Converting Sri Lanka into a commercial hub in Asia: an assessment of postwar progress with insights to the way forward – a case study

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Abstract— *The Government of Sri Lanka (GoSL) has embarked on a development agenda based on the Mahinda Chintanaya with the objective of converting the country to a Naval, Aviation, Commercial, Energy and Knowledge hub in Asia. In keeping with this objective, in the recent years, the GoSL has invested heavily in developing the required infrastructure and the improvement of information and communication technology. Available information illustrate that SL has made steady progress in trading across border which encompasses converting the country into a naval, aviation and commercial hub. Indices that are used to compare performance of countries show that Sri Lanka has progressed quite well. In the Global Competiveness Index (GCI) there was a marked increase in 2012-2013 with a GCI of 52 out of 142 and a score of 4.3 out of 7. Sri Lanka has posted positive indicators in doing business across borders. In 2007, Sri Lanka was ranked 99 out of 185 countries and by 2013 the country has improved in its rank to 56. In the Logistics Performance Index (LPI) published by the World Bank in 2010, Sri Lanka was ranked a dismal 137 out 155 countries. By 2012 the rank has improved to 81. Also the United Nations Development Program (UNDP) has identified Sri Lanka as an early achiever on 10 of the 21 indicators of the Millennium Development Goals.*

However, it is apparent that this progress can be further accelerated through reforms in the regulations & legal framework concerning the three areas, systems and procedures and the improvement of infrastructure, ICT functionalities and HR competencies.

Keywords— **Logistics, Commercial hub, International trade**

I. INTRODUCTION

The Government of Sri Lanka (GoSL) has embarked on a development agenda based on the *Mahinda Chintanaya* with the objective of converting the country to a Naval, Aviation, Commercial, Energy and Knowledge hub in Asia. In keeping with this objective, in the recent years, the GoSL has invested heavily in developing the required infrastructure and the improvement of Information and Communication Technology (ICT). This paper attempts to assess the progress made during the four years of post war in the areas of naval, aviation and commerce through an analysis of Sri Lanka performance in trading across borders. The case study attempts to derive qualitative assessment regarding the return on investment which, in return provides insights for the way forward. The three areas of naval, aviation and commerce directly relate to international trade and the study examines internationally published reports that contain different indexes and rakings in relation to cross border movement of international trade. The paper compares the international trading environment, with specific attention to logistics with the global trends and the situation in Asia.

During the 08 years in power, the most important and key achievement that the GoSL lead by President Mahinda Rajapakse has achieved, is the conclusion of the civil war which has been the critical enabler and trend setter in its effort to transform the country to an economic centre of the world. The development strategy has been focused on capitalising on the geographically important location of the country and position the country to serve as a key link between the East and the West.

II. THE CURRENT GLOBAL ECONOMIC ENVIRONMENT

In 2011 the global economy experienced a number lost steam with the world's Gross Domestic Product (GDP) growing by 2.7% compared with 4.1% in 2010. (UNCTAD 2012). As reported by the World Economic Forum (WEF 2011) a recovery from the economic crisis is tentatively emerging, although it has been very unequally distributed. It is encouraging to note that much of the developing world managed a relatively strong growth.

On the other hand, most advanced economies continue to experience sluggish recovery, persistent unemployment, and financial vulnerability, with no clear horizon for improvement. The reasons that affected global growth were primarily the sovereign debt crisis in Europe, and the slow recovery in the United States of America. At the same time, advanced economies continue to face many difficulties that weighed down on global growth. These include, in particular, heightened global financial risks, political and social unrest in North Africa and Western Asia, natural disasters in Japan and Thailand which have

disrupted regional and global supply chains, rising oil prices and volatility, austerity measures, the fading of the stimulus effect of 2010 and geopolitical tensions in the Strait of Hormuz. Many of these factors remained relevant in 2012, and, depending on how these factors evolve, they could impact dramatically on the global economic outlook (UNCTAD, 2012).

These trends have directly impacted on international trade and logistics. The Logistics environment is primarily influenced by the international trading patterns. Natural shocks disrupting supply chains and production processes in Japan and Thailand, civil unrest in North Africa and oil supply disruption in Libya are a few contributors to the world trade decline in 2011. Meanwhile, supported by high commodity prices, the value of world merchandize exports increased by 19% to reach $18.2 trillion, a relative slowdown from the 22% recorded in 2010 (UNCTAD 2012).

III. THE CONTEXT IN SRI LANKA

Despite the somewhat dismal global performance, the World Bank reports that Sri Lanka is on track to meeting most of the Millennium Development Goals. The United Nations Development Program (UNDP) has identified Sri Lanka as an early achiever on 10 of the 21 indicators. The country has been able to maintain relatively strong economic growth of over 8% per year on average during the post war years despite the Global Economic Crisis (GFC) of 2009. The post-conflict rebound has helped all sectors both on the supply side and the demand side with a sharp increase in investment coupled with a marked rise in tourist arrivals. In comparison to other developing economies in the region, Sri Lanka has achieved the fastest growth in South Asia in 2011 and 2012.

As reported in the World Economic Forum 2013, in the Global Competiveness Index (GCI) 2009-2010, Sri Lanka was ranked 79 out of 133 economies with a score of 4 out of 7. The rank GCI increased in 2010-2011 to 62 out of 139 and a score of 4.2. There was a marked increase in 2012-2013 with a GCI of 52 out of 142 and a score of 4.3 out of 7.

IV. THE CURRENT GLOBAL LOGISTICS ENVIRONMENT

In most countries, regulatory measures for trade in goods and services raise new and pressing challenges for efficient cross border movement of goods and services in the 21st century. In that backdrop, worldwide, 108 economies implemented 201 regulatory reforms in 2011/12 making it easier to do business across borders as reported by the Doing Business (IBRD, 2013). Reforming the regulatory requirements in the logistics area has thus become a focal point of many governments in developing countries.

"Inefficiencies in processing and clearing goods put traders in developing countries at a competitive disadvantage," declared the heads of the World Bank and regional development banks in a statement urging the international community to commit to a new WTO trade facilitation agreement. "Developing countries stand to gain the most from improving trade facilitation. The right support will help traders in poorer countries compete and integrate into global supply chains" (IBRD, 2013). The IBRD also notes that business regulatory practices in low-income economies have been gradually but noticeably converging toward the more efficient practices common in higher income economies.

Four of the 10 economies improving the most in the ease of doing business are in Eastern Europe and Central Asia—the region that also had the largest number of regulatory reforms per economy in the past year. Four of the 10 are lower-middle income economies; of the rest, 1 is low income, 3 are upper middle income and 2 are high income. The 10 economies with the most business-friendly regulation are Singapore; Hong Kong SAR, China; New Zealand; the United States; Denmark; Norway; the United Kingdom; the Republic of Korea; Georgia; and Australia (IBRD, 2013)

Because global supply chains are so varied and complex, the efficiency of logistics depends on government services, investments, and policies. Building infrastructure, developing a regulatory regime for transport services, and designing and implementing efficient customs clearance procedures are all areas where governments play an important role. The improvements in global logistics over the past two decades have been driven by innovation and a great increase in global trade. While policies and investments that enable good logistics practices help modernize the best-performing countries, logistics still lags in many developing countries.

The quality of logistics services—trucking, forwarding, and customs brokerage—is also central to trade efficiency. Logistics services generally have higher Logistic Performance Index (LPI) ratings in 2012 than in 2010. Yet the gap between high-income countries and developing countries remains wide. Low-income countries score poorly on trucking, despite trucking systems having recently attracted more policy attention. Environmental sustainability concerns are emerging as a market driver. The 2012 LPI includes a new survey question on the demand for green logistics. A third of respondents shipping to OECD countries recognized a strong demand for green solutions (meaning modes or routes), compared with just a tenth of those shipping to low-income economies. Developing countries will need to consider the environmental footprint of logistics, especially in trading with developed countries. Logistics performance is strongly associated with the reliability of supply chains and the predictability of service delivery available to producers and exporters. Supply chains— only as strong as their weakest links— are becoming more and more

complex, often spanning many countries while remaining critical to national competitiveness. Comprehensive reforms and long-term commitments from policymakers and private stakeholders will be essential.

Countries—and groups of countries—have adopted forward-looking logistics policies. In 2011, Morocco adopted a public-private charter on logistics development. South Africa which is listed as the country that reformed its logistics sector most publishes a yearly state-of-logistics report. Indonesia and Malaysia have national logistics strategies. China is among the few countries with a bureau for logistics development. And the United States launched a Supply Chain Competitiveness Council, in cooperation with its Chamber of Commerce, in fall 2011. (World Bank, 2012)

A key indicator in international logistics is the dwell time of import containers in ports (the average delay between unloading and exit). The question of responsibility for dwell time often starts a blame game between control agencies and port authorities (faulted for slow clearance) and private operators (suspected of using the port for storage). In ports with efficient logistics, dwell time can be just two or three days. In the main port gateways for the developing countries in Asia, North Africa, the Middle East, and Latin America, it is no longer than seven days or so. But in Sub-Saharan ports, it is a staggering 14 days on average. (World Bank, 2012)

More than three years after the economic and financial crises of 2008, the world fleet continued to increase during 2011, reaching more than 1.5 billion deadweight tons (dwt) in January 2012, an increase of over 37 per cent in just four years. (UNCTAD , 2012) World container port throughput increased by an Estimated 5.9 per cent to 572.8 million 20-foot equivalent units (TEUs)in 2011, its highest level ever. (UNCTAD , 2012)

A. Logistics in Asia

Singapore tops the global ranking (Doing Business) for the seventh consecutive year with respect to economies with the most business-friendly regulation, efficiency in the systems, processes, procedures and time taken. Emerging markets and developing economies, particularly in Asia, have seen relatively strong economic growth—estimated at 6.6% and 6.4% for 2011 and 2012, respectively, and attracting increasing financial flows. (WEF, 2011)

With regards to developed countries, their share of imports outweighed exports, totalling 41% and 34% respectively. Transition economies continued to account for the remaining trade, their contribution to world seaborne exports and imports totalling 6.2% and 2%, respectively. Geographically, Asia maintained its lead position and continued to fuel world seaborne trade with its share of goods loaded amounting to 39%, while that of goods unloaded reaching 56%.

Asia's rise to economic prominence has been accompanied by a remarkable dynamism in terms of competitiveness. Over the past five years, several countries in the region—including China, Indonesia, Vietnam, and Sri Lanka—have made important strides in the Global Competiveness Index (GCI) rankings. Yet the disparities in terms of competitiveness within the region are unique, ranging from Singapore at 2nd place to Timor-Leste at 131st. Two of the region's largest economies, Bangladesh (108th) and Pakistan (118th), continue to rank very low, while a number of Asian emerging economies enter the top 30 (WEF, 2011). Taiwan, China remains stable in 13th position, with its competitiveness profile essentially unchanged from last

World seaborne trade in 2006–2011, by type of cargo, country group and region *(continued)*

Country group	Year	Goods loaded				Goods unloaded			
		Total	Crude	Petroleum products and gas	Dry cargo	Total	Crude	Petroleum products and gas	Dry cargo
		Percentage share							
World	2006	100.0	23	12	65	100	25	11	64
	2007	100.0	23	12	66	100	25	11	64
	2008	100.0	22	12	67	100	23	11	65
	2009	100.0	22	12	66	100	24	12	64
	2010	100.0	21	12	67	100	23	12	66
	2011	100.0	20	12	68	100	22	12	66
Asia	2006	39.9	51.7	39.0	35.9	36.9	28.6	27.8	41.7
	2007	40.0	51.7	38.4	36.3	40.1	31.1	28.9	45.5
	2008	38.9	50.6	35.4	35.8	40.6	29.1	30.7	46.4
	2009	38.9	51.0	37.1	35.2	45.9	34.0	29.3	53.3
	2010	36.8	50.8	34.4	32.8	45.5	33.7	34.0	51.6
	2011	36.8	51.1	34.6	32.9	47.0	35.6	32.5	53.3

Table 1. World Container Throughput

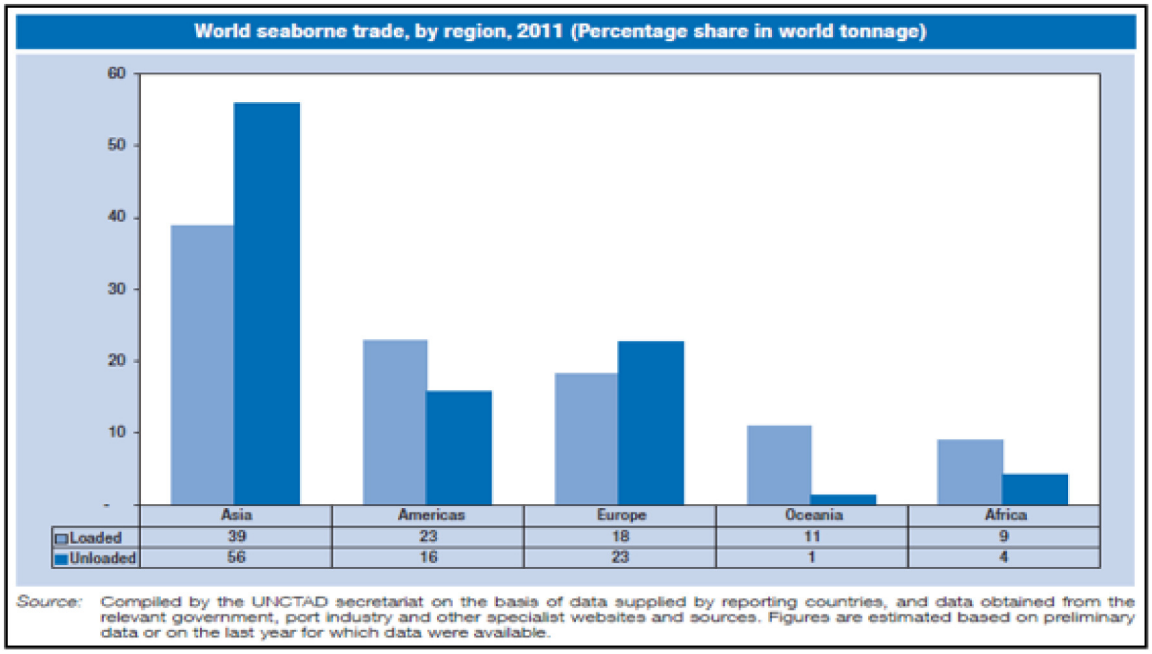

Fig 1. World Seaborne Trade
Source: UNCTAD 2012

year. Taiwan displays a consistent performance across the pillars of the GCI, although it enters the top 10 in only two of them. Its prowess in innovation is undeniable. Ranked 9th in the innovation pillar, Taiwan boasts the largest number of United States Patent and Trademark Office (USPTO)–granted patents on a per capita basis, more than the United States. In addition, the quality and presence of business clusters in high-end manufacturing, along with its first-class R&D, earns Taiwan the top spot on the related indicator (WEF, 2011).

India is ranked 56th in this year's assessment. The country has dropped five places and demonstrates only minor changes in its competitiveness performance since last year. 25 Among the BRICS, India continues to rank on a par with South Africa (50th) and Brazil (53rd) and ahead of Russia (66th), but its gap with China is widening: the score difference between the two economies has increased sixfold between 2006 and today, the gap expanding from less than 0.1 to 0.6 points. The exports and imports growth in India has a direct impact to Sri Lanka because 75% of port of Colombo container throughput consists of transhipment cargo, predominantly containers to and from India.

Table 2 contains statistics of transhipment (TS) container volumes, domestics imports and exports cargo volumes including empty containers, and re-stow[1] movements in port of Colombo for the period of 2004- 2012.

Year	TS	Domestic	Re-stow	Total handling
2004	1461435	689422	69668	2220525
2005	1646497	739252	69544	2455293
2006	2249500	748896	80689	3079085
2007	2468780	803384	109495	3381659
2008	2785422	813271	88645	3687338
2009	2633055	751992	79250	3464297
2010	3095589	932244	109608	4137441
2011	3123828	1046886	92173	4262887
2012	3064767	1020255	102098	4187120

Table 2. Container throughput of Port of Colombo (in TEUs)
Source: SLPA/CASA Per. Rev.

B. Sri Lanka - Key Achievements

From an international trade perspective, Sri Lanka has posted positive indicators in doing business across borders. In 2007, Sri Lanka was ranked 99 out of 185 countries and by 2013 the country has improved in its rank to 56.

Year	2007	2013
Rank	99	56
Documents to export (number)	8	6
Time to export (days)	25	20
Cost to export (US$ per container)	797	720
Documents to import (number)	13	6
Time to import (days)	27	19
Cost to import (US$ per container)	789	775

Table 3. SL indicators in doing business across borders
Source: World Bank Doing Business Reports

[1] Making a change to space in vessel where cargo is stowed originally

An increase 43 positions during the recent years is remarkable. All 06 indicators used by the International Finance Corporation (IFC) to determine the rank, illustrate strong performance as shown in the table. For the first time in 7 years, a South Asian economy, Sri Lanka ranks among those improving the most in the ease of doing business.

There have been significant improvements in the logistics related systems and procedures administered by Sri Lanka Customs (SLC), Sri Lanka Ports Authority (SLPA) and other aligned agencies.

These improvements are further conformed by the Logistics Performance Index (LPI) published by the World Bank. Performance of 155 countries in the area of logistics is examined and in 2010, Sri Lanka was ranked a dismal 131 out 155 countries. By 2012 the rank has improved to 81.

Year	Rank	Score	% of highest performer
2012	81	2.75	56.0
2010	137	2.29	41.4

Table 4. LPI ranking and score for Sri Lanka 2010 vs. 2012
Source: World Bank Connecting to Compete Report 2012

IV. SRI LANKA- THE WAY FORWARD

From a development perspective, converting the country into naval, aviation and commercial hubs is pertinent to the cross border movement of goods, services and people. In this regard, the strategic geographical location alone will not suffice to achieve the GoSL objectives. Sri Lanka can learn from countries such as South Africa which has made great progress in making trading across borders easy, efficient and effective (World Bank Doing Business 2013). The World Bank also reported the 22 economies including South Africa made significant improvements in this area. The notable reforms that these economies successfully implemented are; introduction or improvement of electronic submission and processing, improvement of customs administration, introduction of electronic single window, introduction or improvement of risk-based inspections, improvement in port procedures.

Further research illustrate that at a strategic level these economies reformed and modernized the regulations & legal framework, invested in improving the logistics infrastructure, reengineered clearance systems & procedures relevant to cross border movement of cargo, installed information and communication tools with cutting edge functionalities and invested heavily in in improving the human resource competencies.

In the context of Sri Lanka, the illustration below provides a conceptual framework for the way forward.

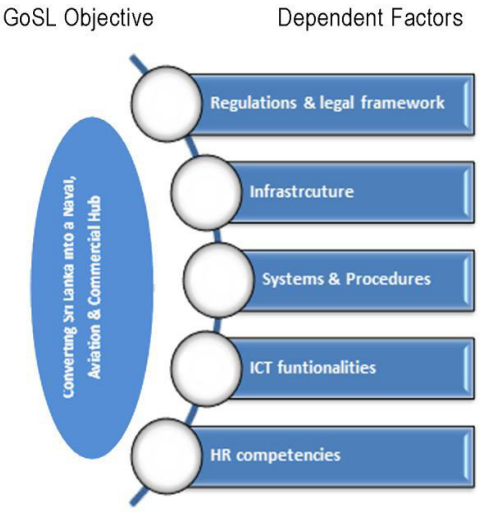

Fig 2. Way forward for the Commercial Hub in Sri Lanka
Source: Authors

A. Regulations and legal Framework

There are over 80 different pieces of legislation covering trade facilitation, social protection, revenue collection, management and enforcement relevant to administering cross border movement of cargo (Sri Lanka Customs). These Acts, Ordinances and legislations in most cases, have not been amended and aligned to the contemporary needs of the international trading environment, logistics industry and the application of recent technological developments. There have attempts initiated by agencies such as Sri Lanka Customs (SLC), Sri Lanka Ports Authority (SLPA) to reforms concerning legislations with the objective of tailoring the legislations to be up to date with industry needs. However, the reforms have been piecemeal and have not had the desired impact. Thus, in its effort to convert the country to naval, aviation and commercial hubs, the GoSL must consider a holistic approach to reform and modernize the regulatory framework concerning these areas.

B. Infrastructure

It is apparent that countries which have made steady progress in increasing their share of international trade have realised the tremendous importance of logistics performance for economic growth, diversification, and poverty reduction. This is proven by the fact that national governments can facilitate trade through investments in both “hard” and “soft” infrastructure. Countries have improved their logistics performance by implementing strategic and sustained interventions, mobilizing actors across traditional sector silos, and involving the private sector. Logistics is also increasingly important for sustainability.

In the case of Sri Lanka, many efforts by past governments to spread industries into rural areas did not fully materialize mainly due to poor infrastructure. However, with regard

to “hard” infrastructure, since 2005, with the advent of the government lead by Rajapakse, this neglected area has been well resourced with remarkable investments. Investments during 2005-2012, include Sri Lanka’s first ever highway, a new seaport in Hambanthota, the second international airport, the highway to the city of Colombo from the Colombo international airport.

C. Systems and Procedures

Systems and procedures relate more to the “soft” infrastructure. Supply chain performance is measured in time, cost, reliability, and flexibility. But these outcomes depend on local inputs that affect the supply chain within a country. There are trade-related procedures. There is the supply for trade-related support services. Though Sri Lanka has made significant progress in it ranking for trading across borders, the average cost to export a 20’ container is U$ 720 and to import U$ 775. In both cases, 06 different supporting documents are needed while it takes on average 20 days to process an export container and 19 days to process an import container (World Bank Doing Business 2013). This is a clear illustration that the systems and procedures are time consuming and costly. In these attributes, Malaysia has the lowest cost to export a container and import a container, U$ 435 & U$ 420 respectively. France with 02 documents for exports and 02 documents for imports has the least number of documents while Denmark, with 05 days for export and Singapore with 04 days for import records the least number of days.

D. ICT functionalities

In the current global environment, information and communication technology is the catalyst to improve the efficiency and effectiveness of any industry. It is no different in the areas of naval, aviation and commerce. With a very strong knowledge and skill base in ICT, Sri Lanka has the potential to make significant improvements in the use of ICT in these areas. Countries that have made steady and sustainable improvements in the logistics industry have used cutting edge ICT tools. Most of these countries are using a Single Window (SW) system to process and clear cross border trade. In the case of Sri Lanka, the computer system used by the department of Customs does not support a single window application. The situation is same with the system used by Sri Lanka Ports Authority (SLPA). Therefore, the GoSL needs to explore the possibility of installing a computer system that supports a single window environment, thereby enabling all agencies involved in regulating and administering cross border trade to work on one common platform. This includes the private sectors players such as the shipping lines, freight forwarders, clearing agents, customs brokers and even commercial banks.

E. HR competencies

Knowledge and skill attributes relating to the areas of naval, aviation and commerce possess and a considerable element of international flavour such as international laws, conventions, agreements, treaties and best practices promulgated by agencies such as the World Trade Organization (WTO) , International Maritime Organization (IMO), World Customs Organization (WCO), International Chamber of Commerce (ICC). It is paramount that the GoSL embed knowledge and skill attributes concerning logistics into the national tertiary and vocational curriculum. Staff from the public sector as well as private sector, working at the strategic, mid management and operational levels needs to be adequately competent to handle complex issues that frequently occur in the industry.

V. CONCLUSION

The study has examined internationally published reports that contain different indexes and rakings in relation to cross border movement of international trade in order to ascertain a qualitative assessment on the progress made by the GoSL in the effort to convert the country into a naval, aviation and commercial hub. As the three areas directly relate to international trade, the focus has been on the performance of cross border movement of goods. The paper examined the regulatory framework, policies, systems and procedures that directly concern doing business across borders. The hypothesis was that the conclusion of the civil war and the provision of adequate infrastructure with ICT facilities would be sufficient to convert the country to a logistics hub in Asia.

In order to arrive at a conclusion, the study has compared the data and critically evaluated the data using many other sources such as annual reports of the Central Banka of Sri Lanka, Sri Lanka Customs (SLC), Sri Lanka Ports Authority (SLPA), Department of Trade and Commerce, eSri Lanka Initiative of the Information and Communication Technology Agency (ICTA).

The comparative analysis of data and information gathered points out that there is a considerable progress. With regard to the way forward, the GoSL needs to concentrate on five key areas that are paramount for further progress. These areas include; regulations and legal Framework, infrastructure, systems and procedures, ICT functionalities and HR competencies.

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