SRI LANKA: A BREAKOUT NATION

THE ECONOMIC TIMES

Ruchir Sharma

I first visited Sri Lanka in 1997, shortly after a rebel bombing of the central bank headquarters had thrown the financial system into chaos. Military checkpoints made travelling around Colombo rather punishing, but the overwhelming impression was of a charming island and talented people trapped inside a seemingly endless civil war.

When I returned in 2011, the civil war had ended with surprising finality, and I took an extra day to see the country, including the huge territory that had been behind the lines of the Tamil rebels.

This should have been easy enough: the Tamil capital at Trincomalee is just 160 miles from Colombo - but the new highways were still being built, and the helicopter on offer was a single-engine job of the kind that routinely crashes in India. My accommodating hosts arranged for the air force to take me up in a twin-engined helicopter.

I've taken helicopters in many emerging markets when the road network is inefficient, normally a bad sign for the economy. But the aerial views of the multiple expressways under construction, the lush green plantations of the interior, and the new resorts facing the turquoise waters that drape the island helped convince me that Sri Lanka is no longer a land in waiting.

In the 1960s, Sri Lanka was billed as the next Asian growth miracle, only to be stymied by a tryst with socialism that played a direct role in igniting the civil war. During the war, Sri Lanka grew half as fast as South Korea and Taiwan and became another country in the long line of emerging-market disappointments.

Today, it seems that Sri Lanka's time has come. The civil war is over, the process of healing is under way, and there is every chance that Sri Lanka will become a breakout nation. Despite slowing sharply during the war years, the economy continued to grow at an average pace of nearly 5% even though it was running on one engine: the prosperous Western province where Colombo is located, and where the well-educated young population was producing strong growth in industries and services.

The North and East Provinces, which account for 30% of Sri Lanka's land and 15% of its population, were largely war zones. With the nation whole again, achieving 7% growth over the next decade should be well within reach.

Since taking office in 2005, President Mahinda Rajapaksa has been consolidating power in ways that critics see as the start of a family dynasty. For now, however, he is deploying his growing powers to ends that suggest he understands the fundamentals of growth, if not of democracy.

Rajapaksa's regime is working to trim the fat left over from the socialist experiments of the 1970s, including high taxes and government debts that still equal 80% of GDP. It is also bringing the vast swaths of formerly rebel-held territory back into play; the government has established vocational training centres and low-interest loan programmes, distributed boats and livestock, and begun building roads and bridges in the former war zone.

Banks are returning, big retail chains are setting up shop, and domestic airlines are flying to Jaffna and Trincomalee again. The flood of state spending drove growth in North and East provinces up to 14% in 2009 and 2010, and they are expected to grow at above 13% for several more years, making them the fastest-growing areas of the country.

SRI LANKA'S ECONOMIC PROSPECTS ARE EXCITING

visiting HSBC top official

Sri Lanka's economic prospects are exciting and the HSBC's business has grown each year since 2009 with top corporates increasing their trade in 2012, a visiting top official of the HSBC said.

The Global Trade and Receivables Finance division of HSBC Sri Lanka has seen phenomenal growth since 2009, with growth rates three times higher than the country's GDP growth for 2010 and 2011; and despite trade falling as Sri Lanka countered a balance of payments problem, HSBC Colombo had a better year in 2012.

"The team here in Colombo has done a fantastic job and we have seen strong growth in trade. I am here to see how this fantastic performance came about. Sri Lanka is in a new era of economic growth and I am here to assess the opportunities for HSBC going forward," HSBC Head of Asia Pacific International Global Trade and Receivables Finance Huynh Buu Quang said, speaking to The Island Financial Review at HSBC Colombo upon his arrival to the country for a four day visit.

The economy which grew at 8 percent in 2010 and 8.3 percent in 2011, slowed down to 6.5 percent last year, still impressive considering the global economic slump.

The bank has provided S$ 3.5 billion worth of financing for various projects in the country ranging from aviation, maritime and infrastructure development. Until 2009 HSBC Colombo's trade finance division had seen "very" static growth. After 2009, growth "jumped very high". 2010 and 2011 were very good for trade in Colombo, but 2012 was better.

"This must have come from our existing customer base. They may have captured more market share. Our clients in Colombo our industry leaders so they definitely sustained themselves despite changes in the macro-economy last year," Quang. Garments and tea have been traditional sectors serviced by the bank; but, since 2009, tourism, telecommunication, infrastructure development and oil bunkering sectors have increasingly accessed HSBC Colombo for trade finance.