

Tourism Brings Peace Dividends and Construction and Dairy Show Upswing

By

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The much anticipated peace dividend from the end of the war is slowly beginning to appear in the formal business sector, especially in tourism. It is useful to recall that the tourist industry was one of the bright spots in an otherwise tardy economy in the 1970-77 period. Between 1974 and 1977 total arrivals increased from 85,000 to 154,000 by 69%. Under president J R Jayewardene's open economy the industry got a big boost. Over the first five years of his administration annual arrivals rose to 407,000 (164%) by 1982. Growth was so explosive that Jayewardene publicly declared that the country should consider a cap of 1.0m tourists per year lest the industry begins to have an adverse impact on domestic prices, especially food prices, and environment in a quickly overheating economy. However, the war put an end to such optimism. In 1989 when there were insurgencies in the north as well as in the south tourist arrivals plummeted to 185,000, less than half of the 1982 figure. Between 2002 and 2006 during the Ceasefire period tourism recovered to reach 560,000 by 2006. However, the number dropped to 438,000 in 2008 as the war escalated. It is only now that the industry has got a durable new lease of life to realize its full potential.

As we note below investment in tourism has a multiplier effect, especially on construction. The steady growth of tourist arrivals during the past eight months coupled with several other anticipated favourable factors, have positively impacted to make tourism a major attraction for investment, especially in the earlier war torn northern and eastern areas of the country. Aitken Spence Hotel Holdings has announced that the largest portion of Rs2.5b intended to be raised through a rights issue will go for new hotels in the former war zone. About 35 percent of the funds raised - around Rs 875m - have been earmarked to build new hotels. In addition, some of their existing hotels in the southern coast will also be improved. According

to a key informant of another business giant of Sri Lanka- Hayleys Group- they are on the lookout for land in the eastern areas such as Arugambay, Trincomalee and Pasikuda to construct hotels. Hayleys PLC has set-up a subsidiary company-Hayleys Leisure Holdings (Pvt) Ltd- to expand its reach into leisure industry and become a key player in the sector which is dominated by John Keells, Aitken Spence and Jetwing. At present Hayleys and Jetwing together own four hotels –Tropical Villas, Jetwing Beach, Hunas Falls, Lighthouse and in addition a land at Nilaveli. Hayleys recently acquired a 51 percent stake in Ceylon Continental Hotel for Rs 1.8b. There are several other tourism related projects of various scales which are either being implemented or in the planning stages at present. A key environmental-friendly, eco-tourism project is nearing completion at Tirappane, Anuradhapura. Ulagalla Walawwa Resort (Pvt) Ltd , part of Finco Group has invested Rs 700m to construct 25 luxury villas on a 58 acres property. The "walawwa" is also used in its entirety with some modifications to suit the modern architectural trends. The Chairman of The Merchant Bank of Sri Lanka (MBSL) Group who manages several defaulted financial institutions has disclosed that it will venture into the leisure industry shortly. A three-star 80-room city hotel is being constructed in Nallur, Jaffna. In the meantime, The World Bank has approved an interest free loan of \$ 18m to Sri Lanka to develop sustainable tourism, repayable in 20 years with a 10-year grace period. The well known airline -Emirates- has featured Sri Lanka as one of 14 popular destinations in a luxury holidays brochure for the airline's customers in the United Kingdom. The catalogue titled '2010 Exceptional' devotes eight pages to Sri Lanka.

The business environment during the period under review, had both favourable and unfavourable elements as illustrated below. According to the Central Bank, exports from Sri Lanka have grown by 6.4 percent to \$723.4 m in December 2009, thus exceeding the figure during the same month in the previous year. Strong growth in agricultural exports, particularly tea and rubber has mainly contributed to this achievement. Prices of Ceylon tea, which had increased substantially since June 2009, reached \$ 4.27 a kilo in December 2009 reflecting an increase of 32 percent. However, there are some excessive import taxes charged by Russia which imports

more than 40millionkg of Sri Lankan tea and the government is negotiating this issue with the Russian authorities. In addition, Sri Lanka intends to introduce an automated online documentation system in order to reduce document processing charges and associated costs. According to Piramal Glass Ceylon, rising exports have helped them to make a net profit of Rs 28.7m in the December 2009 quarter compared to a loss of Rs 53.6m the year before.

Lanka Milk Foods (LMF) has begun production at a new plant with a capacity of 9.5m litres of cow milk. The firm said in a stock exchange filing that the new plant, built with an investment of Rs 625m, produces flavoured milk, yoghurt and cheese. The new plant is operated by Ambewela Products, a fully-owned subsidiary of Lanka Milk Foods. Another large milk processing plant in Sri Lanka with an investment of Rs 1.8b is scheduled to be opened soon. According to the investors- Pelwatte Sugar Company- the new factory will collect 150,000 litres of milk per day benefiting 20,000 farmer families in the country.

The Board of Investment of Sri Lanka (BOI) has signed an agreement worth \$230m with the Malaysian-Bahraini joint venture Orizon Renewable Energy Private Ltd to build an energy plant using waste. The plant will be built on a 20-acre land at Muthurajawela, in the Gampaha District. BOI also has given approval to a Hong Kong firm, to set up clothing factories for export. This company expects to operate with a 60,000 units of production capacity a month. As per a senior public sector official, development of townships around Sri Lanka's capital Colombo offers investors a range of investment opportunities to build infrastructure and supply services. The Greater Colombo township development, known as the '3K' project from the three towns covered - Kottawa, Kaduwela and Kadawatha - is connected with construction of a highway around Colombo. The outer-circular road, as it is called, connects the capital with major highways running north and south of Colombo and is meant to ease traffic congestion. The project aims to develop townships along the highways with private sector involvement and Japanese aid. Encouraged by the expected economic upturn in Sri Lanka and its potential impact on new knowledge-based businesses, the Knowledge Conglomerate (an associate of MTI Consulting) has announced their search for Corporate Entrepreneurs, who will

be charged with leading the several knowledge-based ventures that the company plans to launch in the near future. Malaysia is also looking to diversify its investment portfolio in Sri Lanka to enhance investment opportunities. Their focus will be on investment opportunities in tourism, infrastructure development including roads and telecommunication, construction and housing.

Importers of motor vehicles complain that their sales have drastically dropped due to high prices. The revenue generated by the government through taxing motor vehicle imports has also dropped drastically during 2009 to 3,268 million rupees from Rs.11, 067 million rupees a year earlier, suggesting that the government will be compelled to drop taxes on motor vehicles. Exporters of apparel are highly disturbed that the withdrawal of European Union trade benefits would increase costs and erode their competitiveness. European Union nations who import over 50% of Sri Lankan apparels, have decided to withdraw the Generalised System of Preferences plus (GSP Plus) preferential trade benefits from Sri Lanka because of what the EU Commission called "significant shortcomings" on human rights issues. The suspension of the GSP+ benefits will not take effect for six months "giving Sri Lanka extra time to address the problems identified," the EU has announced.

"I would like to emphasise that I hope Sri Lanka will sit with us over the next six months in order to agree upon a set of measures that will result in rapid, demonstrable and sustainable progress in relation to the human rights shortcomings we have identified," the new EU Trade Commissioner Karel De Gucht has mentioned in a news release.

Financial results of several large companies released recently, reveal both enhanced profits as well as diminished profits during the quarter ended December 2009. On the profits side, net profits of Hayleys have increased by 276% to Rs 279m compared to the same period last year while that of Hemas show a rise of 71% to Rs 142m. Respective figures for Ceylinco Insurance, Hatton National Bank and Asiri Hospital are increases of 137%, 156%, 89% respectively and amounted to Rs 356m, Rs 1,830m and Rs 53m respectively whilst profits of DFCC Bank and Distilleries of Sri Lanka fell by 11.1% and 37.4% respectively to Rs 566.6 m and 8

Rs 41.3 m respectively. Loss making companies - Sri Lanka Dialog Telecom and The Finance Company- have recorded losses of Rs 2.2b and Rs 626 m respectively.

The business sector has also been quite dynamic during the period under review. Amana Investments has won the award for the best Islamic Bank in Sri Lanka during 2009 in Islamic Finance News Poll conducted by the Malaysian-based REDmoney Group. Hatton National Bank has won Sri Lanka's Best Retail Bank award for 2009 in the ninth Asian Banker Excellence in Retail Financial Services Awards Programme for the third consecutive year. Commercial Bank has been declared Sri Lanka's best bank in 2010 for the 12th year running by Global Finance magazine, the bank said in a statement. The Ceylon Chamber of Commerce (CCC) celebrates 171 years of exemplary service to the business community this year. Established on March 25, 1839, CCC is among the few legendary institutions in the Asia Pacific region to hold such an unbroken record. Sri Lanka's business chamber for the IT and Business Process Outsourcing (BPO) industries has appointed a new board and a business council for 2010 comprising several industry leaders.
