

Business Opportunities Grow but Obstacles Remain

By

Ananda Jayawardane

Increase in tourist arrivals continued during the month of August, 2009 as well. The total number recorded - 41,207- is a 34.3% increase compared to the corresponding period last year. Most of these tourists were from United Kingdom, Germany and India.

Sri Lanka plans to lease islands off the north-west coast for tourist hotels, as the travel industry recovers after the end of the 30-year ethnic war. According to the Minister of Tourism Promotion Faiszer Musthapha, the government will soon advertise the lease of five islands in the Kalpitiya lagoon region which is being developed as a new up-market tourist resort complex. The Tourism Promotion Ministry and the Investment Promotion Ministry are holding talks with international hotel investors on new projects in the country, Musthapha told a news conference. The international luxury hotel chain -Six Senses- is to operate a six-star boutique resort on an island in Kalpitiya to be built by a group of foreign investors, Musthapha added.

Favourable conditions prevalent in Sri Lanka are likely to create new business opportunities in the Business Process Outsourcing (BPO) sector. According to some foreign investors involved in this sector, Sri Lanka's rural economy can take a slice of India's 12 billion dollar Business Process Outsourcing (BPO) industry by catering to the bottom segment of the foreign customers who are highly cost conscious. At present India is one of the largest BPO operators in the world, but the boom in the Indian economy has increased operating costs in cities due to higher rents and other expenses. The ICT penetration rate in rural India remains poor and the Indian companies are compelled to look at countries such as Sri Lanka for specialized back office services such as accounts, legal, insurance and technology-related work which can generate high income levels. According to Sri Lankan-born Raj Amirthanayagam, Managing Director of Revanalytics Solutions Inc., a Canadian technology company, there is also a big demand for jobs in the lower end of the ICT industry such as data entry which has got too expensive to operate in Indian cities. BPO companies operate from cities in India due to infrastructure bottlenecks such as lack of high speed internet lines in the rural areas. But in rural Sri Lanka IT access has substantially improved creating ideal opportunities for skilled persons who don't want to leave their homes to remain in villages and earn their living. "India does about 12 billion dollars of knowledge based process work and 10% of that is a big amount. Rural skilled persons can make 2,000 rupees an hour which is the amount paid in other countries for quality processed work." Amirthanayagam said. "Sri Lankan students are very talented and if trained and developed can provide BPO services

with more value addition" said Sankar Krishnan, Managing Director of US-based outsourcing company Adventity, another firm keen to do BPO work in Sri Lanka and train rural youths on ICT and use of systems.

As per the chief executive of the budget airline -Air Asia - Sri Lankan tourism will get a boost if airport expansion plans include budget carrier-friendly infrastructure to reduce the cost of air travel. Air Asia, which began daily flights to Sri Lanka from its Kuala Lumpur hub in August, had sold 30,000 tickets before its first flight landed in the country by offering seats at a third of the price charged by full service airlines.

Colombo Dockyard Limited has won an order worth about seven billion rupees to build two tugs for a Singapore customer with an option for two more vessels of the same type. "The contract for the 130 ton bollard pull Anchor Handling Tug Supply Vessels was significant as it comes at a time shipping is in recession and many yards have closed or face cancelled orders" the company has announced in a statement.

In response to a strong demand and a subsequent go slow by the estate workers led by the unions, the plantation firms of Sri Lanka agreed to raise a worker's daily wage to 405 rupees from 290 rupees after lengthy talks. The wage hike of around 40 % will cost each regional plantations company an additional 250-450 million rupees a year, depending on the size of the workforce. This will obviously cause a drastic impact on their cash flow and profitability. Accordingly, Sri Lanka's plantations industry is now demanding that the government settle long-delayed tax refunds to help them to bear the cost of the wage hike estimated at an extra six billion rupees a year. According to Damitha Perera, Chairman of the Planters' Association repayment of value-added tax refunds and disbursement of funds raised from a tax on exports would help the firms to bear the burden.

Prior to the settlement reached, the union action disrupted transport of made tea from hill country estates to the Colombo auctions. The stoppage of tea deliveries and disruption of other work on estates created fears of a shortage at the auctions and drove up prices, which were already buoyant owing to a global production shortfall caused by drought. "There was good demand with an average price gain of 10-20 rupees a kilo. The feature of the sale was the sharp escalation in prices for BOP varieties, particularly for teas from the Western planting districts in the hills - a direct reflection on the extremely low availability." Forbes & Walker Tea Brokers said. According to the brokers the auction prices are likely to stay high as drought in major tea exporting countries had reduced the crop thus creating a serious global shortfall in supply that is driving up both auction and retail prices.

High publicity has been given in the media regarding the strong possibility of Sri Lanka losing lucrative Generalized System of Preferences plus (GSP+) trade concessions consequent to adverse findings of an initial investigation on human rights abuses in the country conducted recently. The European Union (EU) is expected to decide on whether to extend or not the GSP+ concessions to Sri Lanka. Sri Lankan tableware manufacturer Dankotuwa Porcelain said that it would be the hardest hit if the European Union withdraws this concession. According to Sunil

Wijesinha, Chairman of this company, the overseas buyers who have been asking for discounts and had reduced orders owing to recession, would have to pay more if the concession is withdrawn. Tableware and kitchenware exports would be charged a duty of 8.5% under the normal GSP scheme if the GSP Plus concession is withdrawn. The duties of tiles and other ceramic products would be 3.5% and 2.5% respectively. The competition is so high even an increase of 2.5% will create a seriously problem according to industry sources.

Ceylinco Finance, a Sri Lankan finance company that was a part of the troubled Ceylinco group, has changed its name to Nation Lanka Finance PLC to make a fresh start. "We want to be a good financial institutional and are looking at the long term benefits rather than the short term gains. During the past few weeks our shares have appreciated which shows the public still trust us." N B S B Balalle, chairman of Nation Lanka Finance has announced. The management of another unit of Ceylinco Group, Ceylinco Sussex College, has been entrusted to the Merchant Bank of Sri Lanka (MBSL), which has taken over several other troubled firms of Ceylinco. More than 5,700 students are at 20 Ceylinco Sussex College branches island-wide, studying for national exams in the English medium, making it the largest private school network in the country. Sussex Colleges have also employed 900 persons of whom 600 are teachers trained in the English medium.

According to a media report, arrangements have been finalized for the acquisition of Sri Lanka's Millennium IT by the London Stock Exchange for a sum of around 50 million sterling pounds (about 9.4 billion rupees). Britain's *Financial Times* newspaper said Millennium IT's system was claimed to be the fastest in the world, handling a trade in 130 microseconds, compared to 250 microseconds for the Nasdaq's OMX system.

The Millennium IT system can handle upto one million messages per second, compared with 20,000 on the London Stock Exchange's TradElect system and Chi-X Europe's system which processes 225,000 messages per second, the report said.

According to a survey carried out by the Census and Statistics Department in all areas of the country except for the Northern Province, Sri Lanka has lost 155,000 industrial jobs in the second quarter of 2009. The loss in the service sector alone was 99,000 but there has been a gain of 118,000 jobs in the agriculture sector. Consequently the total unemployment has risen only marginally.