in an impressive 22.9% growth rate in the Northern province in 2010, reflecting the rapid expansion of income generating activities in the Province since the end of the conflict a little over two years ago.

Entrepreneurs and investors worldwide have recognized these developments. The Foreign Direct Investment recorded by Sri Lanka of US \$ 413 Million in the first six months of 2011, reflects a 99% growth over the corresponding period in 2010. The Hong Kong based Shangri-La Hotel chain, one of the largest to invest in Sri Lanka, will build a seven star luxury hotel complex in Colombo, on a property which previously was part of the Army headquarters. With BOI enterprises representing almost 70% of the country's exports and almost 90% of her industrial exports, currently the BOI is looking to attract investment in sectors such as; export oriented manufacturing, export oriented services, tourism &, tourism related projects, infrastructure projects, higher education and skill development, agriculture and/or agro processing and fish based industrial development, dairy development, establishment of industrial estates, special economic zones, and knowledge based industries.

Sri Lanka has also adopted a holistic approach in developing the tourism sector which has shown a 34.3% increase in the first nine months of 2011. We are presently in the process of upgrading and expanding the tourism infrastructure facilities, where 30,000 new hotel rooms will be added over a four year period. We are promoting Sri Lanka as a destination with a wide variety of activities for visitors - from its 2500 year recorded history including eight UNESCO World heritage sites, through sunny beaches, hilly tea country, virgin forests, wild life safaris, adventure and eco-tourist attractions, ayurveda, sports activities, to its spicy cuisine and warm hospitality. 654,476 tourists visited Sri Lanka in 2010. This year, Sri Lanka Tourism is aiming for 750,000, and by 2016 the country hopes to attract two and a half million visitors annually.

## Belgo-Sri Lanka relations

Sri Lanka has had a very long relationship with Belgium. History records that in 1864 the Duke of Brabant (later to be King Leopold II in 1865) was invited to inaugurate the first train in Sri Lanka (then Ceylon). The engine of that train was subsequently named “Leopold”. In 1925 King Albert I made a visit to Sri Lanka where he visited a Jesuits college ‘the Kandy Papal Seminary’ in Ampitiya, Kandy whose first Rector was a Belgian. During that visit he also planted a sapling of *Amhersita Nobilis*, commonly called the ‘Pride of Burma’ at the Peradeniya Botanical Gardens near Kandy, which has flourished into a spectacular specimen with a height of about 15 metres. A Sri Lankan also owns the only ‘Pipe’ – the Belgian manufactured car remaining in the world. Brought to Sri Lanka in 1914, it is still in perfect condition.

Since then there have been many points of contact between the two countries over time. An Investment Protection Agreement, an Avoidance of Double Taxation Agreement and also a Maritime Agreement have been signed between the two countries. More recently, Sri Lankans are appreciative that Belgium was one of the first countries which came forward to help in a big way during the 2004 Tsunami disaster, by sending the Belgian Army to help clear the debris in the South of the island. Her Royal Highness Princess Astrid in her capacity as the then President of the Belgian Red Cross also visited areas affected by the Tsunami in Sri Lanka, to assess local needs.

Sri Lanka’s political relations with Belgium are pursued both bilaterally, as well as in the context of Belgium’s membership of the EU. In addition, we also cooperate on a host of issues in multilateral forums such as the UN. In recent years cooperation has also extended to the field of counter terrorism, in order to ensure that those hostile to Sri Lanka do not use Belgian soil. By recently re-listing the LTTE as a terrorist organization, Belgium and other EU member countries have also shown sensitivity to Sri Lanka’s concerns, that despite being militarily defeated, remnant LTTE cadres and its front organizations operating in Europe continue to pose a threat to Sri Lanka, as they do to their hosts.

On the economic front, Belgium represents Sri Lanka’s fourth largest market in the European Union. Overall trade with Belgium has grown by around 29% between 2005 and 2010, while Sri Lanka’s exports have increased by 50% in US \$ terms during the same period. Sri Lanka continues to enjoy a favourable balance of trade. The major products that Sri Lanka exports to Belgium are cut and polished diamonds which accounted for 58% of imports in 2010, followed by apparels (23%), rubber products, mainly rubber gloves (7%) rubber tires (5%), tea (3%) and other miscellaneous products (4%). Sri Lanka also offers IT services to Belgian companies. Sri Lanka’s imports from Belgium include raw diamonds, malt extracts, medicines and vaccines, pharmaceutical products, paper and paperboard products.

Belgium is also the fourth in terms of investment from countries in Europe. Belgian investors have already set up profitable ventures in the fields of manufacturing of tyres, lace, garments, cigars, meat products, sail boats etc. As noted, there is an added advantage coming to Sri Lanka, because companies manufacturing in Sri Lanka can enter

markets in the Indian sub-continent, using Sri Lanka's existing Free Trade Agreements with India and Pakistan.

Belgians have been "early birds" in seizing on the new economic opportunities opening up in Sri Lanka since the ending of the terrorist conflict in May 2009. Our quest in this regard started well before the conflict ended. Anticipating the development trajectory that was to follow, in January 2009 we re-launched the Belgolux-Sri Lanka Business Council, which had originated in 1997, but had laid dormant for over a decade. In April 2009, as I stated then, at a time we "were seeing light at the end of the tunnel", we availed of the opportunity of re-branding 'Sri Lanka tourism' to encourage Belgian business persons and travellers to look towards Sri Lanka. Shortly after the ending of the conflict, in June 2009 we hosted a BOI Investment Seminar in Brussels to draw attention to the country's new potential. In July 2010 we hosted a business delegation of the Benelux Business Council of the Ceylon Chamber of Commerce in Brussels. The high point in this process was undoubtedly the November 2010 visit to Sri Lanka by a Belgian business delegation led by the then Belgian Ambassador to Sri Lanka based in New Delhi Jan Deboutte, comprising over 50 persons from 40 companies, with interests in a wide range of products and services. The Ceylon Chamber of Commerce has noted that it was by far the largest business delegation to visit Sri Lanka from the West, since the restoration of peace. The Belgian companies that participated who had B2B meetings with over 150 Sri Lankan companies, appreciated the competitive strengths of Sri Lanka - its high environmental and labour standards, superior quality of products, reliability and conducive business environment.

The results from that visit have been fast and tangible;

- *BESIX SANOTEC* has started a water treatment project in the Monaragla District at a value of Euro 20 million.
- *CFE* has started a water treatment project at a value of Euro 14 million in Balangoda and Kolonna.
- *Technirail Transhub* has undertaken a railway construction project at a value of Euro 4.8 Million.
- *Dredging International* is engaged in off shore sand mining projects in Handala, Muthurajawela and Kerawalpitiya at a value of Euro 20 million.
- *REDCORP*, an IT based BPO company has expanded its services by employing over 180 IT technicians and has also expanded their operations to Kandy.
- *PSIMAR*, has already started importing Gems from Sri Lanka.
- *Alliance International* has signed a commercial agreement of 8.9 million EUR to equip public hospitals with semi-industrial laundry machines.
- *Copertiz BVBA* imports containers of coconut products for about 250,000 US Dollars per year.
- *Cezhum bvba* which imports Hyson branded Ceylon tea - since February 2011 has started up a new brand T+H, combining organic Ceylon tea + organic functional herbs.
- *Mooris Pumps and Irrigation* provides water pumps for water treatment projects.

- *The Old Lady at the Sea*, hotel project, has recorded a 40% increase in bookings in 2011, over 2010.
- *Bam Balteau* bvba is currently finalizing a water treatment project in Sri Lanka. They have also opened a branch office in Colombo.
- *Solar Access/Greenpulse* are studying the prospects for the investment of several millions Euro in the setting up of a solar farm in the North or in the East of the country.

A reflection of this enthusiasm is also seen in the transformation of the Belgolux-Sri Lanka Business Council (BLSLBC) into a non-profit organization in Belgium in February 2011. The Council is not only fast expanding in terms of membership, they have also entered into a MOU with the Benelux Business Council of the Ceylon Chamber of Commerce in July 2011, which provides the Council added opportunity to leverage in Colombo for the benefit of its membership.

Belgo-Sri Lanka economic relations was also to receive added fillip through the visit to Belgium and Luxembourg by the Governor of the Central Bank of Sri Lanka Ajith Nivard Cabraal in March 2011. In interactions with the Belgian Central Bank and the Office National Du Dueroire (ONDD) - the Belgian export credit agency, Governor Cabraal highlighted the need for the 'country risk rating' on Sri Lanka to be amended to reflect the improved ground realities in the country, in order to facilitate businesspersons to trade with and invest in Sri Lanka, without having to be burdened by higher risk premiums in obtaining credit insurance.

As for the tourism sector, in the first nine months of 2011, Belgian tourists visiting Sri Lanka showed an impressive growth of 114.5%, compared to a Western European average increase of 25.3%. From 2613 in 2009, and 5398 in 2010, the number of Belgian tourists visiting Sri Lanka in the first nine months of 2011 alone was 7200, surpassing the previous highest amount of Belgian tourists who visited Sri Lanka in any given calendar year, which was 6,333 in 2006. This increase can be attributed to aggressive marketing strategies adopted throughout Belgium since the end of the terrorist conflict by different tour agencies in close cooperation with the Sri Lanka Embassy and the Sri Lanka Tourism Promotion Bureau, as well as to the expansion of air connectivity between Belgium and Sri Lanka. In order to cater to the growing demand, Jetair and Thomas Cooke, two of the main tour operators in Belgium operated a direct weekly charter flight to Sri Lanka over the past year. In addition to Sri Lankan Airlines which continues to offer direct flights to Colombo via Paris or Frankfurt with rail connections from Brussels, Qatar Airways, Ithiad Airlines, Royal Jordanian and Jet Airways promote fast connection to Sri Lanka via Doha, Abu Dhabi, Amman and Chennai/Mumbai/New Delhi. This has resulted in Sri Lanka presently being connected with Belgium on all seven days of the week.

As part of its effort in image promotion, Sri Lanka in recent years has also sought to contribute to the socio-cultural calendar of Brussels. The most prominent occasion in this regard was the performance of renowned Sitar Virtuoso Pradeep Ratnayaka in October 2010 at the Palais des Baux Arts (BOZAR) on the sidelines of ASEM8, where we were privileged

to have the President of the European Council Mr. Herman Van Rompuy as our Guest of Honour. Pradeep also performed at the European Parliament at an event organized by 'the Friends of Sri Lanka' of the European Parliament. In February 2010 the 'Channa – Upuli' dance troupe came to Brussels to perform at the BELASIA tourist promotion and at a 'Sri Lanka food week' was also held at the Raddisson Blu Royal Hotel. In December 2010 we hosted "Sri Lanka: Back to Business" at the Brussels Travel Expo, while we have also promoted Sri Lanka at several travel/trade fairs in Brussels, Antwerp, Bruges, Charleroi and most recently at the 'Salon des Vacances', Belgium's largest B2C travel fair held in February 2011. In all these ventures we are fortunate to have had the support of the small but very active Sri Lankan expatriate community in Belgium, who no doubt take great pride in seeing their heritage being showcased to their hosts.

### The Way Forward

The momentum generated by the Belgian business delegation's visit to Sri Lanka last year will soon be enhanced, when a high powered business delegation led by the Minister of Industry & Commerce of Sri Lanka, Rishad Bathiudeen, visits Belgium from 16<sup>th</sup> -17<sup>th</sup> November 2011. The delegation will include senior executives of leading Sri Lankan companies representing the following sectors; gems & jewellery, apparel products, household textiles, work wear, headgear, hats and uniforms, IT products, wind power, rubber products, coconut products, floor tiles, fish and fish products, Ceylon tea products, fibre glass boats and travel. The main objectives of this visit will be to seek business opportunities for Sri Lankan industries and services and to promote Belgian participation in Sri Lanka's premier trade exhibition "Sri Lanka Expo 2012" scheduled to take place in Colombo from 28-30 March 2012. Over 60 potential Belgian buyers, joint venture partners and investors have already confirmed their participation at the Business to Business (B2B) meetings during the visit.

This visit will be followed by a delegation from the European Chamber of Commerce of Sri Lanka (ECCSL - EBO Sri Lanka) - the sole business support organization promoting Europe wide trade and investment interests in Sri Lanka, who will be visiting Brussels from 23<sup>rd</sup> -25<sup>th</sup> November 2011. The delegation will include businesspersons drawn from the following sectors; energy, infrastructure, legal services, banking, automotive industry, electronics, hospitality, shipping and aviation, garments, tobacco and logistics. In addition to B2B opportunities, they will be also meet with point persons in the European Parliament, European Commission, as well as representatives of the Belgian trade chambers, in seeking to leverage the policy of these bodies in a manner which serves the interests of Sri Lanka.

It is our expectation that these visits would be fruitful, and that the Belgian participation in "Sri Lanka Expo 2012" will be sizable. Through these interactions we not only seek to expand the quantum of trade between the two countries, but also to diversify the export basket from Sri Lanka, which is presently predominated by diamonds. We are particularly keen to promote Ceylon Tea, which has considerable untapped potential. For instance, while only 5% of the population of Belgium consumes tea, of that the market share of Sri Lankan tea is a only 4%. We have also identified potential for products such as activated carbon, garden decor items, organic products, herbal products, rubber products such as doormats and furniture, that can be additionally marketed in Belgium. Similarly, the growing tourism

industry in Sri Lanka has also opened new opportunities for food and beverage manufacturers and exporters, a sector in which Belgium always has been particularly strong. Through this we will be seeing more of the renowned Belgian chocolates and beers making their way into the Sri Lankan market. Conscious that Belgium is also a logistics hub that caters to 60% of the European market, we are also keen to encourage the use of Belgium as a base for Sri Lankan companies to expand into the rest of Europe.

As for direct capital investment, with several Belgian leading companies like Besix, CFE, Bam Balteau and Dredging International already well established in Sri Lanka in infrastructure development projects, Sri Lanka hoped that other Belgian companies will follow in their footsteps, learning from them and reaping the rewards that they are already earning. The expanding growth opportunities in Sri Lanka, compared with the current economic situation in the Euro Zone, should provide the impetus for forward-looking companies to add or to increase their exposure to Sri Lanka. Unlike some other developing economies, the Sri Lankan investment climate has been stable for over three decades, has the full protection of most of the international laws and conventions governing cross-border investments, and more so is helped by the growing buying power of the Sri Lankan people.

In the sphere of tourism, it has been noted that Belgians are not only going in increased numbers and staying in Sri Lanka an average of ten days, they are also regarded as high spending tourists. While targeting this up-market segment, we have also planned several new initiatives to be carried out in the coming months, particularly focusing on MICE (Meetings, Incentives, Conferences & Exhibitions) tourism, which is a sector in which we believe Sri Lanka could attract Belgians in greater numbers in the future. The Embassy of Sri Lanka, along with the Sri Lanka Tourism Promotion Bureau is playing a lead role in these initiatives.

It is often said that both Sri Lanka and Belgium, where the SME sector is prominent, presents a better fit to do business. Going by the trend set in recent years, it could be said that Belgian business persons and tourists have 'voted with their feet' for Sri Lanka. This trend has been supported by the Government of Belgium through its positive travel advisories, improved country risk ratings, enhanced export credit facilities and continuing to be an active partner in Sri Lanka promotional events. The Government of Sri Lanka, through varied initiatives, like the Tourism initiative, the Expo, facilitating bi-lateral business community visits and also by having a strong and consistent representation in Brussels through its Embassy, has ensured the necessary follow through, from the first point of contact.

In addition to taking the lead in organising the "big" events, the Embassy also has a database of information that investors and business leaders needs to make informed decisions. With its direct linkages to Sri Lankan government bodies such as the Board of Investments (BOI), the Export Development Board (EDB), the Ceylon Tea Board (CTB) and the Sri Lanka Tourism Promotion Bureau (SLTPB), The Embassy provides a "one-stop-shop" here in Brussels for potential business partners and investors interested in doing business with, or in, Sri Lanka.

It is our endeavour to build on these strengths, in ensuring that this 'model' relationship between Belgium and Sri Lanka continues in the months and years ahead.