Reinvesting the peace dividend

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Since the end of three decades of conflict in 2009, Sri Lanka has experienced sustained growth

Ushered into office after a surprise win in January's snap elections – and since bolstered by August's parliamentary polls – the administration of President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe is making significant progress in implementing an ambitious reform programme that builds on the economic gains made under the previous government.

Since the end of three decades of conflict in 2009, Sri Lanka has experienced sustained growth. GDP grew by 7.4 per cent in 2014, improving on the 7.2 per cent growth recorded in 2013. The IMF is forecasting growth of 6 to 7 per cent for this year. "The mission agreed with the authorities that prospects remain favourable and that sustaining robust growth over the medium-term will require continued commitment to policies in support of macroeconomic stability, and structural reforms to enhance productivity and competitiveness," said the IMF in March 2015.

Meanwhile, President Sirisena has outlined the priorities for his five-year term:

- The 2016 budget focuses on bringing down debt levels while maintaining growth, marking a departure from the previous administration's emphasis on infrastructure investment, seeking instead to boost expansion through domestic demand rather than state spending.
- A key goal is to boost exports, using tea and textiles to further strengthen the agriculture and manufacturing sectors. Up until the 1990s, exports made up 30 per cent of GDP, but the figure has fallen by half. The government has set an annual exports target of US$50 billion.
- Working toward closer trade partnerships, particularly with the United Kingdom, will help improve the performance of Sri Lanka's exports. Simultaneously, continued focus on improving production and distribution capabilities is essential for increasing exports and thereby maintaining continued fiscal growth.
- Sri Lanka is also confident it can win back its GSP Plus status from the European Union, withdrawn in 2010. The EU's Generalised Scheme of Preferences allows developing countries to pay less or no duties on their exports to the EU, giving them tariff-free access to EU markets.

Sri Lanka diversifies its international partners

At the same time, Sri Lanka aims to reduce reliance on China and forge closer ties with the West. In recent years, Sri Lanka's infrastructure spending has depended increasingly on Chinese investment. As well as receiving more than US$4 billion in loans for various infrastructure ventures in recent years, Sri Lanka also relies on China for much of its exports, while importing raw materials from China.

President Sirisena is also focused on stronger economic ties with India, a natural partner for Sri Lanka in the region. Closer links with India should also help in terms of investment opportunities: India's economic growth could have a knock-on effect for Sri Lanka, not only through capital flows, but by opening up the region generally for additional investment.

The government has also introduced new legislation to lower taxes, combat corruption and develop a competitive workforce.

Since the end of the civil war, most economic growth has been driven by investments to rebuild infrastructure damaged or lost during the conflict. The goal of improving the country's

Galle Face Hotel – known as "the oldest hotel east of Suez" infrastructure has been of particular economic significance. Rail services between the north and the south of the island are now connected, bringing considerable benefits for the tourism industry, as well as for potential investment.

Real estate will also begin to play a bigger role in driving growth, thanks to legislation passed by the previous government. The Restrictions on Alienation of Land Bill abolished a 100 per cent tax on foreign purchases of property and was replaced by a 15 per cent duty on 99-year leases. Foreigners' shareholding rights have also benefitted, increasing the limit of shares from 25 to 49 per cent. Such incentives will encourage foreign investment in new areas and can have a significant impact to the economy in the coming years, says the Board of Investment of Sri Lanka (BOI), which points out that Fortune 100 companies are looking to set up their businesses in Sri Lanka.

The BOI is a "one-stop shop" for foreign investors and offers a range of services, including approving projects; granting incentives; providing legal advice; arranging services such as water, power and waste treatment; assisting in obtaining resident visas for expatriate personnel; and facilitating import and export clearances.

Improving the quality of human capital through effective education and skills development is central to Sri Lanka's economic growth and competitiveness.

Looking to the future

Continued growth will also depend largely on fostering private sector development and private investment, especially increased FDI. Sri Lanka's economy depends on FDI to bring in innovation. The importance of FDI is further underscored by the country's limited domestic savings rate, brought about largely by its demographic trends. Contrary to most economies in South Asia, Sri Lanka does not have a demographic dividend: by 2036, more than 22 per cent of the population will be over 60, and there will be 61 dependents per 100 adults. Increases in the labour force, employment rates and productivity will be central to growth. Against the background of an ageing society, efficient and well-targeted social assistance will also become more important.

Sri Lanka's liberalised economy has permitted the growth witnessed in recent years, with further development being attainable, providing the correct mechanisms are in place. A focus on reorganising the country's taxation system is essential in order to begin reducing the total debt currently burdening the state. Improving the country's infrastructure can also maximise the revenue of current income streams, namely exports and the service industries and exports. Reassessing the current structure of foreign loans may also be explored so as to offset future pitfalls. According to analysts, it is likely that the incumbent regime will also shop around for improved rates from other sources.

Europe, the United Kingdom and the United States have thrown their weight behind Sri Lanka thanks to the change in government and its policies. This should pull in more foreign investment and cement trade ties. At the same time, focusing on increasing revenue from Sri Lanka's strongest industries while introducing new income streams is laying the foundations for long-term fiscal growth. F

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Tourism set for major comeback

Tourism, an important source of income for the island, is thriving and has experienced considerable growth year-on-year. According to the Asian Development Bank's outlook, tourism revenue soared by 33.8 per cent to US$1.1 billion in 2014. Other services have also contributed to a growing GDP, significantly from the transportation, communication and financial sectors. The Sri Lankan Treasury reports that the service industry now accounts for almost 60 per cent of GDP.

Reflecting the resilience and the potential of the island's tourist sector is the Galle Face Hotel, which dates back to 1864. In November, it celebrated a two-year restoration and full refurbishment that was attended by the President and Prime Minister. Rather than resting on its laurels, the Galle Face Hotel has instead embraced its rich history to deliver to tomorrow's traveler.

Sri Lanka is also known for its vast array of precious stones and fine gems. Since 1970, visitors to the island have been buying jewelry designed by Sifani. In many ways, the company has become a barometer for the health of the tourism industry. Sifani's enduring success is a testament to the company's creativity, forward thinking design and attention to detail. Sifani's jewelry can be found in hotel chains like the Four Seasons, Shangri La, Six Senses, Per Aquam and Taj Exotica, and is also available from its own exclusive store in London, as well as in more than 25 retail stores in the Maldives, Seychelles, Mauritius, and Malaysia. The Sifani Gallery is the latest addition to the Sifani jewelry chain in its flagship store in Sri Lanka.