

NEWS

Sri Lanka's exports fall for 10th straight month

Bloomberg

SRI LANKA'S exports declined in September for the 10th straight month on reduced shipments of the South Asian island's tea, rubber, textiles and garments.

Overseas sales fell 12.8 percent to \$568.2 million from \$651.8 million a year earlier, after declining 6.7 percent in August, the Central Bank of Sri Lanka said on its Web site in late November.

The faltering export from Sri Lanka, which makes garments for Marks & Spencer Group Plc, Gap Inc. and Victoria's Secret indicates economic recovery is still weak in developed markets.

Sri Lanka's exports may suffer more headwinds as the European Union considers withdrawing some trade benefits it had granted to the nation on concerns of human rights violations.

"While garment exports to the U.S. declined by 19.5 percent in September, exports to the EU increased by 8.6 percent," the Colombo-based bank said.

Central bank Governor Nivard Cabraal said in October that Sri Lanka's record-low borrowing costs, aided by a benign inflation rate, will help the island overcome any loss of trade concessions from the EU.

Besides, Sri Lankan exporters' competitiveness has also improved with the local rupee depreciating about 18.5 percent against the euro since November last year, Cabraal said Oct. 29. Sri

Lanka is seeing a recovery in tea and garment orders from abroad since April, the central bank said last month.

The EU said Oct. 19 it may suspend some trade benefits it granted to Sri Lanka, because of "significant shortcomings" in three areas of human rights. Under the EU's GSP+ trade incentive program, apparel exports to the euro region benefited from a tariff concession of up to 7 percent, Cabraal said last month.

In 2008, 66 percent of Sri Lanka's apparel exports to the EU got a boost from the program, he said. Sri Lanka will conduct monetary policy "cautiously" to keep inflation below 10 percent and help boost the nation's economic recovery, the central bank said this month.

The value of industrial exports such as clothing, jewelry and rubber-based products declined 12.4 percent to \$409 million, the central bank said. Agricultural shipments fell 12 percent to \$148.4 million in September.

Sri Lanka's trade deficit in September narrowed 62.2 percent from a year earlier to \$220.3 million, the report showed. Imports fell 36.1 percent to \$788.5 million. The central bank expects the island's \$41 billion economy to grow as much as 6 percent next year after an estimated 3.5 percent expansion in 2009, helped by rebuilding of roads, ports and schools after the war.

Graft, violence hit recovery: watchdog

AFP

SRI LANKA'S recovery from its decades-long civil war has been marred by graft, violence and a culture of lawlessness, a global watchdog said Tuesday, December 15.

Transparency International rapped the for a lack of democracy, accountability and transparency.

"The latter half of 2009 marks a period of hope and potential for Sri Lanka. Yet, winning the war seems to have been easier than winning the peace," said the report by the body's local branch.

"Nowhere is this more clear than in the case of the government's record on human rights

and media freedom."

It said the authorities had cracked down on dissent in the final stages of the war, with journalists, diplomats and aid workers reprimanded or deported for making critical comments.

Transparency International said 34 journalists had been killed between 2004 and 2009, including Lasantha Wickrematunga, a prominent anti-establishment newspaper editor.

"Sri Lanka is at a crossroads," the report said, urging the government to replace "military logic with public legitimacy" to improve relations between the Sinhalese and Tamil communities.



Chinese workers carry out the contracts Chinese firms are increasingly winning in Sri Lanka

China gets dragon's share of post-war projects in Lanka

The Sunday Times

CHINA has bagged the largest chunk of post-war development projects in Sri Lanka's North and South with ongoing and projects concluded estimated at more than US\$ 6.1 billion or about Rs 6,973 million.

Contrary to popular belief that funds for all these projects are outright grants, all the money is being obtained at commercial rates from China's Exim Bank. This means the loans will have to be re-paid with interest by successive Governments in the years to come.

The costing for these projects, carried out by the Government to obtain funding, the Sunday Times learnt, has raised a serious issue. That is whether project costs have been heavily inflated far beyond the real value.

An example is the Chinese loan of US\$ 245 million (about Rs 27.9 billion) for a 56-kilometre railway track from Pallai (located on the northern edge of mainland Sri Lanka) to Kankesanthurai in the Jaffna peninsula. The cost works out to more than US\$ 4 million (about Rs 456 million) a kilometre.

This is in marked contrast to a 92-kilometre stretch of rail track from Omanthai (the last point in Wannu held by troops before the end of the war) to Pallai at a cost of US\$ 185 million (about Rs 21 billion). This works out to about US\$ 2 million a kilometre.

The US\$ 185 million for this part of the northern railway track is a soft loan from the Government of India. A soft loan is one with a below market interest rate.

In the North, the construction of all adjunct roads has been given to four different Chinese companies in 13 different packages. This followed a Cabinet decision on October 6 this year.

S.B. Divaratne, Secretary to the Presidential Task Force for Resettlement Development and Security in the Northern Province, has directed the Road Development Authority (RDA) to "enter into contracts urgently with the Chinese contractors and begin construction work as soon as possible to complete the work within 30 months."

This Task Force is headed by Senior Presidential Advisor Basil Rajapaksa.

The four Chinese companies which will share a staggering Rs 94.3 billion are China National Aero Technology Import and Export Corporation, China Harbour, China Railway No 5 Engineering Group Co. Ltd. and Synohydro Corporation.

No Sri Lankan labour will be employed in any of their projects. That means no employment opportunities will be available to Sri Lankans in the majority of the development projects since the defeat of Tigers.

These projects will see the induction of more Chinese labour. This in effect means that a part of the Exim Bank loans returns to China for the use of their labour.

In all projects undertaken by Chinese companies, their own labour is utilised.

On the basis of the Chinese gifted Performing Arts Society now under construction in Colombo, costing over US\$ 200

million (about Rs 22.8 billion), around 1,000 labourers are deployed.

On the basis of this, officials estimate that when the current projects involving US\$ 5.1 billion (about Rs 5,000 million) reaches US \$ 6.1 billion (over Rs 6973 million); the Chinese work force could reach 25,000.

Besides the Cabinet approved projects on October 6, other agreements have also been concluded with China.

Then Treasury Secretary, Sumith Abeysinghe, on a visit to Beijing signed an agreement with the Exim Bank of China on August 7 this year.

This was for a 'Priority List' for preferential buyers credit of the Exim Bank of China and totalled US\$ 646.8 million (or about Rs 73.9 billion).

These include Phase II of Puttalam Coal Power Project, Hambantota Port Development Project - Phase II, Matara-Kataragama Railway - Matara-Beliatta Section and Southern Expressway (Pinnaduwa-Matara Section) in the south.

In the north, the projects China is involved in include Palaly-KKS Railway, Medawachchiya-Talaimannar railway line, Jaffna Inner Circular Highway and Jaffna City links and all adjunct roads in the north, Mannar and Puttalam.

The agreements also covered the purchase of, among other items, two MA 60 transport aircraft. This is at a cost of US \$ 18 million (or about Rs 2 billion) each. This is said to be for use by Mihin Air which has already suffered colossal losses. The MA 60 or Modern Ark 60 is a turboprop powered aircraft; a close copy of Russian built Antonov AN 26.