

Research Centre for Sustainable Hong Kong
City University of Hong Kong

TRAINING PACK SRI LANKA



Professional Services Advancement Support Scheme

Economic and Trade Cooperation Zones Along
Belt and Road Workshop Series

一帶一路海外工業園區工作坊

April 2021

ABOUT THIS TRAINING PACK

This comprehensive training pack will be provided to registered participants prior to the workshop to equip them with sufficient institutional background knowledge so as to enhance the quality of their interaction with Speakers and other participants in the workshop. The pack includes the background materials (the essential information such as various political systems, religious inclinations, legal institutions, foreign investment laws, accounting regulations and tax systems) and analysis of an ETCZ jurisdiction (based on consolidation of relevant research findings conducted by CSHK).

Drafting Team:

Dr. Linda Yin-nor TJIA

Member, CSHK

Assistant Professor, Department of Asian and International Studies

Ms. Layla Xin Yan

Research Assistant, Department of Public Policy

Professor Linda Chelan LI

Director, CSHK

Professor of Political Science, Department of Public Policy

This material/event is funded by the Professional Services Advancement Support Scheme of the Government of the Hong Kong Special Administrative Region.

Any opinions, findings, conclusions or recommendations expressed in this material/any event organised under this project do not reflect the views of the Government of the Hong Kong Special Administrative Region or the Vetting Committee of the Professional Services Advancement Support Scheme.

ACKNOWLEDGEMENTS

The content of this training pack is largely based on research outcomes of numerous research meetings with high-ranking government officials, business representatives, senior management of Special Economic Zones (SEZs) and university academics conducted by CSHK, as well as two week-long research field trips to Sri Lanka in 2018 and 2019, which both visited and interviewed various stakeholders in Colombo and Hambantota. In light of this, we would like to devote our heartfelt thanks to our interviewees for providing valuable insights in our research meetings, as well as those who have unfailingly assisted in organizing the research meetings.

Our gratitude goes to the CSHK research team and other City University scholars and researchers participating in the Sri Lanka research and discussions, and all the parties for providing invaluable insights, advice and assistance, including but not exclusively the following: China Merchants Group (CMG), China Harbour Engineering Company (CHEC), Hutchison Telecommunications Lanka, D.L. & E De Saram, Baker & McKenzie (Singapore), You One Decorations, Sri Lanka Board of Investment, Sri Lanka Ports Authority, Verite Research, Saegis Campus, Junior Chamber International (JCI) Sri Lanka, the Embassy of Sri Lanka in Beijing, the then Sri Lanka Honorary Consulate in Hong Kong, and various participants engaged in our research.

We would like to thank the Belt and Road Office of the HKSAR Government for a post-trip exchange meeting with us, and the Policy Innovation and Coordination Office (PICO) for funding our research work with its Special Public Policy Research (SPPR) grant (project number S2016.A1.009) from 2017 to 2020.

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EXECUTIVE SUMMARY

Since China put forward the Belt and Road Initiative (BRI) in 2013, many Chinese enterprises began participating in the overseas economic and trade cooperation zones (ETCZs). The governments of the host countries of ETCZs also hope to imitate the successful experience of China's special economic zones to stimulate rapid economic development. In December 2017, The Hong Kong Special Administrative Region Chief Executive, Mrs. Carrie Lam, and the Chairman of the National Development and Reform Commission, Mr. He Lifeng, signed the Arrangement for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road Initiative (the Arrangement) to leverage Hong Kong's distinctive strengths in advancing the BRI. In addition to finance, investment, infrastructure, maritime services, trade, and people-to-people bonding, the Arrangement specifically emphasizes Hong Kong shall reach to a strategic cooperation and jointly participate to the investment projects and special economic zones development to help decreasing the risks of investing in foreign countries for these enterprises (HKSAR 2017).

Despite the expected demand for Hong Kong's inputs in the ETCZs, including entrepreneurial initiatives, commercial investment, and professional services, numerous concerns and uncertainties continue to stand in the way for realizing the Arrangement, such as conflicting labour relations, incompatible community involvements, unclear political and environmental governance, as well as unfamiliar cultural and religious practice. These concerns have fuelled many Hong Kong enterprises' considerations towards exploring the markets in the Belt and Road countries.

To identify the concerns of Hong Kong enterprises, the CSHK research team has conducted extensive desktop research, textual analysis, in-depth interviews, and fieldwork visits to unpack the challenge and scrutinize the pathways whereby Hong Kong businesses may take part for mutual gains and sustainability. This training pack will: 1) contextualize the business environment in Sri Lanka; 2) discuss the ETCZs/Special Economic Zone (SEZ) development in Sri Lanka; and 3) illuminate the challenges in doing business in Sri Lanka. In addition, a range of critical background materials, including information about the country and economic overview, foreign direct investment, international trade, labour policies, infrastructure and logistics, key industries, investment opportunities, list of SEZs, the impact of the recent Covid-19 outbreak, and Chinese Investment in Sri Lanka are included in the appendices. We hope these materials will facilitate further exploration in the PASS program into Hong Kong's niches, including possible roles in China's projects in Sri Lanka.

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CHAPTER 1

BUSINESS ENVIRONMENT IN SRI LANKA

Sri Lanka is an island country on the Indian Ocean, and a country with close economic connections with China.

FIGURE 1.1 Map of Sri Lanka



Source: UN Cartographic Section 2008

1.1. Government policies and priorities

The country secured political independence from Britain in 1984. However, the liberalization of the economy started from a series of reforms since 1977, when the country began open to foreign investment and market. A 26-year civil war ended in 2009 with the defeat of the Liberation Tigers of Tamil Eelam. Sri Lanka is on the transition from a rural-based economy as manufacturing and services develop. It is now a constitutional multiparty republic. The government takes lead in pushing the economy by post-war construction as well as attracting investment from worldwide.

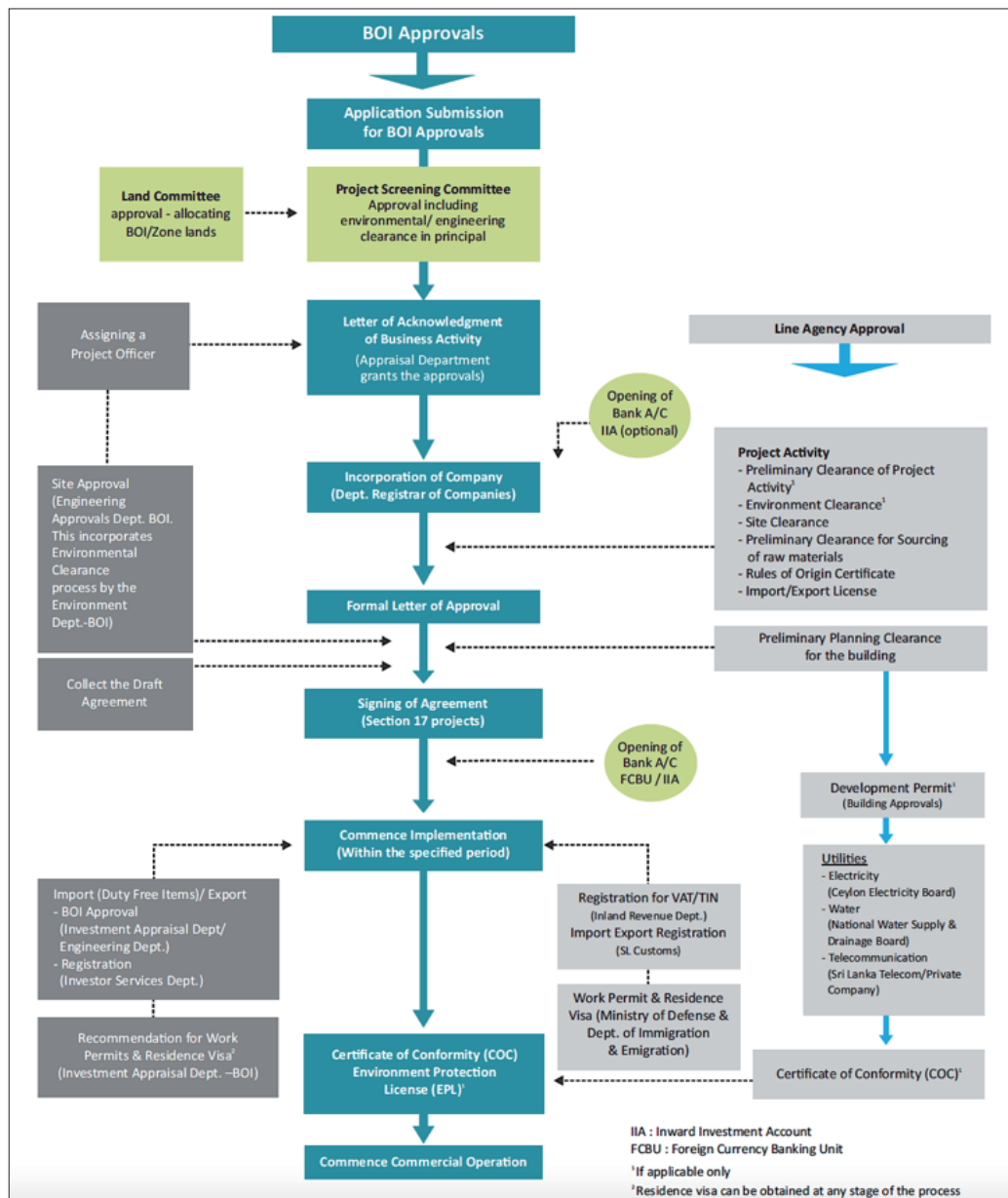
A year after civil war ended, Sri Lanka launched a national plan, "Sri Lanka 2030", which focuses on large scale infrastructure and urban development (Sri Lanka National Physical Planning Department 2010). The planning not only includes development within Sri Lanka but also strategic connection with Asia and the global through highways, sea routes and air routes. Overall, the grand vision aims to achieve development in following aspects: 1) international and Asian transport, access, communications and energy partnership; 2) national planning of cities, supporting infrastructure, energy supply, water resources and economic growth. It is worth noting that environmental protection and sustainability are stressed and put high priority. In 2019, Sri Lanka government led by the previous president expanded the plan to be "Sustainable Sri Lanka 2030 Vision" that put more emphasis on quality of life, green development, sustainability and justice and harmonious society (Presidential Expert Committee 2019, p.2). Strategically on ocean, Sri Lanka launched "Blue – Green Budget; the Launch of Enterprise Sri Lanka" in 2018 to integrate the economic potential of all ocean related activities in future growth strategies in a sustainable way. Ocean and global connection became an essential part of Sri Lanka's national plan. In late 2019, the new government came to office with "National Policy Framework - Vistas of Prosperity and Splendour", which put forward 10 key policies prioritizing national security, friendly foreign policy, administration free from corruption, etc (Government of Sri Lanka [GOSL] 2019, p.1).

Another priority is foreign investment. Sri Lanka government set up Board of Investment (BOI) to initiate and promote projects and develop special economic zones and other incoming investment projects. BOI gradually establishes and operates export processing zones and industrial park since foundation in 1978. A number of development plans have also been designed in recent years where Chinese actors play important roles, including Hambantota port development (2002), Western Metropolis (2004), Port City (2004), and the Plan for establishing the financial center in South Asia (2015). Execution has been a major challenge, however. Foreign direct investment is a major channel to achieve the aspirations of these plans. It has been described that Sri Lanka is attractive to foreign investors due to its strategic geographical location, good compliance standards, and a workforce amenable to training (Wijisinhe, 2017).

1.2. Regulatory framework

While different departments have own areas of functions, Board of Investment is the major agency for foreign direct investment in Sri Lanka with over 1,700 enterprises under its purview (Sri Lanka Board of Investment [SLBOI] 2021).

FIGURE 1.2.1 Investment Process



Source: SLBOI 2020

TABLE 1.2.1 Current Legal Framework for Investment

1. Forbidden to Foreigners
This Law established the national investment promotion agency, the Board of Investment of Sri Lanka, which is structured to function as the 'Central Facilitation point' for investors and is empowered to enter into agreements with investors, providing incentives to attract investments.
2. Finance Act No. 12 of 2012 (Hub Operations)
Free Ports and Bonded Areas have been set up to create trade-related infrastructure to facilitate Sri Lanka's import and export of goods and services with the freedom to carry out transactions in a convertible foreign currency.

3. Inland Revenue Act No. 24 of 2017

While maintaining the standard corporate income tax rate at 24%, this Act provides for a reduced rate of 14% for specific sectors such as SMEs, Exports of Goods, Education, Tourism, Construction services, Healthcare services and Agro processing, with zero corporate income tax rate applicable for Agro framing, IT and Export of services. Further, Enhanced investment allowance is offered to investors for their fixed capital investment over and above the normal depreciation.

4. Strategic Development Projects Act No 14 of 2008

Projects which are of national interest and are likely to bring economic and social benefit to the country, which are likely to change the landscape of the country, primarily through— (a) the strategic importance attached to the proposed provision of goods and services, which will be of benefit to the public ; (b) the substantial inflow of foreign exchange to the country ; (c) the substantial employment which will be generated and the enhancement of the income earning opportunities ; and (d) the envisaged transformation in terms of technology, will be granted specific tax reliefs on a case by case basis.

5. Foreign Exchange Act No. 12 of 2017

The Foreign Exchange Act repealed the Exchange Control Act (Chapter 423) introducing a liberal exchange regime for Sri Lanka. Foreign exchange controls have been greatly liberalized and investors are allowed to directly deal with the banks for their transactions unless Central Bank approval is specifically needed.

6. Land Policy (Land Act**)

Foreign investors are permitted to acquire land on lease-hold basis, subject to a maximum tenure of 99 years, with no lease taxes charged. Outright transfer of ownership is permitted when the foreign shareholding of a company is less than 50%. Condominium properties however may be purchased outright with no restrictions on nationality.

Source: SLBOI 2020

Apart from establishing agencies to facilitate projects implementation, Sri Lanka government is trying to set up special economic and legal districts in the Colombo Port City to allow more free market and investments globally. The draft for special legal framework (in Colombo Port City and Colombo 01) is still under review.

1.3 Types of foreign business ownership

TABLE 1.3 Types of Foreign Business

100% Foreign-Owned Company

100 % foreign ownership company is allowed to register a business in Sri Lanka. In cases of joint venture companies' local partner should hold at least 51 % shares and other 49% shares can be held by foreigners. 100% ownership company needs to appoint nominee director (must be Sri Lankan Citizen) upon condition with no shares of the company.

Export Import business in Sri Lanka

According to the Sri Lankan Business policy, to start export and import business it requires the US \$ 1 Million. The following papers are required to apply for import & export license in Sri Lanka

- Application form of export license (available in office)
- Two copies of Performa bill
- Company certified incorporation copies
- Passport/ National ID card of applicant
- Testimonial from relevant department of Goods.

Joint Venture Company Registration in Sri Lanka
<ul style="list-style-type: none"> Joint venture company registration in Sri Lanka is formed between parties upon agreement of trading with many terms and conditions and clauses as business and services In case of local + foreign partners, local partner (s) will hold majority of shares of the company As law of Sri Lanka, foreign partners may hold maximum 49 percent of shares and rest of (51%) shares will be owned by local share holder (s).
Branch Office open in Sri Lanka
<ul style="list-style-type: none"> The following information and documents are required as guideline of Sri Lanka foreign company registration (Branch Office of foreign LLC): There are different approval papers of the mother corporation with attested by embassy Meeting decision from sponsors Power given a human, local agent, who shall proceed taking liabilities in favor of mother organization About more a month (4 weeks) might needful to complete registration process; Enclosed documents conversion in English;
Representative office
<ul style="list-style-type: none"> Setup such branch/ representative office is like liaison office but exceptions are it is free from tax and cannot involve in trading

1.4 Types of investment

TABLE 1.4.1 Types of Key Investments

Sector	Subsectors	Sri Lanka's Strength
Manufacturing (High Value Added /High Tech)	<ul style="list-style-type: none"> Automotive components, medical devices, pharmaceuticals, solar panels, fabricated metal parts, value added minerals 	<ul style="list-style-type: none"> Growing global demand with an opportunity to link to the Global Value Chains Strong market opportunity and economic impact potential for Sri Lanka Precision and adaptable workforce
Manufacturing - Apparel (High value-added)	<ul style="list-style-type: none"> Lingerie Smart textiles (wearable technology) Other potential high-value clothing items (especially niche products) Innovation & research 	<ul style="list-style-type: none"> Proven track record and compelling value proposition Internationally competitive on metrics such as skills and education level; efficient and highly competitive port for apparel trade Growing demand from India (with FTA benefits) and beyond
IT-Enabled Services	<ul style="list-style-type: none"> IT software BPM KPM 	<ul style="list-style-type: none"> Job creation track record and potential Strong existing cluster and value proposition Internationally competitive wage and real estate costs
Tourism	<ul style="list-style-type: none"> Hotels Recreational activities (theme parks) Adventure sports & leisure facilities 	<ul style="list-style-type: none"> Strong market opportunity and economic impact potential for Sri Lanka Strong Sri Lankan value proposition Internationally competitive on numerous metrics (natural & cultural assets; competitive infrastructure; rapid sector growth etc.)

Food Processing	<ul style="list-style-type: none"> • Fish / seafood • Fruit and vegetables • Dairy 	<ul style="list-style-type: none"> • Strong value proposition (diverse selection of raw products; good domestic infrastructure; attractive local and regional market) • Strong food processing potential compared to competitor markets in the region
Logistics	<ul style="list-style-type: none"> • Entrepot trade • Transportation • Warehousing & storage 	<ul style="list-style-type: none"> • Competitive strength of regional location, water depths and shipping routes • Strong potential as a Multi-Country Consolidation (MCC) hub • Improving infrastructure • Geo strategic location with efficient port facilities
Education	<ul style="list-style-type: none"> • Vocational and higher education 	<ul style="list-style-type: none"> • Requirement of matching the skills with growing industry demand
Large Scale Infrastructure	<ul style="list-style-type: none"> • Mixed Development • Industrial Zone Development 	<ul style="list-style-type: none"> • Growing demand for high- end apartments, office spaces and shopping centers with international standards

Source: SLBOI 2020

According to the report by BOI, newly approved FDI projects have flown into mainly three sectors: real estate, manufacturing (mostly apparels) and energy/maritime. Of the three, real estate is the largest sector attracting the most inward investment, albeit seeing a drop recently as investment diversifies. Real estate makes up 56.3% of total project number in 2015, then 42.5% in 2016 and 33.7% in 2017 (SLBOI, 2015, p.16; SLBOI 2016, p.17; SLBOI 2017, p.18). From 2016, there is an increase of investment into services, capacity building, manufacturing and agriculture, with manufacturing accounting for the largest proportion (39.2%) amongst all sectors, followed by real estate. It is worth mentioning that Energy and Maritime remains as a relatively important destination after manufacturing and real estate, as the strategic location of Sri Lanka on the Indian Ocean makes it a preferable place of transit stations of oil and gas along the international maritime routes.

1.5 Procedure of investment

TABLE 1.5.1 Procedure of Investment

Projects approved under Section 16 of BOI Law	Projects approved under Section 17 of BOI Law
<p>Where projects are approved under section 16 of BOI Law, the entry of foreign investment is permitted without any fiscal concessions. These projects are governed under the normal laws of the country and are subjected to Custom Laws and Exchange Control Regulations. The approvals granted are only to,</p> <ul style="list-style-type: none"> ▪ Facilitate the entry of foreign investment ▪ Set up a new company with foreign shareholding or ▪ Transfer or issue new shares in an existing non BOI company to the foreign investors <p>At present, the minimum investment requirement to qualify as a section 16 project is US\$ 250,000. This can either be a 100% foreign investment or a joint venture investment with a local collaboration. In the event an investor undertakes a trading activity, a minimum of US\$ 5 Mn has to be remitted.</p> <p>The proposed foreign investment should be effected from funds remitted through an Inward Investment Account (IIA).</p>	<p>Under Sec.17 of the BOI Law, BOI is empowered to approve projects and enter into agreements with enterprises granting exemptions from laws such as Customs, subject to fulfilment of the investment threshold or any other specified requirement.</p> <p>Sec 17 projects that meet the minimum investment threshold of US\$ 3 Mn upwards, can enjoy special incentives in the form of enhanced capital allowances under the Inland Revenue Act No 24 of 2017.</p>

Source: SLBOI 2020

TABLE 1.5.2 Threshold of Investments

Infrastructure including Mixed Development	USD 5 Mn
Housing	USD 3 Mn
Education	USD 100,000
Tourism	USD 500,000
IT	USD 150,000
Agriculture	USD 150,000
Utilities	USD 500,000
Services	USD 500,000
Manufacturing & Apparel	USD 500,000
Large Scale Manufacturing (Local Market)	USD 12.5 Mn

Source: SLBOI 2020

TABLE 1.5.3 Investment Incentives

Zero percent CIT Rate	<p>Standard CIT Rate – 24%</p> <p>The following sectors enjoy 0% CIT rate from the year of assessment 2019/2020</p> <ul style="list-style-type: none"> ▪ Agro Farming (w.e.f. 01 April 2019) ▪ Information Technology and enabling Services ▪ Export of Services <ul style="list-style-type: none"> » <i>Rendered in or outside Sri Lanka</i> » To any person to be utilized outside Sri Lanka and » The payment is received in foreign currency and remitted through a bank to Sri Lanka (May include; Commercial Hub Activities: front-end services, headquarter operations, logistic services for exports, Transshipment operations, Freight forwarding, Ship repair, ship breaking repair and refurbishment of marine cargo containers) ▪ Gains and profits earned from any foreign source in foreign currency and remitted through a bank to Sri Lanka
Reduced CIT Rates	<p>The following sectors/activities enjoy reduced tax rate of 14% unless comes under the exempted category.</p> <ul style="list-style-type: none"> ▪ Small and Medium Enterprises (annual gross turnover less than Rs.500 Mn). ▪ Conducting a business of sale of goods or merchandise where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka ▪ Specified undertaking <ul style="list-style-type: none"> » Commercial hub activities (entrepot trade, offshore business) » Logistic services provided for local market » Deemed Exports <ul style="list-style-type: none"> ▪ Services : (Supply of services to any exporter of goods or services essentially related to the manufacture of such goods or services exported by such exporter either directly or through any export trading house, and the payment for such services are made by such exporter to such person in Sri Lanka in foreign currency) ▪ Goods : (Production or manufacturer and supply to an exporter of non-traditional goods) ▪ Educational services ▪ Promotion of tourism ▪ Construction services ▪ Agro processing ▪ Healthcare services ▪ Dividends received from a resident company. Note : 80% or more of gross income should be received from the specified activity. <p>The following sector enjoys reduced tax rate of 18%.</p> <ul style="list-style-type: none"> ▪ Manufacturing (Local Market)
Higher Rates	<p>A higher rate of 40% will be applicable for the following sectors;</p> <ul style="list-style-type: none"> ▪ On gains and profits from conducting betting and gaming – 40% ▪ On gains and profits from manufacture and sale or import and sale of any liquor or tobacco products – 40%
Enhanced Capital Allowance (ECA)	<p>Investment incentives and temporary concessions in the form of Enhanced Capital Allowance (ECA) in addition to normal depreciation allowance.</p>

Port and Airport Levy (PAL) and CESS	Exemption from PAL on importation of project related capital goods with a capital investment of not less than US\$ 50 million during the project implementation/ construction period but prior to the commencement of commercial operations. Exemption from CESS on importation of any goods with an investment US\$ 50 million or above during the project implementation /construction period but prior to the commencement of commercial operations.
Recent Exemptions to VAT – Zero per centum (0%) (w.e.f. 01 December 2019)	<ul style="list-style-type: none"> ▪ Supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if not less than sixty per centum (60%) of the total value of the inputs are sourced from local supplies/sources ▪ Import of goods (Fabrics) ▪ (set out in the H.S. Code and description specified in Column I and II of Schedule of the Extraordinary Gazette Notification No.2095/20 dated November 1, 2018) ▪ Supply of residential accommodation by way of sale of Condominium housing unit by any person is exempt
Other Temporary Concessions	<p>Headquarters Relocation (established on or after October 1, 2017)</p> <ul style="list-style-type: none"> ▪ CIT Rate at 0% <p>Research and Development</p> <ul style="list-style-type: none"> ▪ Additional deduction equal to ▪ 100% of the total amount of research and development expenses
Dividend Tax Exemption	<ul style="list-style-type: none"> ▪ Dividend paid by a resident company to a member who is a non-resident ▪ Dividend paid by a BOI registered Hub company
Foreign Equity	100% foreign ownership permissible except for Pawn broking, Retail trade (where a capital contributed by a person resident outside Sri Lanka) with a capital of less than five million USD and Coastal fishing.
Repatriation of Earnings	All income, proceeds on sale of the investments can be repatriated through an Inward Investment Account opened by the Investor

Source: SLBOI 2020

1.6 Banking and finance

There are 24 licensed commercial banks, 6 licensed specialised banks, 41 licensed finance companies and 4 microfinance companies (CBSL 2021a). Central Bank of Sri Lanka (CBSL) is the apex institution of the Sri Lanka's financial sector, with the objectives of maintaining economic, price and financial system stability (CBSL 2021b)

Under the Foreign Exchange Act No. 12 of 2017, foreign exchange has been liberalised more and investors could enjoy free flow of transaction through inward and outward investment accounts.

1.7 Major costs

TABLE 1.7.1 Wage Rate Indices (LKR)

Employment Category	Index				Percentage Change			
	Nominal		Real		Nominal		Real	
	2018	2019	2018	2019	2018	2019	2018	2019
1. Public Sector Employees								
Overall Public Sector (2016=100)	100.2	104.9	91.1(a)	92.1(a)	0.2	4.7	-1.9	1.1
Primary Level Officers	100.0	103.9	90.9(a)	91.2(a)	0.0	3.9	-2.1	0.3
Secondary Level Officers	100.0	104.0	90.9(a)	91.3(a)	0.0	4.0	-2.1	0.5
Tertiary Level Officers	100.2	108.0	91.1(a)	94.8(a)	0.2	7.7	-1.9	4.0
Senior Level Officers	103.4	117.4	94.0(a)	103.1(a)	3.4	13.5	1.2	9.6
2. Formal Private Sector Employees								
Overall Wages Boards Trades (1978 Dec=100)	4,155.2	4,275.5	94.0(b)	92.8(b)	0.6	2.9	-3.5	-1.3
Workers in Agriculture	4,748.8	4,784.5	107.5(b)	103.8(b)	0.3	0.8	-3.9	-3.4
Workers in Industry and Commerce	3,545.3	3,796.6	80.2(b)	82.4(b)	2.5	7.1	-1.7	2.7
Workers in Services	2,331.2	2,659.3	52.7(b)	57.7(b)	0.8	14.1	-3.4	9.4
3. Informal Private Sector Employees								
Overall Informal Private Sector (2012=100)	169.5	180.0	135.0(a)	138.5(a)	13.2	6.2	10.8	2.6
Agriculture	172.6	188.1	137.4(a)	144.7(a)	14.3	9.0	11.9	5.3
Industry	173.0	182.3	137.8(a)	140.3(a)	11.6	5.4	9.2	1.8
Services	164.8	174.2	131.2(a)	134.1(a)	14.3	5.7	12.0	2.2

(a) Based on NCPI (2013=100)
(b) Based on CCPI (2006/07=100)

Sources: Department of Labour
Central Bank of Sri Lanka

TABLE 1.7.2 Water Cost (LKR)

No. of units	Commercial Institutions, Private Hospitals, Non State Institutions, Tourist Hotels and Guest Houses		Industries under Small and Medium Enterprises (SME)		Industries other than industries under small and medium enterprises (SME) and government institutions		Export Processing Zones Of the Board Of Investment	
	Usage Charge Rs./Unit	Monthly Service Charge Rs.	Usage Charge USD/ Unit	Monthly Service Charge Rs.	Usage Charge USD/ Unit	Monthly Service Charge Rs.	Usage Charge USD/ Unit	Monthly Service Charge Rs.
00 - 25	75.00	290.00	56.00	265.00	58.00	275.00	61.00	290.00
26 - 50	75.00	575.00	56.00	525.00	58.00	550.00	61.00	575.00
51 - 75	75.00	1,150.00	56.00	1,050.00	58.00	1,100.00	61.00	1,150.00
76 - 100	75.00	1,150.00	56.00	1,050.00	58.00	1,100.00	61.00	1,150.00
101 - 200	75.00	1,840.00	56.00	1,680.00	58.00	1,760.00	61.00	1,840.00
201 - 500	75.00	2,875.00	56.00	2,625.00	58.00	2,750.00	61.00	2,875.00
501 - 1,000	75.00	4,600.00	56.00	4,200.00	58.00	4,400.00	61.00	4,600.00
1,001 - 2,000	75.00	8,625.00	56.00	7,875.00	58.00	8,250.00	61.00	8,625.00
2,001 - 4,000	75.00	14,375.00	56.00	13,125.00	58.00	13,750.00	61.00	14,375.00
4,001 - 10,000	75.00	28,750.00	56.00	26,250.00	58.00	27,500.00	61.00	28,750.00
10,001 - 20,000	75.00	57,500.00	56.00	52,500.00	58.00	55,000.00	61.00	57,500.00
Over 20,000	75.00	115,000.00	56.00	105,000.00	58.00	110,000.00	61.00	115,000.00

Note: Exchange Rate Rs. 179/US\$

Source: SLBOI 2020

TABLE 1.7.3 Cost of Industrial Electricity (LKR/kWh)

400/230 V Contract demand ≤ 42 kVA	General Purpose Tariff Code	Industrial Purpose Tariff Code
Energy Charge (LKR/kWh)		
Monthly Consumption		
▪ Less than or equal 300	18.30	10.80
▪ More than 300	22.85	12.20
Fixed charge		
▪ Less than or equal 300	-	-
▪ More than 300	240.00	600.00
400/230V Contract demand > 42 kVA		
Energy Charge (LKR/kWh)		
Peak	26.60	20.50
Day	21.80	11.00
Off peak	15.40	6.85
Demand charge per month (Rs/kVA)	1,100.00	1,100.00
Fixed Charge (LKR/month)	3,000.00	3,000.00

Source: SLBOI 2020

TABLE 1.7.4 Rent Costs of EPZs

Charges per Acre		
Export Processing Zones and Industrial Parks	Non Refundable Land Premium Upfront US\$	ground Rent (per annum) US\$
(a) Katunayaka EPZ	60,000	5,130
(b) Biyagama EPZ	60,000	5,130
(c) Malwatta EPZ	30,000	4,660
(d) Seethawaka EPZ	60,000	4,660
(e) Horana EPZ	30,000	4,660
(f) Mirigama EPZ	30,000	4,660
(g) Wathupitiwela EPZ	50,000	4,660
(h) Koggala EPZ	30,000	5,130
(i) Mirijjawila IP	20,000	4,235
(j) Kandy IP	10,000	4,660
(k) Mawathagama EPZ	10,000	4,660
(l) Polgahawela EPZ	20,000	4,660
Land Reservation Fee - 10% of Land Premium Lease Period - 50 years		

Source: SLBOI 2020

1.8 Tax system

TABLE 1.8 Business Taxes

Description	Rate
Standard Rate	
Taxable income of a company (Other than companies taxed at special rates)	24%
Special Rates	
Gains & profits from the business of Small and Medium enterprises (excluding the business of betting and gaming or from sale of liquor other than those gains and profits are merely incidental to another business)	14%
Gains & Profits from a business of sale of goods or merchandise where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka	14%
Gains & profits Specified undertaking (as defined in section 195)	14%
Gains & Profits from Educational Services	14%
Gains & Profits of an undertaking for the promotion of Tourism	14%
Gains & Profits from providing Construction Services	14%
Gains & Profits from Agro processing	14%
Gains & Profits from providing Health Care Services	14%
Gains & Profits from Dividends received from a resident Company	14%
Gains from the realization of investment Assets	10%
Gains & Profits from Manufacturing (subject to the tax rate for SMEs, exports, Specified undertakings)	18%
Gains and profits from conducting betting and gaming	40%
Gains and profits from manufacture and sale or import and sale of any liquor or tobacco products	40%
Remittance tax on non-resident companies	14%
Relocating International headquarters in Sri Lanka	0% (for 3 years) from Y/A 2018/2019
The portion of the gains and profits of any insurer engaged in the business of life insurance [under section 67(2)]	14% (for 3 Y/A from Y/A 2018/2019)

Source: Sri Lanka Department of Inland Revenue 2021

1.9 Foreign worker requirements¹

Localization Requirements

Local workers are given priority in employment and these permits are usually considered for work that locals are unable to do. The employment of foreign personnel is permitted when there is a demonstrated shortage of qualified local labour. Technical and managerial personnel are in short supply, and this shortage is likely to continue in the medium term.

Obtaining Foreign Worker Permits for Skilled Workers

All foreign nationals must obtain visas (on arrival visas, or visas obtained prior to arrival) to enter Sri Lanka. Foreign nationals intending to work in Sri Lanka should obtain residence visas and work permits. Foreign employees in the commercial sector do not experience significant problems in obtaining work or residence permits. Obtaining a visa in advance is now a requirement and can be completed online via the Electronic Travel Authority, or at a Sri Lankan embassy. Applications should take two working days but can take longer in some cases. Foreign investors who remit at least USD250,000 can qualify for a one year resident visa, which can be renewed.

Multiple Entry Visas

Investors and businesspersons may obtain multiple entry visas, which are valid for three or 12 months. To receive a multiple entry visa, a foreign national must provide proof of his or her activities in Sri Lanka. These visas may be obtained from the Controller of Immigration and Emigration, or from a Sri Lanka diplomatic mission abroad. For a three month multiple entry visa, the fee is three times the fee for the single entry, three month visit visa. For a 12 month multiple entry visa, the fee is the same as that of a three month multiple entry visa plus a tax of LKR10,000.

1.10 Risks

Sovereign Risks

TABLE 1.10.1 Sovereign risks

Types of rating	Rate	Rating Date
Moody's	Caa1 (Stable)	28/9/2020
Standard & Poor's	CCC+ (Stable)	11/12/2020
Fitch Ratings	CCC	27/11/2020

Source: HKTDC 2021

¹ This section comes from the Hong Kong Trade and Development Council.

Competitiveness

TABLE 1.10.2 Indicators of Competitiveness and Efficiency

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	111/190	100/190	99/190
Cost of Starting a Business	92/186	89/186	N/A
Logistics Performance Index	94/160	N/A	N/A
Corruption Perception Index	91/177	93/176	N/A
Competitiveness	85/140	83/140	N/A

Source: *The Global Economy 2021*; World Bank 2017; 2018;2019

Economic Risks

Sri Lanka is highly sensitive to global market changes due to its tight connection with export trade. Major exports are elastic to international market changes. Only apparels have had a steady growth in recent years. Exporting products such as tea and coffee are easily influenced by the changing weather conditions, as there is a lack of advanced agricultural technology to stabilize production. Natural rubber, another important exporting goods, is price-sensitive to global economic status, especially oil prices and supplies. Trade deficit is consistently on the rise in Sri Lanka in recent years. Given the concentration of goods and the market, the capacity to resist risk when the market fluctuates is low. The current account deficit is expected to remain low (at 2.2 percent of GDP in 2020) thanks to low oil prices and strict import restrictions, which should largely offset the reduction in receipts from garment exports, tourism and remittances. However, refinancing requirements will be high, with annual foreign exchange debt service requirements estimated at 7-8 percent of GDP over 2020-2022 (World Bank 2020b).

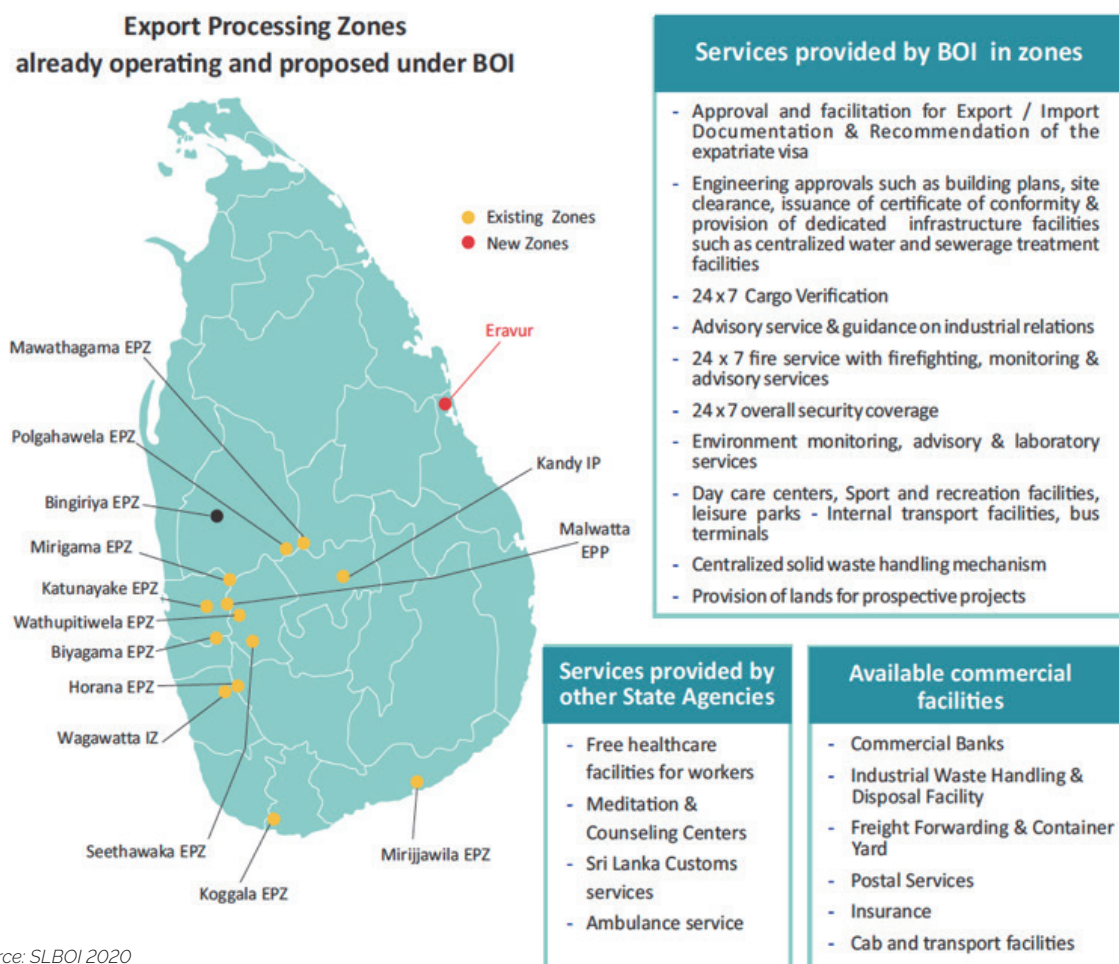
CHAPTER 2

ETCZS IN SRI LANKA

Overview of ETCZs development and policy in Sri Lanka

The Special Economic Zones (SEZs) in Sri Lanka include Export Processing Zones (EPZs), Bonded Areas and Declared free ports, which all enjoy more beneficial terms and policies for investors. BOI plans to stimulate economy by attracting FDI and drive the local development through more advanced exporting industries. Currently, Sri Lanka has 12 SEZs including 11 EPZs and one industrial park under the administration of BOI. Various corporate income tax (CIT) and customs duty incentives, and exchange control regulation exemptions are available within these free trade zones.

FIGURE 2.1 Map of SEZs in Sri Lanka



Source: SLBOI 2020

TABLE 2.1 BOI Zone Details

	Distance to Katunayake Intl. Airport (Km)	Distance to Port of Colomb0 (Km)	Distance to Hambantota Port (Km)	Total Land Extent (Acres)	Enterprises in Commercial Operation (as at April 2019)
(a) Katunayake EPZ	3	33	232	531	79
(b) Biyagama EPZ	39	22	208	451	56
(c) Koggala EPZ	160	139	122	227	20
(d) Kandy IP	116	130	248	205	15
(e) Wathupitiwala EPZ	30	41	203	123	18
(f) Mirigama EPZ	37	66	220	260	09
(g) Malwatta EPP	26	37	207	33	06
(h) Mawathagama EPZ	85	106	249	54	06
(i) Polgahawela EPZ	65	91	229	65	06
(j) Horana EPZ	78	59	221	395	20
Wagawatta IP	78	59	221	76	04
Wagawatta IZ	78	59	221	223	01
(k) Mirijjawila IP	218	221	14	565	05
(l) Seethawaka EPZ	57	49	177	431	24

Source: SLBOI 2020

TABLE 2.2 VAT Exemptions/Deferments of Importation

	Within Zones *	EPZs other than under* and Outside Zones
Export oriented	Exempted** for Capital Goods	Deferred for Capital Goods (Plant, Machinery, Equipment and Construction items) – During project implementation period Further deferred for Plant, Machinery and Equipment for Lifetime of the project
	Exempted for Raw Materials: Lifetime of the project	Deferred for Raw Materials: Lifetime of the project Special Exemptions for importation of raw materials by Garment manufactures and Fabric manufactures for Lifetime of the project
Non-Export Oriented	Deferred for Capital Goods Plant, Machinery, Equipment and Construction items: During project implementation period	

* Katunayake EPZ, Biyagama EPZ, Koggala EPZ, Kandy IP, Wathupitiwala EPZ, Malwatta EPP, Mirigama EPZ

** If the investor intends to get local purchases by registering under SVAT, he may enjoy the deferment facility under Section 22(7) of VAT Act.

Note: All exempted suppliers need to pay VAT at the time of importation. They cannot enjoy either VAT exemption or deferment facility

Source: SLBOI 2021

TABLE 2.3 Customs Duty Exemptions

Importation of Capital Goods	
Export oriented	Exempted for Capital Goods (Plant, Machinery, Equipment and Construction items) – During project implementation period. Further exempted for Plant, Machinery and Equipment for Lifetime of the project.
Non-Export Oriented	Exempted for Capital Goods (Plant, Machinery, Equipment and Construction items) – During project implementation period.

Source: SLBOI 2020

A 2017 report by the Ceylon Chamber points out that exporting products are highly concentrated to a few commodity goods: apparels/textiles (45%), tea and coffee (15%), rubber (7.8%), and the remaining are pearls, fruits, electronics, machinery and others. These major exports are elastic to international market changes. Only apparels have had a steady growth in recent years. In addition, the exporting products such as tea and coffee are easily influenced by the changing weather conditions, as there is a lack of advanced agricultural technology to stabilize production. Thus, the BOI now is calling for investments to more technology-based industries such as IT & IT enabled services, solar panel manufacturing, medical devices, auto components and electronics.

TABLE 2.4 Exemptions under Hub Regulation No. 1

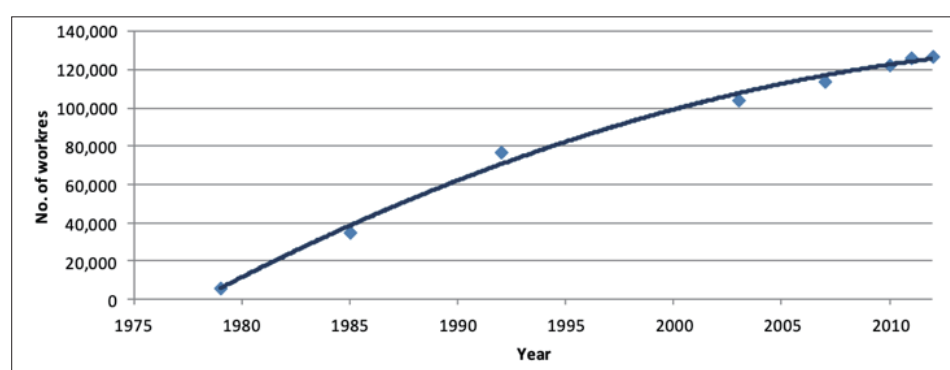
Eligible Activities	Minimum Investment	Annual Re-export /export turnover	Location			
			Free Port (Colombo/Hambantota)	Bonded Area KEPZ/KGEPZ /BIA	Specified Bonded Area MRJA/Mirijjawila	Outside Free Port/Bonded Area
Entrepot Trading -An import, minor processing and re-export - Any manufacturing activity for export as defined in the principle act and established in a Specified Bonded Area.	US\$ 5 Mn (50% in Fixed Assets within 12 months)	US\$ 20 Mn (Within 5 years)	✓	✓ -	✓	- -
Off-shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka.	US\$ 1 Mn (40% in Fixed Assets within 12 months)	US\$ 10 Mn (Within 5 years)	✓	✓	-	✓
Providing front-end services to clients abroad.			✓	✓	-	✓
Operations of headquarters of leading buyers for the management of the finance supply chain and billing operations			✓	✓	-	✓
Logistic services such as bonded warehouse or in the case of operation of multi-country consolidation in Sri Lanka	US\$ 3 Mn (30% in Fixed Assets within 12 months)	US\$ 15 Mn (Within 5 years)	✓	✓	-	-

Source: SLBOI 2020

TABLE 2.5 Employment Generated within EPZs (2007)

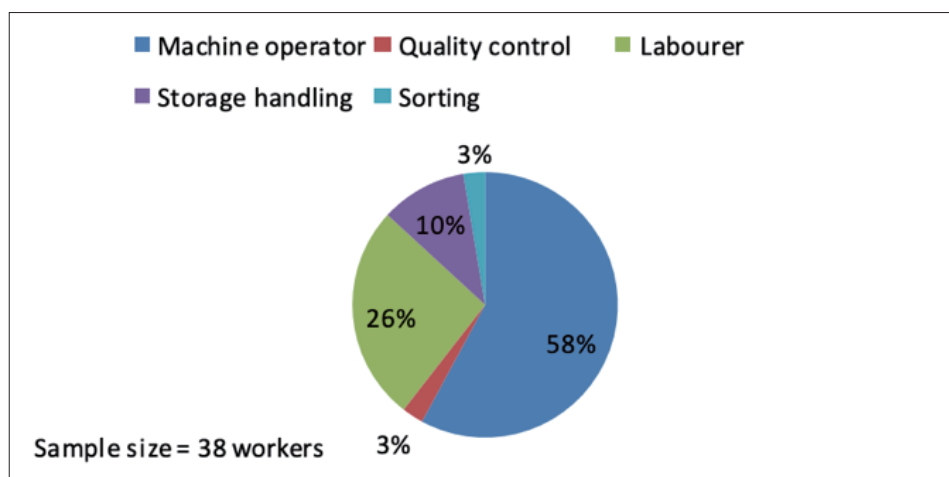
Zone	Male	Female	Total
Katunayake	16406	34069	50475
Biyagama	9338	10649	19987
Koggala	1810	8254	10064
Mirijjawila	168	1207	1375
Seethawaka	5839	9515	15354
Horana	560	138	698
Kandy	324	216	540
Wathupitiwala	1308	4443	5751
Mirigama	669	1454	2123
Malwatta	616	2001	2617
Mawathagama	911	2228	3139
Polgahawela	590	1304	1894
Total	38539	75478	114017

Source: Sivananthiran 2008

FIGURE 2.2 Change in total employment in economic zones in Sri Lanka, 1979-2012

Source: Karunaratne & Abayasekara 2013

FIGURE 2.3 Occupation categories of EPZ workers (2012-2013)



Source: Karunaratne & Abayasekara 2013

Sri Lanka has entered into 28 Bilateral Investment Promotion and Protection Treaties (BITs) so far, providing a protection to foreign investments within the country. Sri Lanka is developing its model BIT with a view to cater to the needs of covering the aspects of sustainable development principles in attracting foreign investments.

TABLE 2.6 Bilateral Investment Promotion and Protection Treaties

Australia	France	Korea, Republic of	Singapore
Belgium-Luxembourg	Germany	Kuwait	Sweden
China	India	Malaysia	Switzerland
Czech Republic	Indonesia	Netherlands	Thailand
Denmark	Iran	Norway	United Kingdom
Egypt	Italy	Pakistan	USA
Finland	Japan	Romania	Vietnam

Source: SLBOI 2020

Sri Lanka has entered into Double Taxation Avoidance Agreements with 44 countries to eliminate or mitigate the incidence of juridical double taxation and avoidance of fiscal evasion in the international trade (or transactions).

TABLE 2.7 Agreements on Avoidance of Double Taxation

Australia	Germany	Mauritius	Russia
Bangladesh	Hong Kong	Nepal	Saudi Arabia
Bahrain	India	Netherlands	Seychelles
Belarus	Indonesia	Norway	Singapore
Belgium	Iran	Oman	Sweden
Canada	Italy	Pakistan	Switzerland
China	Japan	Palestine	Thailand
Czech Republic	Republic of Korea	Philippines	U.A.E.
Denmark	Kuwait	Poland	United Kingdom
Finland	Luxembourg	Qatar	USA
France	Malaysia	Romania	Vietnam

Source: SLBOI 2020

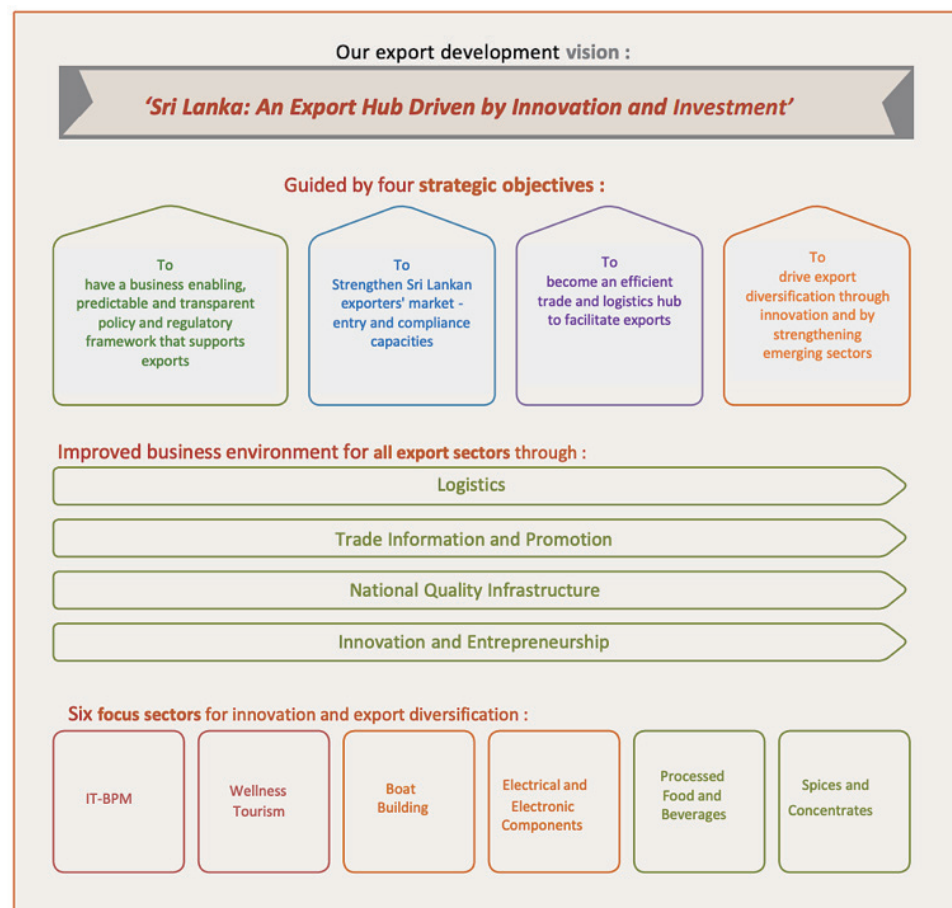
In addition, the government has announced to set up Free Ports and Bonded Areas to create trade related infrastructure to facilitate import and export of goods and services. Admission, import to and export from these areas are all duty free.

TABLE 2.8 Declared Free Ports and Bonded Areas

Declared Free Ports	Colombo & Hambantota
Declared Bonded Areas	Katunayake EPZ & Koggala EPZ
Specified Bonded Areas for projects engaged in entrepot trade with approval for manufacturing or assembling a product	Mattala Rajapaksha International Air Port & Mirijawila EPZ

Source: SLBOI 2020

FIGURE 2.4 National Export Strategy (2018-2022)



Source: Sri Lanka Export Development Board (SLEDB) 2020

CHAPTER 3

CASE STUDY

The majority of Chinese capital inflow to Sri Lanka between 2005 and 2015 is government assistance in energy, infrastructure and services sectors, mostly on the west-south coast where the economy is most active (Bhatia et al., 2016). The distribution by sectors is as follows: roads and transportation (52%), power and energy (22%), ports (17%), irrigation & water (4%), airport & aviation (3%) and telecommunication (2%). Chinese capital has financed the construction of a large portion of expressways in Sri Lanka, and improved telecommunication infrastructure and energy generation, which contributes to an improved business environment.

Private capital from China mainland and Hong Kong goes mostly into labor-intensive industry, services and tourism in pursuit of the lower labor costs and easy access to markets in SE Asia, EU and USA under trade treaties. Hong Kong ranks second amongst all countries/regions in terms of total cumulative investment from 2008 to 2017, after China and before India (see Figure a2-2). Representative investors through Hong Kong are Hutchison Telecommunication [和記電訊], AVIC International [中航國際], and Shangri-La Hotel [香格里拉酒店]. Most private sector capital from China comes through Hong Kong and has been counted as Hong Kong investment as well (Bhatia et al, 2016). For example, Huawei the Shenzhen-based telecommunications giant has an estimated 22.87% share of the local mobile vendor market, second to Samsung's 42.25% (Statcounter 2021).

As a major financial hub, Hong Kong has also provided development assistance financing to Sri Lanka. Hongkong and Shanghai Banking Corporation Limited [HSBC] has provided a loan of 80 million USD to help Sri Lanka implement Upcountry Line Operations in Sri Lanka Railways Project built by a Chinese construction contractor, Dongfang Electric; another loan of 72 million USD has been negotiated to finance the project of Upgrading Health Facilities in 13 selected hospitals in Sri Lanka (SLDER 2018, p.17).

3.1 China Merchant Group [CMG]

CMG operates two flagship projects in Sri Lanka under the China Merchants Port Holdings [CMPort], namely the Colombo International Containers Terminal [CICT] and Hambantota International Port Group [HIPG]. The HIPG project in Hambantota port is especially under considerable international scrutiny. As a Chinese central enterprise with a diversified portfolio and a headquarter office in Hong Kong, CMG's operations in Sri Lanka reflect not only the characteristics of Chinese state capital, but also the branding influence of a Hong Kong listed company.

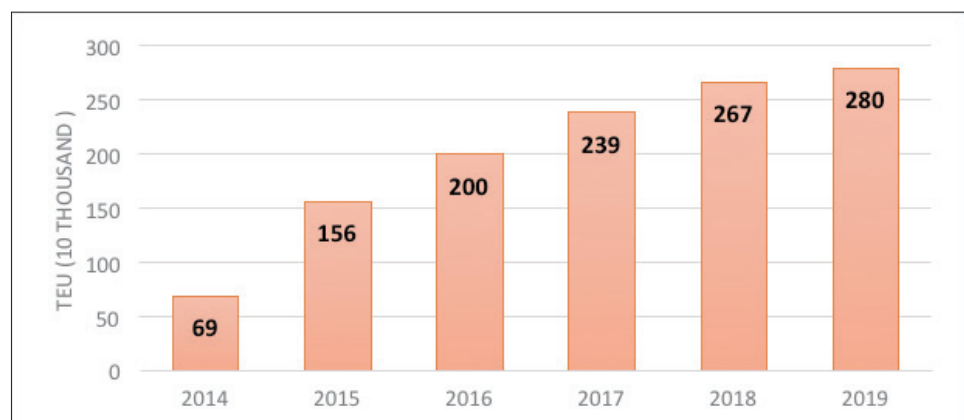
Both CICT and HIPG take Public-Private-Partnership [PPP] Model with Sri Lanka Ports Authority [SLPA], the major public-sector partner. PPP refers to 'a range of possible

relationship among public and private entities in the context of infrastructure and other services' (Asian Development Bank 2008, p.1), and is widely adopted in Chinese overseas projects to foster sustainability and efficiency. CICT adopted another commonly practiced collaboration under PPP model, which is Build-Operate-Transfer [BOT], whereby the contractor will take the built assets directly to operate for a negotiated period of time, manage the revenues and finally transfer assets back to the government (Dentons 2016, p.13). This approach could transfer risks and costs from the government to the private sector while increase efficiency.

Colombo International Containers Terminal [CICT]

CICT is Colombo's third container terminal with a 3 million TEUs capacity. Under the Colombo South Harbor expansion project, it is a joint venture between China Merchants Port Holdings Company Limited [CMPH] which is a listed blue-chip company in the Hong Kong stock exchange, and Sri Lanka Ports Authority [SLPA]. Under a 35-year Build-Operate-Transfer [BOT] Agreement signed in 2011 with SLPA, CMPH holds 85% of the partnership whilst the balance (15%) is held by SLPA (CICT 2019, para1).

FIGURE 3.1.1 Total TEU Throughput of CICT Since Commencement.



Source: Compiled with data from field research, Colombo, May 2018 and October 2019

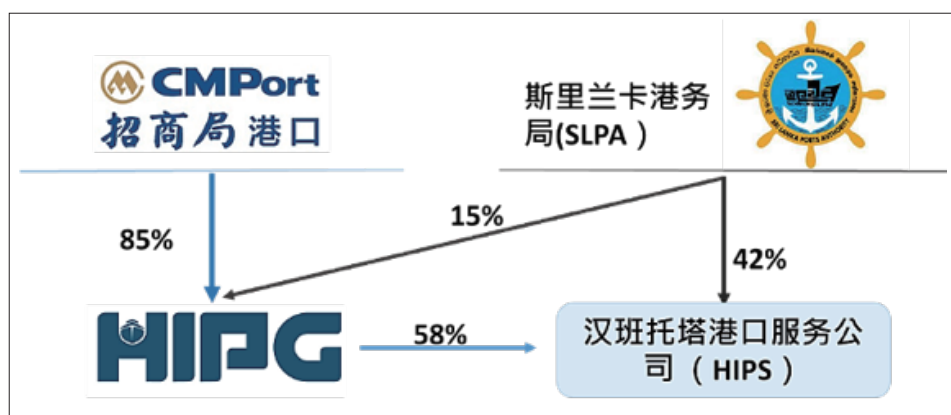
CICT started operation in 2014. Since then, the container throughput has reached 1.56 million TEU in 2015 with annual growth rate of 127.5%, and 2.39 million TEU in 2017 with annual growth of 53.2%. Up to 2019, the yearly total TEU of CICT reached 2.8 million, taking up 38% of the market share in Colombo Port (see Figure 3.1.1). The expected throughput is estimated to reach 3 million TEC by 2020, which is the designed handling capacity of the terminal. CICT has been exploring various solutions to increase the terminal capacity, such as extending the wharf length, coordinating with other containers to increase efficiency, and competing for getting the operation concession of the west wharf which is still undeveloped yet. In the long run, CICT has planned to integrate the business with HIPG. This PPP practice with SLPA is a successful precedent in Sri Lanka, as there was no clearly written law for PPP framework in Sri Lanka. It also became the reference for the HIPG project. A port affair official, has described CICT as a 'benchmark project (in Sri Lanka) of a global standard'.

Hambantota International Port Group [HIPG]

The Hambantota Port project was first launched in 2002 based on a government plan 'Regaining Sri Lanka', an initiative of the then President Mahinda Rajapaksa whose hometown is Hambantota (Government of Sri Lanka, 2002, p.55). The Export-Import Bank of China later offered a concessional loan for the port construction, which was eventually undertaken by China Harbour and Sinohydro Corporation. The first phase was completed in 2011, and the second in 2015, completing 10 berths in total. The port was first operated by Sri Lanka Ports Authority.

The port was subsequently taken over by CMG under the PPP model, forming a joint venture. HIPG is a private limited liability company responsible for the operation of the Hambantota Port in the south of Sri Lanka. It is a company in the form of public-private partnership between the Government of Sri Lanka and China Merchants Ports Holdings [CMPort] with the majority shareholder being CMPort (HIPG 2019, para 1). China Merchants Port [CMPort] and Sri Lanka Ports Authority [SLPA] signed Agreement of Operating Concessions for 99 years in July 2017 to buy the operation rights from the Government of Sri Lanka. As shown by Figure 3.1.2, Hambantota International Port Group [HIPG] is an equity holding company with a double-layered equity structure, of which 85% was shared by CMPort and 15% by SLPA. Hambantota International Port Services [HIPS], providing waterway and other public services, is owned by HIPG (58%) and SLPA (42%). CMPort would provide 1.12 billion USD to SLPA according to the agreement. CMPort should pay totally 974 million USD (292 million, 97 million and 584 million respectively for three times) and keep the rest 146 million in Sri Lankan bank account for future expenditure). The agreement also ensures the rights of SLPA to purchase back 20% shares of HIPG in 10 years and to purchase back all shares of HIPG at a recognized price after 70 years. Or SLPA could repurchase all shares of HIPG at 1 USD when the agreement reaches 80 years, with 40% shares of HIPS retained to CMPort. When the agreement ends at the 99th year, CMPort should hand over all remaining shares of HIPG and HIPS to Government of Sri Lanka at 1 USD.

FIGURE 3.1.2 The Double-layered Equity Structure of Hambantota Port



Source: Internal case study report

Between 2015 and 2016, Hambantota Port was under operation of Sri Lanka Ports Authority. The loss of port operation at the end of 2016 was 304 million USD. CMG signed the PPP agreement and took over the business in July 2017. In 2018, the loss of HIPG was reduced to about 21 million USD. Management team in HIPG are trying hard to attract business into the port and the related industrial zone. Though hugely influenced by the terrorist attacks on 21 April 2019, HIPG has signed investment agreements with 28 companies as of October 2019, of which four have started construction preparations by October 2019. Related industries within the port are planned to take the advantages of Sri Lanka's location and various free trade agreements. The current stage of development involves 11.88 hectares of pilot land, targeting for industries such as electronics and devices, food processing, textile manufacturing, new materials and new energy, and other supporting industries such as logistics and shipping.

3.2 China Harbour Engineering Company [CHEC]

The Sri Lanka regional division of CHEC started its presence in Sri Lanka in the 1990s as a construction contractor, and by 2019 is supervising ten local branches in Southern and Southeast Asia. The establishment of CHEC Sri Lanka branch was highly attributed to the assistance of CHEC Hong Kong branch (Zhenhua), which managed the Sri Lanka Division before 2007 and established the management system and standards for Quantity Surveying. Along with the development of CHEC in Sri Lanka, Hong Kong branch has been working together closely in international bidding and bridging with the global market, reflecting a supportive role of Hong Kong's soft power.

Table 2.8 shows the major projects of CHEC in Sri Lanka. CHEC started business operation in Sri Lanka by involving in Engineering Procurement Construction [EPC] for local government in infrastructure development such as highways and airports, receiving contracts from the Government of Sri Lanka agencies and borrowing money from Chinese or international banks. Later, it established the regional division in Sri Lanka and began to engage in direct investment. The flagship project, Colombo Port City, is the largest investment by CHEC in Sri Lanka up to now, which is also a special economic zone. Another important project in preparation is the Sri Lanka-China Logistics and Industrial Zone with a 50-square-kilometer land in the north of the Hambantota Port.

TABLE 3.1 Major projects by CHEC in Sri Lanka

Project	Mode	Time finished
Hambantota International Cricket Ground	Construction	2011
Hambantota International Airport	Construction	2013
Hambantota Port	Construction	2015 Phase II
Colombo Port City	Direct Investment & Development	2014 - Ongoing
Various Expressways in Colombo and Southern Province	Construction	Still ongoing
Sri Lanka-China Logistics and Industrial Zone (in Hambantota)	Direct Investment & Development	In preparation

Note: Compiled with data from field research, Colombo, October 2019

Colombo Port City

The idea of a Port City was initiated by the Government of Sri Lanka and later assisted by CHEC in project planning, implementation and international marketing. The Government of Sri Lanka plans to set up the Colombo Port City as an international financial center for South Asia with internationalized legal framework and to develop offshore finance business within the port city. This development concept is analogous to a special economic zone with distinct legal and regulatory systems to boost investments and economic development. It is observed that the team makes full use of professional services including design and planning, technical consultancy, real estate development, legal, and accounting to ensure smooth implementation. The professional services are sourced internationally, from Sweden, Singapore, Japan, U.S., U.K. and Hong Kong. Now, the difficult task is investment promotion from across the world, targeting the market of elite Sri Lankans overseas, investors from India, Bangladesh, Singapore, Malaysia and Middle East. Up to the time of interview, 30 investment agreements have been signed.

The reclaimed land of 296 hectares is divided into five sections: 1) financial district with office buildings; 2) central park; 3) international island for retails, tourism and convention & exhibition; 4) living district with beachfront; and 5) a marina for tourists. The development is staged in different phases and the whole project will be completed in 2041. The Government of Sri Lanka retains the ownership of 153 hectares of reclaimed land, including 91 hectares for public services (parks, roads, and infrastructure) and 62 hectares for investments.

Preparation of Sri Lanka-China Logistics and Industrial Zone, Hambantota

The master plan of the logistics and industrial zone is now under review by the government. The proposed land development has several stages: about 2 square kilometers for pilot use, followed by allocating 7-8 square kilometers, 20 square kilometers, and 50 square kilometers of land for stage one, mid-term and long-term developments. The pilot land is planned to accommodate electro-mechanical and food processing industries. Investigation on business environment is being conducted, including water/power/gas supplies, policies related to lands, labor and taxation. More detailed planning is pending the approval of the project by the Sri Lanka government.

New Plan of Hambantota Pharma Zone to boost export ²

At the end of 2020, BOI announced that Hambantota Pharma Zone was to boost exports earnings by 2025 in its press briefing. The countries' pharmaceutical expenditure has shown a rapid growth during the past years and it is expected to reach a value of US\$ 750 Mn, posting a five –year compound annual growth rate (CAGR) of 4.1%. The dedicated Pharmaceutical Manufacturing Zone's goal is to meet 40% of the domestic demand for pharmaceutical products by locally manufactured drugs while creating a pathway to US\$ 1Bn export earnings as import substitution by 2025. The establishment of the pharmaceutical zone in an area of 400 acres of BOI land in Hambantota – Arabokka will be implemented in two stages of 200 acres each and will be declared as a "Strategic Development Project" and strategic pharmaceutical investments established within the proposed zone will be eligible for benefits under the SDP act. The customized concessions will be granted by the Pharma subcommittee for each individual project based on criteria not limited to such as the investment threshold, market orientation, value addition, employment generation and transfer of technology.

² For more details of this plan, please see <https://investsrilanka.com/2020/12/16/upcoming-hambantota-pharma-zone-to-boost-export-earnings-by-2025-boi/>

CHAPTER 4

DOING BUSINESS IN SRI LANKA: SOME CONSIDERATIONS

In 2018 and 2019, the CSHK research team visited Sri Lanka twice. In each field trip, the team carried out on-site observations in both Colombo and Hambantota, and completed 26 in-depth interviews with multiple stakeholders in Sri Lanka. The profile of our interviewees demonstrates a good representation of various sectors in Sri Lanka, such as the central and private enterprises from China (including Hong Kong business practitioners), local enterprises, academic institutions, research agencies, professional service providers, and the government authorities. Besides, we also conducted 5 in-depth pre-trip and post-trip interviews with relevant stakeholders in Hong Kong and Beijing (see Table 4.1 for the major themes of our interviews).

This chapter draws upon findings from the research trip.

TABLE 4.1 Major Themes in Interviews

Themes	Sub-themes
Case studies of two major SOEs	China Merchant Group [CMG] <ul style="list-style-type: none"> Colombo International Containers Terminal [CICT] Hambantota International Port Group [HIPG] Challenges and Efforts by CMG <ul style="list-style-type: none"> Political and Legal Risks Legal Compliance and Commercial Viability Politicized decision-making in Hambantota Project Local Resistance and Avoidance in Politics Commercial Senses under State-guided Investment
	China Harbour Engineering Company [CHEC] <ul style="list-style-type: none"> Colombo Port City Preparation of Sri Lanka-China Logistics and Industrial Zone, Hambantota Challenges <ul style="list-style-type: none"> Policy gaps hard to fill Crisis- driven Changes
Shared Features of Chinese State Investments in Sri Lanka	<ul style="list-style-type: none"> Centrally controlled large-scale infrastructure Avoidance in domestic politics
Views on BRI and Hong Kong's Role	<ul style="list-style-type: none"> 'White elephant' in BRI Hong Kong's professional services Hong Kong's experience in free port/transit trade Comparison with Singapore

Fieldwork and discussions

Prior to the fieldwork, we have conducted extensive desktop research on available information about China's projects in Sri Lanka and Hong Kong's existing and potential roles. While we sought to focus on the development of the ETCZs and related facilities, the team also gathered information on the general social and business environment to enlighten the in-depth analysis. The following discussion of doing business in Sri Lanka is distilled from our desktop research, field trip observations, and in-depth interviews with relevant stakeholders.

Sri Lanka and China have a long history of political friendship and connections. Since the establishment of diplomatic relations in 1957, senior government officials and leaders of the two countries have made frequent exchange visits (Tam and Tse 2016, p.355). Besides, the Chinese state capital has entered into Sri Lanka as development assistance for several decades. Since 1971, the Chinese Government has participated in the construction and management of joint projects with the Government of Sri Lanka, including power station, port, airport, highways, and water supply facility (Sri Lanka Department of External Resources [SLDER] 2015, p.4). More recently, there has been more direct investment and private sector participation from China. After the announcement of the Belt and Road Initiative (BRI), Chinese capital continues to flow into Sri Lanka. By 2019, the cumulative investment value doubled the amount in 2013. During the pre-BRI period between 2006-2012, China invested 5.4 billion USD in Sri Lanka. Between 2013-2019, Chinese investment reached 6.8 billion USD (Wignaraja 2020, p.4). See Table a8-1 and Figure a8-1 for the yearly investment and major China's projects in Sri Lanka between 2006 and 2019.

Most China projects in Sri Lanka are financed by state policy banks through loans with a fixed term arrangement or involved foreign direct investment. The Colombo International Containers Terminal (CICT) and Colombo Port City are FDI projects by the China Merchants Group, a large Chinese state-owned conglomerate with headquarters in Hong Kong and a history tracing back to the Qing Dynasty. Such an infrastructure project often requires a vast amount of sunk cost and a much longer time to generate profit. Consequently, there are popular misconceptions that most Chinese projects in Sri Lanka are: 1) in relation to the unsustainable debt-led economic model and therefore totally undesirable; 2) involving inefficient public governance and therefore infeasible; and 3) resulted from inflexible political imperatives and therefore economically non-viable. Based on our fieldwork and interviews, the following discussions seek to provide a more nuanced understanding of what has actually happened on the ground.

Investing in a debt-led economic model is not necessarily undesirable

Sri Lanka has experienced a prolonged period of civil war. The aftermath of economic planning and redevelopment has led to a development path relying heavily on construction and debt financing. While such debt-led economic initiative has stimulated the GDP growth from 2009 to 2012, the economy slacks afterward. Such financing problem is closely related to the country's long history of fiscal deficit, trade deficit, as well as the prolonged currency (Rupee) depreciation against the US dollar. The Government of Sri Lanka has formulated multiple national development plans but failed to translate them into economic growth. Many of our respondents from Sri Lanka believe that the unsustainable financing practice has added costs and risks

to the investment and further contributed to the lacklustre economic performance.

There is a circulating suspicion that the Chinese infrastructural projects have led to the country's heavy indebtedness. Such conception has fuelled the blame on China's projects in Sri Lanka. The result is wide-spread worries and deep-seated concerns about the unsustainable business trajectory of these projects and social responsibility for getting involved in the less than desirable business environment. Such misconceptions have ignored that fact that the debt-led economic model adopted in Sri Lanka has been endorsed and supported by multiple international lenders. They are, in the descending order: 1) international financial markets (sovereign bonds), 2) multilateral lenders (World Bank, ADB), 3) China, 4) Japan, 5) other bilateral lenders (Wignaraja et al. 2020, p.12). Although the debt-led economic model has not been confirmed as the best model for Sri Lanka, it has been considered as one model worth of international support. China has changed from one of these international lenders to a prominent one only after 2008 when Sri Lanka has attained the status of an 'upper middle-income country' and experienced extreme difficulty in getting soft or concessional loans. While it remains inconclusive as regards whether Sri Lanka should continue to seek for foreign aid or investment to create jobs and improve living standards, doing business in Sri Lanka is not necessarily undesirable.

Working with inefficient public governance is not necessarily infeasible

Some Chinese investors and operators pointed to policy gaps and capacity issues in implementation, both on their part and in particular the host side. The policy gaps in implementation are embodied in two aspects. First, the host government leaders are incapable in facilitating foreign investment such as updating regulations, enforcing policies, resolving local resistance and enlisting public support. Second, the host government agents are inefficient in assisting foreign investors to settle the business smoothly. As a result, our respondents have experienced a hard time to work out the unfamiliar procedures of completing business registration and opening bank account.

The conception of inefficient governance has led to the misconception that there is no way to adapt and/or transform the modes operandi in Sri Lanka. However, it is indeed such capacity gap that has provided enormous opportunities for professional service providers such as legal, accounting and management consultants. For example, a senior manager of a Chinese central enterprise points out that whilst the Sri Lankan partners has attached great importance to due legal process, the country does not have a well-established legal system. Consequently, CMG has to ensure the statutory legal compliance through open tendering for international top-tier legal consulting agencies. The research team was also told that a few Chinese SOEs sought to proactively involved in market promotion and comparative studies to advise the Sri Lankan government on port policies.

Participating in politically driven projects is not necessarily economically non-viable.

Chinese state capital has participated in Sri Lanka's infrastructure development since 1971 through grants, concessional loans, and assistance. With the launch of the Belt-Road Initiative (BRI), Chinese investment continues to grow. Such government-to-

government negotiations in the BRI projects usually renders a politicized decision-making at the expense of rigorous scrutiny of the commercial and/or environmental feasibility studies. The massive local resistance has sometimes resulted in project delay or cancellation especially when there is a change in government.

Specifically, a few informants from Chinese SOEs have identified two major political risks in doing business in Sri Lanka including the conflicting domestic politics and contentious international relations. In terms of domestic politics, our respondents mentioned that a consistent and long-term project implementation is not guaranteed when an opposition party is elected. In terms of international relations, the Government of Sri Lanka has adopted a balancing policy with the western developed countries, India and China. In view of the perceived political imperatives of China's BRI in Sri Lanka, our respondents from Chinese SOEs have sought to distance their projects from BRI and focused on the commercial value. They also tend to avoid publicizing their involvements with the Government of Sri Lanka on project execution or related policy discussions about, for example, the free trade port policy. This however has unintendedly deepened local suspicion on the Chinese investment because of opaque information disclosure.

The conception that political imperatives are under public scrutinization and therefore should be kept low profile has also led to the misconception that these projects were totally economically non-viable and socially incompatible. However, our fieldtrip observation and interviews have illuminated the malleability and flexibility of a few Chinese SOEs in Sri Lanka. For example, they began to engage in public relational events, corporate social responsibility practices and philanthropic activities. There has also been a higher level of awareness of risk assessment in project financing. For example, Chinese projects are increasingly adopting the Public-Private-Partnership [PPP] model with the Chinese side engaged in direct investment and operation of the project, rather than only engineering procurement construction [EPC]. The fact that China's projects is loaded with state mission and commitments meant that the Chinese SOEs have to be adaptive and flexible in project implementation in order to strike a balance between political imperatives and economic interests.

Three possible roles for Hong Kong to participate in China's BRI in Sri Lanka

Both Chinese and Sri Lankan respondents think positively about the future of Belt and Road. Yet, Sri Lankan respondents in business and academic sectors reserve doubts in viability of the large-scale but hard-to-commercialize 'white elephant' projects. It is concerned that these projects could not significantly elevate the living standard but put Sri Lankan people in huge external debt. In contrast, Chinese SOEs tend to show more optimism on the prospect of the projects. Their complaints are more directed to the inefficient governance, lack of popular support and 'unfair' critiques from international media, and uncertainties in the local political environment. Nevertheless, they generally take a long-term vision, expect continuous development stage by stage, and put in hard-working efforts and patience in achieving their goals.

In view of the peculiarities of doing business in Sri Lanka, Hong Kong professionals could take up the following roles in Sri Lanka:

1) Prudent project financing despite the debt-led growth model

Hong Kong companies have a high potential to continuously tap into the vast investment opportunities in Sri Lanka.

Hong Kong ranks second amongst all countries/regions in terms of total cumulative investment to Sri Lanka from 2008 to 2017, after China and before India (see Figure a2-2). On a year-on-year count, Hong Kong is also among leading investors, ranking the first in 2015 and the second in 2016 and 2017 (Table 4.2). Investments mainly go to industries such as telecommunication, textile manufacturing, and tourism, with representative investors such as Hutchison Telecommunication, AVIC International and Shangri-La Hotel. Private capital is attracted to Sri Lanka by its lower labour costs and easy access to markets in Southeast Asia, EU and US under trade treaties. It should be noted that private capital from Mainland China investing in Sri Lanka mostly comes through Hong Kong and is counted as Hong Kong investment as well (Bhatia et al, 2016).

To assess and manage investment risks in overseas market through Hong Kong professional services. Hong Kong is widely recognized as being strong in providing financial services to international clients. Hong Kong is also a very important channel to support investments with risk assessment and management, rendering it a preferable platform for Chinese state capital to 'go global' and meet international market standards. There is a market for Hong Kong services in the areas of risk assessment, CSR engagement, professional consultancy and credit rating services.

Chinese enterprises are already making use of Hong Kong financial services to support their business operation and compliance. Hong Kong financial actors could leverage on the current business and establish local branches in Sri Lanka to better tap the potentials in the South Asian market. Sri Lanka is working on establishing the Colombo Port City as a special economic zone and aspires to become a South Asian financial centre in collaboration with CHEC. Government of Sri Lanka aims to allow free flow of capital, human resources and foreign investments within the port city. Major target would be offshore finance to service the local market and South Asia.

TABLE 4.2 Hong Kong's Ranking of Investment in Sri Lanka from 2015 to 2017 (US\$ Million).

Ranking	2015	2016	2017
1 st	Hong Kong (188.01)	Netherland (133.32)	China (628)
2 nd	China (150.78)	Hong Kong (119.88)	Hong Kong (296)
3 rd	Mauritius (139.21)	India (112.13)	India (174)
4 th	Netherland (90.16)	Malaysia (88.38)	Malaysia (88)
5 th	India (67.84)	China (52.81)	Singapore (81)

Source: Sri Lanka Board of Investment 2015; 2016; 2017.

Hong Kong could also play a role in infrastructure development apart from private direct investments. As a major financial hub, Hong Kong has also provided development assistance financing to Sri Lanka. Hongkong and Shanghai Banking Corporation Limited (HSBC), for instance, provided a loan of 80 million USD to help Sri Lanka implement Upcountry Line Operations in Sri Lanka Railways Project built by a Chinese construction contractor, Dongfang Electric; another loan of 72 million USD was negotiated to finance the project of Upgrading Health Facilities in 13 selected hospitals in Sri Lanka (SLDER 2018, p.17).

2) Persistent capacity building to enhance transparent and efficient governance.

Respondents acknowledged that Hong Kong is a role model of free port policies and transit trade, which is also the planning for Hambantota Port, 'the free port is right in sight of us...Sri Lanka should learn from Hong Kong'. Hong Kong actors could publicize themselves, share their knowledge and look for business opportunities arising in a newly emerged market, as Sri Lanka is highlighting its focus on FDI and policy for 'free port'. Currently, the work is slowly in progress as of our second field trip in October 2019. Chinese SOEs has tried to facilitate the policy updating by providing well-rounded report study of free ports across the world for their reference.

Hong Kong's legal sectors have the potential to help Sri Lanka build capacity in establishing an international arbitration centre, which is planned within Colombo Port City to settle disputes among foreign investors. This is because of the rich experience, existing framework and common law system that Hong Kong possesses. It is suggested that a better approach is to affiliate the port city arbitration centre with Hong Kong, Singapore or London and set up a branch in Sri Lanka.

The Government of Sri Lanka does not have adequate capacity to design and execute the legal framework on their own. The updated draft for a new legal framework has been submitted to the cabinet waiting for approval, which is assisted by Chinese operator as well as international consultants. The port city's new legal framework would need amendment to the constitution, which slows down the process.

The research team has facilitated the connection between Hong Kong International Arbitration Centre and the Government of Sri Lanka in a post-trip follow up. It is suggested that Hong Kong Government could do more promotion and connection work to further reinforce the 'Hong Kong brand' among international community. Moreover, the Chinese SOE respondents also shared that Hong Kong legal practitioners are generally well regarded and should tap more the business opportunities from Mainland.

However, Hong Kong's legal sector is expected to move more proactively. Respondent from Chinese enterprises stated that currently they would not prioritize Hong Kong for legal services, as they need localized legal services and thus local firms would be more preferable. Interestingly, Singapore has been chosen as the preferred site of arbitration over China, the research team learned, despite that the investment has been routed through Hong Kong. This also implies that the global market exists, and Hong Kong legal practitioners have a variety of business opportunities to take, but more promotion and proactive efforts, by the professional firms as well as HKSARG, are necessary to turn potentials into business.

3) Proactive awareness growing on local aspiration and interest alignment. Hong Kong is an important platform for capitals to 'go global', because of its well-regarded professional services, professional management and the position as a global financial centre. Chinese state capital is financed in a unique way, however, where government-

level negotiation guides the financing model. This has drawn much international attention to the financing sustainability issue of Chinese Belt and Road investments. The research team found that Chinese state investments leverage on Hong Kong as a brand to 'go global' as an internationalized and professional commercial operator. The two cases of Chinese SOEs either has headquarters in Hong Kong (CMG) or has a Hong Kong-based branch (CHEC) that contributes significantly to the 'go global' initiatives of the group. Specifically, Hong Kong's brand has the following roles:

Hong Kong's companies have advantages in internationalized management style that could quickly adapt to local markets and respond to local aspiration. Respondent from a Sri Lankan telecommunication enterprise owned by a Hong Kong-based global conglomerate shared their localization strategy that 99 percent of their employees including the CEO are locals. Local senior managers are sent to branches in different countries to learn and develop local business before being sent back to Sri Lanka. Hong Kong companies, especially those with global branches and networks, have the potential to lead the emerging market in Sri Lanka.

To depoliticize the investment and strengthen commercial viability, CMG brands itself as a Hong Kong listed company which represents a professional and internationalized image. This branding is widely accepted and respected by its Sri Lankan partners and community at large, and thus contributes to its local operation. Hong Kong enables them to 'optimize state capital'. More importantly, CMG also proves its strength in commercial operation with fast-growing container business in Colombo and a well improved turnover in Hambantota. Its business planning and execution measures reflect its rich experience in port management and a global vision.

APPENDICES

Appendix 1. Country and Economic Overview

1.1. Geographical location

Sri Lanka is located at South Asia on the Indian Ocean, in the south east of India. Its maritime lane links between Asia and Europe.

FIGURE a1-1 Map of Sri Lanka



Source: UN Cartographic Section 2008

1.2. Country Overview

TABLE a1-1 Country Overview

1. Official country name	Democratic Socialist Republic of Sri Lanka
2. Capital(s)	Colombo (commercial capital)
3. Total area	Sri Jayewardenepura Kotte (legislative capital)
4. Landscape	65,610 km ² (similar to that of Ningxia province)
5. Climate	Tropical monsoon; northeast monsoon (December to March); southwest monsoon (June to October)
6. Population	22,889,201 (July 2020 est.)
7. Median age	33.7 years (2020 est.)
8. Language(s)	Sinhala (official and national language) 87%, Tamil (official and national language) 28.5%, English 23.8% (2012 est.) Note: data represent main languages spoken by the population aged 10 years and older; shares sum to more than 100% because some respondents gave more than one answer on the census; English is commonly used in government and is referred to as the “link language” in the constitution.
9. Ethnicity	Sinhalese 74.9%, Sri Lankan Tamil 11.2%, Sri Lankan Moors 9.2%, Indian Tamil 4.2%, other 0.5% (2012 est.)
10. Religion	Buddhist (official) 70.2%, Hindu 12.6%, Muslim 9.7%, Roman Catholic 6.1%, other Christian 1.3%, other 0.05% (2012 est.)
11. Government	<ul style="list-style-type: none"> Government type: presidential republic Government head: President Gotabaya RAJAPAKSA (since 18 November 2019) Ruling political party: Sri Lanka People’s Freedom Alliance (2020 election)
12. Education	Adult literacy rate: 91.7% (2018) Net Enrolment Rate: <ul style="list-style-type: none"> Primary: 99.11% (2018) Secondary: 91.04% (2018) Gross Enrolment Rate: <ul style="list-style-type: none"> Tertiary: 19.63% (2018)
13. Health infrastructure	<ul style="list-style-type: none"> Current health expenditure: 3.8% (2017) Physicians density: 0.93 physicians/1,000 population (2017) Hospital bed density: 4.2 beds/1,000 population (2017)
14. International organization participation	ABEDA, ADB, ARF, BIMSTEC, C, CD, CICA (observer), CP, FAO, G-11, G-15, G-24, G-77, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, MINURSO, MINUSTAH, MONUSCO, NAM, OAS (observer), OPCW, PCA, SAARC, SACEP, SCO (dialogue member), UN, UNCTAD, UNESCO, UNIDO, UNIFIL, UNISFA, UNMISS, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Sources: UNESCO 2021

1.3. Major economic/political events in history in Sri Lanka

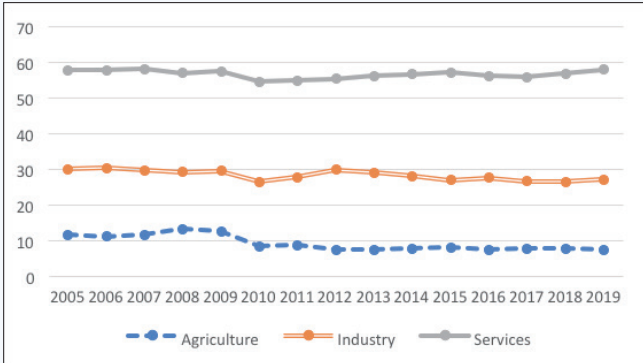
FIGURE a1-2 Timeline and Milestone



Source: BBC 2019; 'European Union completely lifts ban on import of Sri Lanka seafood' 2016

1.4. Economic Overview

TABLE a1-2 Economic Overview

Country economic status	Lower middle-income (Sri Lanka was classified as 'upper middle income' country in July 2019 but was later moved to 'lower middle-income' group by World Bank due to World Bank's change in definition of classification in July 2020 ²)																																																																
Currency	Sri Lankan rupee (LKR)																																																																
GDP (current US\$)	USD 84 billion (2019)																																																																
GDP per capita (current US\$)	USD 3853.1 (2019)																																																																
GDP Growth	2.3% (2019)																																																																
GDP, PPP (current international \$)	296.94 billion (2019)																																																																
GDP per capita, PPP (current international \$)	13620.1 (2019)																																																																
Unemployment rate	4.2% (2019)																																																																
Inflation, consumer prices (annual %)	3.5% (2019)																																																																
Changes in economic composition (industry drivers)	<p>Key drivers: Tourism, manufacturing, exporting, apparels, private investment</p> <p>Construction and services sectors, including tourism, have been important sources of jobs growth in recent years. The COVID-19 outbreak has largely harmed the economy and caused reduction in receipts from garment exports, tourism and remittances.</p>																																																																
GDP by sector (2005-2019)	 <p>The graph illustrates the percentage contribution of three sectors to Sri Lanka's GDP from 2005 to 2019. The Services sector (grey line) consistently accounts for the largest share, fluctuating between approximately 55% and 60%. The Industry sector (orange line) follows, with a percentage between 25% and 32%. The Agriculture sector (blue line) represents the smallest share, generally between 8% and 14%. A notable dip in the Agriculture sector's share occurs around 2010, coinciding with a sharp decline in the Industry sector's share.</p> <table><thead><tr><th>Year</th><th>Agriculture (%)</th><th>Industry (%)</th><th>Services (%)</th></tr></thead><tbody><tr><td>2005</td><td>12</td><td>30</td><td>58</td></tr><tr><td>2006</td><td>12</td><td>31</td><td>57</td></tr><tr><td>2007</td><td>12</td><td>30</td><td>58</td></tr><tr><td>2008</td><td>13</td><td>30</td><td>57</td></tr><tr><td>2009</td><td>13</td><td>30</td><td>57</td></tr><tr><td>2010</td><td>10</td><td>27</td><td>55</td></tr><tr><td>2011</td><td>10</td><td>28</td><td>56</td></tr><tr><td>2012</td><td>9</td><td>30</td><td>57</td></tr><tr><td>2013</td><td>9</td><td>29</td><td>58</td></tr><tr><td>2014</td><td>9</td><td>28</td><td>58</td></tr><tr><td>2015</td><td>9</td><td>28</td><td>57</td></tr><tr><td>2016</td><td>9</td><td>27</td><td>57</td></tr><tr><td>2017</td><td>9</td><td>27</td><td>57</td></tr><tr><td>2018</td><td>9</td><td>27</td><td>57</td></tr><tr><td>2019</td><td>9</td><td>28</td><td>58</td></tr></tbody></table>	Year	Agriculture (%)	Industry (%)	Services (%)	2005	12	30	58	2006	12	31	57	2007	12	30	58	2008	13	30	57	2009	13	30	57	2010	10	27	55	2011	10	28	56	2012	9	30	57	2013	9	29	58	2014	9	28	58	2015	9	28	57	2016	9	27	57	2017	9	27	57	2018	9	27	57	2019	9	28	58
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Sources: World Bank 2020a, World Bank Databank 2021; CBSL 2019

² <https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021>

Appendix 2. Foreign Direct Investments (FDI)

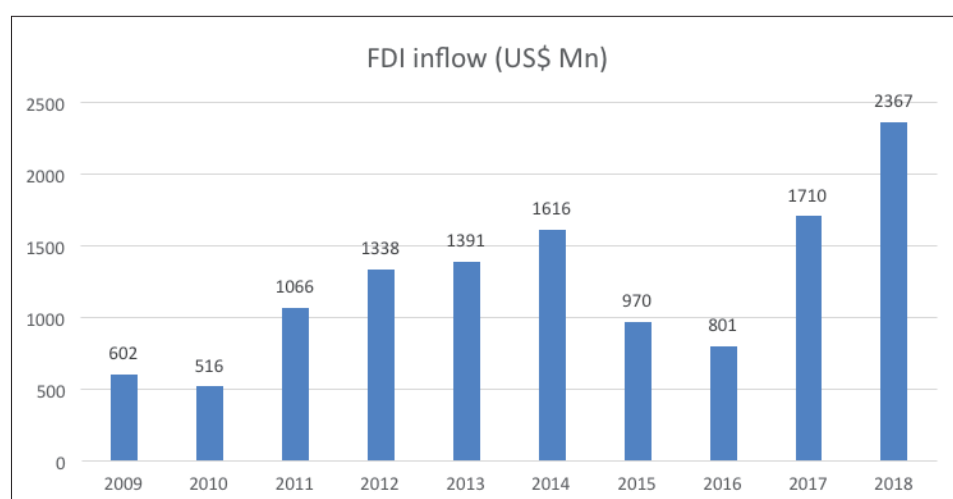
2.1. FDI Flow

TABLE A2-1 FDI Flow

Inflow volume	US\$ 758.19 million (2019)
Outflow volume	US\$ 77.36 million (2019)
FDI inflow from 2009 to 2018	See Figure a2-1
Sources of FDI	See Figure a2-2
FDI flows by economic sector and industry	See Figure a2-3

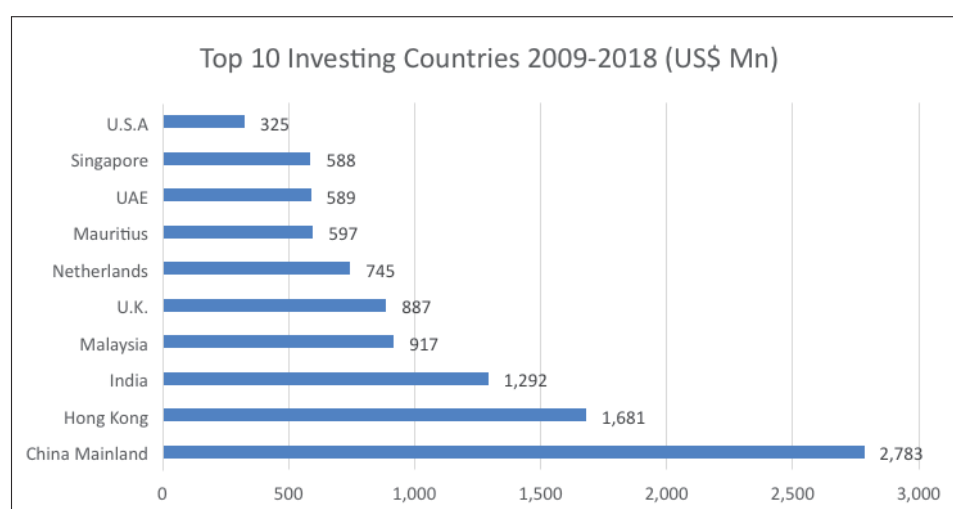
Source: UNCTAD 2020

FIGURE A2-1 FDI Inflow, 2009-2018



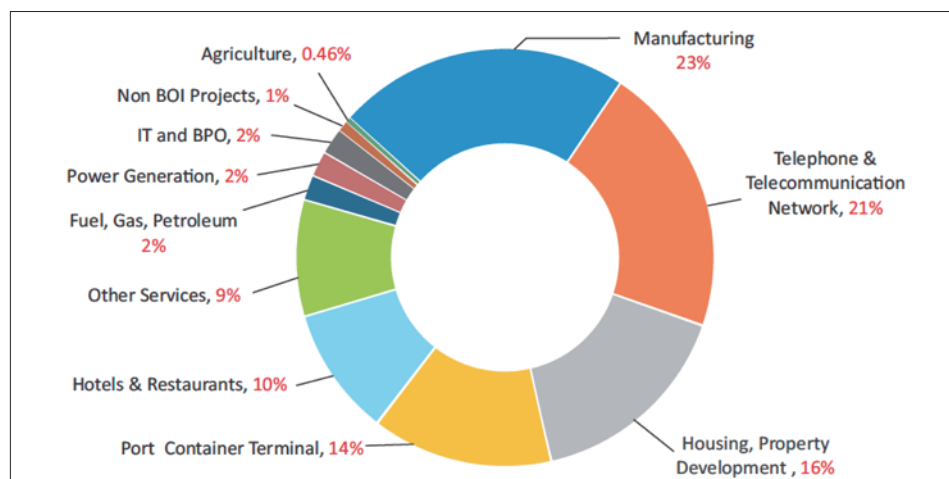
Source: SLBOI 2020

FIGURE A2-2 Sources of FDI, 2009-2018



Source: SLBOI 2020

FIGURE A2-3 FDI Inflow by Sector, 2009-2018



Source: SLBOI 2020

2.2. List of Business Activities that Foreign Participation may be Prohibited or Restricted from

The issue/transfer of shares of companies incorporated in Sri Lanka to non-residents is permitted, subject to the exclusions, limitations and conditions listed in Government Gazette No. 1232/14, dated 19 April 2002, as amended.

TABLE A2-2 Restrictions on Foreign Investment

TYPES	RESTRICTIONS
ORDINARY SHARES	<p>FDI into companies carrying out the following business is not permitted:</p> <ul style="list-style-type: none"> ▪ Money lending, other than the business of providing credit to investors to purchase shares of a listed company by a registered margin provider under the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1981. ▪ Pawn broking. ▪ Retail trade with capital of less than US\$1 million. ▪ Coastal fishing. ▪ Provision of security services, including security management, assessment and consulting to individuals or private organisations. <p>FDI in the following businesses are limited to 40% of the stated capital of the company, unless a higher threshold of foreign ownership has been permitted by special permission from the Board of Investment (BOI):</p> <ul style="list-style-type: none"> ▪ Production of goods where Sri Lanka's exports are subject to quota restrictions. ▪ Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar and spices. ▪ Mining and primary processing of non-renewable national resources. ▪ Timber-based industries using local timber. ▪ Deep-sea fishing. ▪ Mass communications. ▪ Education. ▪ Freight forwarding. ▪ Travel agencies. ▪ Shipping agencies.

	<p>The approval of the relevant governmental authority is required for investments in:</p> <ul style="list-style-type: none"> ▪ Air transportation. ▪ Coastal shipping. ▪ Industries involved in the manufacture of arms, ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware, poisons, narcotics, alcohols, dangerous drugs and toxic, hazardous or carcinogenic materials, currency, coins or security documents. ▪ Large-scale mechanised mining of gems. ▪ Lotteries.
<p>PREFERENCE SHARES</p>	<p>Government Gazette No. 1791/43, dated 4 January 2013, enables the issuance and transfer to non-residents of LKR-denominated redeemable preference shares in a company classified as a "Specified Business Enterprise" under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, subject to the following conditions:</p> <ul style="list-style-type: none"> ▪ The tenure of a preference share must not be less than three years from the date of issue. ▪ Redemption of the shares must not commence earlier than one year from the date of issue, and must be phased out proportionately throughout the balance period. ▪ If the issued shares are convertible into ordinary shares, that can be effected at any time and must comply with the exclusions and limitations specified in Government Gazette No. 1232/14. ▪ The non-resident must make a declaration to the effect that he or she is a resident outside Sri Lanka on the share transfer form or share application form, as applicable. ▪ The payment for shares must be made only out of, or into, a Share Investment Account (SIA).
<p>INVESTMENT BY AN OVERSEAS COMPANY</p>	<p>Companies incorporated outside Sri Lanka are subject to investment conditions under Government Gazette No. 1681/10, dated 22 November 2010. The minimum investment in permitted commercial, trading, or industrial activity is US\$200,000.</p> <p>Overseas companies are not permitted to engage in the following businesses:</p> <ul style="list-style-type: none"> ▪ Money lending. ▪ Pawn broking. ▪ Retail trade with a capital of less than US\$2 million. ▪ Coastal fishing. ▪ Growing and primary processing of tea, rubber, coconut and rice. ▪ Mining and primary processing of non-renewable national resources. ▪ Freight forwarding. ▪ Shipping agency business. ▪ Mechanised gem mining. ▪ Lotteries. ▪ The tenure of a preference share must not be less than three years from the date of issue. ▪ Redemption of the shares must not commence earlier than one year from the date of issue and must be phased out proportionately throughout the balance period. ▪ If the issued shares are convertible into ordinary shares, that can be effected at any time and must comply with the exclusions and limitations specified in Government Gazette No. 1232/14. ▪ The non-resident must make a declaration to the effect that he or she is a resident outside Sri Lanka on the share transfer form or share application form, as applicable.

- Prior approval by the ECD is required to engage in:
- Production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions.
 - Growing and primary processing of sugar, cocoa and spices.
 - Timber-based industries using local timber.
 - Deep sea fishing.
 - Mass communication.
 - Education.
 - Outbound travel agency business.
 - Local air transportation.
 - Coastal shipping.
 - Any industry manufacturing or producing arms, ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware, poisons, narcotics, alcohols, dangerous drugs and toxic, hazardous or carcinogenic materials, currency, coins or security documents.

Source: Sirimane 2021

TABLE A2-3 Board of Investment Approved Projects in 2015-2017 by Sector

	No. of Projects					
	2015		2016		2017	
Real Estate	63	56.3%	68	42.5%	30	33.7%
Energy and Maritime	18	16.0%	12	7.5%	7	7.9%
Services	0	0	8	5.0%	7	7.9%
Capacity Building	0	0	5	3.1%	0	0
Manufacturing	0	0	51	31.9%	35	39.3%
Agriculture	0	0	5	3.1%	2	2.2%
Other	31	27.7%	11	6.9%	8	9.0%
Total Projects	112	100%	160	100%	89	100%

Note: 1) Table extracted from the project calculations in annual reports (2015, 2016, 2017) of Sri Lanka Board of Investment. 2) The real estate sector includes 'Housing & Property Development', 'Hotels, Restaurants Services & Entertainment Complex', and 'Shopping & Office Complex' as categorized by Sri Lanka Board of Investment in its reports. 3) Energy and Maritime includes projects relating to power generation, petroleum, natural gas, maritime services and port. 4) Services include call centers, computer software/IT outsourcing, medical services, etc. 5) Capacity building refers to areas such as education and training.

Source: SLBOI 2015,2016,2017

Appendix 3. International trade

3.1. Trade of goods and services

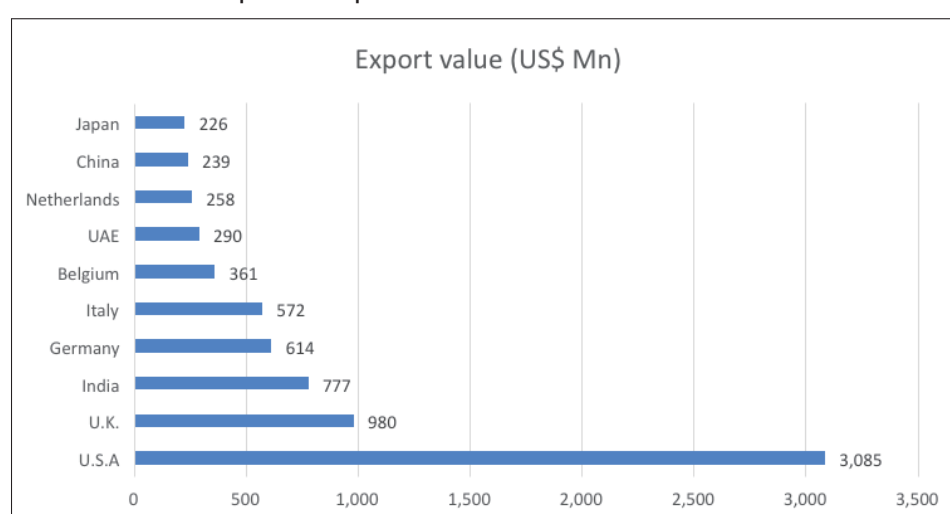
TABLE A3-1 Trade of Goods and Services

Exports of Goods and Services	19.41 billion (2019)
(BoP, current US\$)	24.57 billion (2019)

Source: World Bank 2021a, 2021b; UNCTAD 2020

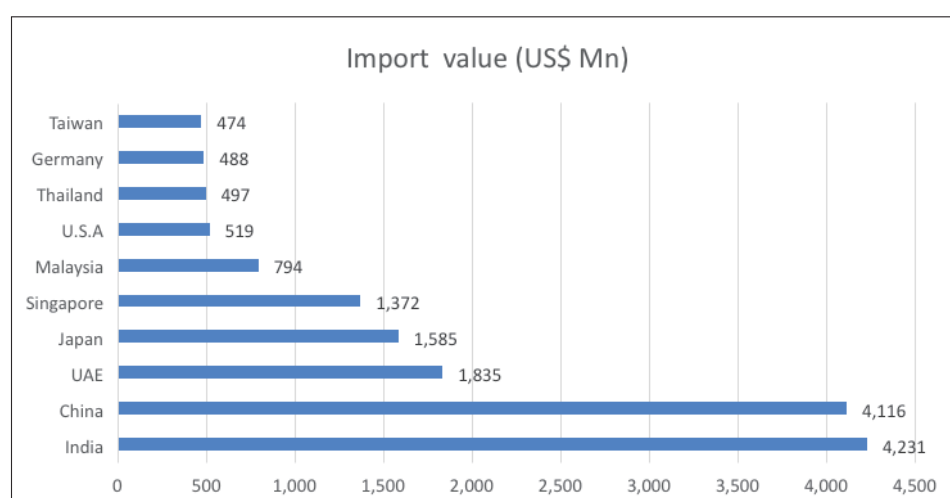
3.2. Exports and Imports by country

FIGURE A3-1 Exports-Top 10 Countries (2018)



Source: SLBOI 2020

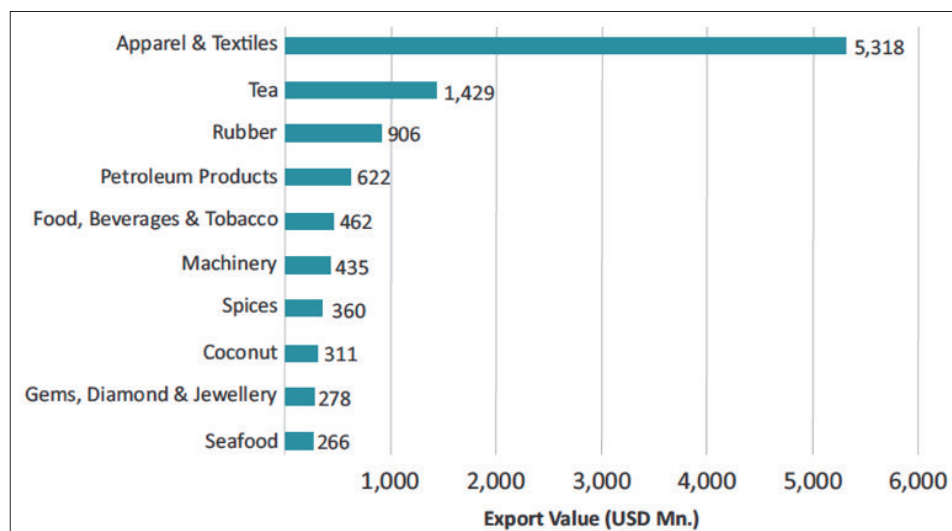
FIGURE A3-2 Imports-Top 10 Countries (2018)



Source: SLBOI 2020

3.3. Exports by Category

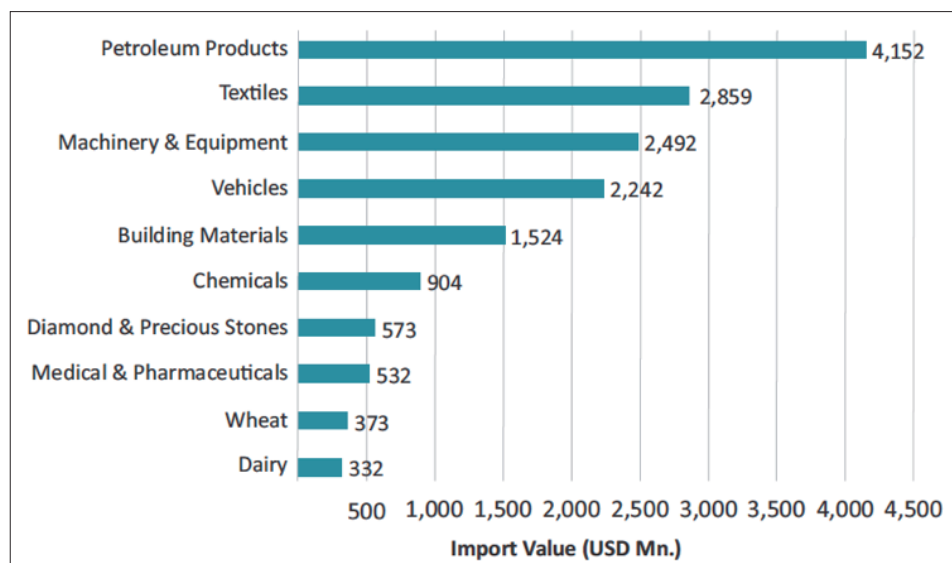
FIGURE A3-3 Major Export Products (2018)



Source: SLBOI 2020

3.4. Imports by Category

FIGURE A3-4 Major Import Products (2018)



Source: SLBOI 2020

3.5. Trade Policies in Sri Lanka

TABLE A3-2 Trade Policies

Trade policies	<ul style="list-style-type: none"> ▪ Sri Lanka has been a World Trade Organization (WTO) member since January 1995, adopting a liberal trade regime. ▪ Sri Lanka's tariffs range from 0-30% under a four-band tariff structure with rates being 0%, 15% and 30%. More than 50% of non-agricultural imports are deemed duty free. Essential raw materials and inputs, such as cotton and textiles, are generally non-dutiable, or subject to duties at lower rates. ▪ Apart from tariffs, duties and taxes that any importer is liable to pay upon import include excise duty, the Nation Building Tax, the Special Commodity Levy and VAT. The VAT rate stands at 15%, with exemptions granted to some ICT equipment, construction equipment, pharmaceuticals, real estate, water, electricity, health and education. ▪ There are various export restrictions applied to goods such as bulk tea and natural sand. There are also export licensing requirements for metal products (raw and semi-processed materials) such as copper, zinc and other steel alloys. ▪ There are various import bans in place that affect the autos sector, in addition to high import duties (for new vehicles). Vehicles older than two years are not permitted, and commercial vehicles older than four years are also not permitted under 2013 rules. ▪ Sri Lanka also implements the Special Commodity Levies on imported vegetable oil, onions (and various other vegetables), sugar, garlic, dhal, watana, wheat, rice and fish.
Trade agreements	<p>Active:</p> <ul style="list-style-type: none"> ▪ South Asia Free Trade Agreement (SAFTA) ▪ Asia Pacific Trade Agreement (APTA) ▪ Indo-Sri Lanka FTA (ISFTA) ▪ Sri Lanka-Pakistan FTA ▪ Sri Lanka-Singapore FTA ▪ Global System of Trade Preferences (GSTP) ▪ South Asian Association for Regional Cooperation (SAARC) <p>Under negotiation</p> <ul style="list-style-type: none"> ▪ Mainland China-Sri Lanka FTA

Source: HKTDC 2021; Sri Lanka Customs n.d.

Appendix 4. Labour Policies

TABLE A4-1 Labour Policies

Labour policies	<ul style="list-style-type: none"> ▪ Respecting the right of the workers to form and join trade unions of their own choosing. ▪ Respecting the right of the workers to bargain collectively through their trade unions, or in the absence of a trade union, through other organization or body consisting of their elected representatives in the workplace ▪ Affording protection to workers' representatives and trade union officers against any act prejudicial to them, including dismissal based on their status or activities as workers' representatives. ▪ Eliminating forced or compulsory labour. ▪ Abolishing child labour. ▪ Eliminating discrimination in employment, occupation and remuneration against workers on such grounds as race, sex, religion, political opinion. ▪ Ensuring stability in employment. ▪ Providing safe and hygienic working conditions. ▪ Establishing appropriate machinery for consultation and co-operation between elected representatives of workers and employers on matters of mutual concern. ▪ Establishing grievance procedures for the examination of workers' grievance. ▪ Offering fair wages and benefits and conditions of employment to workers. ▪ Eliminating harsh and inhuman treatment of workers. ▪ Eliminating excessive working hours and overtime work. ▪ Affording appropriate facilities to workers in the undertaking to carry out their functions promptly and efficiently. ▪ Formulating effective communication policy within the workplace to promote rapid dissemination and exchange of information relating to various aspects of the undertaking and to the social conditions of the workers. ▪ Providing advisory services on labour and industrial relations matters to employers and employees and promoting and facilitating effective prevention and settlement of Industrial Disputes.
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Source: SLBOI 2020

Appendix 5. Infrastructure and Logistics Overview

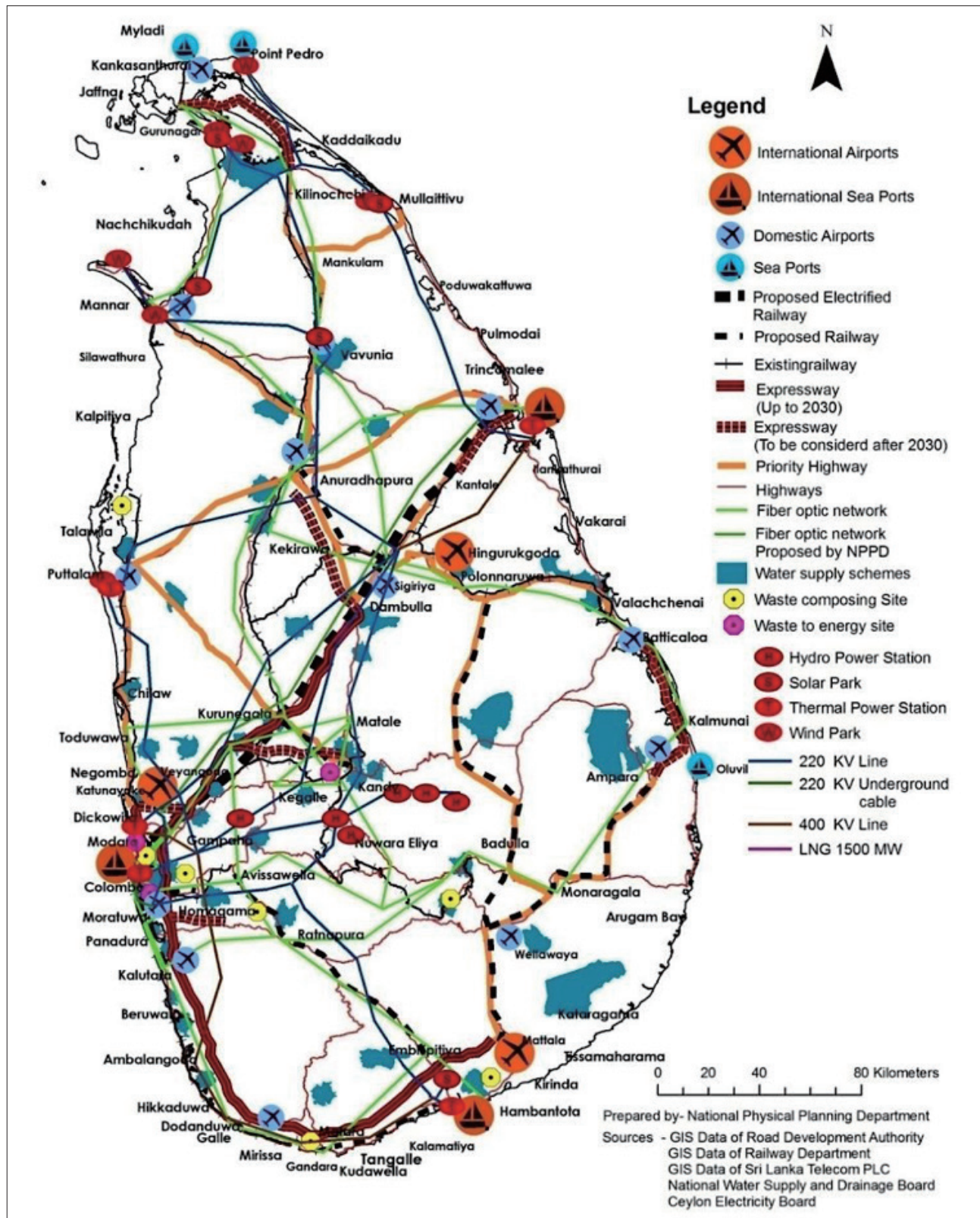
5.1. Infrastructure Development

TABLE A5-1 Infrastructure Development

Road and Railway	Sri Lanka's transport system is based on a road network of approximately 100,000 km and a rail network of about 2,000 km linking Colombo with the rest of the country. Notable recent developments are the Southern Expressway connecting Colombo and Matara in the deep South and the Airport/Katunayake Expressway. The Outer Circular Highway in the Western Province, the Central Expressway which links Colombo and the Hill Capital of Kandy as well as the Southern Expressway Extension are nearing completion.
Ports	Sri Lanka is located at the intersection of major international shipping routes within the world's busiest maritime transportation lanes. Due to this location advantage, Sri Lankan ports have continuously contributed to the development of the country. The Colombo Port is considered the busiest port in South Asia and according to the Alphaliner Rankings 2017 it is rated as the 23rd 'Best Port in the World'. It is also capable of catering to the latest 'Triple E Class' ships. 33 major shipping lines use the Colombo Port while 75% of port volumes are transshipments.
Airports	The Bandaranaike International Airport is the main international airport in Sri Lanka, located 30 km North of Colombo, with connectivity to major routes and 100 cities around the world. The Mattala Rajapaksha International Airport is Sri Lanka's second international airport, located in the Southern Province of the country.
Telecom	Sri Lanka's telecom sector has been ahead of its regional peers for a significant period. At the end of 2017, cellular mobile subscriptions in Sri Lanka were 28.2 million, while fixed access telephone subscriptions stood at 2.5 million. Sri Lanka's mobile market has experienced robust growth over the last five years with mobile penetration rising from 96% in 2012 to 126% in 2017 across the country. Mobile broadband penetration has also recorded a rapid growth over the past five years with market penetration increasing from 8% in 2012 to 21% in 2017. The availability of e-commerce applications including mobile banking, e-bus ticketing and mobile Points of Sale (POS) continues to increase.

Source: SLBOI 2021

FIGURE A5-1 Proposed Infrastructure Configuration



Source: Sri Lanka National Physical Planning Department (SLNPPD) 2018

5.2. Logistics Development

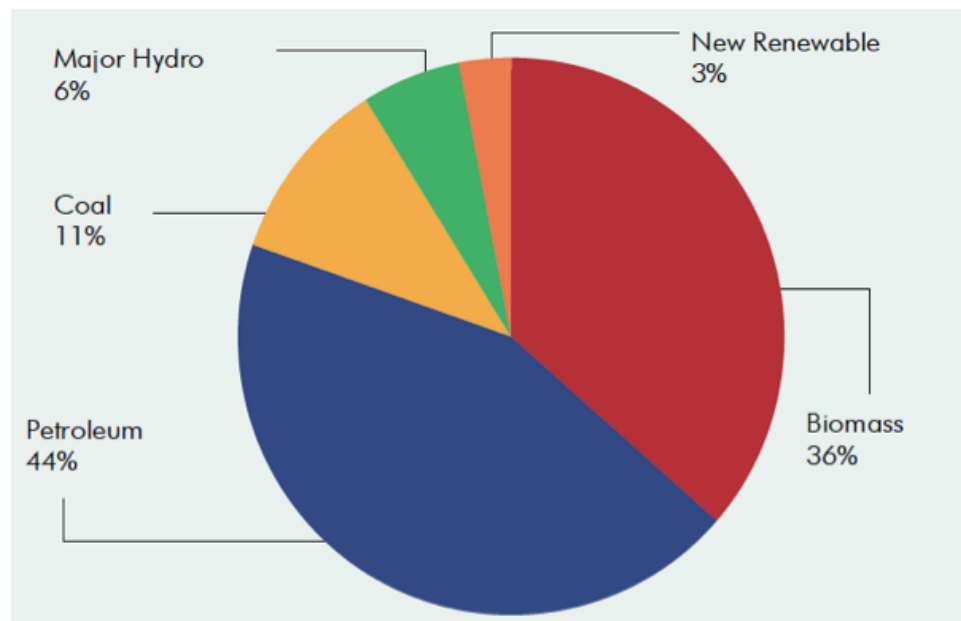
Sri Lanka is also improving the capacity of energy supply to support its economic growth. In the two national development plans for 2020 and 2050, energy generation is always a highlight.

TABLE A5-2 Energy Projects in Sri Lanka

Project Type	Commissioned		Under Construction		Provisional Approval Issued	
	Projects	MW	Projects	MW	Projects	MW
Wind	15	128.45	2	101.10		
Solar	4	11.36	6	60.00	3	30.00
Dendro	5	15.54	9	46.24	5	32.50
Solid Waste	-	-	2	20.00	4	16.90
Agri.Waste	3	13.00	-	-	1	10.00
Biogas	1	0.08	1	0.13		
Total	28	168.43	20	227.47	13	89.40

Source: SLNPPD 2018

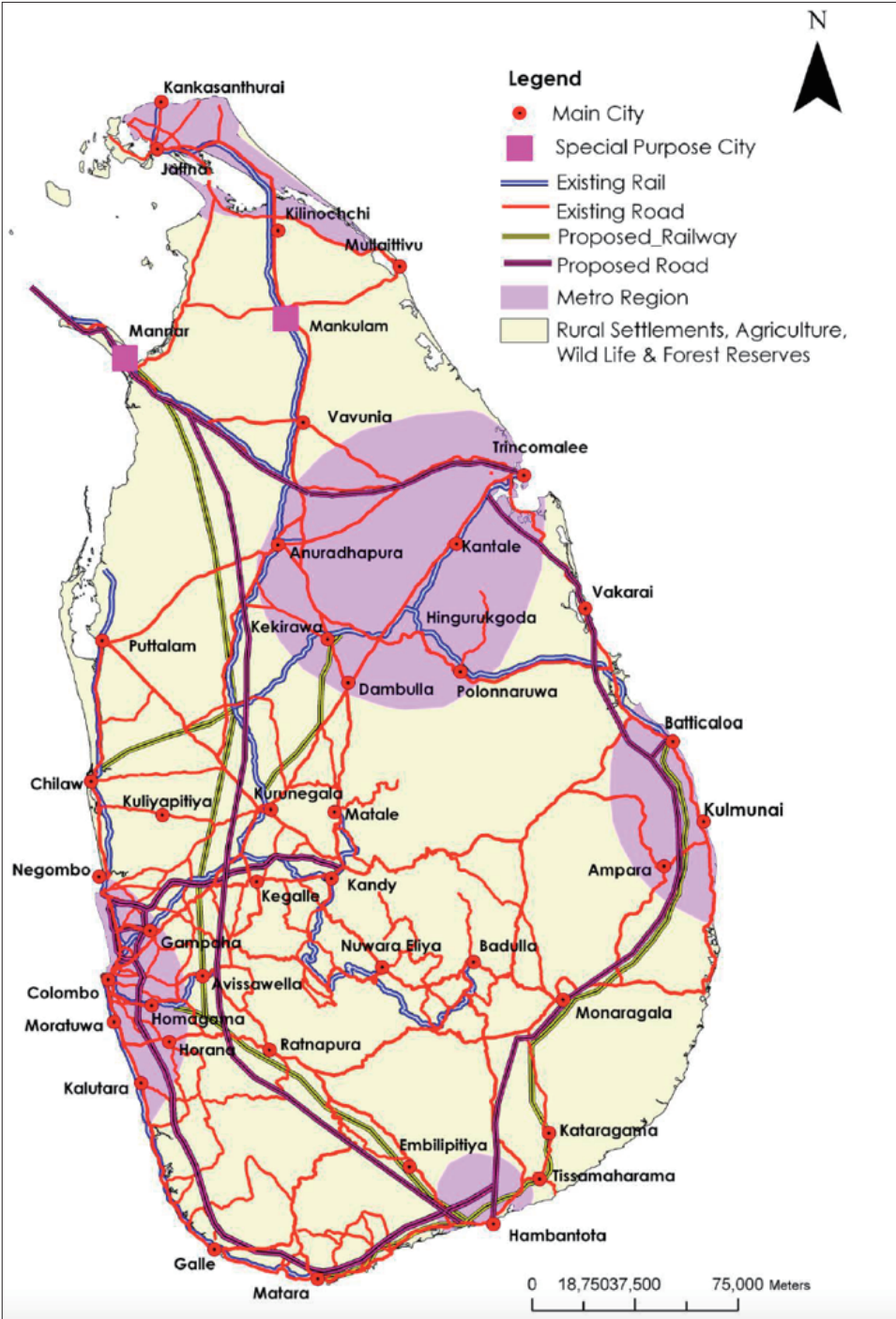
FIGURE A5-2 Energy Generation by Source



Source: CBSL 2019

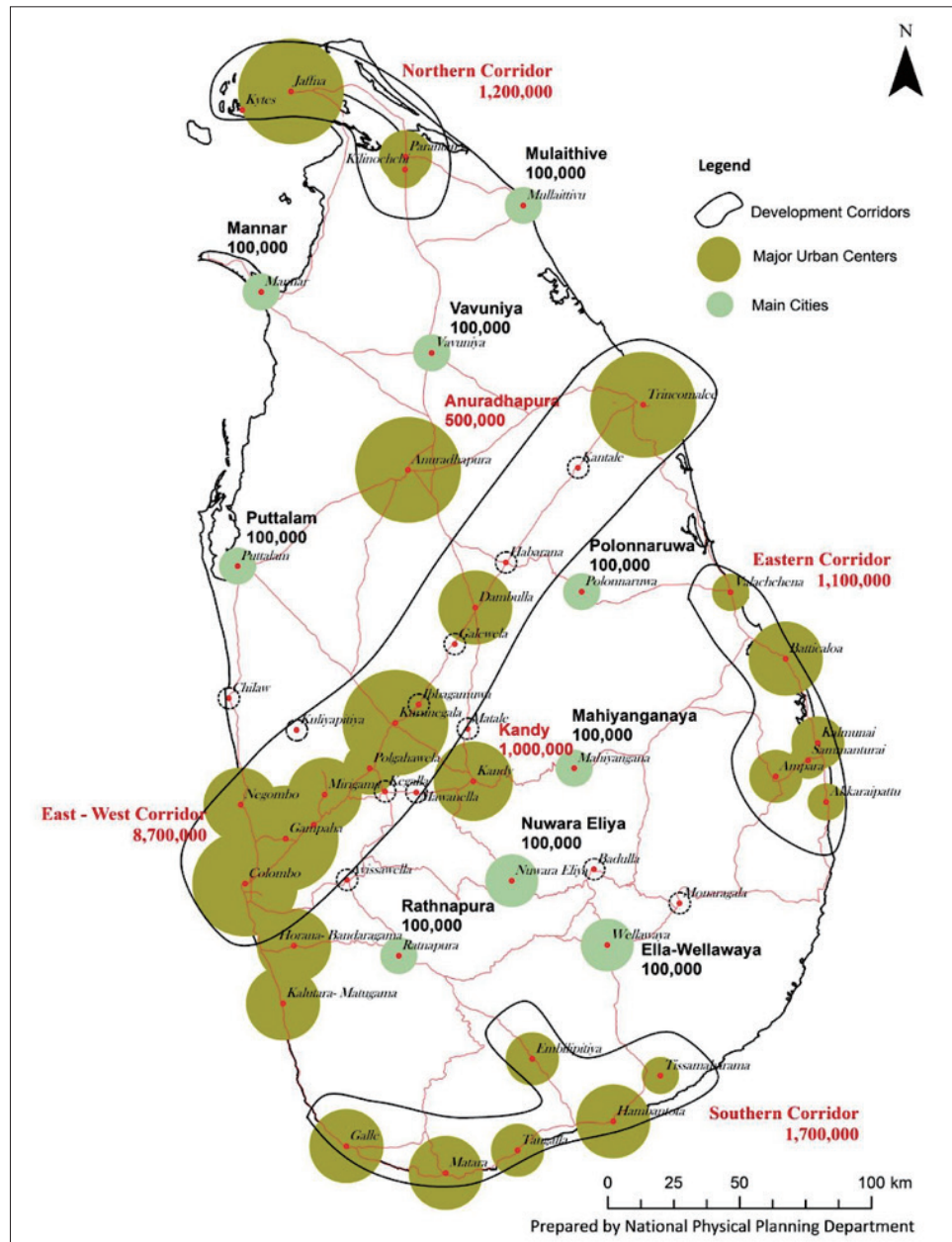
Transportation networks are also put high priority. Highways and railways are expanding surrounding major cities and economic activities.

FIGURE A5-3 Existing and Proposed Roads and Railways



Source: Sri Lanka National Physical Planning Department 2010

FIGURE A5-4 Proposed Urban Agglomeration Patterns



Source: SLNPPD 2018

Appendix 6. Key Industries and Investment Opportunities

6.1 Strategic Location

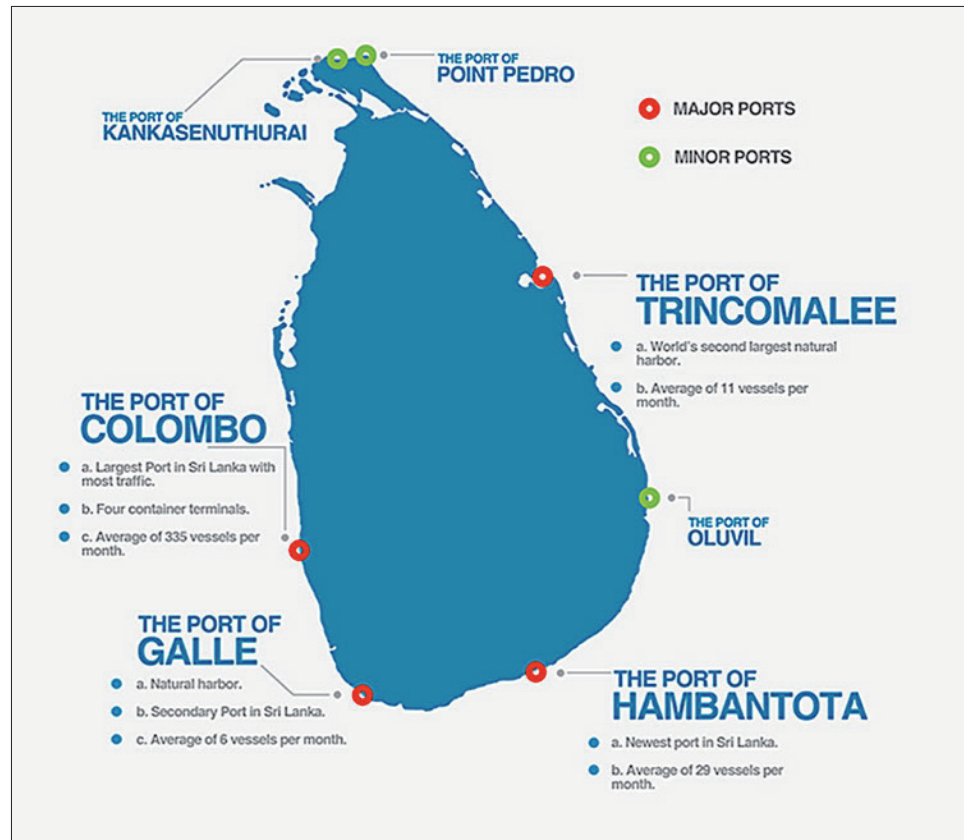
FIGURE A6-1 Sri Lanka on the 'One Belt One Road'



Source: Abeygoonasekera 2017

Sri Lanka is located strategically at the crossroads of major shipping routes in South Asia, which connects Asia and paths to Europe and America. Further, Sri Lanka's proximity to the Indian sub-continent provides a gateway to a market of 1.3 billion people, and these factors have combined to development in logistics sector, attracting manufacturers looking for opportunities in the South Asian region (SLBOI 2021a). These geographical advantages make it an important transfer station in the world shipping and trade. Currently, there are six ports listed on the website of Sri Lanka Ports Authority which serve for maritime trade, and a small one at the north called Point Pedro which is under control of Sri Lanka's army.

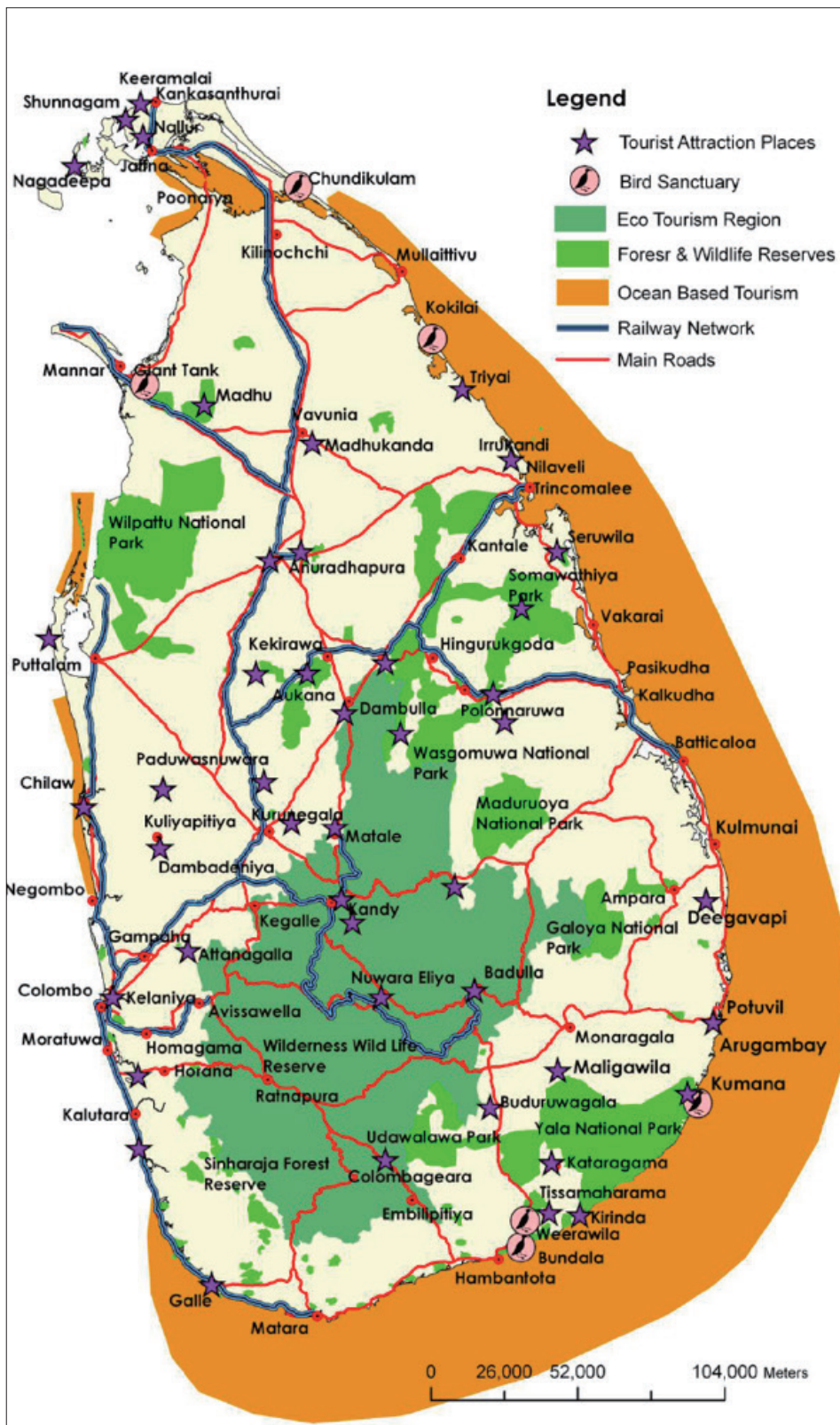
FIGURE A6-2 Listed Ports in Sri Lanka



Source: Mackinnon Mackenzie Shipping 2021

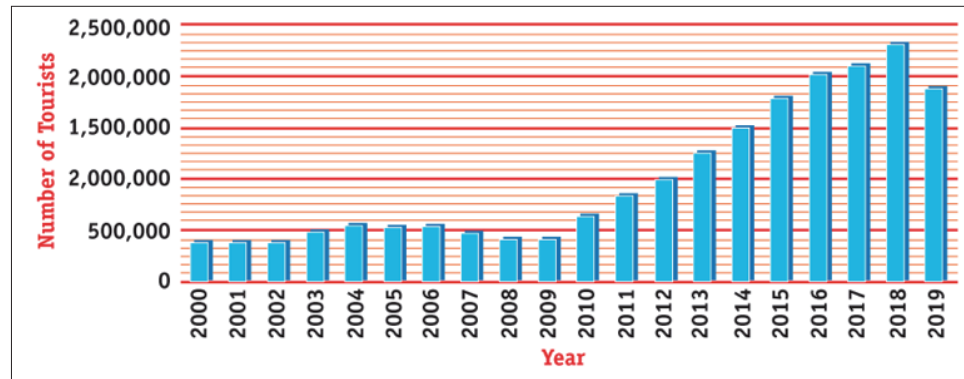
6.2 Tourism

FIGURE A6-3 Tourism Development Areas



Source: SLNPPD 2010

FIGURE A6-4 Tourists Arrival (2000-2019)



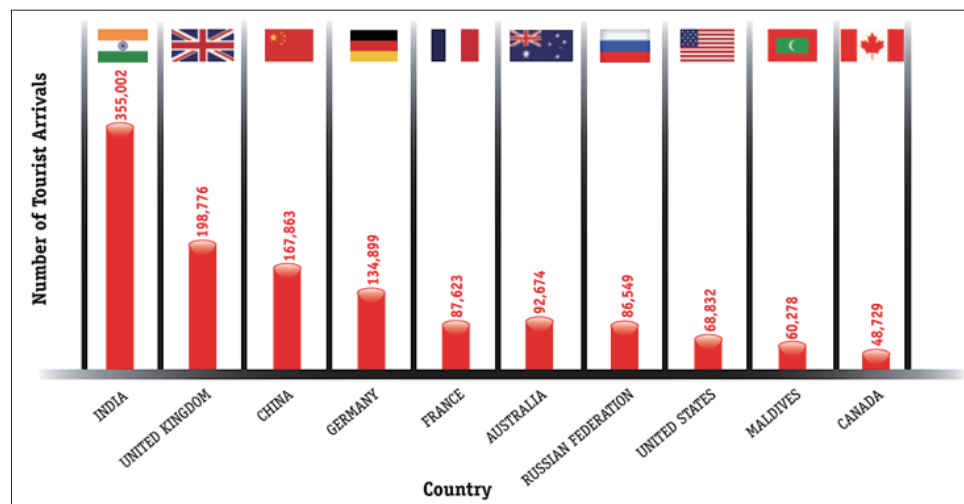
Source: Sri Lanka Tourism Development Authority (SLTDA) 2020

FIGURE A6-5 Tourists Receipts (2000-2019)



Source: SLTDA 2020

FIGURE A6-6 Top 10 Source Markets for Tourism (2019)

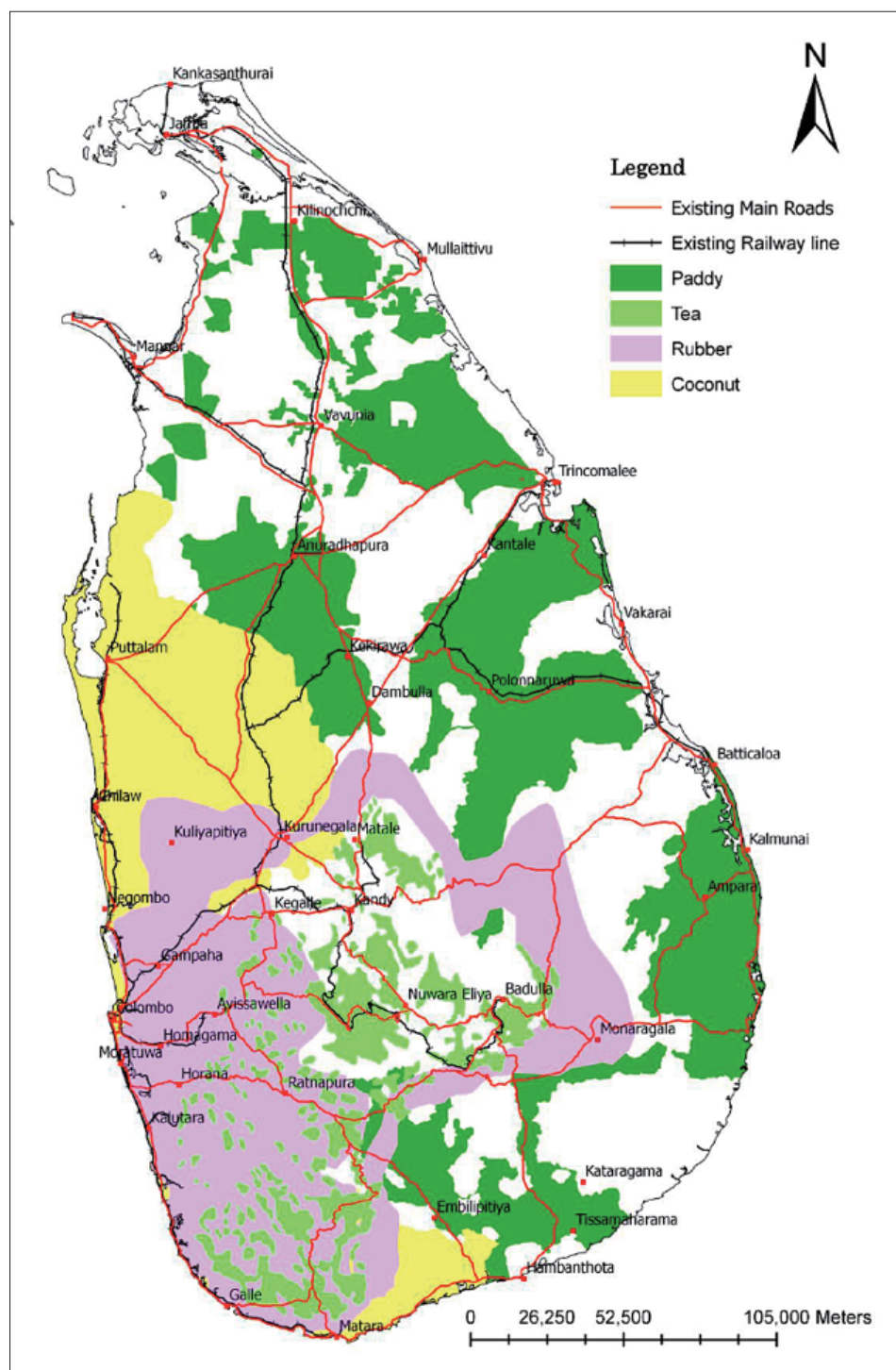


Source: SLTDA 2020

6.3. Export Trade

Export is an essential contributor of Sri Lanka's economy. Sri Lanka mainly exports its apparels, agriculture production (tea, rubber, coconut, etc), fishery products and other manufactured goods.

FIGURE A6-7 Highly Productive Agricultural Areas



Source: SLNPPD 2010

TABLE A6-1 Annual Growth of Major Export Products by Sector (2015-2019)

US\$ Millions

Product	2015	2016	% Growth	2017	% Growth	2018	% Growth	2019	% Growth
01 Tea	1340.51	1269.02	-0.53	1529.80	20.55	1428.46	-6.62	1346.40	-5.74
02 Rubber & Rubber Finished Products	787.30	800.57	0.17	874.34	9.21	906.92	3.73	890.31	-1.83
Natural Rubber	26.15	32.69	2.50	38.93	19.09	31.59	-18.85	24.19	-23.43
Synthetic Rubber	-	-	-	0.01	-	0.02	100.00	0.01	-50.00
Rubber Finished Products	761.15	767.88	0.09	835.40	8.79	875.31	4.78	866.11	-1.05
03 Coconut Products	542.66	571.48	0.53	588.24	2.93	589.04	0.14	613.85	4.21
Coconut Kernal Products	305.30	317.53	0.40	312.94	-1.45	296.45	-5.27	304.71	2.79
Coconut Fibre Products	157.04	174.82	1.13	186.14	6.48	188.41	1.22	196.59	4.34
Coconut Shell Products	80.32	79.13	-0.15	89.16	12.68	104.18	16.85	112.55	8.03
04 Spices, Essential Oils & Oleoresins	377.95	319.21	-1.55	408.17	27.87	361.11	-11.53	313.27	-13.25
05 Fruits, Nuts & Vegetables	63.26	56.14	-1.13	68.35	21.75	65.73	-3.83	75.64	15.08
Fruits	38.11	34.77	-0.88	41.88	20.45	39.82	-4.92	41.82	5.02
Nuts	3.55	0.99	-7.21	1.25	26.26	1.29	3.20	2.05	58.91
Vegetables	21.60	20.38	-0.56	25.22	23.75	24.62	-2.38	31.77	29.04
06 Cut Flowers & Foliage	15.57	15.00	-0.37	16.75	11.67	16.25	-2.99	17.51	7.75
07 Other Export Crops	81.46	45.81	-4.38	62.53	36.50	39.01	-37.61	45.28	16.07
08 Fisheries Products	180.58	182.30	0.10	255.64	40.23	281.97	10.30	278.72	-1.15
Edible Fish Products	163.06	169.61	0.40	240.63	41.87	265.84	10.48	262.45	-1.28
Ornamental Fish	16.18	12.63	-2.19	14.89	17.89	16.05	7.79	16.24	1.18
09 Diamonds, Gems & Jewellery	331.70	273.90	-1.74	257.50	-5.99	277.10	7.61	305.70	10.32
10 Apparel & Garments	4801.99	4866.32	0.13	5015.10	3.06	5299.90	5.68	5577.38	5.24
11 Food, Feed & Beverages	228.18	329.34	4.43	291.98	-11.34	350.03	19.88	363.90	3.96
Processed Food	41.14	165.82	30.31	92.53	-44.20	127.11	37.37	104.32	-17.93
Rice & Cereals	62.48	45.66	-2.69	47.58	4.20	45.66	-4.04	51.09	11.89
Beverages	67.00	56.02	-1.64	70.37	25.62	98.45	39.90	117.56	19.41
12 Tobacco	89.51	104.30	1.65	109.95	5.42	128.50	16.87	113.07	-12.01
13 Leather Products	23.66	22.00	-0.70	22.96	4.36	29.76	29.62	20.25	-31.96
14 Wooden Products	55.27	60.12	0.88	61.16	1.73	61.01	-0.25	56.10	-8.05
15 Paper & Paper Products	76.89	93.18	2.12	103.02	10.56	108.89	5.70	103.22	-5.21
16 Chemical & Plastic Products	117.75	121.44	0.31	142.83	17.61	148.15	3.72	148.34	0.13
Chemical Products	55.29	55.13	-0.03	68.22	23.74	70.50	3.34	74.86	6.18
Plastic Products	62.46	66.31	0.62	74.61	12.52	77.65	4.07	73.48	-5.37
17 Non-metallic Mineral Products	117.83	109.43	-0.71	110.23	0.73	108.57	-1.51	97.79	-9.93
18 Base Metal Products	55.81	89.59	6.05	115.87	29.33	165.42	42.76	176.55	6.73
19 Engineering Prooducts	456.12	484.13	0.61	573.44	18.45	601.57	4.91	589.20	-2.06
Electrical, Electronic & Mahcinery-Products & Parts	281.11	299.64	0.66	345.04	15.15	409.72	18.75	381.16	-6.97
Transport Equipment & Parts	103.60	109.48	0.57	117.98	7.76	147.51	25.03	129.43	-12.26
Boat Building	63.01	64.76	0.28	97.01	49.80	26.73	-72.45	65.43	144.78
20 Footwear & Parts	86.31	117.63	3.63	108.42	-7.83	89.19	-17.74	52.04	-41.65
21 Petroleum Products	338.00	286.90	-1.51	434.30	51.38	622.10	43.24	521.10	-16.24
22 Other Manufacturers	142.06	153.32	0.79	164.72	7.44	178.59	8.42	189.78	6.27
Toys, Games & Sports Requisites	65.72	65.58	-0.02	70.87	8.07	79.05	11.54	75.18	-4.90
95 Miscellaneous Products	236.13	29.96	-8.73	45.12	50.60	32.33	-28.35	44.60	37.95
Total- Merchandise Exports	10546.50	10309.74	-0.22	11360.42	10.19	11889.60	4.66	11940.00	0.42

Source: SLEDB 2020

IT & IT Enabled Services

Sri Lanka has gained a reputation for providing the best value-for-money ICT talent in Asia. The Island is one of the best destinations for providing off-shore services for Information Technology Enabled Service (ITEs) as well as services related to Finance and Accounting, Legal, Insurance, Banking and Telecommunications. There are over 300 IT/BPM Companies in Sri Lanka and provided 85,000 employment. The value-for-money factor is derived through a high quality talent pool, which is especially attractive to Small and Medium Enterprises (SMEs) who are unable to afford the premiums charged by the larger Indian ICT Industry. The Sri Lankan IT workforce has displayed a lower upward wage pressure than many established global sourcing destinations.

Tourism and Leisure

Tourism & Leisure industry is the third largest foreign exchange earner in the Sri Lankan economy. The government of Sri Lanka has positioned tourism as a central pillar of the economy valuing Sri Lanka's exceptional island-wide natural and cultural endowments. The government is determined to nurture world-class visitor experiences firmly rooted in the inherent natural, cultural, historic and social capital of Sri Lanka and its people, and to ensure that these experiences generate island-wide economic value. The industry is poised to offer great growth and investment potential.

Food Processing

By 2030, neighbouring India will have the largest population globally, representing 1/3 of Asia's population, and 17% of world population. Other emerging markets such as Indonesia, China, and Malaysia are expected to drive global demand for food products. The climate in Sri Lanka makes for an ideal climate for growing fruits and vegetables. Being an island surrounded by rich marine life, Sri Lanka also has an abundant supply of fish and other seafood suitable for processing. Thus, Sri Lanka represents an excellent opportunity for food manufacturing and processing companies looking to benefit from shifting close to the growing customer base in Asia.

Manufacturing

Apparels, Printed Circuit Boards, Medical Devices, Solar Panel, Electronics, Auto Components are the major potential emerging industries that BOI set as targeted investment areas.

Appendix 7. List of SEZs in Sri Lanka

TABLE A7-1 SEZs in Sri Lanka

	Distance to Katunayake Intl. Airport (Km)	Distance to Port of Colomb0 (Km)	Distance to Hambantota Port (Km)	Total Land Extent (Acres)	Enterprises in Commercial Operation (as at April 2019)
(a) Katunayake EPZ	3	33	232	531	79
(b) Biyagama EPZ	39	22	208	451	56
(c) Koggala EPZ	160	139	122	227	20
(d) Kandy IP	116	130	248	205	15
(e) Wathupitiwala EPZ	30	41	203	123	18
(f) Mirigama EPZ	37	66	220	260	09
(g) Malwatta EPP	26	37	207	33	06
(h) Mawathagama EPZ	85	106	249	54	06
(i) Polgahawela EPZ	65	91	229	65	06
(j) Horana EPZ	78	59	221	395	20
Wagawatta IP	78	59	221	76	04
Wagawatta IZ	78	59	221	223	01
(k) Mirijjawila IP	218	221	14	565	05
(l) Seethawaka EPZ	57	49	177	431	24

Source: SLBOI 2020

Appendix 8. Chinese Investment in Sri Lanka

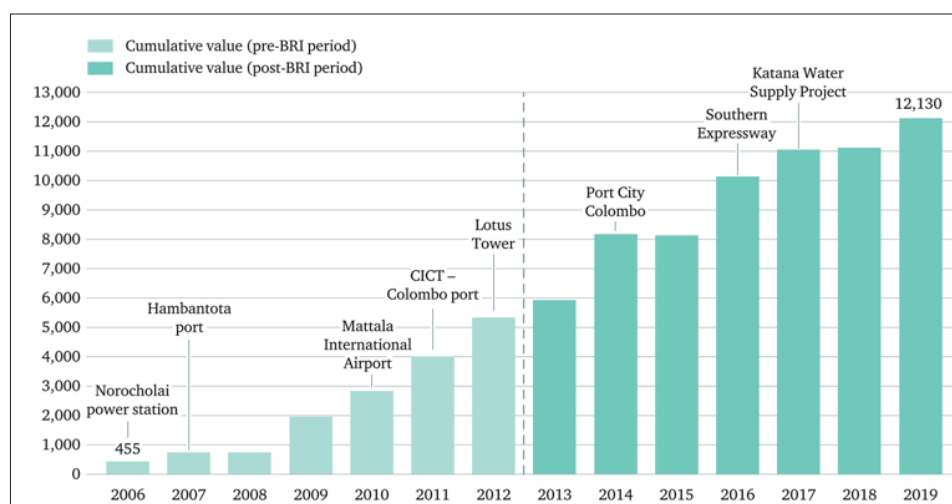
TABLE A8-1 Major Chinese Projects in Sri Lanka

Project Name	Financing Methods	Amount \$ million	Financing Terms	Local Implementing Agency	Contractor
Southern Expressway (2011, ongoing)	Loan by EXIM*	1,545	Fixed-2%	Road Development Authority	CCCC*, CHEC* and CMPH*
Outer Circular Highway (2014, ongoing)	Loan by EXIM	494	Fixed-2%	Road Development Authority	Metallurgical Corporation of China
Colombo Katunayake Expressway (2009, completed)	Loan by EXIM	248	Fixed-6.3%	Road Development Authority	China Metallurgical Group Corp.
Hambantota International Airport (2010, completed)	Loan by EXIM	190	Fixed-2%	Airport & Aviation Lanka Limited	CHEC
Hambantota Port Development (2007, completed)	Loan by EXIM	1,335.7	Fixed 2-6.5% and Variable rates	Sri Lanka Ports Authority	CHEC
CICT Colombo Terminal (2011, completed)	Investment by CMPH	500	N/A	Sri Lanka Ports Authority	CMPH
Norocholai Power Station (2006, completed)	Loan by EXIM	1,346	Fixed-2%	Ceylon Electricity Board	China Machinery Engineering Corporation
Colombo Port City (2014, ongoing)	Investment by CHEC	1,300	N/A	N/A	CHEC
Lotus Tower (2012, completed)	Loan by EXIM	88.6	-	Telecommunications Regulatory Commission of Sri Lanka	China National Electronics Import & Export Corp.

*EXIM: Export and Import Bank of China; CCCC: China Communications Construction Company; CHEC: China Harbour Engineering Company; CMPH: China Merchante Port Holdings.

Source: Wignaraja et al. 2020

FIGURE A8-1 Value of Chinese Development Finance to Sri Lanka up to July 2019 (Mn USD).



Source: Wignaraja et al. 2020

(Source: Health Promotion Bureau, Sri Lanka)

Appendix 9. COVID-19 in Sri Lanka

By Jeffrey Chung, Xin Yan and Leo Kwok

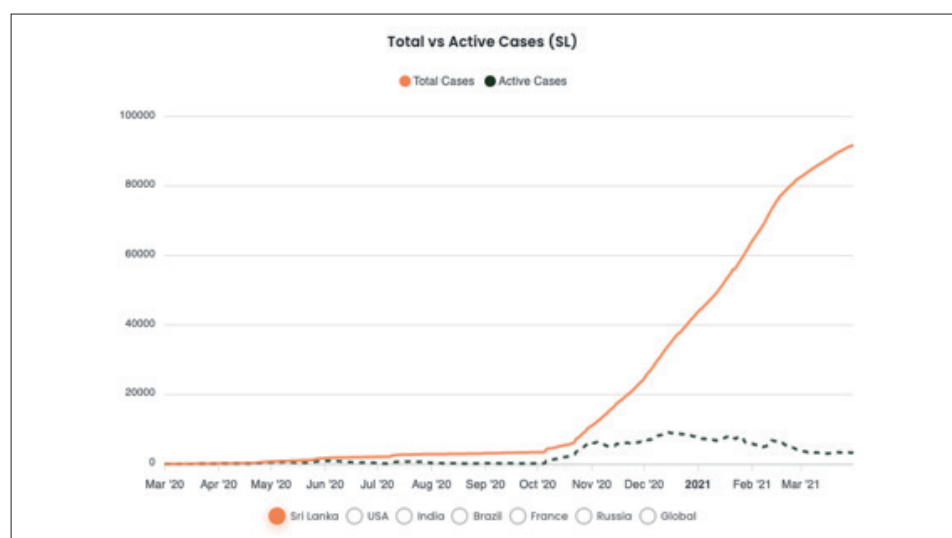
Key figures (as of 12 April 2021)

- Cases: 95,131
- Death: 598
- Recovered: 91,631

(Source: Health Promotion Bureau, Sri Lanka)

Summary

FIGURE A9-1 COVID-19: Live Situational Analysis Dashboard of Sri Lanka



The first wave of COVID-19 pandemic in Sri Lanka began when the first case of a Chinese tourist was reported on 27th January 2020 (while the first local case of a tour guide working with Italians was identified on 10th March 2020). It lasted for 9 months from January to September in 2020, resulting in 3,379 cases in total. In October 2020, the number of cases in Sri Lanka took flight, signalling the beginning of the second wave of the pandemic in which Sri Lanka is currently still wading through.

Policy reactions in response to the pandemic by the Sri Lankan government were observed to be relatively relaxed in the early months of the first wave. These policies included screening of inbound travellers in airports, identifying hospitals as treatment centres, mandatory quarantine policies for inbound travellers from high-risk countries, evacuating Sri Lankan from Wuhan in China and implementing price control on masks (but claimed that there was no scientific justification in support for making mask-wearing mandatory for members of the public) ('Sri Lanka slaps price controls on masks amid medical emergency' 2020). After mid-March, the Sri Lankan government were seen to be tightening their immigration and lockdown policies as well as strengthening their socio-economic initiatives, such as suspending all entry visa for all countries, nationwide lock down, nationwide curfew, mandatory work-from-home week for both private and public sectors, implementing economic and social policies to support the tourist industry, SMEs and the vulnerable, local currency stabilization

(through attracting foreign remittance and banning certain imports), employment scheme for fresh graduates and aids/compensation for migrant workers in Sri Lanka. Also, parliamentary elections were postponed from April to August. Towards the end of the first wave in September, the World Bank announced to redirect \$56 million from existing projects in Sri Lanka 'to protect the most vulnerable in the agriculture sector, improve COVID-19 protection measures on public transport, facilitate tele-education for school children, and provide digital solutions to improve delivery of public services' (World Bank 2020c). Also, the Sri Lankan government announced plans to produce 50% of the country's requirement of pharmaceuticals locally within the next three years, including plans to establish an Investment Zone of 400 acres in the Hambantota Industrial Zone for manufacturing medicine targeting the global market ('Plans afoot to produce 50 % of country's pharmaceuticals requirement locally...' 2020).

The second wave then broke out in October 2020 with several COVID-19 clusters reported in garment factories and fish markets, and the Western Province including Colombo was the worst-hit region since then. Unlike the first wave, the government was reluctant to implement nationwide curfew/lockdown, relying more on district lockdown. Mask-wearing was made mandatory in mid-October. Random COVID tests were conducted in certain regions. Relief measures/tax relief to different sectors and individuals who lost their livelihoods were provided. The border was gradually re-opened for tourism with strict measures in December despite the case number were still thriving. Restrictions were gradually relaxed afterward, such as shortened quarantine period for vaccinated tourists since March 2021.

With loan facility provided by the Asian Development Bank (ADB) for procuring approximately 25 million vaccines, Sri Lanka started inoculation in late January 2021. As of April 9, around 4% of the total population in Sri Lanka have been vaccinated. Frontline healthcare workers and police were initially prioritised while other age groups were gradually provided with the vaccination more recently. However, vaccination has temporarily been suspended in early April due to a delay in securing COVISHIELD from India (Liyanawatte 2021). Other sources include Russia (Sputnik V; approved and purchased), China (Sinopharm; yet to be approved; as donation) and COVID-19 Vaccines Global Access (COVAX), but their supplies are also either one-off or unstable. Therefore, such uncertainty has posed much concern towards Sri Lanka in procuring sufficient vaccines for its population.

The COVID-19 crisis has substantially clouded the outlook and exacerbated an already challenging macroeconomic situation. The economy is expected to contract by 6.7 percent in 2020, with all key drivers of demand affected: exports, private consumption and investment (World Bank 2020). Sri Lanka is also highly exposed to global financial conditions, as the repayment profile of its debt requires the country to access financial markets frequently. A high deficit and rising debt levels could further deteriorate debt dynamics and negatively impact market sentiment. Thus, Sri Lanka will need to strike a balance between supporting the economy amid COVID-19 and ensuring fiscal sustainability (World Bank 2020). On 23 March 2020, COVID-19 Healthcare and Social Security Fund was introduced by the president to help relieve the economic burden. The Government of China extended their support to Sri Lanka by extending the concessionary loan of US\$500 million in order to fight the coronavirus. The US government also donated essential supplies such as nitrile gloves and heavy-duty work gloves. The Government of India donated 10 tonnes of consignment of essential medicines to tackle the coronavirus.

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ABOUT CSHK PASS WORKSHOP SERIES AND CSHK

About CSHK PASS Workshop Series

The Research Centre for Sustainable Hong Kong (CSHK) of City University of Hong Kong is funded by the 'Professional Services Advancement Support Scheme' (PASS)⁴ of the Commerce and Economic Development Bureau, HKSAR Government to conduct a Project entitled 'Advancing Professional Development on Economic and Trade Cooperation Zones Along Belt and Road', with the objectives to enhance the understanding of Hong Kong professional services on Economic and Trade Cooperation Zones (ETCZs) along the Belt and Road countries, deepen the understanding of key stakeholders of ETCZs on the competitive edges of Hong Kong professional services and business sectors; and explore potential development opportunities via exchange of ideas and sharing of analyses.

From January 2021 to March 2022, the Project will organize 6 professional workshops and 2 symposia (opening and closing), inviting zone operators, local enterprises, professional service leaders, expert scholars and government officials as speakers to conduct comprehensive and in-depth sharing on opportunities, challenges and experiences of overseas development in 7 countries (Cambodia, Sri Lanka, Vietnam, Malaysia, Djibouti, Belarus and Myanmar) and their respective ETCZs. A tentative schedule is as follows:

Date (tentative)	Programme
January 2021	Opening Symposium
February 2021	Professional Training Workshop 1 – Cambodia
April 2021	Professional Training Workshop 2 – Sri Lanka
June 2021	Professional Training Workshop 3 – Vietnam
August 2021	Professional Training Workshop 4 – Malaysia
October 2021	Professional Training Workshop 5 – Belarus & Djibouti
December 2021	Professional Training Workshop 6 – Myanmar
March 2022	Closing Forum

Activities are all free-of-charge, and they will mainly be conducted in English⁵ to project a global orientation and facilitate participation of overseas stakeholders. Each participant will get a training pack containing country information and analysis for each professional training workshop. Investment / enterprises representatives, representatives from professional service sector, scholars and students who are interested in understanding more about ETCZs are welcome to participate and interact to discover more opportunities for collaboration

⁴ Professional Services Advancement Support Scheme ("PASS") is set up to support Hong Kong's professional services sector to carry out worthwhile projects to spearhead pro-active outreaching promotion efforts and to improve service offerings. For more information about PASS, please refer to PASS website at: <https://www.pass.gov.hk/en/home/index.html>

⁵ In view of the COVID-19 pandemic, events would potentially be conducted online in webinar format.

The Project is supported and collaborated by a number of professional bodies and business chambers in Hong Kong, including Certified Management Accountants, Australia (Hong Kong Branch), Hong Kong Chinese General Chamber of Commerce (CGCC), Hong Kong General Chamber of Commerce (HKGCC), Hong Kong Institute of Certified Public Accountants (HKICPA), Law Society of Hong Kong and The Society of Chinese Accountants and Auditors (SCAA) (names listed in alphabetical order). We thank Golden Resources Group and Red Circle Company Limited for sponsoring the Project generously. Our Supporting Organizations include Association of Women Accountants Hong Kong, Hong Kong Financial Services Development Council and Supporting Units from City University of Hong Kong, including CityU Eminence Society, College of Business, CityU-TsinghuaU EMBA+MPA Programme, College of Engineering, College of Liberal Arts and Social Sciences, College of Science and School of Law.

About Research Centre for Sustainable Hong Kong (CSHK)

The Research Centre for Sustainable Hong Kong (CSHK), established in June 2017, is an Applied Strategic Development Centre of City University of Hong Kong (CityU). Professor Linda Chelan Li, Professor of Political Science at Department of Public Policy, CityU, is the Director of CSHK. The mission of CSHK is to analyze and develop solutions to meet critical sustainability issues in Hong Kong from a multi-disciplinary perspective. Members of CSHK are from a wide range of disciplines, including public policy, philosophy, international relations, applied social studies, communication, law, economics and finance, accountancy, management science, civil engineering, biological engineering and environmental science.

CSHK houses the Sustainable Hong Kong Research Hub (SusHK Hub) and supports all the research and collaborative activities with stakeholders from different sectors and regions. Established by a multi-disciplinary research team based in CityU in November 2016, SusHK Hub is an open platform and network for facilitating synergies and collaborations of our members from the academia, industry, professional services and business sectors, as well as government. Currently, it has over 2,000 local and overseas hub members, and has been supporting our research work and events closely.

CSHK has recently completed a 3-year Special Public Policy Research (SPPR) project entitled "Hong Kong Professional Services in the Co-evolving Belt-Road Initiative: Innovative Agency for Sustainable Development" Project funded by Policy Innovation and Coordination Office (PICO), HKSARG [S2016.A1.009.16S]. In recognition of CSHK's research in B&R, CSHK is also awarded the Humanities and Social Sciences Prestigious Fellowship Scheme (HSPFS) by UGC in 2019. A Chinese book entitled 《解構・倡議—專業服務與一帶一路》(Co-evolution of Hong Kong's Professional Services and the Belt and Road Initiative) was published in July 2019 by City University of Hong Kong Press, and an English book entitled 'Facts and Analysis: Canvassing Covid-19 Responses' was published in February 2021.



Research Centre for Sustainable Hong Kong

香港城市大學
City University of Hong Kong

Contact Us

Website: www.cityu.edu.hk/cshk
Email: sushkhub@cityu.edu.hk
Facebook: www.facebook.com/sushkresearchhub
LinkedIn: <https://www.linkedin.com/company/cityu-cshk>
WeChat: HK持续发展研究中心CSHK
Office Tel: 3442 8914

