



INVEST in Sri Lanka

Emerging Investment Opportunities in Sri Lanka

JANUARY 2021



Why invest in Sri Lanka? More importantly, why invest NOW?

Sri Lanka is at the epicenter of a substantial portion of the next 20 years' of global economic growth

Sri Lanka has always enjoyed the benefit of its strategic location, being at the crossroads of major global shipping lanes and today's fastest growing economies. The investment rationale for companies setting up in Sri Lanka today is very similar to how many global corporations leveraged Hong Kong and Singapore as more nimble, business friendly launch pads to access China during its hyper growth phase in the 90s and 2000s. That same rationale holds true for Sri Lanka as a gateway to India, and more specifically to South India, which is the world's fastest growing economic bloc at scale (population of 300mn; clocking annual GDP growth of 8%). This theme is already in play, evidenced by the fact Sri Lanka currently handles nearly 50% of India's international cargo volume. It is important to note that over the next 15 years, the world's 10 fastest growing cities will all be in India, with 5 of them in South India (just 1-2 hours' air travel from Colombo), strengthening Sri Lanka's proximity advantage and underscoring its market-access attractiveness to foreign companies. At the same time, Sri Lanka is emerging as a meaningful link in China's Belt and Road initiative, and is poised to benefit significantly via the accelerating trade growth and associated investment projects in that channel. **Put very simply, Sri Lanka is at the epicenter of a substantial portion of the next 20 years' of global economic growth.**

\$7bn+

Cumulative FDI
(2015-19)

\$2bn

FDI pipeline
in 2020

1,200

Foreign
companies with
operations in SL

85

Greenfield FDI
projects
(2017-19)

2

World class ports
(handling 'Triple E
Class' ships)

25th

Largest container
port in the world
(Colombo)

33

Major shipping
lines calling at
Colombo Port

Sri Lanka continues to build a solid pipeline of FDI, securing a nearly \$2bn pipeline in 2020, with marquee deals reached with leading global corporations from multiple countries across varied sectors

Investor and country	Investment amount (in USD)	Type of investment
Shandong Haohua Tire Co. (China)	300 Million	Manufacture of semi-steel and all-steel radial tyres
Axiata Group Berhad (Malaysia)	250 Million	ICT infrastructure development in Sri Lanka
Shangri-La Group (Hong Kong)	250 Million	Hotel, mall and luxury apartment development
Adani Group (India)	500-700 Million	East Container Terminal Port development
HCL Technologies (India)	10 Million	Provision of offshore IT solutions and services

Best-in-region physical + human capital infrastructure position Sri Lanka as a compelling investment destination

While the opportunities in itself are well documented, Sri Lanka has put in place high-quality infrastructure to facilitate investment in the areas of specific investor interest. Connectivity continues to ramp up via a well thought out rapid expansion of highway networks, while state-of-the-art deep water ports of Colombo and Hambantota (ability to cater to 'Triple E Class' larger ships) continue to ramp up capacity for sea cargo. Moreover, specific investment zones, in the form of a mega industrial zone linked to the Hambantota port, the Colombo International Financial City (660 acres of reclaimed land, adjacent to the Colombo port), and specific new industrial parks targeting agricultural, manufacturing and IT exports represent the necessary backbone infrastructure for high-return generating investment projects.

On soft infrastructure, Sri Lanka continues to build out a quality talent pool and a skilled workforce. Sri Lanka is ranked #1 in South Asia in the 'Human Capital – Skills' criteria in the Global Competitiveness Index, 2019. There are 100,000+ Vocational Education Commission trained students per year, and 30,000+ graduates being produced annually. Notably, Sri Lanka's quality talent pool hits the sweet spot of talent at a significant cost arbitrage, both in the IT and Knowledge industries and the manufacturing space. This is evidenced by Sri Lanka having the 2nd lowest salary cost for IT workers globally, while monthly manufacturing sector labor cost per worker of \$130 (in 2019) is the 2nd lowest in Asia (only behind Bangladesh at \$104).

1st

in South Asia for Human
Capital – Skills

2nd

in the region for Quality of
Infrastructure

Lowest

Power cost in South Asia
– JETRO Survey 2019

2nd

largest CIMA pool in the
world

30,000+

Graduates being
produced annually



Unique Free Trade Agreements provide large market access for international investors

Sri Lanka continues to develop more FTAs with large global economic blocs to provide investors with large market access – notably, Sri Lanka is the ONLY country in the world to have FTAs with both India and Pakistan

SL is committed to open trade, which provides global investors with large market access through their operations in the country. There has been significant momentum on this front, with the FTA with Singapore in 2018 opening up the broader ASEAN market of 650mn, while a lucrative FTA with China is also in the advanced stages. SL also has in place the EU GSP (450mn market), and notably is the only country to have FTAs with both India and Pakistan (duty free access to 1.6bn consumers). The unique and combined market opportunity available for businesses via these trade agreements are unmatched anywhere in South Asia.

Free Trade Agreement	Product lines	Market access (size of population reached)
India	4,232	1,380 Million
Pakistan	4,686	220 Million
Singapore	All Items	650 Million*
EU GSP+	6,222	450 Million
US GSP	3,500	330 Million
China**	TBD	1,440 Million

* Includes ASEAN region

** Discussions ongoing

Government policy consistency delivers investors an attractive and stable investment environment over the long term

International Investors are also encouraged by the near unprecedented political stability that Sri Lanka enjoys today, which paves the path to an environment of policy consistency over the medium to long term. The recently passed 2021 budget provides meaningful tax concessions and incentives to foreign investors across sectors and investment sizes, while also emphasizing a commitment to simplify regulations and improve investor protections. These positive signals have yielded solid results, with Sri Lanka securing a near \$2bn FDI pipeline in 2020, despite an overall weak global FDI landscape due to COVID-19. The 2020 pipeline and early progress in 2021 FDI commitments suggest strength and investor interest from across the globe (India, China, East Asia and the Western world) and span multiple investment sectors (Real Estate and Construction, IT/ Knowledge Services, Agri exports, etc.).

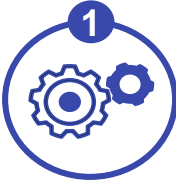




Incentives and concessions – key takes from 2021 budget and other government incentives

Benefit to investor	Sectors / countries covered	Criteria
Tax benefit for a maximum of 10 years	Dairy, fabric, tourism, agriculture, IT	Investments exceeding USD 10 Million*
5 year income tax exemption	Agriculture	Agriculture, including fisheries & livestock farming
0% corporate income tax	IT and enabling services	Providers of IT and enabling services
Wide-ranging tax concessions	Port City Economic Zone	Businesses established inside Port City
0% WHT on dividends to non-residents	All non-residents	Dividends paid by a resident firm to non-residents
Double-taxation treaty exemption	45 countries	Some of the treaties - US, India, China and Russia

* Investments with potential to change the landscape of the economy. Covered under Strategic Development Act



Five priority areas of FDI interest by investors

				
Manufacturing	ICT	Tourism	Agriculture/ Food Processing	Construction & Infrastructure
<ul style="list-style-type: none"> Pharma High value add Apparel Electronics and Electricals 	<ul style="list-style-type: none"> BPO and KPO Software Development IT training Institutes Emerging tech 	<ul style="list-style-type: none"> Agro/Eco Tourism Adventure/ Thrill tourism Luxury Hotels MICE tourism 	<ul style="list-style-type: none"> Rubber Agri/ processed food Fisheries 	<ul style="list-style-type: none"> Transport Infrastructure Port/ Airport development Renewable Energy
<ul style="list-style-type: none"> Pharma zone in Hambantota (400 acres in 2 phases) Local pharma market of \$700mn, growing at 8-10% CAGR (85% is imported) Textile manufacturing zone in Eravur (200-300 acres) FDI from #1 global tire manufacturer 	<ul style="list-style-type: none"> \$1.2bn in IT/ KPO exports today, expected \$2-3bn in 2025 Extremely cost competitive talent pool Proposed new IT parks in Anuradhapura, Batticaloa, Kurunegala, Kandy & Galle 0% corporate income tax on IT and enabling services 	<ul style="list-style-type: none"> 4 of the top-10 global hotel chains have invested in SL Currently attracts only 2mn tourists p.a. (vs. peers Malaysia/ Thailand @ 30mn p.a.) Huge growth potential and untapped areas (Eco tourism, high-end tourism, etc.) 	<ul style="list-style-type: none"> \$3bn export revenue in 2019 Sector has achieved 60% export growth during 2015 –2019 Ideal location for aquaculture with a 1,700 km coastline Several 1,000+ acre zones being planned with Ministry of fisheries 	<ul style="list-style-type: none"> 3 of the top 10 global construction companies have operations in SL Government mandate for massive infrastructure drive Sea port and airport development projects are a priority area over the next 5 years