# Spotlight: Econ Op-eds in Summary

Week ended 17th June '20

## In Summary

*The underneath contains summaries of the articles given above, including key extracts from these articles.*

**1. Rebooting Sri Lanka post-COVID-19**
**By: Dinesh Weerakkody**

- In Sri Lanka, quick measures to contain the domestic spread of the virus and the policy action to provide relief to those adversely affected has mitigated the fallout to a large extent. However, policy measures are required to address the challenge of weathering the ongoing health crisis and its economic fallout, beyond the immediate measures.

- There is an urgent need now to reduce our reliance on our narrow economic base. Improving attributes such as entrepreneurship to seek out opportunities and to take calculated risks, encouraging innovation to create new products and processes that add value and good management is required to drive this change in a post-COVID-19 economy.

- This is mostly important due to a changing global landscape for investments. Technology now plays a major role as it changes the economics of how businesses can best structure their operations across countries, provides access to a talented work force worldwide and is important for economic creativity. With the competition for investment being intensified globally, this becomes crucial for Sri Lanka's recovery.

The current economic slowdown in South Asia comes against the backdrop of a global public health crisis that has halted economic activities across many economies in the region and beyond. Growth in South Asia is expected to average 2-3% in 2020 and then improve to 4-6% in 2021.

With the domestic outbreak of COVID-19, Sri Lanka's growth projection for the next six months comes with significant downside risks—growth could be lower by another one percentage point, depending on the severity and the duration of domestic infection going forward. However, quick measures to contain the domestic spread of the virus and the policy action to provide relief to those adversely affected has mitigated the fallout to a large extent.

Traditionally, our industries have stronger backward linkages than forward linkages—they tend to rely more on foreign intermediates than they supply to foreign producers of final products. In both these aspects, Sri Lanka trails Malaysia and Viet Nam but is on par with South Asian neighbours such as Bangladesh, Pakistan and India.

Policy measures are therefore required beyond the immediate challenge of weathering the ongoing health crisis and its economic fallout, there is an urgent need now to reduce our reliance on our narrow economic base, attributes such as entrepreneurship, innovation and management is required to drive this change in a post-COVID-19 economy.

- Entrepreneurship to seek out opportunities and to take calculates risks. Standing still is a sure way of extinction.
- Innovation is what creates new products and processes that add value.

- Good management.

To grow, companies have to open up new markets and create new distribution channels. The economy will be driven by new knowledge, new discoveries in science and technology, innovation that are taken to the market by entrepreneurs.

So discovering new knowledge, research and development, management and marketing, banking and finance, and the myriad of new subjects will need to be mastered. We would need to have inventors, innovators, venture capitalists, and entrepreneurs; they must bring new products and services to the market to enrich the lives of people.

**Investors**

Also, the global landscape for investments is changing fast.

First, advances in technology and virtualisation has reduced the cost of outsourcing, made distance less of a barrier, and changed the economics of how businesses can best structure their operations across countries.

Second, technology and innovation have become more important for economic creativity. Investors will distinguish between innovative countries and countries that are merely good recipients of technology transfer, reflecting the weight investors give to technological sophistication, and not simply low wages.

Third, competition for investment has intensified. The key to innovation and technology is people. We must develop and nurture our talent so that innovation and creativity will be integral to education and training. Our education system will be forced to revamp to nurture innovation and creativity, from kindergarten to university, and on to lifelong learning. The new global marketplace for goods, services, capital, and knowledge will become even more mobile and online. These developments will accelerate the integration of regional markets. However, in order to benefit, countries must ensure that their laws and financial institutions facilitate the global flow. There is a fundamental need for the rule of law. It ensures stability and predictability.

Next, between participating countries, a congruence of laws and rules governing trade and investment will develop. This will ease economic activity by lowering transaction costs. The Roman and British Empire were examples in history of how trade flourished for hundreds of years under the protection of a comprehensive unified system of laws.

Businesses due to digital tools will source for talent and opportunities globally. They will invent, collaborate, or acquire technologies and capabilities globally to sustain their competitive edge. As the internet post-COVID-19 make markets more contestable, businesses in Asia must compete on this platform or be swept aside.

Societies that will succeed now on are those, which easily assimilate talent virtually. Silicon Valley is such a place. Not only is it "colour blind" and uniquely meritocratic, it has a culture that draws newcomers in. Businesses will therefore need to reboot to stay alive to this new reality.COVID-19 is by far the biggest challenge economies have had to deal with in the recent history.

For the full article - Refer the Daily FT

**2. Jumpstarting Sri Lanka's tourism industry (Part 1)**
**By: Dr. Nicholas Ruwan Dias & Niresh Eliatamby**

- Sri Lanka's tourism industry employed nearly 400,000 by 2018, and involves nearly 40 other industries. Being one of the most heavily affected as a result of the pandemic, the resumption of tourism is crucial to the economy. However, significant risks also exist if this is done too soon.

- A three-phase strategy can help manage the situation. Beginning with domestic tourism, the number of international tourists can be gradually increased as the pandemic subsides internationally. Finally, Sri Lanka must be repositioned in the global market to attract high-end customers. This will require significant investments.

- The recovery strategy needs to address aspects including branding and marketing, customer relationship management and financial incentives to both the operators and guests. Finally, Sri Lanka also needs to keep a keen eye on its competition and the industry must have an action plan for the resumption of activity by setting appropriate KPIs.

**The crisis**

Sri Lanka's tourism industry has been hit hardest by the pandemic and has been brought to a standstill by international and national travel restrictions.

It is an umbrella industry that brings together approximately 40 other industries. By 2018 it was responsible for the direct and indirect employment of 388,487 people across the nation, including 169,003 directly (SLTDA Annual Statistical Report 2018). This is of 8.18 million total employed persons (including in agriculture) at the end of 2018 (Central Bank Annual Report 2018).

It is therefore crucial to the nation that the tourism industry be restarted without delay as soon as the pandemic threat is brought under control. However, opening up the industry too soon to international travellers before the pandemic has subsided could lead to a larger disaster.

**The perils of reopening too soon**

It is crucial that the decision on when to reopen the country's borders to foreigners be made solely on medical grounds by the country's medical experts and not for economic reasons. With limited numbers of ICU beds, Sri Lanka is not well placed to take on the number of patients that many countries have experienced.

Action point: Authorities need to strongly consider limiting the countries that it would be opening the border to, and initially choosing those that are least afflicted.

**The importance of domestic tourism**

The easiest method to battle the pandemic is to keep our borders closed. Infection rates among the recent Sri Lankan returnees show that it is not yet time to reopen. A single passenger testing positive would result in a planeload of over 200 passengers being quarantined, which is an added cost and also likely to be a public relations disaster.

On the other hand, the daily numbers published by our health authorities indicate that the only active cluster is the Navy cluster, which has been contained. Thus, it is highly likely that domestic tourism could commence within a short time, unless the situation changes for the worse.

**A three-phase strategy**

The authors have formulated the following plan for reopening the industry:

Phase I – Survival: Short-term, domestic tourism, with limited international tourists. This phase would likely be until the end of 2020.

Phase II – Strengthening: Mainly domestic tourism, with increasing numbers of foreign tourists as the pandemic subsides internationally.

Phase III – Repositioning: Reposition Sri Lanka on the global tourism market to attract high-end customers. This phase would commence at a time when Phase II has been sufficiently achieved. This will require significant investment.

**The need to cater to the existing industry**

Sri Lanka has a diverse product in terms of hotel accommodation, and any recovery plan must in the short and mid-terms ensure that all these different types are supported. Indeed, as per data of the SLTDA, of the country's 40,365 available rooms, only 25% or 10,856 rooms can be classified as high-end (5-star, 4-star, Boutique Hotel, Boutique Villa, Bungalow, Heritage Bungalow, Heritage Home).

As much as 75% or 29,269 rooms are in mid and low-end accommodation (3-star, 2-star, 1-star, unclassified hotels, guest houses, home stays, hostels). These provide income for households that would welcome it in these desperate times, and they would also support local economies to at least a small extent. Unless there is significant Government financial support, these low-end properties would not see any significant investment during the next two years.

On the other hand, much of the five-star accommodation is centred on Colombo, and is patronised by higher-end businesspersons and thus employs a significant number of persons. A significant number of four-star facilities are in resort areas and also employ a large number.

**Repositioning in the long-term**

However, it must be emphasised that the industry's long-term future lies in upgrading the product and repositioning the industry in the eyes of global travellers. But this will not be possible in 2020 and 2021 since it cannot reasonably be expected that hoteliers who are struggling to survive would burden themselves with loans to invest further, although the current low occupancy would otherwise make this the ideal time for expansion, renovations and upgrading.

**Sri Lanka is not alone**

According to the World Tourism Organisation (May 2020) COVID will jeopardise jobs of 100 to 120 million workers for direct tourism. The UNWTO panel of experts shared the opinion that foreign demand will recover only in 2021. Domestic demand will recover faster than foreign demand across the world.

A large number of potential effects of COVID-19 on world and national economies are being tossed around. At this stage, the only point on which they agree is that it will be bad. The principal source of discord seems to be just how bad it will be. The response depends primarily on a few factors: how long the pandemic will last, the extent of business-distant social constraints and the scale and efficiency of government incentives.

**Hotels recovery strategy**

While travel has practically stopped as a result of the COVID-19 outbreak, in the latter part of the year and next year the market is expected to regain ground.

Hoteliers must therefore take the steps required to prepare themselves adequately for recovery while setting appropriate expectations and KPIs.

**Who is responsible for country local marketing?**

While the several arms of Sri Lanka Tourism would formulate and spearhead international and national level strategies, the marketing of specific resort towns and individual resorts, as well as restaurants and attractions need to have the active support of local entities, both public and private.

A variety of individuals and organisations can participate in city marketing, such as city organisations and groups, but strategic responsibility usually is delegated to city marketing or city councils.

**Marketing strategies to attract more local tourists**

The following 11-point plan is suggested for the short and mid-term scenarios:

Digital marketing - Greatly expand digital marketing efforts on social media for both domestic and foreign tourism. Social media posts would help to create global identification, while advertising and supported posts are commonly available.

CRM – Ensure that every significant hotel has an active CRM program for both domestic and foreign customers.

New deals – Tie up with banks to provide instalment basis deals. This will also ensure continuous cash flow.

National airline – Government should support the financial requirements of the National Airline, which has become vital to the tourism industry with the collapse of many international airlines.

**Visas – Ensure hassle-free visa on arrival facilities for international tourists**

Length of stay – Provide incentives for tourists, both domestic and foreign, to extend their length of stay. This would require both financial incentives and expanded activities to keep tourists busy.

City branding – Focus on city branding aims mainly at promoting recognition, and unique identity.

City websites – Build compelling websites for cities and towns.

Optimise search marketing for cities – Paid search engine advertisement helps marketers to achieve a supported search engine result, which can enable them to bring organic search results into high use.

Financial support – Remove taxes and Customs duties; and provide low interest loans.

Competition! Competition! Competition! –With global leisure travel now at near zero, there will be an enormous effort by all tourism destinations to attract tourists. We need to keep a close watch on what our competitors are doing.

For the full article- refer the Daily FT

**3. Trade and balance of payments prospects this year**
**By: Dr. Nimal Sanderatne**

- As a result of the overall situation, the country's export earnings have seen a sub-par performance. It is affected on one hand by an ailing global economic landscape and on the other hand by a lack of production (as evident in tea exports). The only relief right now is falling import expenditures, mostly due to a fall in fuel prices. However, an increased trade deficit is still possible.

- While it is hard to measure the decreased tourist earnings and workers' remittances, there is no uncertainty that both of them would decrease precipitously this year. This means that if the trade deficit increases, it would lead to a balance of payment deficit. This makes the management of the trade deficit that much more important.

- All things considered, it is vital that the trade deficit is contained by both revival of export earnings and a sharp decrease in import expenditure. It is only by containing the trade deficit to a limited amount that the balance of payments deficit could be contained and stopped from eroding foreign currency reserves.

**Last Year**

In 2019 the trade deficit narrowed to nearly US$ 8 bn owing to a significant decline in imports and a slight increase in exports. This reduced the trade deficit by US$ 2.3 bn and enabled a small balance of payments surplus of US$ 377 mn. In contrast, the balance of payments deficit was US$ 1.1 bn in 2018, when the trade deficit was US$ 10.3 bn. This underscores the importance of reducing the trade deficit.

**Trade and BOP deficit 2020**

Although it is hazardous to predict this year's trade deficit due to the uncertainty of when the global economy would begin functioning normally, it is realistic to expect a larger trade deficit owing to lower exports. It is even more likely that there would be a large balance of payments deficit owing to the sharp decrease in earnings from tourism and lower workers' remittances.

**Exports**

This year's export earnings are likely to be much less than that of last year. Even though the export performance of the first quarter of this year is not indicative of the rest of the year owing to it being mostly prior to the global economic dislocation due to the COVID-19 pandemic, exports performed badly in the first three months of this year compared to the same period last year. Exports fell by 16% from US$ 3156 mn in the first quarter of 2019 to US$ 2650 in the first quarter of this year. Industrial exports fell by 14.4%, while agricultural exports decreased by 21.8%. In fact, all exports with the exception of minor agricultural exports fell.

**Tea**

Most disappointing has been the country's tea production and exports. Tea export earnings decreased by 22% in the first quarter of this year. Although tea export prices have gained some momentum, the inability to enhance tea export surpluses due to lower production may result in lower tea export earnings.

**Tea production**

Tea production in the first four months of this year of 73.3 mn kg was 23.7 mn kg less than the 97.0 mn kg of January-April 2019. Production in all three elevations decreased with low grown teas showing the highest deficit followed by high grown teas and medium grown teas.

tea production of 20.2 mn kg in April 2020 was a decrease of 3.4 mn kg compared to 23.6 mn kg in April 2019. This was the lowest crop for the month of April since 1993 when only 18.3 mn kg were produced.

**Expectations**

It is in this context that expectations of this year have to be realistically anticipated. Although there are signs of a recovery of some export industries in the second half of the year and certain adaptations may enhance new and diversified exports, it would be rather optimistic to expect an export growth this year.

Industries that are likely to enhance exports are rubber manufactures, hygienic apparel and seafood. The combined impact of these cannot be expected to exceed the export earnings of manufactures of last year. Agricultural exports too are unlikely to increase. The export performance of the next three quarters would be determined by the outcome of the global economic recession this year.

**Imports**

Some relief in the trade balance will undoubtedly come from further shrinkage of imports. There would be a decrease in expenditure on imports of all three categories of imports, especially of intermediate goods. These include raw materials for industry, lesser requirements in construction and the lower import expenditure on fuel imports.

**Fuel imports**

Annual average fuel imports constitute about 15-20% of total imports. The lesser import expenditure on fuel due to the combined effect of a lower demand for fuel for transport during the lockdown period, as well as the much lower international oil prices, would have a significant impact on decreasing fuel imports.

In the first quarter of this year fuel imports decreased owing to international fuel prices falling to US$ 37.7 per barrel. However, there is a possibility that the CPC may have imported much higher quantities than required in order to benefit from the depressed international price. In which case, this year's fuel imports would be a saving for the subsequent years.

**Fuel pricing**

Maintaining petrol prices at the earlier level is a prudent fiscal and trade policy. It enhances much needed revenue for the Government and prevents an increase in import expenditure.

**Large BOP deficit**

While it is difficult to estimate the decreased tourist earnings and workers' remittances, there is no uncertainty that both of them would decrease precipitously. The implication of this is that the trade deficit would lead to a balance of payment deficit and, in turn, the balance payments deficit will erode the country's foreign reserves.

**Conclusion**

All things considered it is vital that the trade deficit is contained by both revival of export earnings and a sharp decrease in import expenditure. It is only by containing the trade deficit to a limited amount that the balance of payments deficit could be contained at about US$ 2 bn.

Even this balance of payment deficit would be a serious strain in the country's reserves and next years' capacity to meet foreign debt repayment obligations of about US$ 4.5 bn. This is the underlying reason why it is vital that the Government negotiates for moratoria on debt repayments until the country's external finances can be in a better position.

For the full article – Refer The Sunday Times