

In Summary

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

1. Prospect of lower trade deficit strengthening external finances in 2019

By: Nimal Sanderatne

- Sri Lanka's external financial situation remains vulnerable, largely due to the amount of debt repayment due this year with reserves expected to drop to US\$ 6.7 bn by year end. This is further worsened by economic and geopolitical concerns, which can further worsen this deficit. While a BOP surplus would help replenish these reserves, high trade deficits have made this a difficult task.
- However, this year has seen an improvement in the trade deficit so far, dropping 55% for the 1st quarter when compared to the same period for 2018. This has been as a result of both a growth in exports and a fall in imports. If this trend continues, the country could see a smaller trade deficit by the end of the year and hence, a larger BOP surplus by the end of the year.
- However, numerous factors could still impact the BOP. An expected drop in remittances and tourism is at the top of this list. Unpredictable factors such as a rise in oil prices due to US sanctions on Iran and trade tensions could cause adverse impacts as well. Hence continuation of tariff, monetary, and fiscal policies to stem imports will be necessary to increase the BOP surplus and help the country's debt repayments.

The country's external financial vulnerability remains a serious concern despite the Central Bank's assurance that the country's debt repayment obligations can be met this year and that foreign reserves are expected to be US\$ 6.7 bn at the end of the year.

However, if the decline in the trade deficit in the first quarter of this year continues, the resulting sharp reduction in the trade deficit to around US\$ 8 to US\$ 8.5 bn could result in a significant BOP surplus that would strengthen the external finances.

External vulnerability

The country's external vulnerability is due to the large foreign debt and debt repayment obligations. The foreign debt of the country is likely to rise to about US\$ 55 bn at the end of this year, mainly due to the need to borrow to repay outstanding debt obligations of around US\$ 3 bn during the rest of the year.

This foreign debt of over 50% of GDP is too high. Foreign debt repayments have been nearly 30% of merchandise export earnings in recent years. Consequently, the country is in a vulnerable position, especially when facing external and internal shocks.

BOP surplus

BOP surpluses have been small owing to persistent large trade deficits. These small BoP surpluses have been inadequate to replenish the foreign reserves. A lower trade deficit this year could result in a higher BOP surplus. This can only be achieved by a much lower trade deficit than last year's US\$ 10.3 bn and the previous year's US\$ 9.6 bn. bn

Can this be achieved this year?

There is a prospect of a reduced trade deficit this year, if the decline in the trade deficit in the first quarter and the sharp decrease in the March trade deficit continues. In the first quarter of 2019, the trade deficit contracted to US\$ 1.66 bn from US\$ 2.98 bn in the first quarter of 2018. This 55% decrease in the trade deficit was brought about by a 5.6% increase in export earnings and by a reduction in import expenditure by as much as 19.3%.

March trade balance

The improvement in the trade balance was particularly sharp in March 2019 when the trade deficit narrowed by nearly 20% compared to March 2018, due to record high export earnings and a significant reduction in imports.

Imports

Expenditure on imports continued to decline due to policy measures adopted by the Central Bank and the government. Consumer, intermediate and investment goods imports decreased. The lower fuel prices were significant in intermediate imports decreasing.

Continuity

If this trend continues, the trade deficit could decline to as little as US\$ 7 bn. Even if the trade deficit is not reduced that much, but to US\$ 8 bn, it could result in a significant BOP surplus.

Risks

However, there are unpredictable factors that could affect the trade deficit adversely. The current international oil prices could rise, if the US imposes a trade embargo on Iran. Higher prices for fuel would affect the trade balance adversely. Trade tensions are serious threats to the country's trade.

Policies

The continuation of tariff policies on gold and motor vehicle imports are necessary while fiscal and monetary policies must be vigilant to stem imports.

Reversal

This decrease in the trade deficit in the first quarter of this year is a reversal of the trend in recent years, when despite an increase in exports, the trade deficit increased owing to a larger increase in imports.

This is especially important as the insecure conditions in the country and geopolitical factors are likely to decrease tourist earnings, foreign investments and workers' remittances that are significant foreign exchange earnings.

Projection

However, this would be possible only if workers' remittances and tourist earnings do not decline too much. The dip in workers' remittances and tourist earnings should not offset the gains in the trade balance. Foreign investments too are expected to decrease. Together these may reduce foreign earnings by about US\$ 3 bn.

[For the full article – Refer The Sunday Times](#)

2. Sri Lanka Tourism gets third chance. Will we blow it?

By: Rohantha N.A. Athukorala

- Sri Lanka has had a few opportunities to revive and position the tourism sector. The first of such opportunities came in 2009 after the cessation of hostilities with the LTTE and the second in 2015 after the appointment of the new government. We were not able to capitalize on these opportunities despite having commendable plans and capable individuals to execute those plans. In the aftermath of the April 21 terror attacks, the country's tourism sector is the most affected, with up to US\$ 1.5bn at risk of being lost. However, this fallout is also an opportunity, since it allows the country to revitalize the industry and fix issues within it.
- To this end, Sri Lanka can learn a few things from other countries such as the Maldives, where the industry landscape is similar. Maldives looks strategically at the bigger picture of its tourism agenda in a situation where the tourism sector is threatened by ISIS related threats. Tourism has thrived in the Maldives as they focus on other sectors that can boost the tourism sector as well as inviting young entrepreneurs into the sector creating new job opportunities. The country also has a very focused vision of making it a premier holiday destination with concrete plans which don't change often.
- The opportunity available to Sri Lanka right now must not be wasted. The country should go back to its basics and create an effective and targeted marketing effort to put Sri Lanka on the map again as a popular tourist destination. The hotels should also take this time to revamp their efforts to position themselves at the high-end. Ensuring that Sri Lanka takes initiative to address risks of over-tourism and ensuring that the

country's carrying capacity is not overwhelmed will be added requirements. Through the implementation of such policies, the country's tourism industry as well as every other part of the economy that depends upon it can be strengthened.

First chance: 2009

In 2009 we got the first chance after the cessation of hostilities with the LTTE. A fully-fledged advertising tender was rolled out, with professionals in the technical committee. After a rigorous process that lasted almost a year, a global advertising agency was selected, and for each market a specialized PR agency, that included a research agency to support the decision making. The process was headed by one of the top professionals in the industry. But, on the day of the launch, 'Sri Lanka - the Small Miracle', it was cancelled. The logic being, 'Sri Lanka has beaten the LTTE and it is not a small miracle but a BIG miracle'.

Second chance: 2015

The second chance came in 2015, when the new Government came, and professionals decided to take responsibility to lead such key institutions like tourism. Just like a private sector entity, a professional, above-board, technical committee was appointed, consisting of eminent independent individuals.

To bring in absolute professionalism, the first tender floated was a 'creative pitch', so that with limited funds we could get the best from advertising agencies to develop a strong 'positioning campaign'. The top seven global advertising agencies were shortlisted to submit proposals with a clear brief, which was done in just 3 months, given the urgency of the campaign.

A month before proposals were submitted, the Board was dissolved in October 2015, whilst the tender was cancelled two days before the submission date of the proposals. All seven ad agencies were up in arms, as each of them may had spent Rs. 10-15 mn with work done on strategy and creative. Even as we speak today, after four years there, the \$4 bn generating private sector sees no progress.

Third chance - today?

If one takes an optimistic view, post the 21 April Easter attacks, Sri Lanka Tourism has got the third chance. We can use the downtime of the industry to put the house in order. To do so;

- A PR agency should be appointed. (not just a blanket agency, but a specialized localized agency for the markets of India, China, UK, Germany, France, Italy, and Russia)
- We must also have a dedicated global advertising agency for positioning the country in the changing global landscape of this \$1.3 tn business. This must be done via the tender process, like what we did in 2008.
- The hotels that need refurbishment can use this time to do the same, whilst we correct the issues related to the stipulations of tour guides and the processes in visiting key sites like Sigiriya and Yala on the theory 'carrying capacity'.

A point to note is that "over-tourism" is a theme that the World Tourism Organization (WTO) is focusing on this year, which means the science of carrying capacity, which includes supply chain development, can be studied and best practices adopted by Sri Lanka.

Sadly, we see that the third chance is also slipping by, as now Sri Lanka has been challenged with a communal issue rather than focusing on tourism development.

SL Q2: recession?

For every tourist that visits a country, four people get employment in the value chain of tourism. Which is why in developed markets, one in every eleven people are employed in the tourism sector. Post the recent Easter Sunday attacks, what we see in Sri Lanka is the total economy collapsing, from tour guides to tourist vehicle owners, to people who are in the business of supplying food, vegetables, and meat products, almost on the verge of bankruptcy. Many hotels have closed down in different parts of the country.

We also see staff being laid-off by tourist establishments, just to manage the costs. The industry was struggling financially, based on calculations like ROI, even before the Easter Sunday attacks. The latest calculations reported are that the impact will cost the country around \$1.5 bn.

Post the development of the communal angle to the current issue, we see the total retail trade is affected, that will result in a contribution of almost 35% to the GDP taking a hit. Some speculate that the Q2-2019, will see the country moving to a recession with GDP at -1% to zero performance.

Global experience: terror attacks

If we take the global pick-up from similar incidents around the world, France suffered a 10% fall, Kenya 25%, while Turkey faced a drop of almost 50%. Brussels are grappling to recover which created huge stress on local jobs but now after an 8-10 months window, we see all the above economies turning around. It is estimated the same time will be taken in Sri Lanka.

Over 200 mn people globally rely on tourism. The importance of protecting the sector from external shocks, especially in more fragile developing economies, is very important, but we see that politics is taking over disasters rather than the economic reality.

Maldives: an example to us

In this background, the Maldives Government is strategically looking at the bigger picture in its tourism agenda, though the industry is challenged with a similar situation, due to the ISIS threat-related implication on tourism arrivals.

Maldives is;

- focusing on the opportunities in education, health, gender parity, and environmental protection, which all feeds into a robust and resilient tourist sector.
- increasing its appetite for younger middle-income Maldivians to launch their own entrepreneurial projects in the tourism industry
- creating jobs in the fields of infrastructure, health tourism, and technology, which is an interesting insight for an island nation.

The Maldives public sector would be proud about the nation been the best MDG+ country in South Asia. Literacy rate at 98% and extreme poverty being non-existent in the Maldives has

resulted in a vibrant tourism sector – with improved offerings and a better-educated, diverse, and engaged workforce, which ideally fits the strategic development of the industry.

Maldives: competitors

The competitor landscape is very similar to Sri Lanka. Maldives Tourism invests heavily in research for decision making – a point that Sri Lanka can learn.

Incidentally, one out of ten international visitors to the Maldives use 'Visit Maldives' as their travel guide to Maldives, which shows the power of a strong cutting edge-communication campaign. The Maldivian Tourism Campaign 'Sunny Side of Life' beautifully captures the essence of the brand.

Maldives Tourism master plans: four in 35 years

Maldives has had only four tourism master plans in a 35-year time span. The first was in 1982, the second tourism master plan was in 1995, the third was in 2007 and the fourth tourism master plan, which came to the market in 2013, is said to hold ground up to 2017.

The Maldives Tourism marketing team, shared that many adjustments had to be made to the plans on the run, but strictly speaking, the strategy was allowed kick in for a minimum of six to eight years so that the results can be analyzed, before it was once again taken back to the drawing boards. This is where Sri Lanka differs, the tea industry of Sri Lanka has had as many as 69 reports and plans by different stakeholders, and none have been implemented.

Maldives Tourism: focused vision

The strategic direction of Maldives Tourism is driven on an architecture that strictly ensures brand consistency, in contrast to the runaway informal sector that accounts for 60% of Sri Lanka tourism revenue.

Maldives Tourism is very clear that they want to be the best tropical island destination in the world, the most exclusive destination in South Asia, the top tourism earner in South Asia, and be an example of sustainable tourism development in small island nations.

In contrast, in Sri Lanka, if we examine the new properties coming up in Sri Lanka, over three-quarters happen to be in the three-star category, which inevitably tells us the type of tourists that will visit Sri Lanka in the next couple of years. The question is, given the limited resources we have, and the carrying capacity that the island holds, is it the three-star visitor that Sri Lanka must give space for?

Implications to Sri Lanka

We need to just go back to practicing the basics; just like my guru the late Prof Uditha Liyanage once said, 'be brilliant in the basics'. This is exactly what Maldives is doing in driving the tourism sector. Segment, target, position. Thereafter, derive the marketing objectives and key actions, that must be scaled down to a powerful creative, that then can be hosted on traditional media or emerging media like digital platforms. Sri Lanka has got the third chance. Will we blow this opportunity too, is the million-dollar question.

[For the full article - Refer Daily FT](#)

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