Another export target destined to be missed? Sri Lanka is aiming to double its goods export revenue by 2027, but history is not on its side

In a recent statement, Sri Lanka's Export Development Board (EDB) announced plans to secure USD 31.3 billion revenue from total exports (both goods and services) by 2027. The EDB expects to double goods export revenue from 2022's USD 13.1 billion to USD 26 billion in five years – a yearly growth rate of 15%.

Sri Lanka has a history of seemingly ambitious export targets being missed and subsequently downgraded, and these fresh export aspirations face potential scepticism. For instance, the government expected to double goods exports from USD 10.6 billion in 2011 to USD 20 billion by 2020. However, as of 2022, goods exports of Sri Lanka earned only USD 13.1 billion, and the country has failed miserably to reach its target. Given that Sri Lanka only managed a modest increase of less than USD 3 billion in its goods exports over a decade (2011-2022), the aspiration to double exports in just five years, amid a global economic downturn and the uncertainty created by the rivalry between major economies, appears overly ambitious.

In fact, the EDB is already facing a setback, in only the first year of its 5-year plan. Contrary to its expectations, the goods exports in the first five months of 2023 fell by 8% compared to the same period in 2022. The goods export target set for 2023 is USD 15.9 billion. The slowing down of exports, combined with the gloomy forecasts made by the apparel industry that accounts for over 40% of the country's exports, will make it challenging for the EDB to meet its 2023 target.

Sri Lanka's targets modest compared to regional peers

According to World Bank trade data, Vietnam, a peer economy in the region, increased its goods exports by almost three times between 2011 and 2020 – despite Sri Lanka failing to even double its exports. The same source of data also shows that Sri Lanka's ambition to double its exports in the next five years, while seemingly a formidable challenge, is modest in comparison to the past export track records of many others in the region. For instance, from 2001 onwards, Vietnam managed to double its goods exports consistently over periods of five years or less. It has gone from USD 15 billion goods exports in 2001 to an export value of USD 200 billion in 2017. It almost doubled its exports over the past five years to USD 370 billion in 2022, even amid the pandemic. Meanwhile, Malaysia also scaled up its exports from USD 100 billion to USD 200 billion within five years. Thailand did the same in six years. India expanded its exports from USD 75 billion to USD 150 billion in just three years, and from USD 150 billion to USD 300 billion in four years.

Why has Sri Lanka fallen short of its export targets?

There are several key differences that stand out when comparing Sri Lanka with other countries in the region that experienced rapid growth in their exports within a short period – such as Thailand, Malaysia, and more recently, Vietnam. These differences shed light on important factors Sri Lanka appears to have neglected in its efforts to increase exports.

The first difference is that Sri Lanka strived to grow its exports by squeezing more out of existing industries and existing markets. In contrast, the other countries that saw their exports jump several-fold achieved that by expanding to new products and new markets.

The second difference is that Sri Lanka heavily depended on existing investors to contribute more to exports. However, countries like Thailand, Malaysia and Vietnam generated more exports by bringing in new investors.

Mobile phone exports from Vietnam grew from USD 2 billion in 2010 to USD 58 billion by 2021. An article published by The Economist magazine in May this year points out that Thailand's early presence in automotive supply chains enabled it to emerge as the tenth-largest producer of cars in the world, surpassing countries like France and Britain. Thailand almost doubled the value of automobile exports within a decade (2008-2018), from USD 18 billion to USD 32 billion. According to Reuters, Malaysia accounts for 13% of global chip assembly, testing and packaging, and 7% of the world's semiconductor trade. Connecting to GVCs enabled Malaysia to double its electronics exports from USD 49 billion in 2008 to USD 105 billion in 2018.

Overall, GVC-led exports (electrical goods, machinery, and automobiles) account for over 40% of the total exports of Thailand, Malaysia, and Vietnam. In contrast, exports of these products account for a mere 5% of Sri Lanka's total exports.

The next major shift that happened in the world market in the recent past is the pivot of world trade to the East. In the 21st century, with this shift, China emerged as the world's second-largest importer. Its imports increased nine-fold in the last two decades, from USD 295 billion in 2002 to USD 2,716 billion in 2022. Countries like Thailand, Malaysia and Vietnam were quick to expand their exports to this new and rapidly growing market in the region. Exports to China in 2021 accounted for 14%, 15% and 17% of the total exports of these countries, respectively. In contrast, Sri Lanka went on a borrowing spree with China but failed to benefit from the massive and rapidly growing Chinese market. As of 2021, exports to China accounted for only 2% of the total exports of Sri Lanka.

The experience of countries in the region has valuable lessons for Sri Lanka. First, the importance of identifying and utilising emerging opportunities in the global market. Second, the importance of venturing into new products and new markets – which is only possible by bringing in new investments, both local and foreign.

How can Sri Lanka accelerate its exports?

If Sri Lanka is to accelerate its exports, it is critical for the country to be able to respond to major shifts taking place in the global market at present. For example, in response to growing geopolitical tensions between the USA and China, many companies are seeking new investment locations to make their supply chains resilient to emerging geopolitical shocks. The Economist has coined the term "AltAsia" for a collection of 14 countries in the region which has the highest potential to become investment destinations for companies seeking to reduce the over-reliance on China and diversify their supply chains. It includes most of the ASEAN countries, as well as our South Asian neighbours India and Bangladesh. Sri Lanka is absent from this map of 'AltAsia'. While these countries are already attracting investments from major MNCs like Apple, Google, Samsung, and Intel, Sri Lanka appears to be missing this opportunity again.

The EDB is yet to publish a detailed official version of the country's national export strategy for the next five years. However, unless Sri Lanka takes note of the current shifts in the global market and devises strategies to capitalise on emerging opportunities, it will miss the latest target of doubling exports in five years too.

Comments - 1

Sokrates Thursday, 03 August 2023 08:54 AM

It doesn't surprise me at all that the export business isn't going well. The biggest problem are the bureaucratic hurdles. In order to be allowed to export, the Sri Lankan customs require about 20 documents. Among other things, such nonsense as Google photos of the company headquarters, a Google map with the shortest route to the nearest police station, deed or lease from the company headquarters, confirmation of the company headquarters from the village servant, the government agent and the municipal council and so on. A tea export license cannot be obtained at all for smaller companies, probably to protect the monopoly of the large companies. It took my company 4 weeks fulltime work for one employee to get all the documents. This deters foreign investors in particular. In Europe you only have to enter your name, address and tax number to get the European import/export number online. That's all.

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