



# **Survey on the Needs and Strategies for Japan - Sri Lanka Business**

October 14, 2013

Japan External Trade Organization (JETRO)

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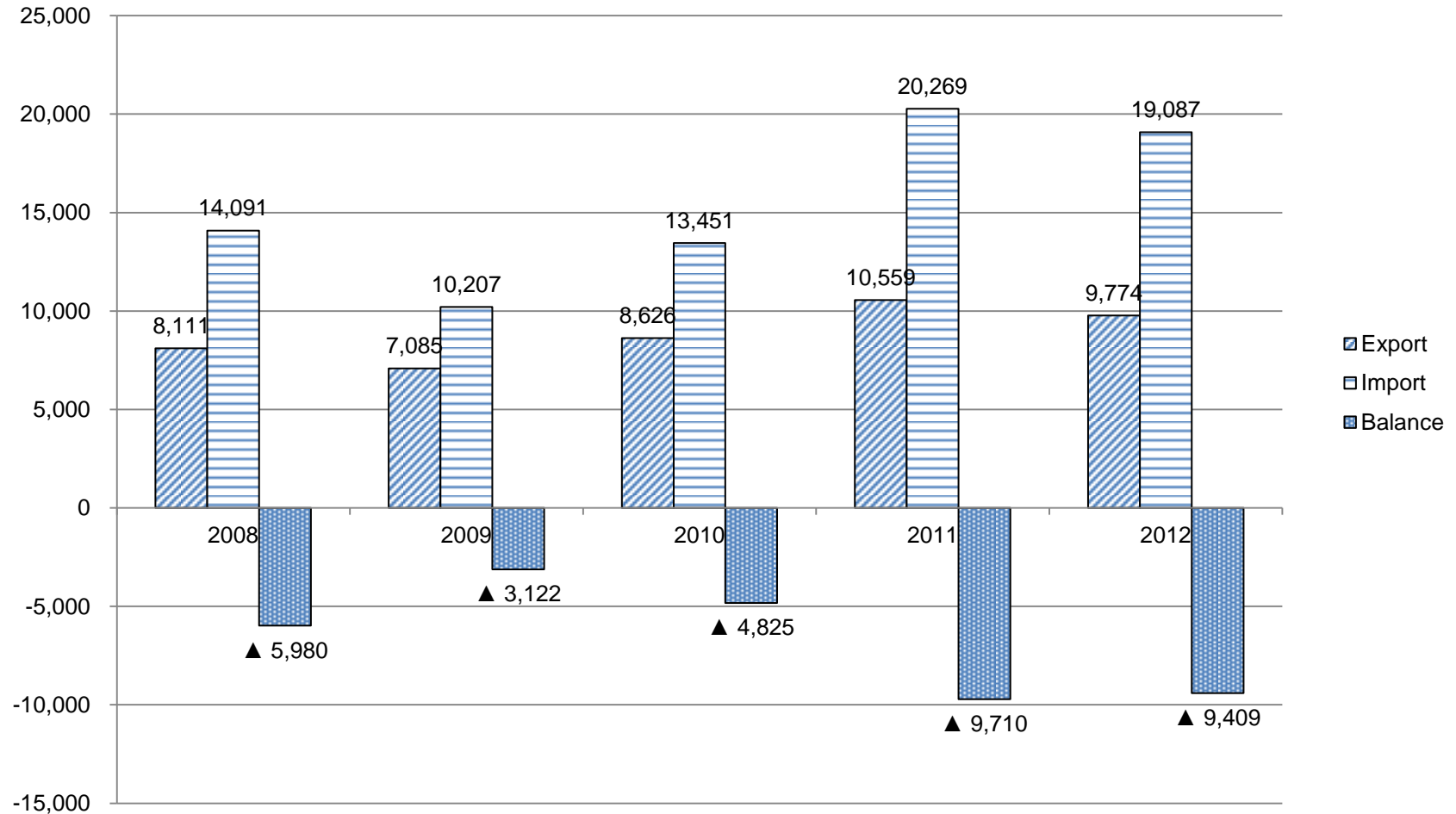
# 1. Strategic Directions to be Taken

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# Growing Trade Deficit

- ◆ The trade deficit for 2012 remained the same as previous year, due to import restriction policies, but the deficit level is as wide as ever.
- ◆ The major exports were textiles, clothing, and agricultural products, such as tea.

(\$1 million)

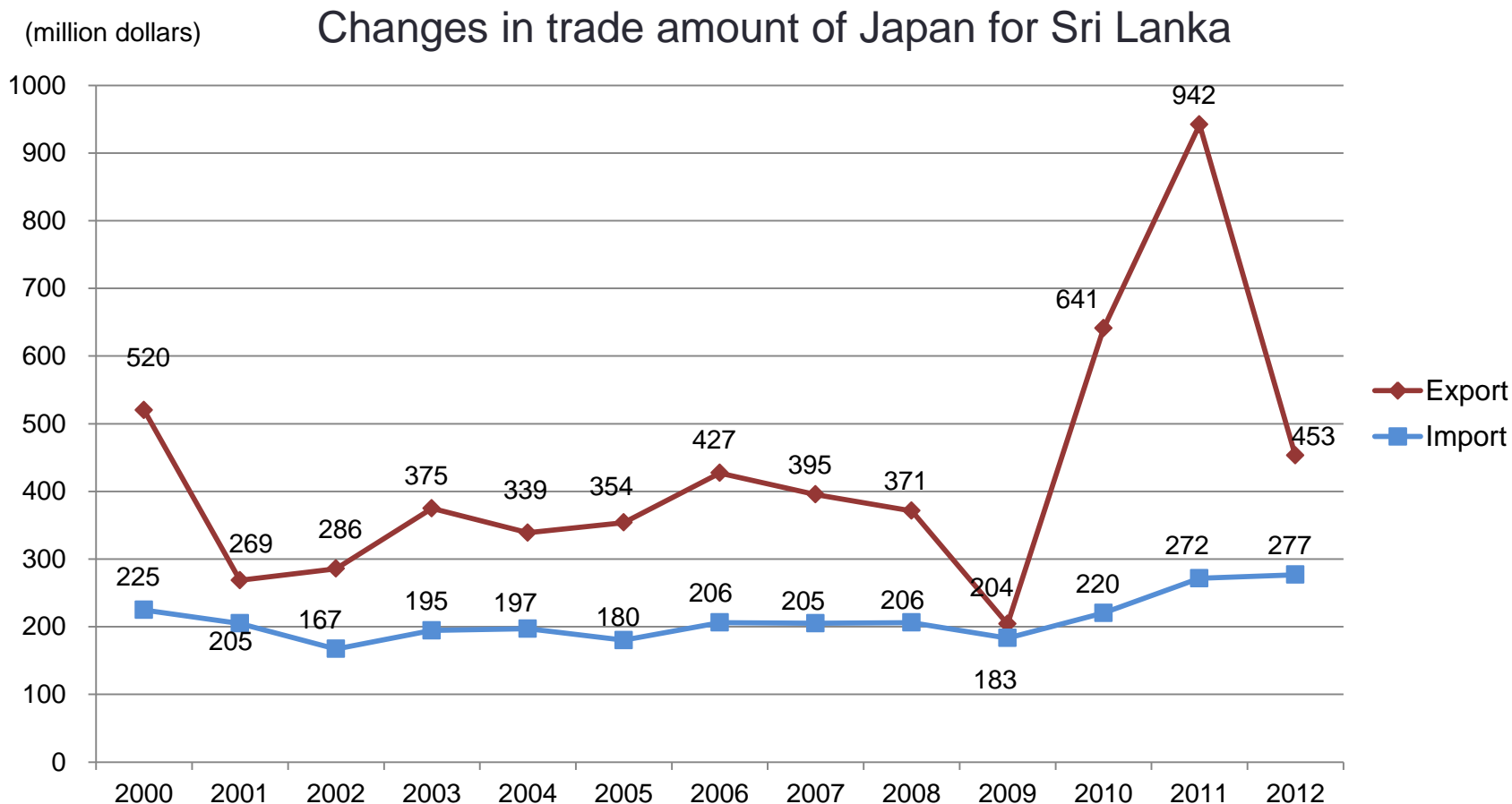


Note: Tentative figures for 2012

Source: "Annual Report 2012" by the Central Bank of Sri Lanka

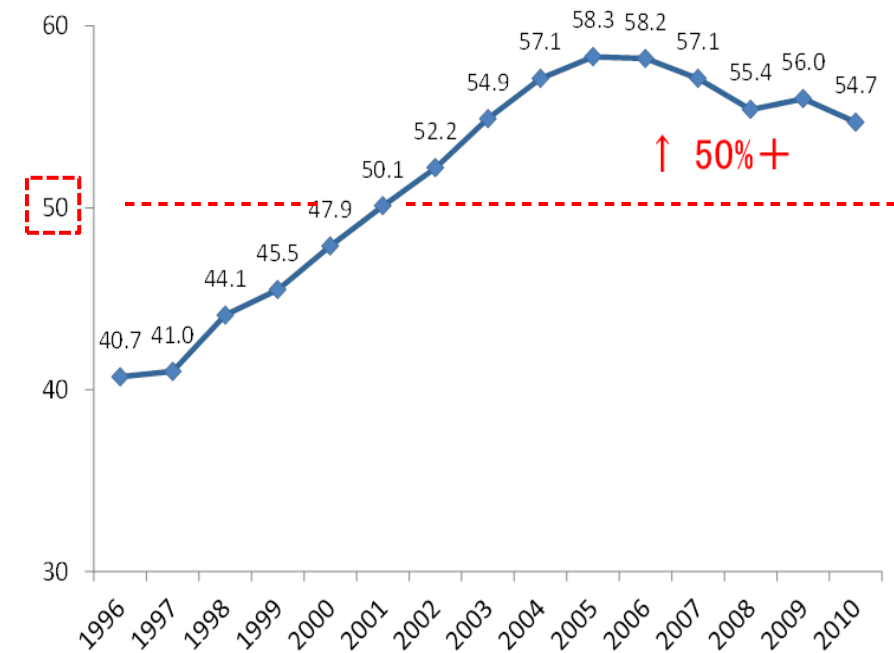
# Trade with Japan also in a Deficit Trend

- ◆ Trade with Japan continues to be in deficit.
- ◆ Most of the imports from Japan are second-hand passenger vehicles and trucks. Most of the exports to Japan are primary products such as tea, tuna, and shrimp.

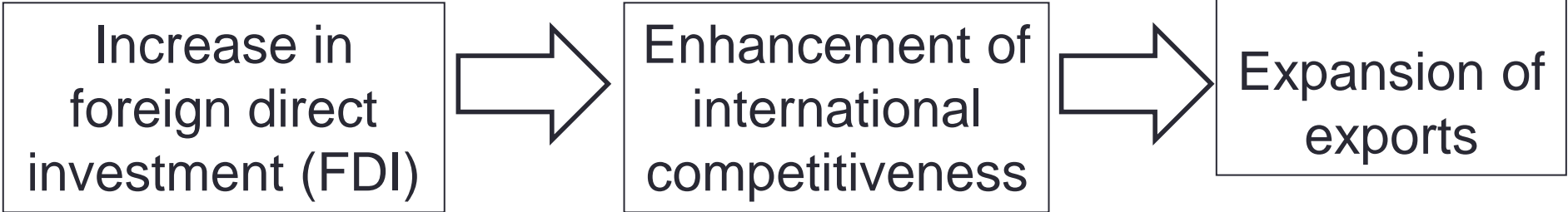


Note: At the end of March 2012, the Sri Lankan government raised the tariff on imported vehicles significantly, so imports from Japan decreased sharply from the level of the previous year in 2012.  
Source: Based on the "Trade Statistics" (Ministry of Finance, Japan)

Share of foreign companies in total exports from China



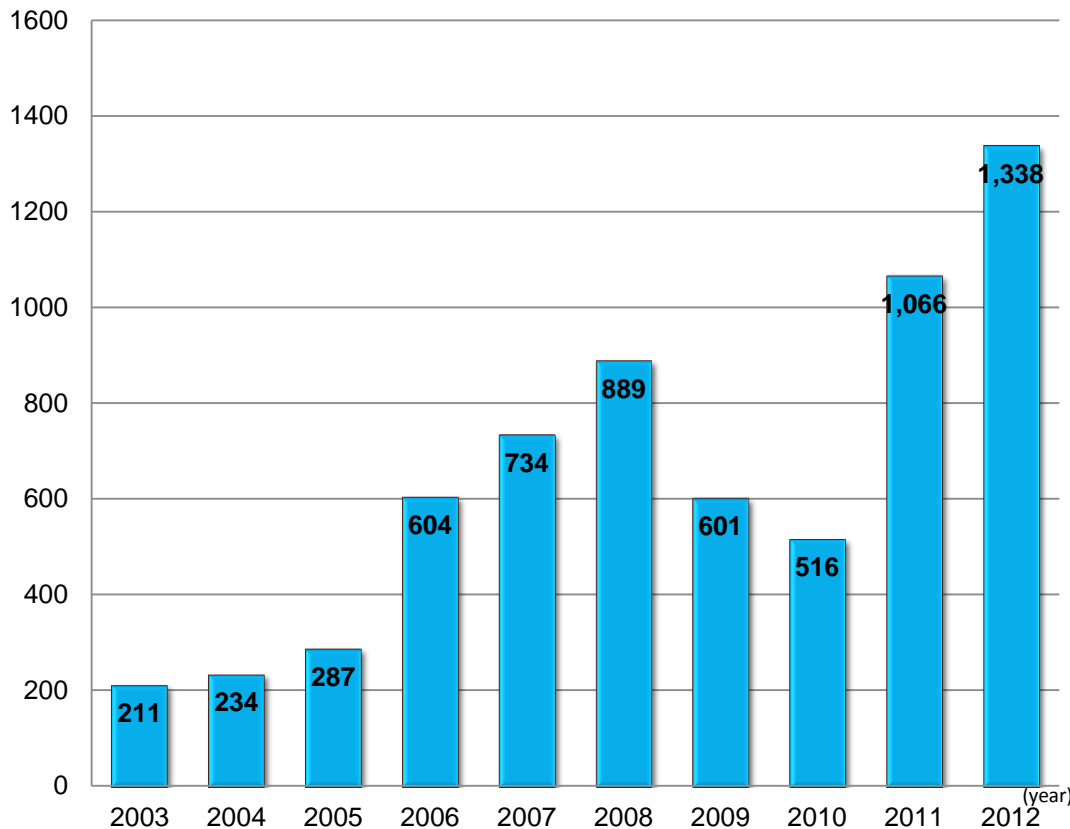
Source : Ministry of Commerce of China  
Ministry of Corporate Affairs of India



# FDI Concentrated on Infrastructure

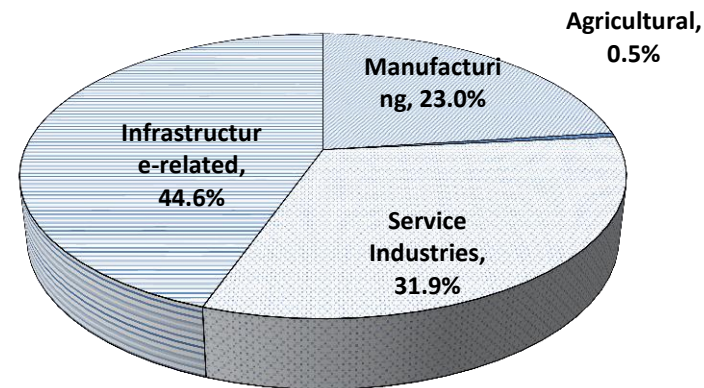
- ◆ Even though it fell below the initial target (\$2 billion) in 2012, FDI in Sri Lanka is on an upward trend.
- ◆ However, the percentage of FDI devoted to the manufacturing industries in 2012 was a mere 20%.

(million dollars) Changes in amounts of FDI in Sri Lanka



Note: Amount invested in BOI-authorized companies (non-BOI companies not included)  
Source: Based on documents from the Sri Lanka Board of Investment (BOI) and interviews with persons connected with the BOI.

FDI in Sri Lanka (2012), breakdown by industry



Note: Amounts invested under conditions authorized companies  
Source: Based on documents from the Sri Lanka Board of Investment

# Strategic Directions to be Taken



With limited items for export (mainly textiles and agricultural products etc.), Sri Lanka's balance of trade continues to be in the red.



With the increasing "China risk" such as rising labor costs, a movement called "China plus one" (diversifying investment to countries other than China) is growing among Japanese companies.



Attracting foreign investment in the exporting manufacturing sector is essential for diversifying export products and reducing the trade deficit, and now is the best possible time for attracting Japanese companies.



## 2. Overview of Survey

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## ◆ Purpose:

In order to promote investment in trade between Japan and Sri Lanka, we conduct a survey covering such things as 1) The business strategies of Japanese companies that have moved into Sri Lanka and the issues that they face, and 2) Examples of business between Japan and Sri Lankan companies. We present reports to the governments of both Japan and Sri Lanka and disseminate the results of the survey widely among Japanese companies.

## ◆ Survey Period: June 12 to October 7, 2013

## ◆ Survey Method: Questionnaires and interviews

## ◆ Companies Surveyed: Total 102 companies (association)

Companies in Sri Lanka 73 (Japanese-affiliated 63, Singaporean 10)

Companies in Singapore 7 (Japanese-affiliated 7)

Companies in India 13 (Japanese-affiliated 7, Indian 5, Association 1)

Companies in Japan 9

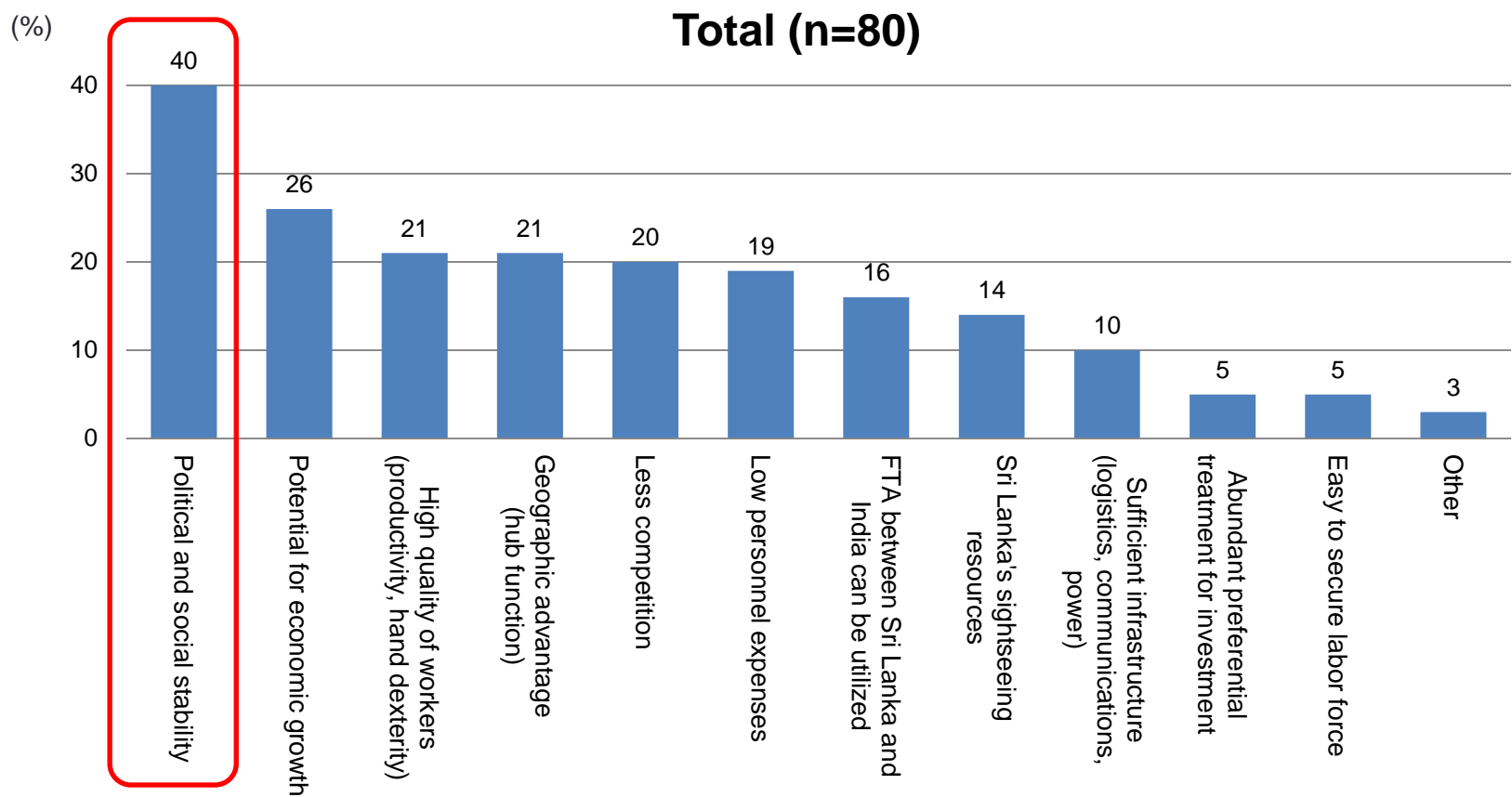
## ◆ 80 companies were the subjects of this quantitative (the questionnaire base) survey, that were Japanese and Singaporean companies in Sri Lanka and in Japan.

# **3. Advantages on Investment Environment**

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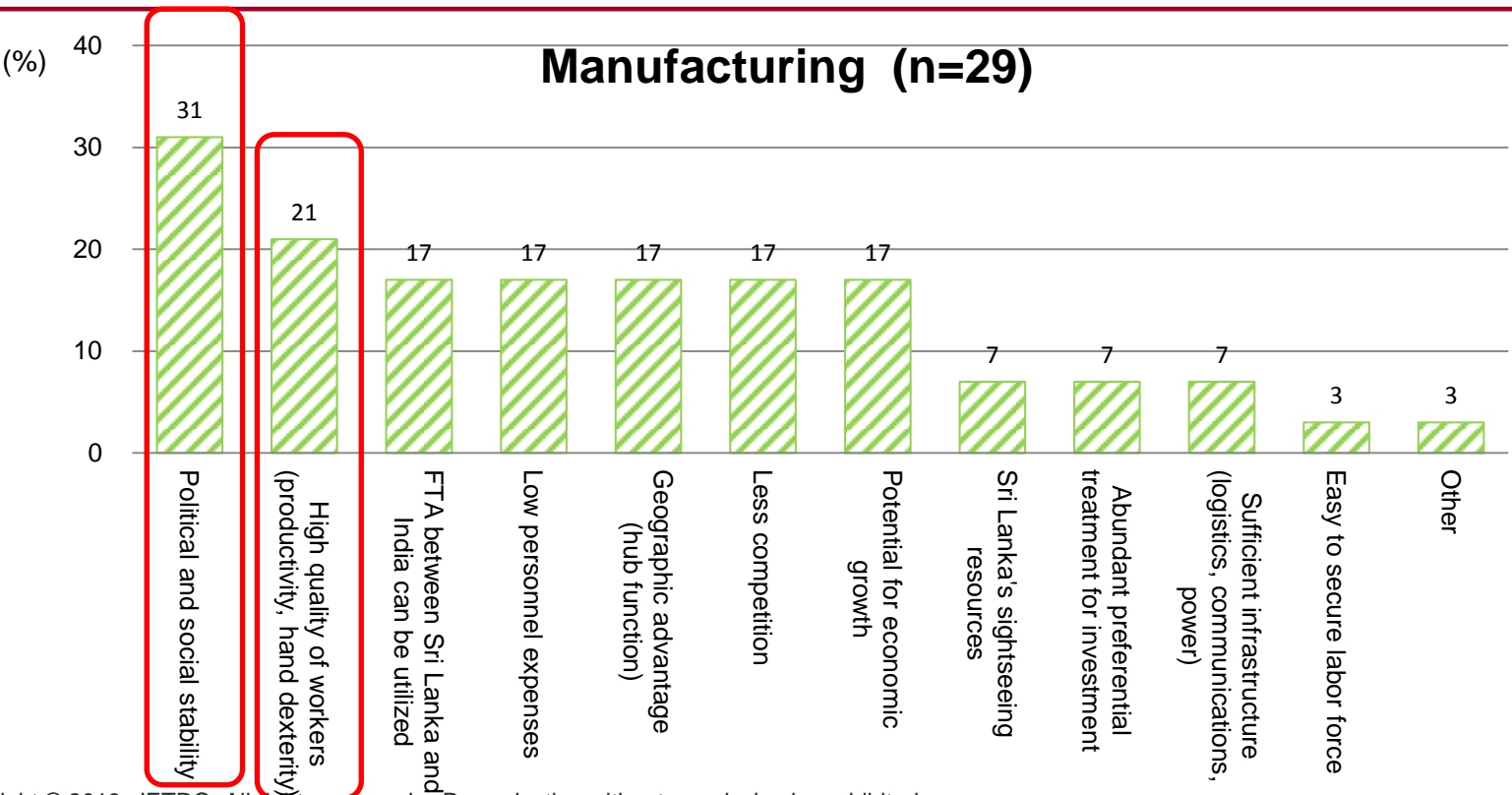
Political and Social Stability received high marks (Total)

- ◆ 40% of the companies that responded to the survey named “Political and social stability” as one of the advantages of Sri Lanka as an investment environment.
- ◆ Next, Sri Lanka received especially high marks for “Potential for economic growth,” “High quality of workers,” and “Geographic advantage.”



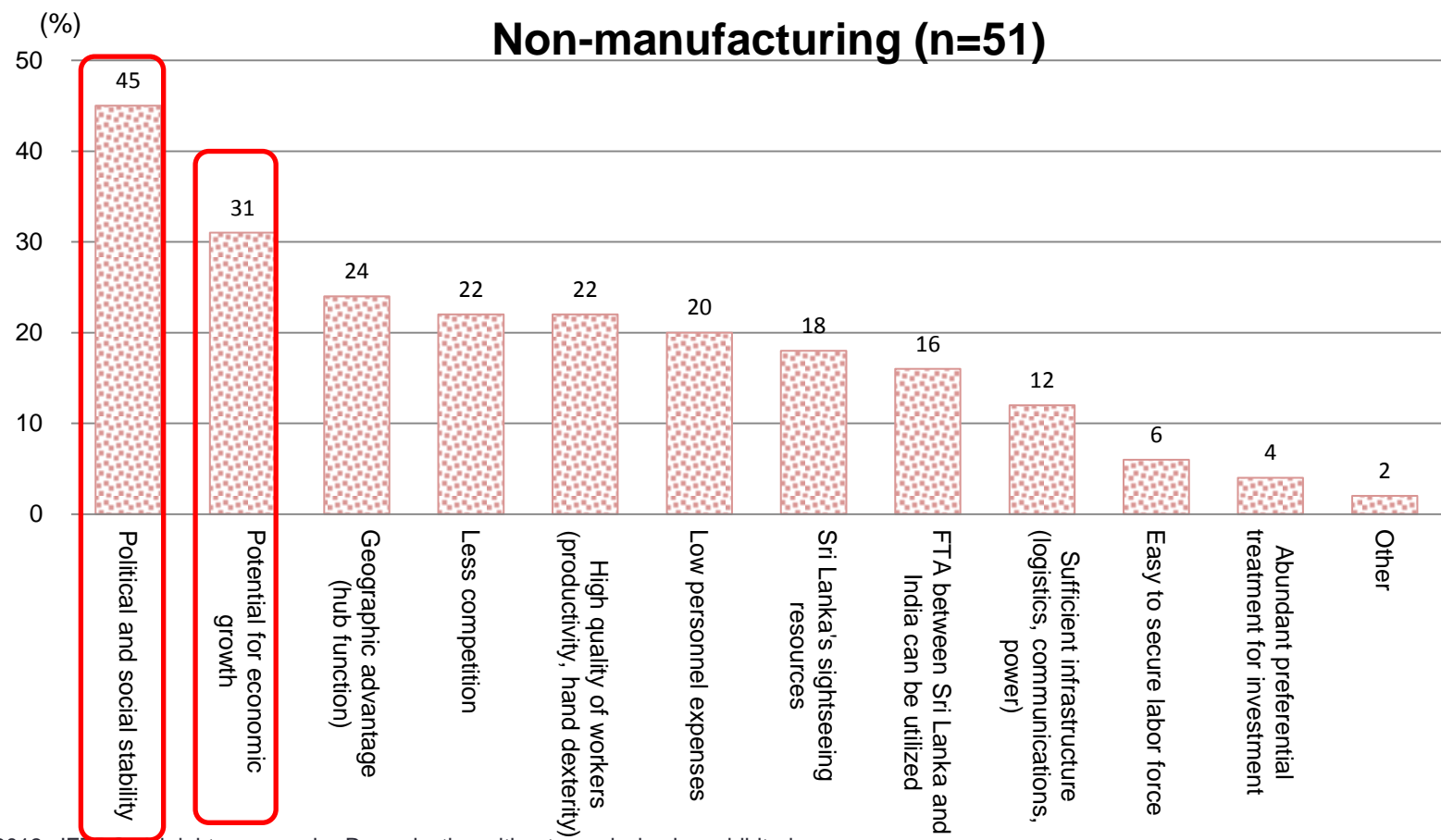
The manufacturing industries give high marks to the high quality of workers

- ◆ In the manufacturing industries, a high number of respondents, gave high marks to “High quality of workers” and “Political or social stability.”
- ◆ Specific comments by companies that cited “High quality of workers”:  
“They do a good job of assembling small parts.” “They have a high level of loyalty to the company, the retention rate is high, and technology transfers run smoothly.”
- ◆ Most of the companies that responded “FTA between Sri Lanka and India can be utilized” were in the electrical and electronic parts and general machinery industries.
- ◆ Another factor was “The Sri Lankans’ favorable attitude towards Japan”, etc.



The non-manufacturing industries give high marks to potential for economic growth

- ◆ 45% of the companies in the non-manufacturing industries cited “Political or social stability” as an advantage of the investment environment. Most of the companies have multiple overseas locations, especially in Asia.
- ◆ The factor mentioned next most often was “Potential for economic growth.”



**1. Political and social stability**

**2. High quality of workers**

**3. Potential for economic growth**

**4. Geographic advantage**

## 1. Political and Social Stability

- ◆ During the civil war, clients often told us “Due to the unstable political situation, you probably will not be able to deliver on time.” For this reason, orders were often cancelled, and no profits resulted. (Japanese manufacturing company located in Sri Lanka)
- ◆ Now that the civil war is over, conditions in the country are stable. (Japanese non-manufacturing company located in Sri Lanka)
- ◆ The civil war is over, and politics have settled down. **We have expectations for future growth in the market.** (Japanese manufacturing located in Singapore)
- ◆ The end of the civil war has brought about the potential for development in the previously undeveloped northern region. (Association in India)
- ◆ The end of the civil war has served as an opportunity for greater business activity for Sri Lanka in the areas of **infrastructure development and in the hotel, tourism, health care, and other sectors.** The northern part in particular now offers more business opportunities than the central part. (Non-manufacturing company located in India)
- ◆ Post-civil war recovery and redevelopment have caused an increased **demand for construction equipment.** (Manufacturing company located in India)



## 2. High Quality of Workers

- ◆ **The workforce is superb.** They are several times better than Japanese workers in terms of speed and accuracy. They also have good eyesight. (Japanese manufacturing company located in Sri Lanka)
- ◆ **The employees are extremely earnest.** They are twice as productive as Thais. When we first set up our business there, productivity was very low, and we had a high rate of rejects, but within a year, their productivity had overtaken that of the Thais. (Japanese manufacturing company located in Sri Lanka)
- ◆ **Sri Lankans are industrious.** Productivity is high and the rate of rejects is 200PPM (0.0002%). (Japanese manufacturing company located in Sri Lanka)
- ◆ Sri Lankans **have a high level of proficiency in English**, and they pronounce it well. Furthermore, the Sinhalese language follows the same word order as Japanese, so it's easy for them to learn Japanese. (Japanese non-manufacturing company located in Sri Lanka)
- ◆ Sri Lankan workers have a special sense for working with apparel products. We also looked at Myanmar and Vietnam, but Sri Lankans have a sensibility that is not found in those other countries. (Japanese manufacturing company located in Sri Lanka)

## 3. Potential for Economic Growth

- ◆ The growth rates for both the GDP and per capita GDP are high. The economy is surging. During the civil war, there was almost no consumption and people had a strong tendency to save. Now that the civil war has ended, **people tend to want to enjoy life. Consumption is also surging**, and people are taking out loans to buy cars and houses. A full system of micro financing is in place and it has become possible for individuals to procure capital, even though interest rate is high (about 18%). (Japanese non-manufacturing company located in Sri Lanka)

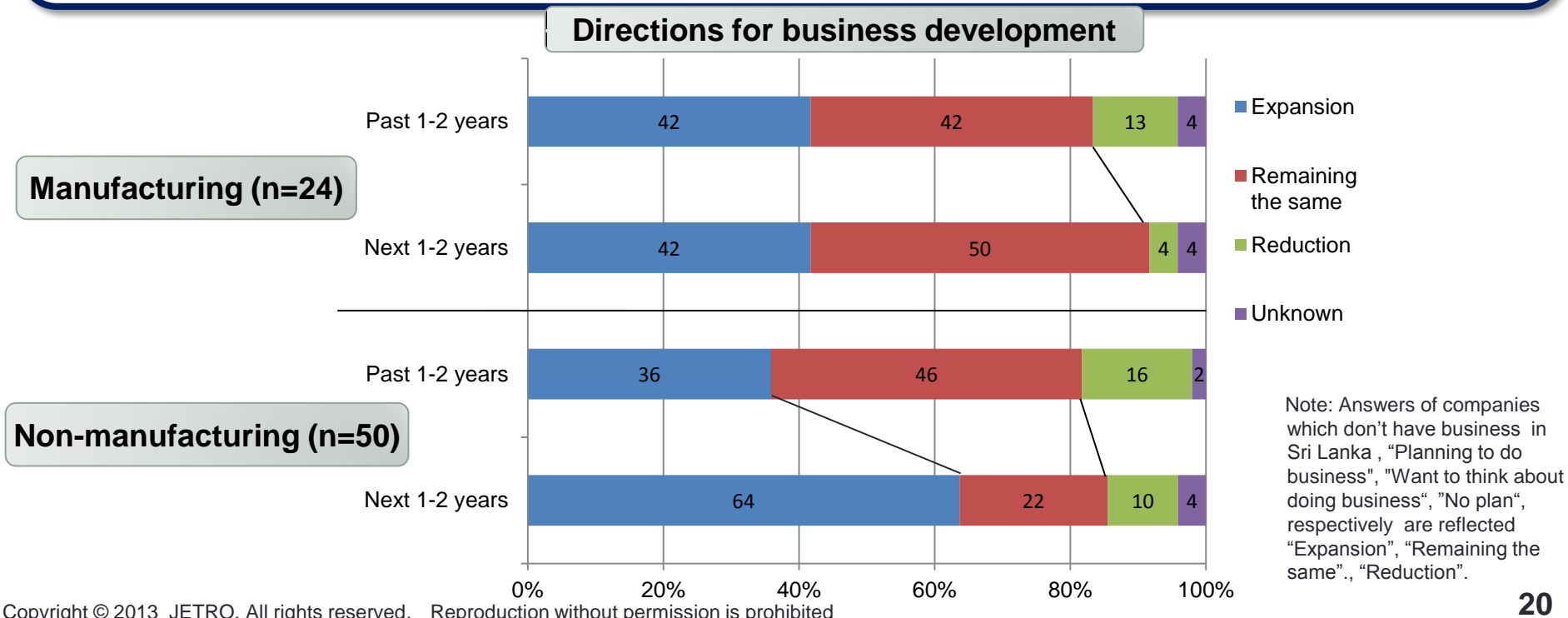
## 4. Geographic Advantage

- ◆ Seen in terms of geography, Sri Lanka can be a **hub location for trade. It is, of course, close to India, and shipments to Bangkok take only 2 or 3 days. It is located between Europe and the U.S.** In our “China plus one” policy, we place it right behind India. (Japanese manufacturing company located in Sri Lanka)
- ◆ **It is closer to the Eastern European markets than Japan is**, so it has advantages in terms of location. (Japanese manufacturing company located in Sri Lanka)
- ◆ We sense potential for setting up as a base in Sri Lanka and **accessing markets in the ASEAN region and the Middle East** from that base. (Non-manufacturing company located in India)
- ◆ Sri Lanka is in a geographical position to allow us **to target the market in the whole world.** If we have a base in the ASEAN region, we have to consider other bases if business is bad in that region, but Sri Lanka is in **a position that allows us to export to the market in the entire world.** (Japanese manufacturing company located in Sri Lanka)

## **4. Promising Business Models**

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- In the manufacturing industries, the percentage responded that they would expand their businesses in the next year or two is same with in the past year or two. However, the total percentage responding that they would expand or remaining the same in the past year or two increased to 92%. Moreover, the percentage responding that they would reduce in the next year or two decreased significantly to 4%.
  - In the non-manufacturing industries, only 37% of companies in the past year or two responded that they would expand their businesses. In contrast, the percentage responding that they would expand in the next year or two increased significantly to 63%.
- <Specific business of companies which plan to expand>
- Manufacturing: Increased production of non-ferrous metals, metal products, moving from manufacturing only mold parts to manufacturing complete molds, etc.
  - Non-manufacturing: An increase in the number of sales outlets, expansion of communications business, expanded offshore IT development (aiming for a location for their China-plus-one policy), training human resources for the logistics sector, expanded real estate development, etc.



**1. Gateway to India**

**2. Look NEW Market**

**3. Market for Upper Class and  
Tourists**

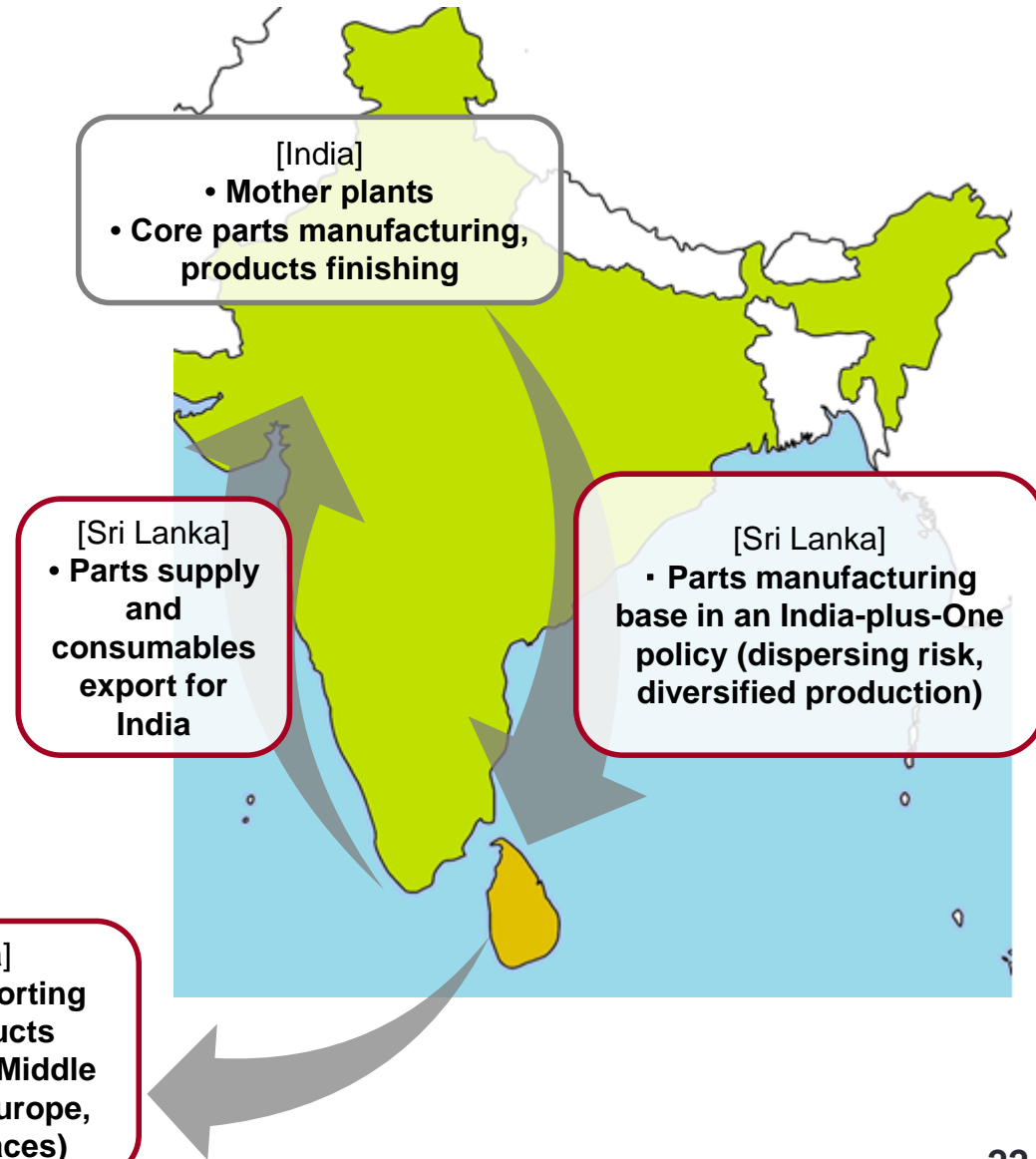
## Making use of Sri Lanka's strengths

- ◆ A relatively better investment environment than India (tax system, collection of receivables)
- ◆ Free trade agreement (FTA) with India
- ◆ Making use of high levels of proficiency in IT and English to create a manufacturing base for high added-value products



## A base for an India-plus-One policy

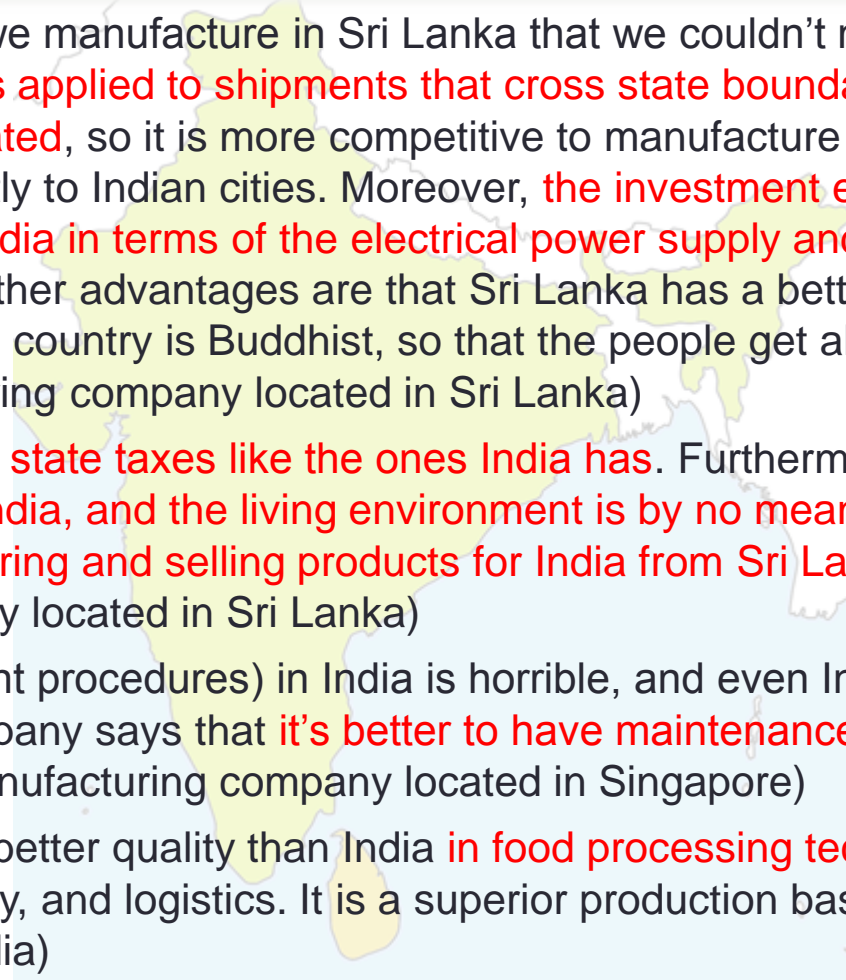
- ◆ Establishing in Sri Lanka a base for diversified production and dispersing the risk from the existing Indian manufacturing sites.
- ◆ Furthermore, it is aimed to use Sri Lanka as an export base for the Middle East, Africa, and other third countries.



(Specific comments)

### <A Relatively Better Investment Environment than India>

- ◆ There is nothing that we manufacture in Sri Lanka that we couldn't manufacture in India. However, **a state tax is applied to shipments that cross state boundaries in India, and the tax system is complicated**, so it is more competitive to manufacture products in Sri Lanka and export them directly to Indian cities. Moreover, **the investment environment in Sri Lanka is superior to that of India in terms of the electrical power supply and the productivity of its human resources**. Further advantages are that Sri Lanka has a better living environment than India and that the country is Buddhist, so that the people get along well with Japanese. (Japanese manufacturing company located in Sri Lanka)
- ◆ **Sri Lanka doesn't have state taxes like the ones India has**. Furthermore, **it's difficult to collect receivables in India, and the living environment is by no means good. There is latent potential for manufacturing and selling products for India from Sri Lanka**. (Japanese non-manufacturing company located in Sri Lanka)
- ◆ The Red Tape(inefficient procedures) in India is horrible, and even India's state-owned maritime shipping company says that **it's better to have maintenance done in Sri Lanka than in India**. (Japanese manufacturing company located in Singapore)
- ◆ Sri Lanka offers much better quality than India **in food processing technology**, the workers attached to that industry, and logistics. It is a superior production base. (Non-manufacturing company located in India)



(Specific comments)

### <Entering the Indian Market Using the FTA with India>

- ◆ **The Indian market is an opportunity.** The government ought to promote greater use of the FTA, and support efforts to attract more investment. (Japanese manufacturing company located in Sri Lanka)
- ◆ The people have a high educational level and a high level of proficiency in IT and English, so the most appropriate businesses are not labor-intensive manufacturing but process industries, such as pharmaceuticals (generics and others). **A company could produce high value-added products and aim for the Indian market.**
- ◆ The Indian shipbuilding industry offers poor quality and is unreliable. There are therefore opportunities to produce ships of stable quality in Sri Lanka or Vietnam and deliver them to India. There are also possibilities for **manufacturing in Sri Lanka certain parts and products for which consistent quality cannot be obtained in the neighboring countries.** We can also **make use of the India-Sri Lanka FTA** for shipbuilding materials. (These two remarks by a Japanese manufacturing company located in Sri Lanka)
- ◆ There is potential for **manufacturing of upscale doors (cast aluminum doors), which do not exist in India,** and using Sri Lanka as a **sales base for India.** (Japanese manufacturing company located in Sri Lanka)
- ◆ We feel that Sri Lanka has potential as a base for approaching India. (Japanese manufacturing company located in Singapore)





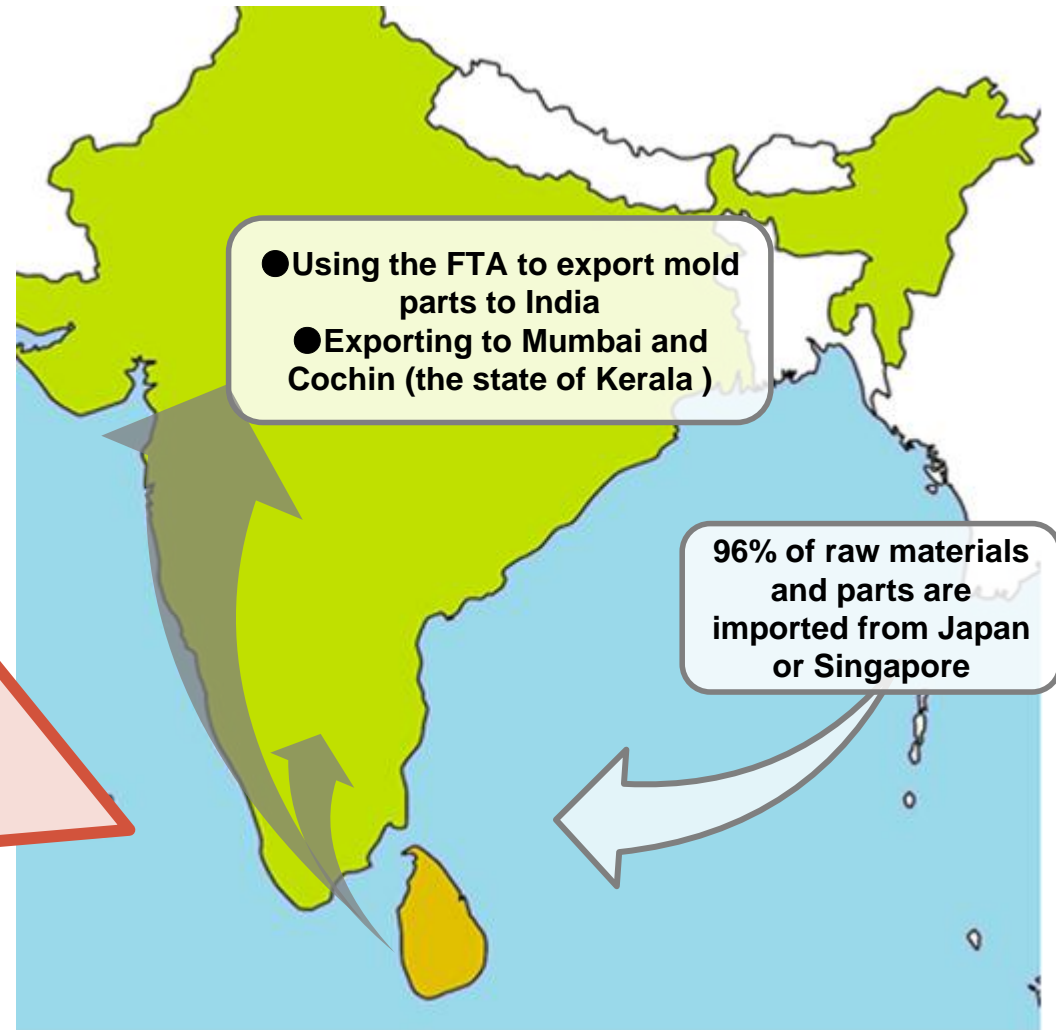
# Business Model 1: Gateway to India

## Example - Export of Mold parts to India

### Example: Japanese Manufacturer of Mold Parts for Precision Presses in Sri Lanka

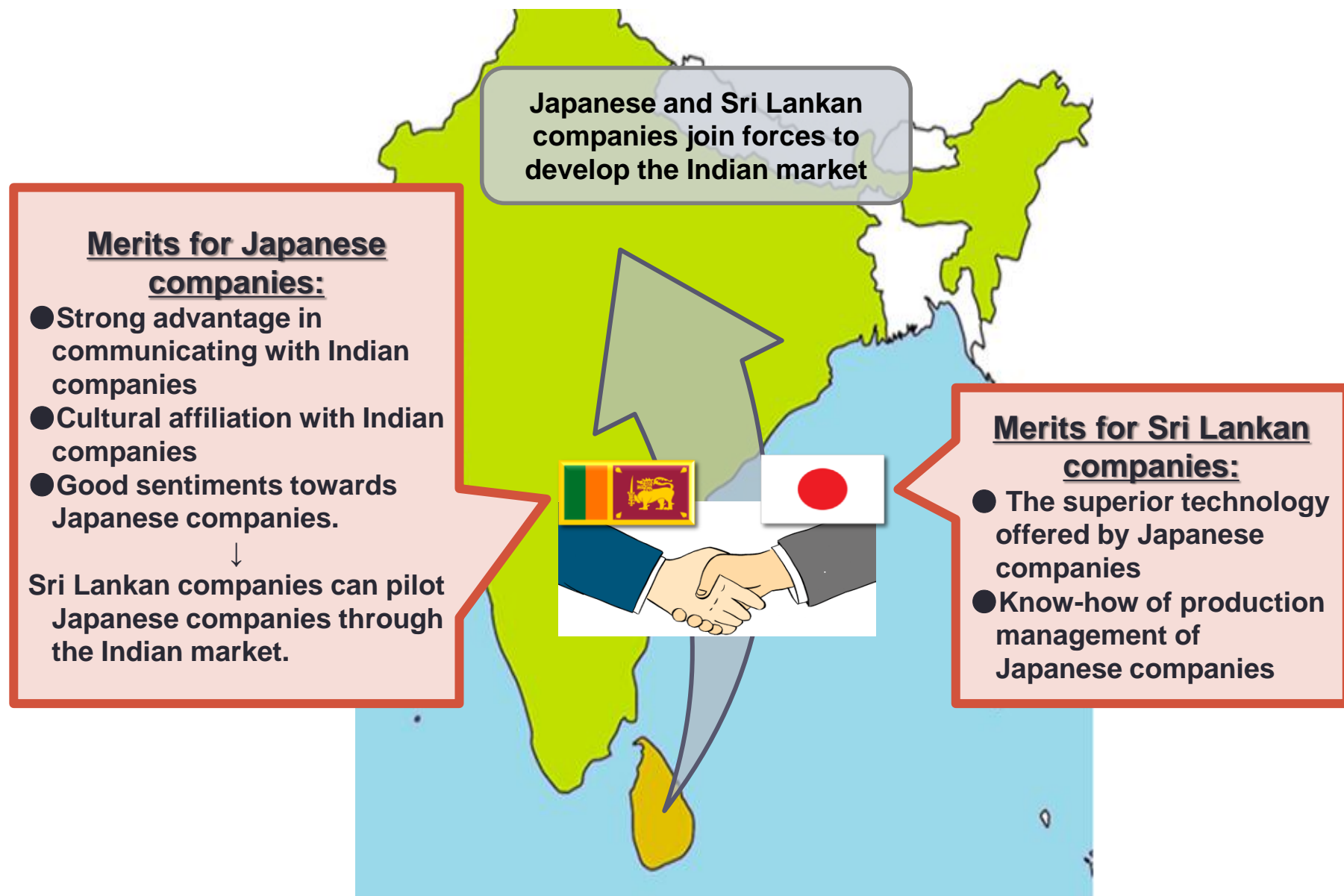
#### The advantages of Sri Lanka as a base:

- A location that can be considered part of India
- A living environment that compares favorably with that of India (drinking water, Japanese food)
- India-Sri Lanka free trade agreement (FTA)
- High-quality human resources (high educational level, English widely spoken, most are Buddhists and have even-tempered personalities, they are skilled with their hands, are good at teamwork, and have a strong sense of affiliation with their company, etc.)



#### Directions for business development

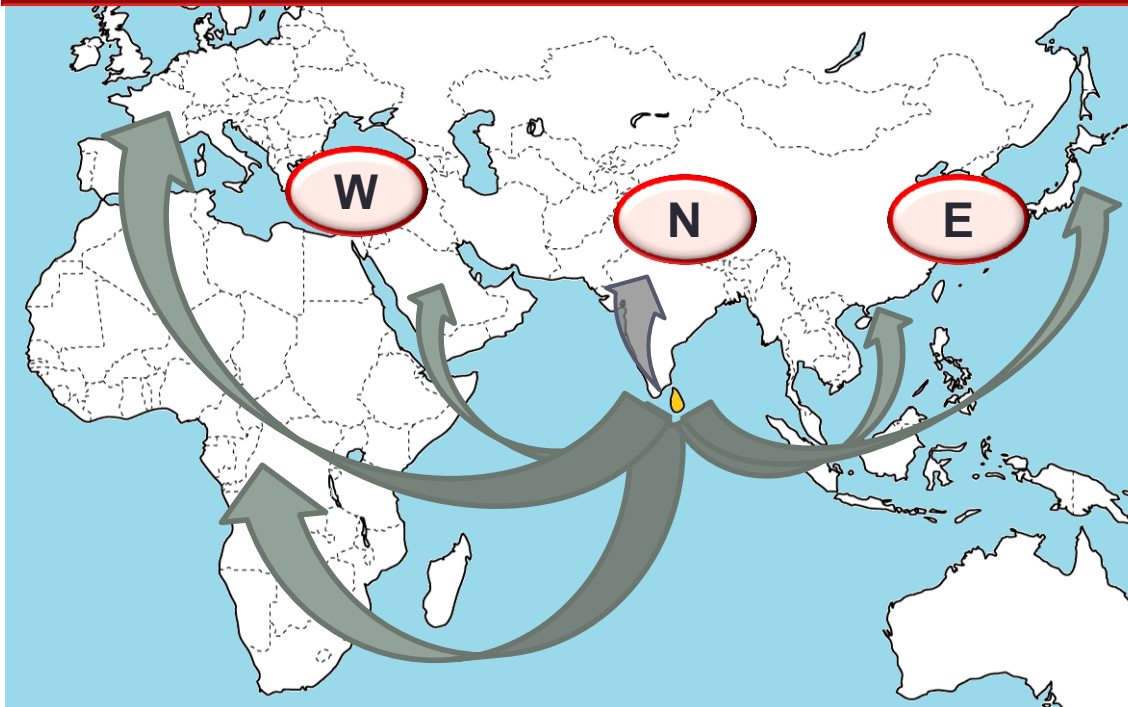
Plans not only to manufacture mold parts for precision presses but also to begin press production



# Business Model 2: Look NEW Market

- ◆ Geographic location which allows access to NEW Markets; India, Pakistan, Bangladesh (N), ASEAN, China, Japan (E), the Middle East, Africa, Europe(W)
  - ◆ Port infrastructure already in place, especially Colombo Port
- ↓
- ◆ Supply base for production and consumer markets in NEW Markets
  - ◆ A shipping and logistics base for global business

**N (Look North) = India, Pakistan, Bangladesh**  
**E (Look East) = ASEAN, China, Japan**  
**W (Look West) = Middle East, Africa, Europe**



(Specific comments)

### <Base for Shipping and Transshipment with Prepared Port Facility, etc.>

- ◆ It has **geographic strengths**. There are no good harbor facilities in India, Pakistan, or Bangladesh, including the soft infrastructure. For example, in India, so many procedures are bureaucratic. Therefore, **one of our plans is to use Sri Lankan harbors as bases for transshipment and distribute products to those countries from there**. Of the 4 million TEU containers in Port of Colombo, 75-85% are shipped to India in feeder vessels. As port facilities are further developed in the future, there is quite a good possibility that Sri Lanka will become a transshipment base. (Japanese manufacturing company located in Sri Lanka)
- ◆ **The port infrastructure is good**. (Association in India)
- ◆ **The airport and seaport infrastructure around Colombo is superior to that of India**, and it has possibilities for becoming an export base. (Non-manufacturing company located in India)
- ◆ The main destination for exports from our plant is Japan. Some of our products go to China or the ASEAN nations. **Comparing the shipping costs to Singapore, export from Sri Lanka is cheaper than from China**. (Japanese manufacturing company located in Sri Lanka)
- ◆ In particular, as the amount distributed to Southwest Asia, especially India, increases, the relative need for Port of Colombo will also increase. **Port of Colombo will probably become a transshipment base linking Southwest Asia with other regions**. (Non-manufacturing company located in Japan)

(Specific comments)

### <Diverse Shipping Destinations>

- ◆ Among our current export destinations, **Japan and the U.S.** each account for 1/3, with the remaining 1/3 being other countries. (Japanese manufacturing company located in Sri Lanka)
- ◆ A breakdown of our export destinations is **India 5% (for local manufacturers), Europe 50%, United States 5%**. We export to Europe from Sri Lanka. Ever since we set up a base in Sri Lanka, our exports to Europe have increased. (Japanese manufacturing company located in Sri Lanka)
- ◆ Our export destinations are **Japan (60%), Rumania (25%), Thailand (15%), Germany, Indonesia, and India**. Sri Lanka has great advantages as a location. When exporting to Europe, it takes 10 days less than transporting goods from Japan. (Japanese manufacturing company located in Sri Lanka)
- ◆ In the future, we'd like to export to **India and the Middle East**. (Japanese manufacturing company located in Sri Lanka)



# Business Model 2: Look NEW Market

## Example – Look Japan, EU and ASEAN market

### Example: Electronic and Electrical Automotive Parts

#### Motivations for moving into Sri Lanka

- They have placed orders to Japanese companies in Sri Lanka
- They decided to move into Sri Lanka themselves and commence production due to an increase in the amount of work

<An export base for the whole world>

• Exports to Japan, the EU, the ASEAN countries, India (overseas bases of business partner manufacturers)

• 100% of raw materials and parts imported from Japan

• Processing and production in Sri Lanka

#### The advantages of Sri Lanka as a base:

- It's possible to change your export destination flexibly along with world demand (Europe is a promising market. The ASEAN market is growing, but there is a lot of competition.)
- Good access to Europe (Even orders for Europe received in Japan are produced in Sri Lanka. Since it takes fewer days to ship products produced in Sri Lanka to Europe, it is possible to deliver sooner after the order.)

#### Directions for business development

Plans to increase production in the future

- ◆ Stabilization of the political situation and a revitalization of economic activity have brought about changes in the people's lifestyle and an increase in the middle and affluent classes
- ◆ The government's vision for fostering the growth of a tourism industry (Prospects for tourists to spend \$200 or more per day during the next 10 years, attracting 2.5 million tourists by 2016)  
↓
- ◆ Expanded possibilities for developing markets aimed at the growing middle class, affluent class, and tourists

## Example Case1: Noritake co., limited



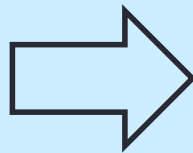
*Noritake*  
NORITAKE CO., LIMITED

Both the high-quality dinnerware for export and the brand for local market were manufactured in Sri Lanka at first. With the changes in the market such as increasing tourists and rich, the sales of high-quality products have a majority in local market now.

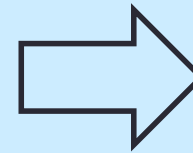
**Example Case2:** Japanese home appliance manufacturer Company A is preparing to set up a marketing base for electrical appliances in Colombo

### [Business growth and development patterns]

Increases in  
sales



Beginning of local  
production for  
domestic use



Expanded  
production into  
exports

(Specific comments)

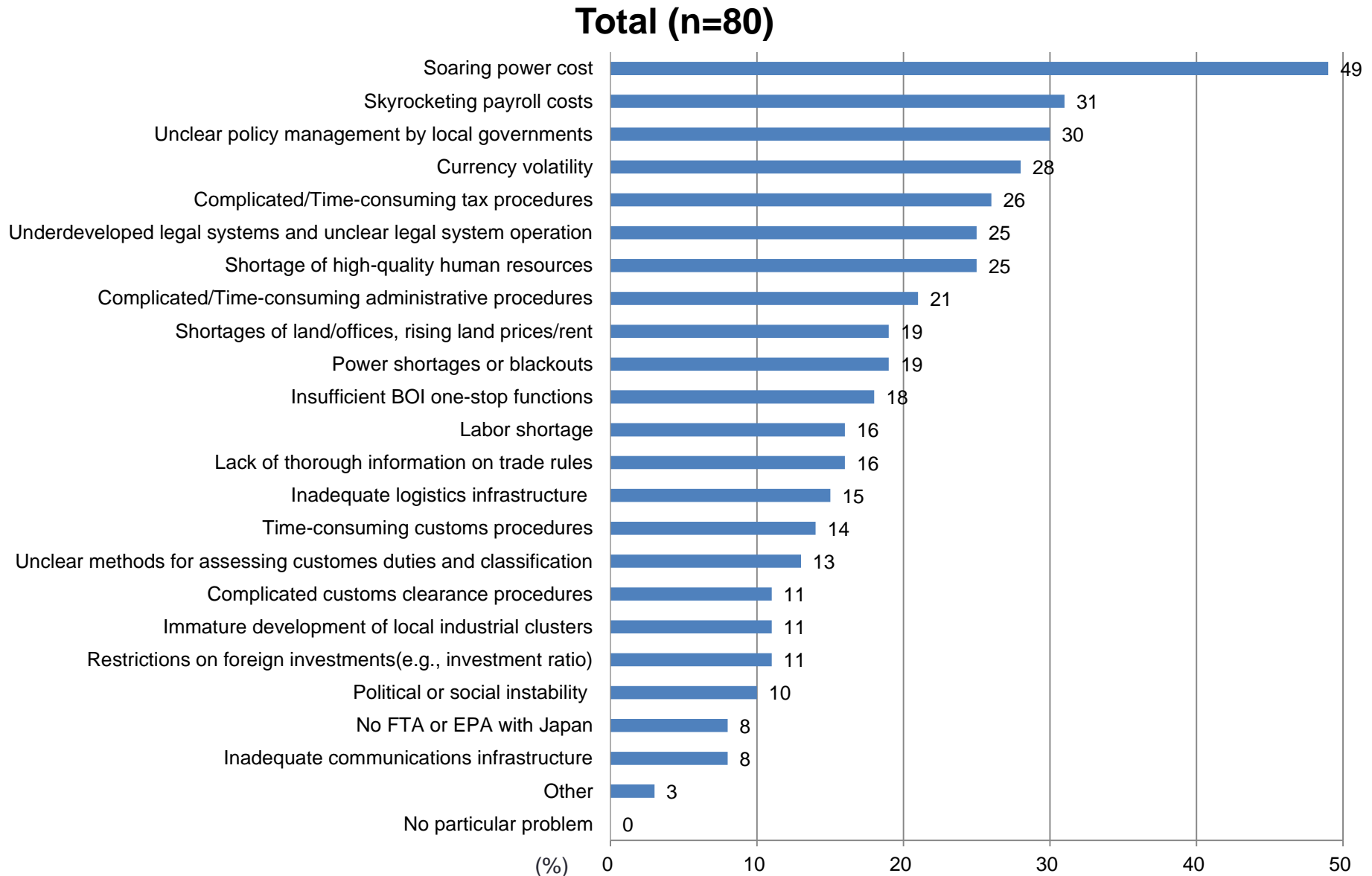
### <Expectations for Expanding Domestic Market>

- ◆ Since the end of the civil war, **the number of tourists has increased**, and the hospitality industry is one sector with a great deal of potential. For example, it is quite possible that Colombo, the Maldives, and Cochin (Kerala State, India) will become **one of the centers of medical tourism**. (Association in India)
- ◆ Given the stabilization of the political situation and the **growth of the middle class**, we believe that there are still opportunities in the automobile industry. (Non-manufacturing company located in India)
- ◆ The hospitality industry has been revitalized. There is also an increasing demand for Western foods, and the **Sri Lankan domestic market is also expanding**. (Non-manufacturing company located in India)
- ◆ Relations between India and Sri Lanka are good. Tamil Nadu is one of the main states that exports to Sri Lanka. (Japanese manufacturing company located in India)
- ◆ In the course of our market survey, we found that Sri Lanka used materials equal to or better than those of India. The situation is still undefined, but **it is possible that Sri Lankan will accept higher-quality products than Indians do**. (Japanese manufacturing company located in India)



## **5. Issues to Be Resolved**

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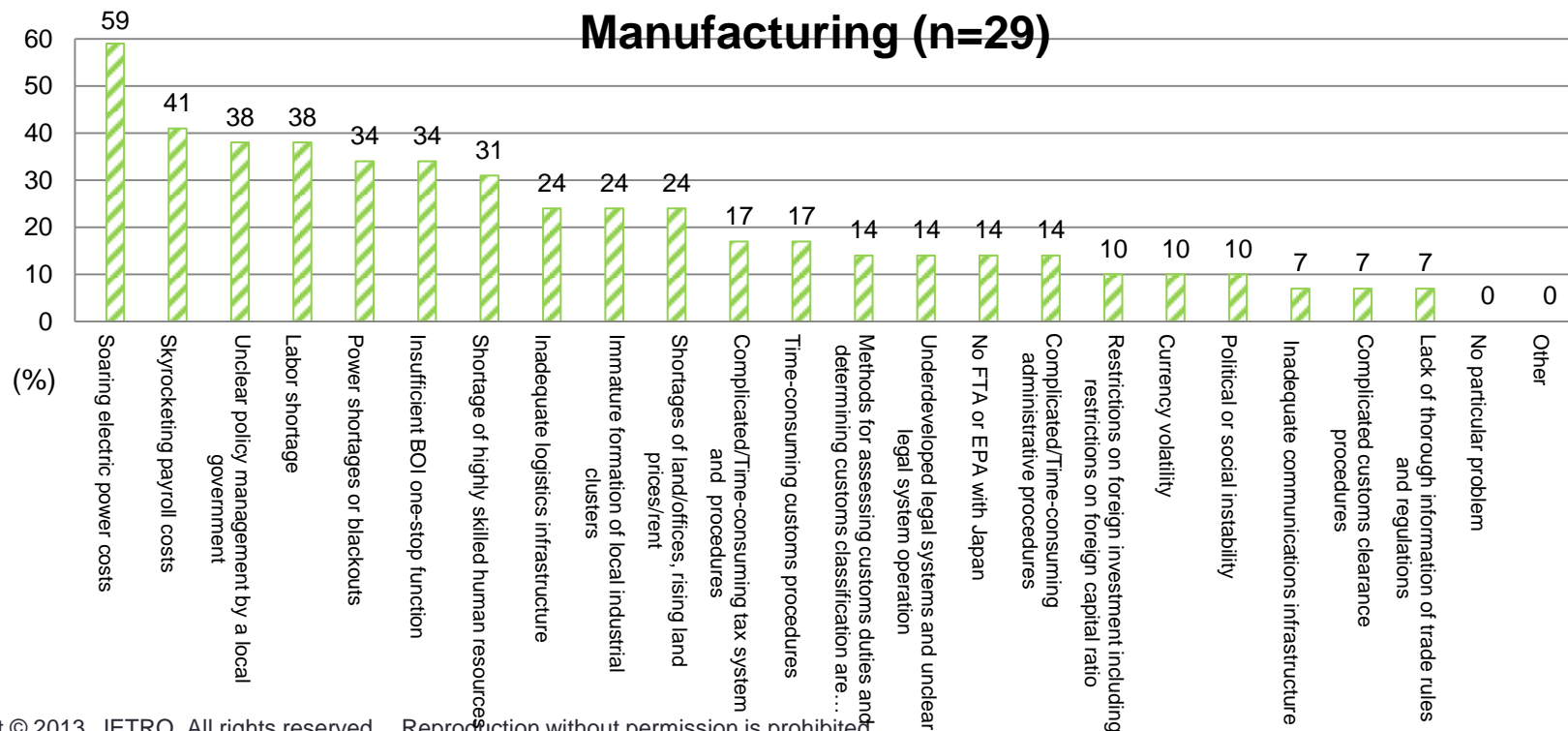
<Soaring electric power costs, power shortages or blackouts>

- Blackouts lead to equipment breakdowns and product defects
- The surge in electric power costs causes an increase in direct manufacturing costs. There are large, sudden price increases up to 10% or 20%.
- It is usually necessary to have home generators on hand.
- The complete lack of any moves toward establishing a stable power supply is a problem.

<Skyrocketing payroll costs, labor shortage>

- The average worker does not settle down at one company. Every month the ranks of employees are replenished, but an equal number of employees quit.
- Labor shortage. Hiring continues to be difficult.

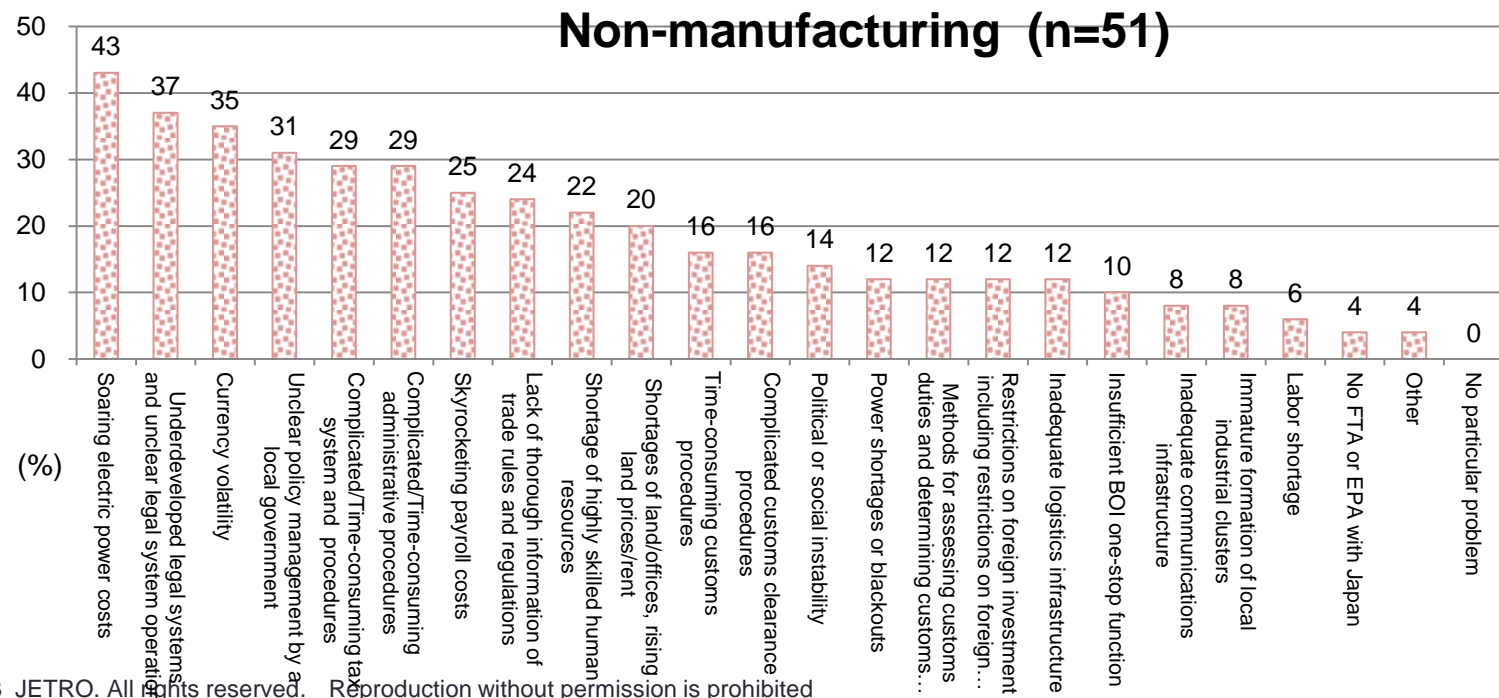
(Comments in the questionnaire)



## <Unclear legal systems and policy management>

- Non-transparency in real estate transactions (difficult to identify who has rights of ownership)
- The tax refund system has changed, but the procedures for refunds under the former system were complicated, and payments are delayed.
- Permission for investment, systems of preferences, and other regulations are usually determined on a case-by-case basis. We think that there are cases in which flexible responses are preferable, but this is a gray area. Investors' understanding of the investment system is hindered, and government employees create possibilities for cozy relationships with specific companies.
- Many items, including establishment of local companies, are in the purview of neither the BOI nor the Corporate Registration Bureau, and even if one asks government employees who work in those areas, their explanations are not consistent, so there are many points that are unclear.
- It is extremely difficult to obtain a business visa if one does not work for a BOI company.

(Comments in the questionnaire)



## **1. Insufficient industrial human resources such as skilled-labor, engineer, manager**

- ◆ Labor shortage
- ◆ Shortage of highly skilled human resources for positions as technicians or middle managers
- ◆ Skyrocketing payroll costs

## **2. Lack of a consistent industrial policy**

- ◆ Unclear policy management by a local government
- ◆ Underdeveloped legal systems and unclear legal operation
- ◆ Soaring electric power costs
- ◆ Complicated/time-consuming tax system and tax procedures
- ◆ Immature formation of local industrial clusters

## **3. Lack of BOI functions**

- ◆ Insufficient BOI one-stop function

## 1. Insufficient Industrial Human Resources Such as Skilled-labor, Engineer, Manager

- ◆ It is difficult to obtain human resources for increasing production. **There is a particular shortage of manager and senior staff member class.** Since there are no manufacturing industries other than apparel, there is no supply of human resources skilled in industrial craftsmanship. The country is not accustomed to the manufacturing industries. (Japanese manufacturing company located in Sri Lanka)
- ◆ **It is extremely difficult to retain workers.** Ten or 20 of them quit each month. We have to keep replacing them. It seems that factory work is less popular than before. Since most of the work is detail-oriented, workers work for two or three days and then quit. (Japanese manufacturing company located in Sri Lanka)
- ◆ One can become an engineer in Japan by obtaining qualifications of architectural technician or civil engineering technician even without going to a university. In Sri Lanka, on the other hand, there are no qualifications that a high school graduate can obtain, and there are no specialized vocational schools. One cannot become an engineer with going to a university, which leads to a shortage of engineers. (The university attendance rate in Sri Lanka is 5-7%.) Since there is **also a shortage of human resources for management**, we hire Indians and Filipinos. (Japanese manufacturing company located in Sri Lanka)
- ◆ The lack of a background in the manufacturing industries is a problem. **There are no human resources for technical staff** including factory and plant managers and equipment and machinery maintenance technicians. There are no work-ready employees. We have no option but to train them in-house. (Japanese manufacturing company located in Sri Lanka)
- ◆ We place help-wanted advertisements in newspapers and other publications, but **the number of applicants has decreased.** Formerly all we had to was hire one out of 10 applicants, but now we are forced to hire half. (Japanese manufacturing company located in Sri Lanka)
- ◆ Recently educated university graduates have shown **a strong tendency to favor the service industries**, such as communications, IT and hotel management, so we can't recruit people as we did before. (Japanese manufacturing company located in Sri Lanka)

## 2. Lack of a Consistent Industrial Policy

- ◆ A disregard for the manufacturing industries can occasionally be perceived in government policies. It may be that the government is not looking toward the future. (Japanese manufacturing company located in Sri Lanka)
- ◆ The government does not understand the importance of training for the manufacturing industries. There is no stable industrial policy. (Japanese manufacturing company located in Sri Lanka)
- ◆ There is no cluster of machine industries. We cannot procure machine parts. (Japanese manufacturing company located in Sri Lanka)
- ◆ There is no overall management of the various types of procedures, and they are slow. (The BOI is an exception.) On the whole, things have not been computerized, and in many places, operations are carried out manually. (Japanese non-manufacturing company located in Sri Lanka)
- ◆ In order to attract direct investment, the country will need to take a proactive approach to providing infrastructure, especially electric power. (Non-manufacturing company located in India)
- ◆ If the Sri Lankan government is to promote exports, we expect to be provided with incentives in the tax system, and since manufacturing costs in Sri Lanka have risen, we expect support to compensate for that. (Non-manufacturing company located in India)
- ◆ Provision of electric power and railroads and roads (to provide transportation links within the country) is lagging, and we would like to see improvements in this area. We expect the government to take steps to implement policies such as preferential measures for export-oriented industries. (Non-manufacturing company located in India)



## 2. Lack of a Consistent Industrial Policy (Specific Example)

In April 2013, peak time rates for electric power rose sharply, leading to cost increases for local manufacturing.

### Industrial I-2

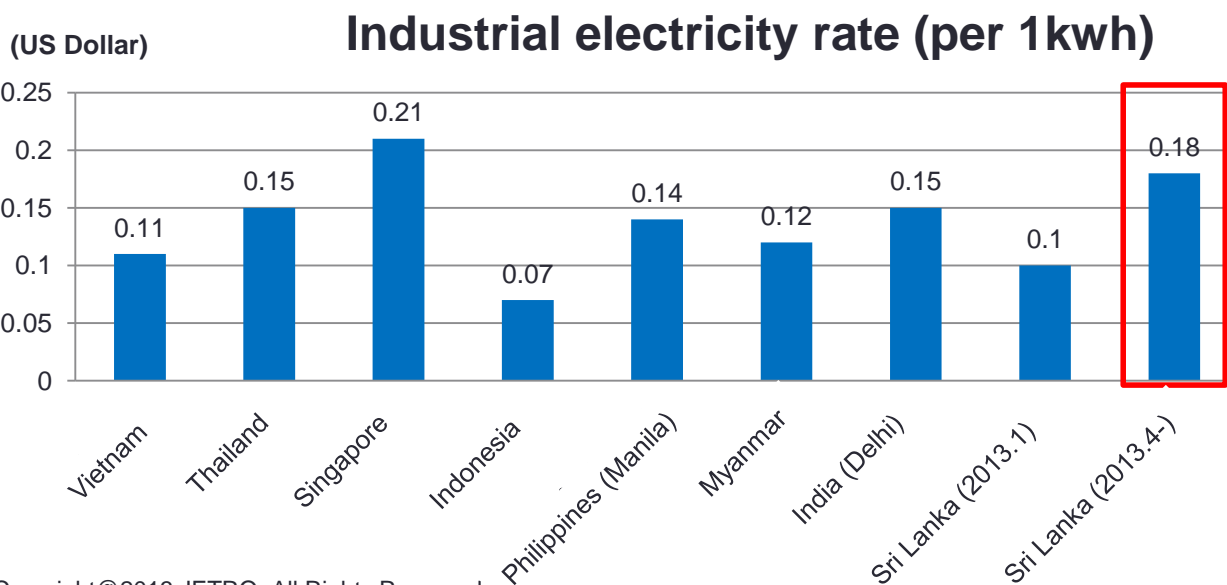
(Unit)  
LKR/kWh

	Before increase	After increase	Ratio
Peak (18:30-22:30)	13.60	21.00	<b>54.4%</b>
Off Peak (22:30-05:30)	7.35	7.00	-4.8%
Day (05:30-18:30)	10.45	11.30	8.1%

### Industrial I-3

(Unit)  
LKR/kWh

	Before increase	After increase	Ratio
Peak	13.40	24.00	<b>79.1%</b>
Off Peak	7.15	6.00	-16.1%
Day	10.25	10.50	2.4%



(Source) Based on materials from Sri Lanka Public Project Committee

I-1: Nominal voltage 400/230V, contract demand 42kVA or less  
I-2: Nominal voltage 400/230V, contract demand over 42kVA  
I-3: Nominal voltage 11,000V or more

(Source) Only “Sri Lanka (2013.4-)” was calculated using the rate as of August 16, 2013. Others are sourced from “The 23rd. Survey of Investment Related Costs in Asia and Oceania” published by JETRO in May 2013



## 3. Lack of BOI Functions

- ◆ Ultimately, it is up to the BOI to attract companies, but the government seems **not to recognize the importance of the BOI** and does not give it any rights. (Japanese manufacturing company located in Sri Lanka)
- ◆ There is still some dissatisfaction with BOI services. We have to find relevant organizations, such as the Ministry of Forestry, on our own and make moves to work with them. There was no advice on land use, either. (Japanese manufacturing company in Sri Lanka)
- ◆ We would like the BOI to exercise power and **act as a control**. (Japanese manufacturing company located in Sri Lanka)
- ◆ The BOI doesn't approve things easily. (Japanese manufacturing company in Sri Lanka)
- ◆ When exporting raw materials to Sri Lanka and returning processed products to Japan, we sometimes have problems with the BOI procedures and cannot return the products to Japan. Even in cases where we have to return them unprocessed, we have to wait several months for permission to return them, and we cannot import or export products quickly. (Japanese manufacturing company located in Sri Lanka)
- ◆ We were established as a BOI company, but when we buy vehicles or other equipment, we have to pay the same import tariff as ordinary companies. (Japanese non-manufacturing company located in Sri Lanka)
- ◆ We would like the upper limit of investment lowered when we register as a BOI company. (Japanese non-manufacturing company located in Sri Lanka)

- In November 2009, the Thai government opened a One Start One Stop Investment Center in Bangkok.
- It is staffed by employees from 21 departments and offices from every ministry of the Thai government, so it is possible to complete all the procedures needed for permission to conduct business in Thailand in one place. They also provide all sorts of advice related for setting up one's business. (You can even receive advice in Japanese.)
- If you have your visa and work permit documents at hand, you can receive approval in 3 hours.



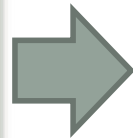
## Issues

**1. Insufficient industrial human resources such as skilled-labor, engineer, manager**



## Countermeasures

**Enhancing development of industrial human resources**



**2. Lack of a consistent industrial policy**

**Formulating/ implementing policies for fostering manufacturing & promoting FDI**



**3. Lack of BOI functions**

**Enhancing BOI functions including one-stop services**

## Examples of Actions

**-Lowering electricity tariff for peak period**

**-Exempting PAL and NBT imposed on importing machinery equipment**

**-Receiving Japanese advisor to BOI**

## **6. Support by JETRO**

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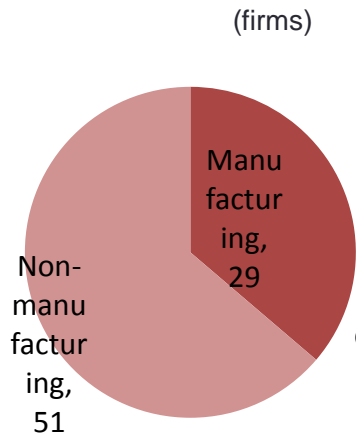
- ◆ **Support for Japanese companies moving into Sri Lanka**  
Supporting the activities of Japanese companies moving into Sri Lanka through programs such as the operations of the Japanese Chamber of Commerce in Sri Lanka or organization of public-private forums
- ◆ **Introducing the Sri Lankan business environment to Japanese companies**  
Introducing the Sri Lankan business environment by holding seminars and receiving trade missions, responding to inquiries, conducting surveys, etc.
- ◆ **Support for match-ups between Sri Lankan and Japanese companies**  
Support for Sri Lankan companies to exhibit at FOODEX (international food and beverage exhibition)

## **7. (Reference) Other Results of the Surveys**

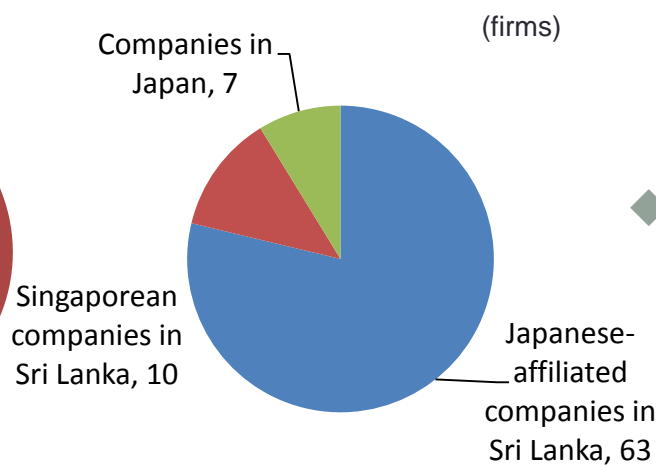
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# Basic Data about Companies Responding to the Survey

## ◆ Industries



## ◆ Source of investment



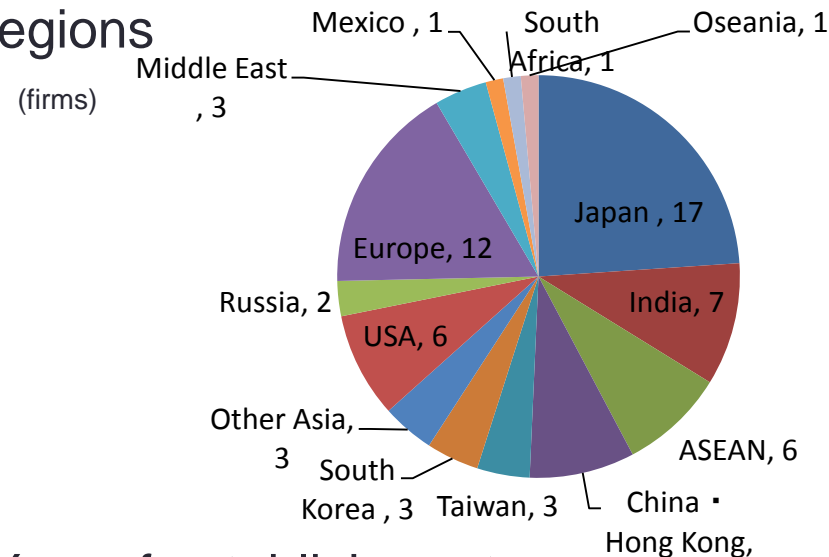
## ◆ Percentage procuring raw materials and parts in Sri Lanka (average/ manufacturing industries only): 30.5%

## ◆ Materials and parts procured in Sri Lanka (manufacturing industries only):

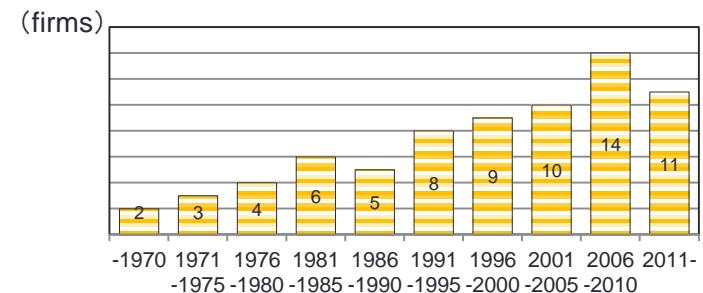
Packaging, lubricants, plating chemicals, bearings, oils (palm oil), coconut shells (coconuts, coco peat), ores, etc

## ◆ Percentage of exports among all products sold (average/ manufacturing industries only): 67.2%

## ◆ Export destination countries and regions



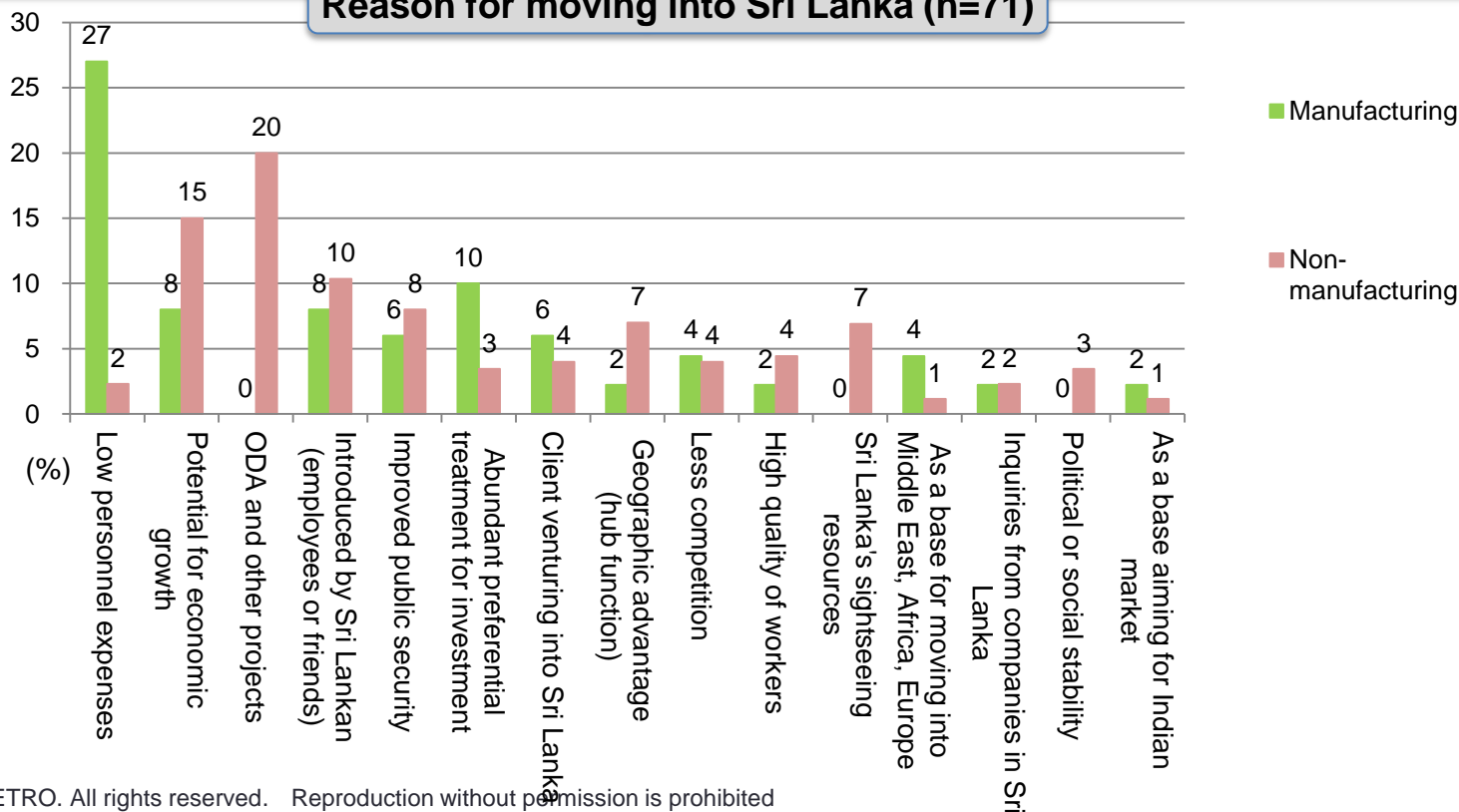
## ◆ Year of establishment



## Comments in the questionnaire

- In the manufacturing industries, 27% of the companies cited low personnel expenses as their reason
- Among the companies that cited low personnel expenses, some companies moved their bases to Sri Lanka due to soaring labor costs in other countries where they had bases.
- In the non-manufacturing industries, 20% of companies gave ODA and other projects as their reason for moving into Sri Lanka, especially companies in the construction industry.
- Companies that gave improved public security as their reason decided to move into Sri Lanka after the end of the civil war in 2009.
- Other reasons included “Availability of raw materials in Sri Lanka” (3 companies), “Business partners are located in Sri Lanka” (3 companies), “Introduction by a (Japanese) acquaintance” (2 companies).

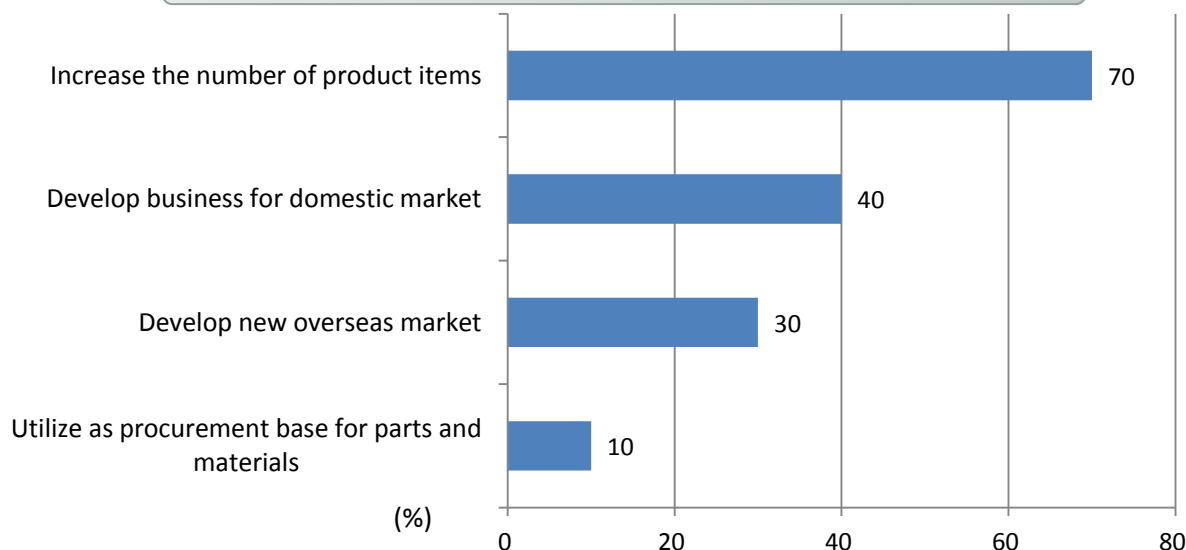
## Reason for moving into Sri Lanka (n=71)





- We want to increase product supply capacity by expanding the models of the capacitors that we are currently producing.
- With a view toward taking advantage of the location, we would like to export more to India, of course, but also to the ASEAN region. In growing the ASEAN market, we can see that Sri Lanka has advantages over China in terms of shipping time and shipping costs.
- Sales hub functions for India and the Middle and Near East markets, making use of the geographic advantage
- Sales of cast aluminum doors and other products to India (selling upscale doors that are not found in India)
- Enhancement of design functions by doing basic design in Japan and detailed design based on that in Sri Lanka
- Sale of products for Sri Lanka's affluent sectors and tourists
- As customers try to make their product lines more sophisticated, we, their suppliers, will produce and supply products with more sophisticated features
- Agricultural business targeting India (ODA)
- The intended destinations of companies that responded that they wanted to develop new overseas markets were India (3 companies), the Middle East (1 company), and the ASEAN region (1 company).

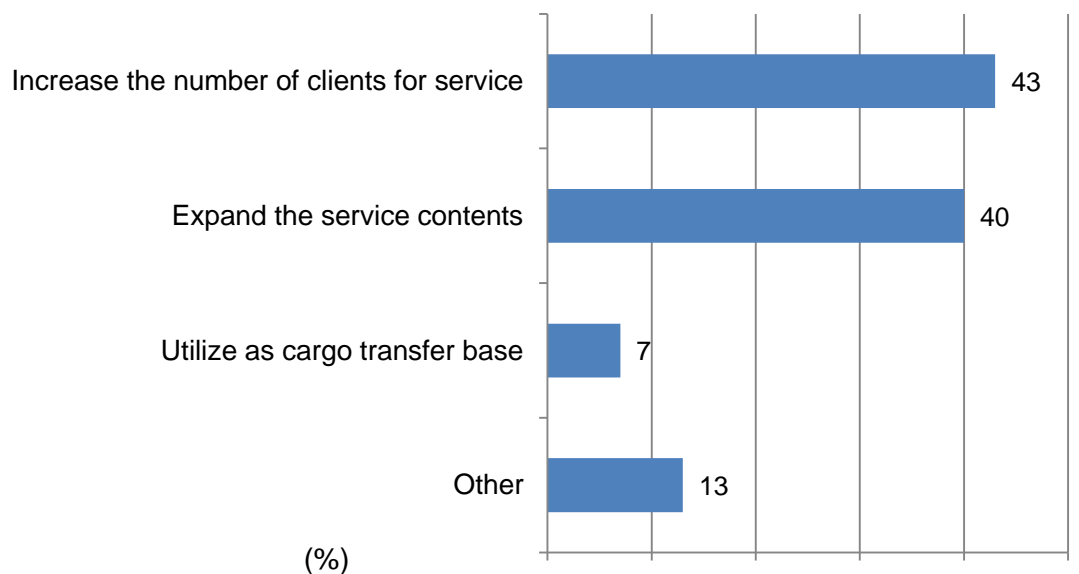
## Expecting business development in future (n=20)



## Comments in the questionnaire

- Moving into the marketing and financial industries
- 1. Domestic travel businesses targeting Sri Lanka's affluent sector for overseas and domestic travel, 2. Creating new attractions, 3. Training human resources in the service industries
- Hopes for expanding consulting in the area of mobilizing private resources while concentrating on consulting in the ODA area
- Development of technology off-shoring in the areas of IT and software
- Setting up an electrical power IPP business
- Providing high-level education in the area of design
- Plans to develop shopping malls, upscale condominiums, and management of properties developed by one's own company or by a third party

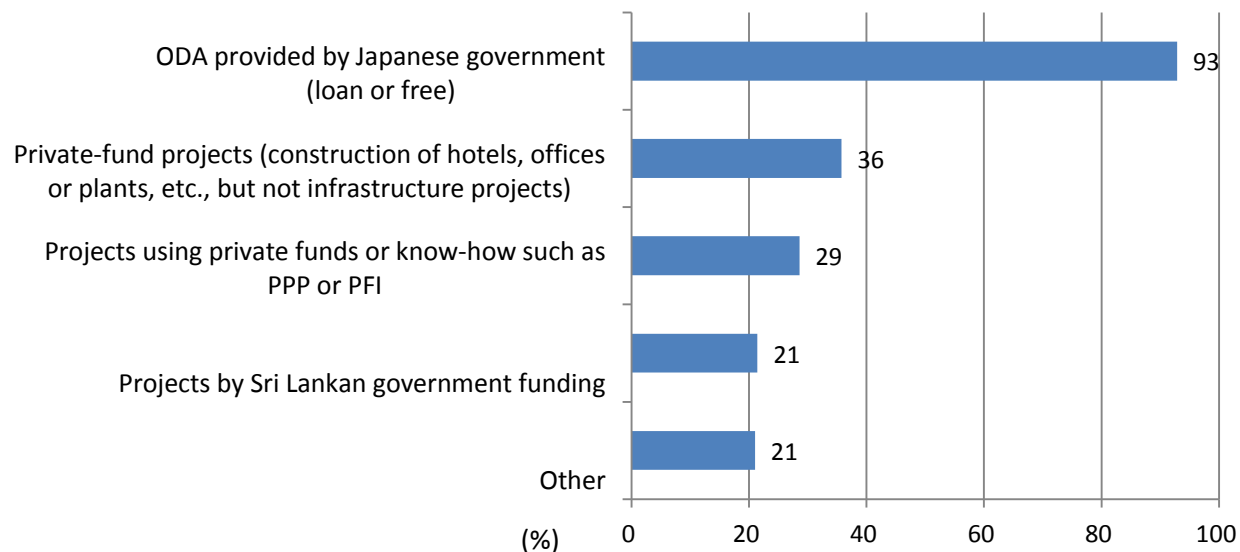
## Expecting business development in future (n=30)



## Comments in the questionnaire

- Plans to focus narrowly on infrastructure-related construction projects, take a close look at high-quality projects, and undertake them.
- Plans to take an active approach to bidding on Japanese government-sponsored ODA projects
- Yen-denominated loans from Japan for STEP projects (with-loan projects)
- Receiving orders for with-loan projects from the Asian Development Bank or other international financial organizations
- We would like to incorporate new technology into paving projects in Sri Lanka, if we have an opportunity.

## Expecting business development in future (n=14)





[For more information, please contact](#)

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