



LAKSHMAN KADIRGAMAR INSTITUTE
OF INTERNATIONAL RELATIONS AND STRATEGIC STUDIES

PORT CITY SEZ -

A CATALYST FOR MODERN SERVICES IN SRI LANKA

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List of Abbreviations

APTA	Asia-Pacific Trade Agreement
ASEAN	Association of Southeast Asian Nations
BOP	Balance of Payments
BPM	Business Process Management
CHEC	China Harbour Engineering Company Ltd
CPCC	CHEC Port City Colombo
DIFC	Dubai International Financial Centre
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GIFT	Gujarat International Financial Tech-City
GoSL	Government of Sri Lanka
IBD	International Business District
ICT	Information and Communications Technology
IFSC	International Financial Services Centre
IMF	International Monetary Fund
NATO	North Atlantic Treaty Organization
OECD	Organisation for Economic Co-operation and Development
PMP	Project Master Plan
RCEP	Regional Comprehensive Economic Partnership
SAFTA	South Asian Free Trade Area
SDPA	Strategic Development Projects Act
SEZ	Special Economic Zone
TiSMoS	Trade in Services by Mode of Supply
TiVA	Trade in Value-Added
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

Executive Summary

Backdrop

Launched in 2014, Port City Colombo (hereafter “Port City”) is arguably the most ambitious development project in Sri Lanka’s over 70 years of post-independence history. Port City is an urban development venture, which extends the congested central business district of Colombo into the ocean. It is designed to be a Special Economic Zone (SEZ), with the stated aim to create a world class smart city in South Asia, which can provide a big push in Sri Lanka’s ongoing transformation to a services-led growth model and high-income status.

Port City is the single largest foreign investment in Sri Lanka’s history. It is being developed by CHEC Port City Colombo Pvt Ltd (CPCC) with the support of the Government of Sri Lanka. The project entails a far larger capital investment and is technically more complex than the Mahaweli multipurpose development programme, which sought to generate hydropower and irrigate the country’s dry zone. Port City is an engineering marvel being built on 269 hectares of land reclaimed from the Indian Ocean at a large eventual cost of US\$ 15 bn in current prices. It has an expected completion date of 2041, which means a long gestation period of two decades.

A government under President Gotabaya Rajapaksa was formed in late November 2019 with a radical agenda for the country’s economic transformation entitled “National Policy Framework - Vistas of Prosperity and Splendour” (published on 14 November 2019). The government has expressed interest in accelerating the timeline for the Port City project and in mid-February 2020 appointed a committee of experts to review the project and the policy regime to support its development.

Since then, however, COVID-19 pandemic has emerged and shifted the policy focus from long-term infrastructure development issues to tackling the public health emergency and the associated economic crisis in the Sri Lankan economy in 2020. At the time of writing (April 2020), the work of the committee of experts was still on-going and is expected to pick up as the COVID-19 pandemic abates. There is little doubt that the formulation and implementation of a coherent policy framework remains crucial for the success of the Port City project, particularly in difficult economic times ahead.

Aim of the Study

While there has been significant media coverage of the Port City project in both international and local outlets, there is a dearth of academic or policy-oriented research on the possible trajectory of the project and a desirable policy regime for success. In part, this may reflect the fact that Port City is a work in progress and is some years from completion. In order to fill the gap in the literature on economic development in Sri Lanka and provide policy insights, CHEC Port City Colombo Pvt Ltd commissioned the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI) to undertake an independent study on the long-term competitiveness of the Port City SEZ and its potential to become a catalyst for services-led growth in Sri Lanka.

The significant challenges involved undertaking the analysis, should be noted at the outset. For instance, the long duration of the project, covering more than twenty years, presents uncertainties for the analysis and available dataset. Furthermore, the COVID-19 pandemic is likely to affect the economic outlook for the global economy and the Sri Lankan economy. But the effect could be temporary and affect the

short-term economic outlook. Scientists say that a vaccine is the game changer to the road to normalcy and this about some 12-18 months away.

Contemplating the project's large scale and lengthy gestation period, the Port City raises three important questions for research:

- (1) What is the state of play in the global services industry and Sri Lanka's positioning as a modern services hub from 1980 to 2019?
- (2) What possible scenarios for the global and Sri Lankan economy might shape the evolution of the Port City project to 2041?
- (3) What insights might be drawn from more advanced services-based economies and established SEZs for developing Sri Lanka's policy regime for Port City?

These questions were researched using a combination of empirical methods drawn from the fields of economics and political risk analysis, which are particularly useful for studies of long-term competitiveness. These include structure-performance economic analysis, scenario building, and policy benchmarking. The work was conducted primarily through desk research, discussions among team members, visits to the Port City, and obtaining the views of stakeholders during an inception workshop.

Main Findings

First, the study identified key mega trends in the global services industry, Sri Lanka's performance as a modern services hub and some explanations for the country's record. Looking through the lens of structure-performance economic analysis, the focus was on long-term growth and structural change from 1980 to 2019, with some emphasis on the post-conflict period in Sri Lanka. It used international and Sri Lankan data on macroeconomic aggregates (such as value added, employment, and exports), as well as secondary literature where appropriate. This is an analysis of historic data which was intended as background to set the scene for the remainder of the analysis in the study. The lack of high frequency data – i.e., monthly or quarterly macroeconomic data - at the time of writing meant that the impact of the COVID-19 induced economic shock could not be incorporated into the analysis. Future research may usefully attempt to examine this issue.

Services have emerged as the central part of the global economy in recent decades. The share of services in global output was as much as 68% in 2017 (up from 56% in 1980). Meanwhile, services accounted for 49% of global employment in 2018 (up from 35% in 1991). However, the share of services in global exports (23% in 2018) lagged its shares of output and employment. This is linked to challenges relating to non-tariff barriers, the non-tradeable nature of some services, and weak firm-level competitiveness.

The global services industry is concentrated in North America and Europe. This said, Asia is rising in importance globally, in line with the historic shift in the world's economic centre of gravity towards Asia in the 21st Century. China, India, Japan, and the ASEAN economies have become particularly important service providers globally.

A key driver of the impressive growth in the global services industry and trade has been the structural shift in economic activity away from traditional services activities and towards modern services. This trend is particularly visible in more advanced OECD economies. Higher skills and digital technologies have raised service sector productivity to unprecedented levels and enabled many services to be traded

across borders. These modern services include financial, insurance, and ICT services, as well as a wide range of professional services, among others.

Sri Lanka – which occupies a strategic geographical location close to major global sea lanes and near the coast of the dynamic Indian economy – has long aspired to be a regional trading and services hub in the Indian Ocean. Some feel that one day a Sri Lankan regional hub might be able to compete with established services hubs in East Asia and the Middle East.

Sri Lanka's services sector has grown rapidly in line with global trends, particularly in the post-conflict era. The service sector in Sri Lanka accounted for 61% of GDP, 47% of employment, and 41% of exports in 2018. Closer scrutiny, however, shows that Sri Lanka's services sector can typically be characterized as a 'dualistic service economy'. In essence, a large traditional services sector with low productivity sits alongside a small modern services sector with high productivity. In 2018, the traditional services sector accounted for about 53% of GDP while modern services made up less than 8%.

Nonetheless, rapid growth from a small base and increasing ICT exports provide encouraging signs that a gradual shift towards modern services is underway in Sri Lanka. This is linked to factors such as low wages for skilled labour, liberal foreign investment laws, reasonable IT infrastructure, and a time zone advantage. At the same time, the development of modern services faces notable challenges including gaps in the policy and regulatory environment, scarcity of ICT skills, infrastructure problems, and the lack of a national brand for modern services.

As Port City is being designed to operate as an SEZ, it has the potential to address many of the challenges faced by the modern services sector in Sri Lanka and act as a catalyst for the country's development towards a high-income economy. Such an SEZ would seek to provide world class infrastructure and a regulatory regime that is distinct from the rest of the Sri Lankan economy. It would thus provide an attractive environment for local and international business to invest, create jobs, boost exports, and diversify the economy further in the direction of services-led growth.

Second, the study looked at different factors that are likely to influence the development of the Port City project and how they may interact to create different outcomes. This was undertaken with a view to highlight the possible challenges that the Port City project may face and to provide a starting point for discussion on how best to support its development. Scenario analysis – a widely used tool of political risk analysis – was deployed to undertake the difficult task of thinking about the future.

Port City's substantial scale and long-term nature, meant that a broad range of factors was thought to influence its development pathway. During intense brainstorming within the LKI team, ten factors were identified – three external and seven internal to Sri Lanka – that could have an impact on the development of the Port City project and are subject to a significant degree of uncertainty. Certain assumptions about the agreement and masterplan were held constant among the scenarios.

The result of the scenario building analysis was three broad scenarios categorised along the favourability of internal factors and the favourability of external factors. The scenarios and the implications for the Port City project can be briefly summarized as follows:

- *Scenario One: Benign Global Environment and Critical Domestic Reforms Implemented.*
The outcome would be 85% of Port City operational by 2041.

- *Scenario Two: Supportive Global Environment and Limited Domestic Reforms Implemented.*
The outcome would be 60% of Port City operational by 2041.
- *Scenario Three: Global Discord and Domestic Instability.*
The outcome would be 30% of Port City operational by 2041.

Third, the study examined how Port City compares with established SEZs in Asia and the Middle East focusing on the specific operating conditions in the zone and the national economic environment. The factors internal to SEZs include the regulatory institutions, fiscal incentives, and supporting infrastructure, while the country-specific factors include market size, infrastructure, labour market, and skills, as well as the macroeconomic and political environment.

Benchmark analysis considers good practices in areas such as business strategies and policy regimes from established ventures against start-ups or varieties of performance. It is commonly used by academics, think tanks, multi-national corporations, and consulting firms to inform a range of business and policy decisions.

In this report, Port City is compared against the experience and policy regimes of four SEZs – the Dubai International Financial Centre (DIFC) in the United Arab Emirates, Gujarat International Financial Tec-City (GIFT) in India, Songdo International Business District (IBD) in South Korea, and Labuan International Business and Financial Centre (IBFC) in Malaysia. These SEZs were selected to represent a range of geographical locations, policy histories, performance, and international experience. In the main, these are services hubs located in the Middle East and Asia that Port City in Sri Lanka may have to compete with in the future. The exercise used the available information at the time of writing.

These specific cases provided useful insights regarding the key factors that international and domestic investors may consider when investing in an SEZ like Port City. At the country-level, it is clear that access to a large market is important. South Korea and Malaysia have been able to move beyond this potential constraint by obtaining preferential access to a large number of markets through free trade agreements. Adequate supply of human capital is also a critical factor for an SEZ's attractiveness. South Korea and Malaysia have invested heavily and boosted the level of skills in university graduates with this in mind.

At an SEZ level, favourable tax concessions also play an important role in attracting investors. For example, DIFC provides a 40-year corporation tax holiday, while Songdo IBD provides a corporation tax holiday of at least three years and a 50% reduction on the prevailing rate thereafter. Supportive infrastructure and accessibility are other important considerations for investors and is an area DIFC excels in. The zone recently launched Wi-Fi 6, which provides the fastest wireless LAN access in the world and additionally provides direct metro access to Dubai's world-leading airport. Provision of visas is another important aspect of ensuring the supply of adequately skilled labour. Work permits for highly skilled workers appear more readily available in DIFC and Labuan IBFC compared to GIFT. With the advent of the COVID-19 pandemic, having world class hospitals and telemedicine as well as self-contained condominiums with attached supermarkets could be a significant advantage.

As such, the benchmarking exercise of SEZs provided useful insights for Sri Lanka of what seems important for international and domestic investors. It underscored the importance of country-specific factors targeting long-term competitiveness and growth while at the same time addressing macro-economic imbalances and ensuring political stability. Investments in infrastructure and human capital

are also essential to create a conducive business environment which attracts investors. Within a given country context, SEZ-specific factors also matter. Foreign and domestic investors desire competitive, transparent, and predictable SEZ policies to minimize transactions costs in key areas such as land and property ownership, immigration, and taxation.

A Last Word

Many economic uncertainties exist about the nature of a post-COVID future for the world economy and for Sri Lanka. There is much debate about whether an eventual recovery will be V-shaped or U-shaped and what risks may cloud the economic outlook.

Sri Lanka is a latecomer to the highly competitive international game of urban development through SEZs in Asia and the Middle East. It is likely that such competition will intensify with a focus on ‘value for money’ investments during the likely global down turn associated with the COVID-19 pandemic.

But it is noteworthy that Sri Lanka has put down an important marker by launching the potentially transformational Port City project to help realize its ambition of becoming a regional trading and services hub in the Indian Ocean. It could be particularly attractive to businesses from India, China, Japan, and other Asian countries interested in relocating to a safe and convenient country like Sri Lanka.

Sri Lanka has the twin advantages of leveraging a strategic geographical location and drawing on the experience of SEZs elsewhere on what works and what does not. Putting in place good national economic policies and a competitive SEZ framework will markedly improve the odds for Port City to succeed over time in challenging economic times.

Figure 1: What is the Port City?

Port City Colombo is a unique land reclamation and urban development project, which will add 269 hectares of reclaimed land to the central business district of Sri Lanka's vibrant commercial capital. Initiated in 2014, the project is developed by CHEC Port City Colombo Pvt Ltd (CPCC) through the wholly owned subsidiary of China Harbour Engineering Corporation (CHEC) and with the support of the Government of Sri Lanka (GoSL). Development work is currently expected to be completed by 2041.

It is the single largest Foreign Direct Investment (FDI) project in Sri Lanka's history with a total of US\$1.4 billion being invested in land reclamation and construction of internal infrastructure. An additional US\$13.5 billion in investment is expected to be generated from the development of the area into world-class office, retail, residential, hospitality, and recreational facilities.

The project area is divided between 178 hectares of marketable land and 91 hectares of common area, including a central park and beach. Port City's built-up area is expected to be 5.7 million square meters and will primarily cover residential (46%) and office space (26%), with 13% allocated for retail facilities and 6% for hotels. Other planned facilities include an international hospital, international school and convention and exhibition centre.

The entire area will be within the area of authority and the limits of the administrative district of Colombo. 116 hectares of the total area will be allocated to CPCC on a 99-year lease, which can be sold to national and international investors in order for the Company to recoup its investment. The remainder of the land area will be held by GoSL for development or leasing. The project is expected to generate 83,000 new jobs and become home to 75,000 residents.

CPCC launched Development Control Regulations in 2018, which benchmark international best practices in a range of areas, including urban design, utilities, landscape, and sustainability. These will be compulsory for all developers within Port City. This ensures that the highest standards for construction and sustainability are followed. Indeed, the development masterplan prioritises non-motorised models of transport, including walking and cycling.

To ensure an attractive investment environment, Port City is expected to operate as a services-orientated SEZ. This may include a mix of preferential tax and immigration regimes to help attract multinational companies. At the time of writing, a committee had been appointed by GoSL to evaluate the appropriateness and feasibility of SEZ legislation.

Long-Term Vision for Port City Colombo



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2019

2041

1. Introduction

Sri Lanka reached upper-middle income status in 2019 and crucial discussions are ongoing to identify the priorities for the next stage of its development towards becoming a high-income country. As a project of significant scale and national importance, Port City Colombo (hereafter “Port City”) will play a key role in this transition. The area is set to be developed as a world-class centre for the global services industry and is expected to operate as a Special Economic Zone (SEZ). As such, it will have a particularly important role in driving the growth of Sri Lanka’s burgeoning services sector.

Nonetheless, there is little academic or policy-oriented research on the possible trajectory of the project and a desirable policy regime for its success. This study aims to begin filling this gap, by providing an assessment of the long-term competitiveness of Port City. It focuses on three major areas. First, it explores the development of the global services industry over the past four decades, Sri Lanka’s current positioning within the sector, and prospects for the future. Second, it attempts to highlight the internal and external factors that will affect the development of Port City into a global services hub through the use of scenario analysis. Third, it assesses similar multi-services SEZs across Asia and the Middle East to identify factors driving success and how Sri Lanka compares. The study finds that Port City has the potential to be a transformational project for Sri Lanka, which can help it to achieve its ambition of becoming a regional trading and services hub in the Indian Ocean. However, ensuring good national economic policies and a competitive SEZ framework will be crucial in determining whether the project will fulfill this potential or not.

The remainder of this report is structured as follows. Chapter 2 provides a structure-performance analysis of the global services industry and the opportunities it presents for Sri Lanka, particularly in light of Port City’s potential as a multi-services SEZ. Chapter 3 provides three scenarios for the development of Port City between 2020 and 2041. Chapter 4 makes use of benchmark analysis to compare Sri Lanka against four other multi-services SEZs and highlights key factors driving the success of similar zones.

2. The Development of Global Services - Opportunities for Sri Lanka

2.1 Introduction

Port City presents a unique opportunity to accelerate the development of the nascent modern services sector in Sri Lanka. Following the example of SEZs around the world, Port City can address many of the constraints facing the services sector in Sri Lanka and attract major global players to invest. The additional employment, income, and demand from these new firms will have significant positive spillover effects for the rest of the economy. As such, Port City has the potential to be a catalyst for the next stage of Sri Lanka's development.

To understand the potential for Port City to become a hub for trade in services, this chapter will employ a structure-performance analysis to assess the development of the global services industry as a central part of the global economy. It will also seek to situate Sri Lanka's burgeoning services sector within this global picture, and explore how a services SEZ could be the catalyst for its development.

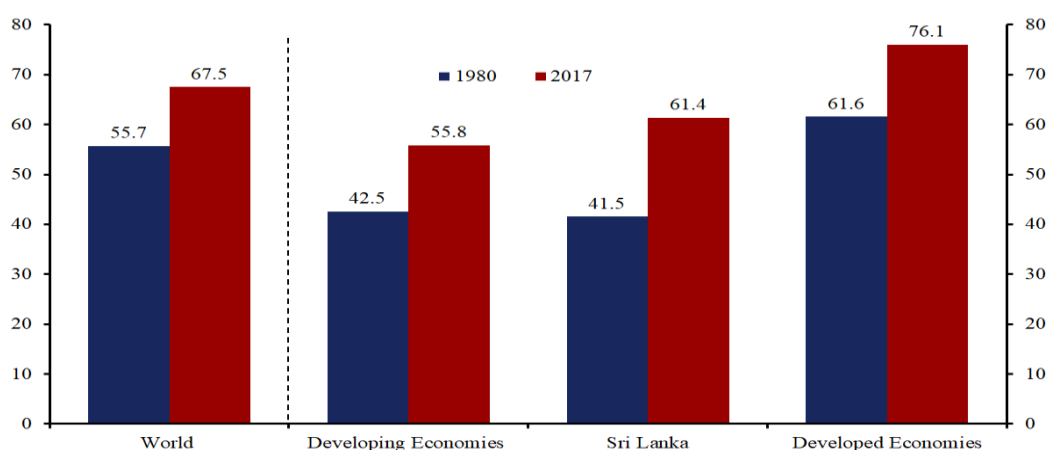
2.2 State of Play in Global Services: Four Stylised Facts

The global services industry has been transformed over the past four decades, becoming a central part of the world economy and a key driver of growth. The following section outlines four stylised facts regarding the sector's development.

#1 Services Have Emerged as a Central Part of the Global Economy

Services have emerged as a central part of the global economy in the 21st Century. This is demonstrated by the increased contribution of the sector to global value added, which rose from 55.7% in 1980 to 67.5% in 2017 (latest data available). This growth has occurred across both developed and developing economies, though the share of services value added in developed economies remains significantly higher. Sri Lanka has also experienced this shift to services, with the share of services in the economy's total value-added rising from 41.5% in 1980 to 61.4% in 2017 (latest data available). (See Figure 2.)

Figure 2: Services Value Added (% of Total)¹

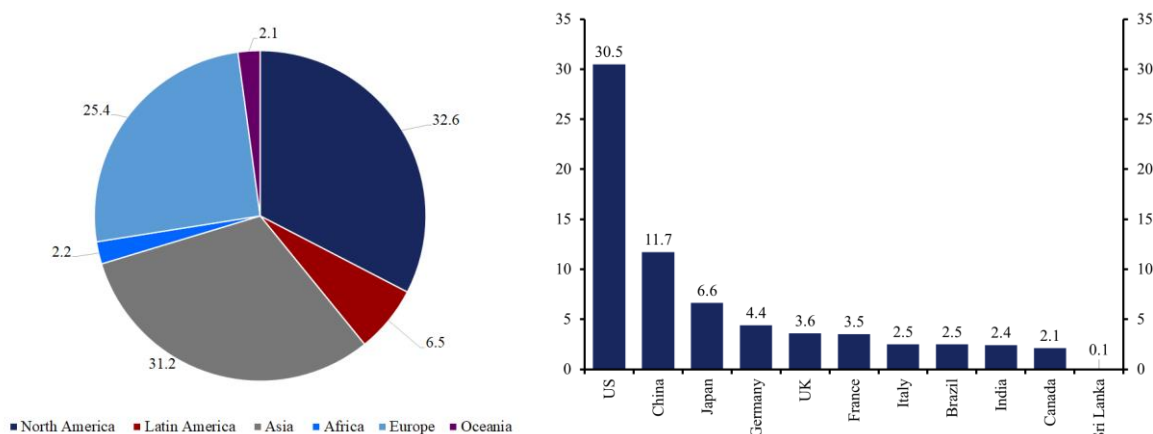


Note: Developing economies are a combination of the UNCTAD calculated categories defined as 'Developing Economies' and 'Transition Economies'.

A similar shift can be observed in global employment. Service’s share of world employment has increased from 34.5% in 1991 to 48.8% in 2018.² This has primarily come at the expense of falling employment in agriculture, while the share of global employment in industry has remained largely stable. In Sri Lanka, the share of employment in services rose from 30.6% in 1991 to 45.8% in 2018.

Geographically, global services value added is concentrated in North America and Europe, but Asia has also emerged as a dominant force, in line with its more prominent role in the global economy. This has been driven by the emergence of major service sectors in China, Japan, and India. (See Figure 3.) Sri Lanka accounts for just 0.1% of global services value added, which is in line with the economy’s overall share in global GDP (at market exchange rates).³

Figure 3: Global Services Value Added by Region & Country (% of Total)⁴



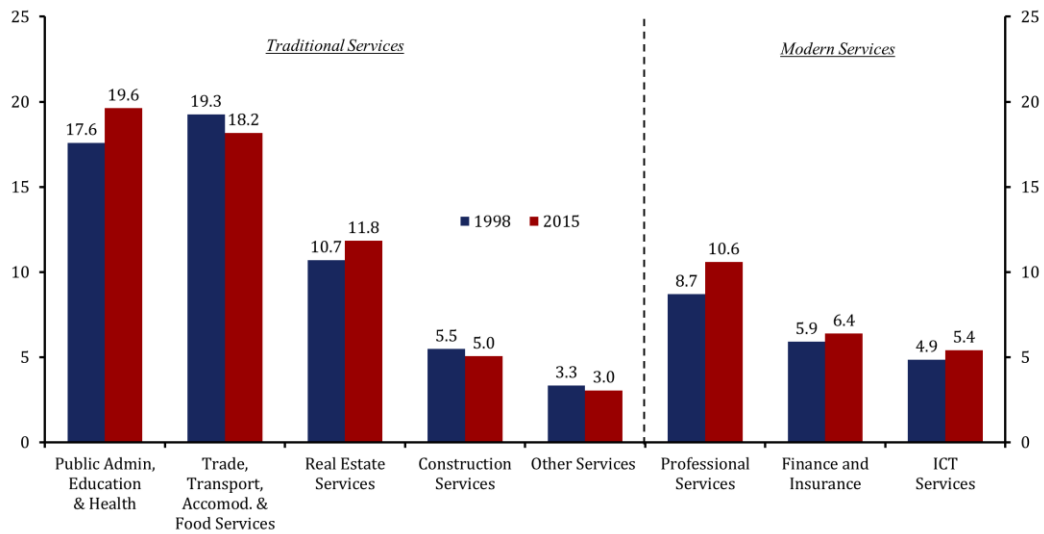
#2 Shift to ‘Modern’ Services Has Been a Key Driver of Growth

A key driver of the impressive growth of global services has been the shift to ‘modern’ services. In the past, economic thought held that services lag productivity growth in manufacturing and therefore are a less important driver of economic growth.⁵ This may be true in traditional services activities like retail trade, or reflect difficulties in measuring productivity changes in services.⁶ However, thanks to technological developments over the past four decades, it is clear that productivity growth in a number of services sectors now rivals or exceeds that in the manufacturing sector.

Digital technologies, in particular, have made it much easier to trade services across borders and pushed the marginal cost of providing additional units of services closer to zero.⁷ These modern (or Information and Communications Technology (ICT)-enabled) services⁸ include financial, insurance, and ICT services, as well as other professional services, relating to the provision of intellectual property rights, research and development, professional and management consulting services, and architectural and engineering services.

A detailed breakdown of services value added is not available at a global level, but the shift is evident in data for a large number of OECD economies. Traditional services still dominate, but their share of value added in these economies has only increased by 1.4% between 1998 and 2015, compared to an increased share of 2.9% for modern services. This has been driven by a significant rise in the share of professional services, as well as gains for finance and insurance, and ICT services. (See Figure 4.)

Figure 4: Services Value Added by Activity for Selected OECD Countries (% of Total)⁹*



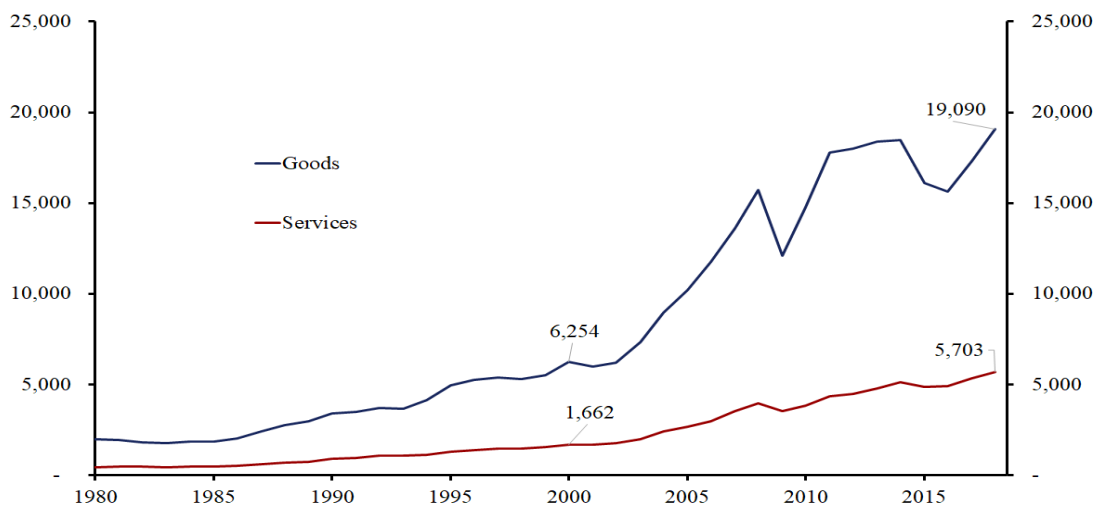
*This group includes 26 OECD countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

#3 Growth in Trade in Services Has Also Been Driven by Modern Services

The shift to modern services has also been a key driver behind the growing importance of trade in services. Services trade has more than tripled from around US\$1.7 trillion in 2000 to US\$5.7 trillion in 2018. (See Figure 5). This is faster growth than trade in goods during this period and, as a result, the share of services in total global trade has increased from around 26.6% in 2000 to 29.9% in 2018.¹⁰ What’s more, due to a number of measurement issues, this is likely to be a significant understatement of the importance of services in global trade. (See Appendix 1.)

Trade in services has also been more resilient to recent swings in the global economy. While world trade as a share of GDP has stagnated at around 20% since the 2008 Global Financial Crisis, services trade has continued to increase relative to GDP. Indeed, global services trade rose from 5.9% of world GDP in 2008 to around 6.6% in 2018.¹¹

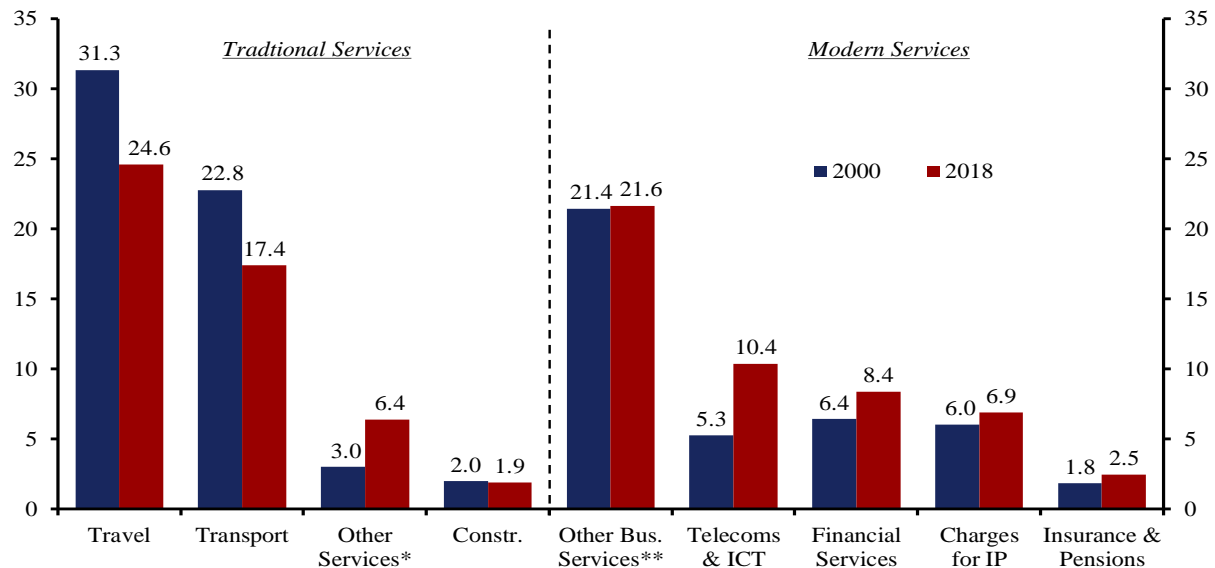
Figure 5: World Trade (US\$ Billions)¹²



Note: World trade is calculated as the average of world exports and imports

Similar to value added, global trade in services is dominated by traditional tradable services, particularly travel and transport services. That said, there has been a significant shift towards modern services. While the share of travel and transport services in global services exports fell significantly between 2000 and 2018, the share of all modern services categories has grown. In particular, the share of telecoms & ICT services has almost doubled from 5.3% of world services exports in 2000 to 10.4% in 2018. (See Figure 6.)

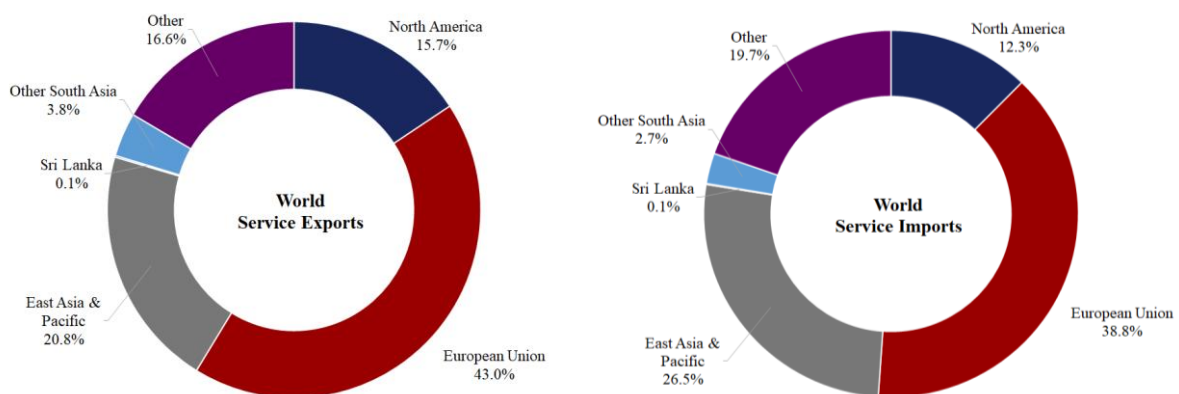
Figure 6: World Services Exports by Type (% of Total)¹³



* Includes personal, cultural, and recreational services, and government services not elsewhere specified
 **Includes professional and management consulting services, research and development, and other technical services
 Note: Data for 2000 is based on Business Process Management (BPM)5 methodology for balance of payments (BoP) compilation, while data for 2018 is based on BPM6 methodology.

In addition, while global services trade is dominated by North America and the EU, Asia has become a significant player. In 2018, East Asia and the Pacific accounted for 20.8% of world services exports and 26.5% of services imports. (See Figure 7.) China, Japan, and Singapore are the biggest players. Meanwhile, South Asia accounted for around 4% of world services exports and 3% of services imports. This is largely due to India, while Sri Lanka accounts for just 0.1% of global services trade.

Figure 7: Global Services Trade by Source (% of Total, 2018)¹⁴



#4 Services Are Set to Become Even More Important

Services are set to become an even more important part of the global economy in the coming years. This will be driven by four major trends¹⁵:

- i. *Demographic Shifts*: These will change the composition of global demand in favour of services. For example, in many developed economies rapidly ageing populations will increasingly demand more health services. Shifting generational preferences will also have an impact. Millennials (those born between 1980 and 1996), Generation Z (those born between 1997 and 2012), and the New Generation (those born after 2012) have a higher propensity to demand digital services than previous generations, and by 2030 these groups will constitute more than 50% of global population.¹⁶
- ii. *Global Income Convergence*: The ongoing convergence of incomes between developed and emerging economies points to increased demand for services, as consumers tend to devote an increasing share of their spending towards services as their incomes rise.¹⁷
- iii. *Technological Advancements*: The development of digital technologies has played a central role in the growth in trade in services through reducing trade costs and the need for face-to-face interactions. It is likely that further advances will continue to create new ways of delivering services, which allow more services to be provided across borders and therefore allow firms to exploit greater economies of scale.¹⁸ Emerging technologies, such as 3D printing and online streaming, may also create new areas of services trade that replace trade in goods.
- iv. *Climate Change*: The acceleration of climate change may disrupt many traditional services, such as tourism and logistics services. That said, it also has the potential to support the growth of environment-related services, as well as insurance against extreme weather events.¹⁹

Determining the net effects of these trends is a difficult task, but it seems likely that services will become an even larger share of global output and trade. The World Trade Organisation (WTO) estimates that, provided technological developments continue to lead to reductions in the cost of trading services, the share of services in global output is likely to rise to over 80% by 2040, compared to around 70% in 2018. Similarly, the share of services in global trade is expected to rise to around 30% by 2040, from approximately 20% in 2018. In addition, services trade growth is expected to be highest in developing countries as they take on a more important global role in modern services due to the expected increase in the number of skilled workers in these countries.²⁰

2.3 Sri Lanka's Positioning as a Modern Services Hub

Sri Lanka's services sector has benefited from the positive global trends in services, but the country's shift to modern services is still in its early stages. Accelerating this move will play a key role in the economy's path to becoming a high-income economy. Wage increases have made Sri Lanka a less attractive destination for labour intensive manufacturing and future growth must therefore be driven by higher-value add activities, including modern services. A limited domestic market and the need for foreign currency income mean that this must partly be export-focused. This section outlines the current state of play for Sri Lanka's services sector and outlines the importance of the shift towards modern services.

Early Signs of a Shift to Modern Services in Sri Lanka

Sri Lanka's services sector has developed rapidly over recent years in line with global trends, but the modern services sector remains in its nascent stages. While, as noted above, the contribution of services to GDP has risen significantly since 1980, it remains overwhelmingly dominated by traditional service activities. These accounted for around 50% of GDP and include transport, trade, healthcare, and education services. In comparison, modern services contributed only 7.8% of Sri Lanka's GDP in 2018.

Nonetheless, there are early signs that a shift to modern services is underway in Sri Lanka. The sub-sector has been the fastest growing part of the economy in recent years, expanding at an average annual rate of 9.1% between 2011 and 2018. This compares to average growth of 5.3% in the traditional services sector, 5.0% in industry, and 2.7% in agriculture. (See Table 1.) What's more, modern services are leading the ongoing recovery in the economy. Growth in the sector picked up strongly in Q3 2019, with IT and telecoms expanding at an annual rate of 20.5% and 11.1% respectively.²¹

A similar phenomenon can be observed in the distribution of employment in Sri Lanka. While 3.7 million people (46.6% of total employment) were employed in the services sector in 2018, just 314,000 (3.9% of total) were employed in modern services. This was composed of 173,000 people working in finance, 86,000 people in professional services, and 55,000 in information and communication services.²² However, in this area too, there are tentative signs of a shift to modern services. Employment in modern services has been the fastest growing area in recent years. Between 2014 and 2018, annual employment growth averaged 4.4% in Sri Lanka's modern services sector, compared to 1.9% in traditional services, 2.4% in industry, and an average contraction of 2.5% in agriculture. (See Table 2.)

Table 1: Sri Lanka's GDP By Sector²³

	Real Growth (%)									GDP Shares* (%)	
	2011	2012	2013	2014	2015	2016	2017	2018	Avg.	2010	2018
<i>Agriculture</i>	4.6	3.9	3.2	4.6	4.7	-3.7	-0.4	4.8	2.7	8.5	8.5
<i>Industry</i>	9.3	9.0	4.1	4.7	2.2	5.7	4.1	0.9	5.0	26.6	29.1
- Manufacturing	3.5	3.6	1.8	2.3	4.3	2.7	3.0	3.7	3.1	18.1	17.5
<i>Services**</i>	8.9	11.2	3.8	4.8	6.0	4.8	3.6	4.7	6.0	54.6	61.2
- Traditional	8.5	10.5	3.7	4.4	5.2	4.0	2.7	3.5	5.3	47.1	53.4
- Modern	11.8	15.4	5.0	6.9	8.5	8.2	7.1	9.6	9.1	7.5	7.8
GDP	8.4	9.1	3.4	5.0	5.0	4.5	3.4	3.2	5.3	-	-

*GDP shares shown do not add up to 100% due to exclusion of taxes less subsidies on products.

**Modern services include telecoms, IT, financial, insurance, and professional services. Traditional services include all other types of services.

The so far limited development of Sri Lanka's modern services sector is also evident from the country's export basket. Services exports have grown rapidly since 2009, reaching US\$8.4 billion in 2018. (See Figure 8.) This is not far behind the US\$11.9 billion Sri Lanka earned from goods exports and is equivalent to 41.3% of Sri Lanka's total exports, which constitutes a significant increase from the 22.3% share of services of total exports in 2010. That said, this growth has primarily been driven by a steep rise in traditional services exports, particularly travel services, reflecting the boom in Sri Lanka's

tourism sector since the end of the civil war. (See Figure 9.) Even so, there are still encouraging signs that Sri Lanka is making inroads into trade in modern services. For example, exports of computer services have risen ten-fold since 2005 to US\$848 million in 2018. Exports of financial services are also substantial at US\$242 million in 2018.

Table 2: Sri Lanka's Employment By Sector²⁴

	Employment Growth (% y/y)						Shares (%)	
	2014	2015	2016	2017	2018	Avg.	2013	2018
<u>Agriculture</u>	-4.2	1.0	-4.0	-0.6	-4.5	-2.5	30.2	25.5
<u>Industry</u>	1.5	-0.5	3.9	11.2	-4.0	2.4	26.0	27.9
- Manufacturing	1.7	1.3	0.9	11.3	-7.4	1.6	17.8	18.3
<u>Services</u>	2.6	3.4	3.6	1.1	-0.1	2.1	43.8	46.6
- Traditional	2.7	3.5	3.5	0.5	-0.6	1.9	40.5	42.6
- Modern	1.0	2.2	5.2	8.7	4.8	4.4	3.3	3.9
Total Employment	0.3	1.7	1.5	3.3	-2.4	0.9	30.2	25.5

Sri Lanka's tentative shift to modern services is akin to Arthur Lewis' famous dual sector model of development.²⁵ From this perspective, there is a large amount of surplus labour stuck in lower-productivity activities in the traditional services sector and the key to growth is moving people to the high-productivity modern services sector. While the original formulation focused on moving surplus labour from agriculture to industry, which is relevant at the initial stages of development, the evidence also suggests that more prosperous middle and high-income economies have succeeded in shifting to modern services. For example, modern services exports exceed 2% of GDP in a number of successful Asian economies, including India, Malaysia, Philippines, Thailand, Japan, and South Korea. In comparison, Sri Lanka's modern services exports account for circa 1.5% of GDP, which suggests there is scope to boost the country's growth by expanding the modern services sector. (See Appendix 2 for a summary of key indicators comparing Sri Lanka's service economy to other major countries in Asia.)

Figure 8: Sri Lanka's Exports (US\$ Millions)²⁶

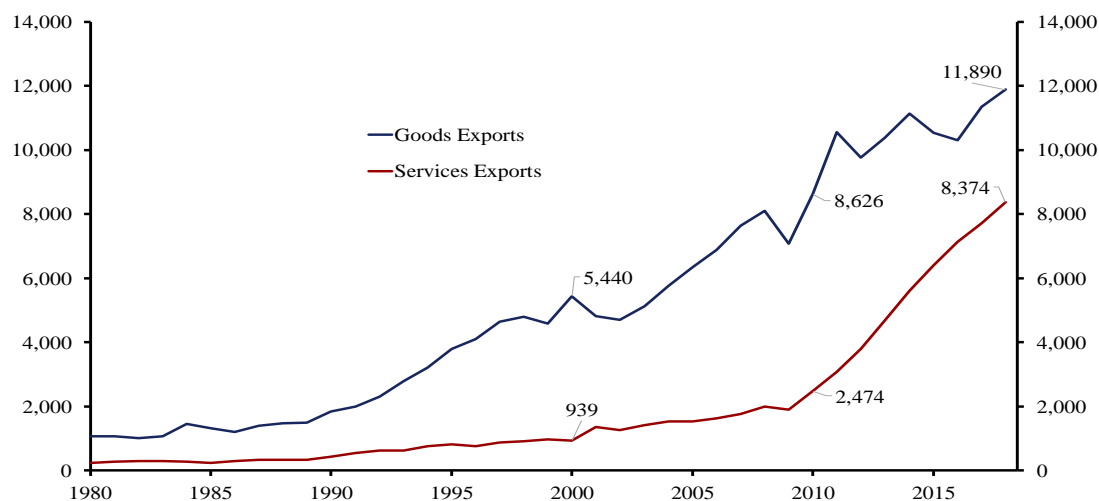
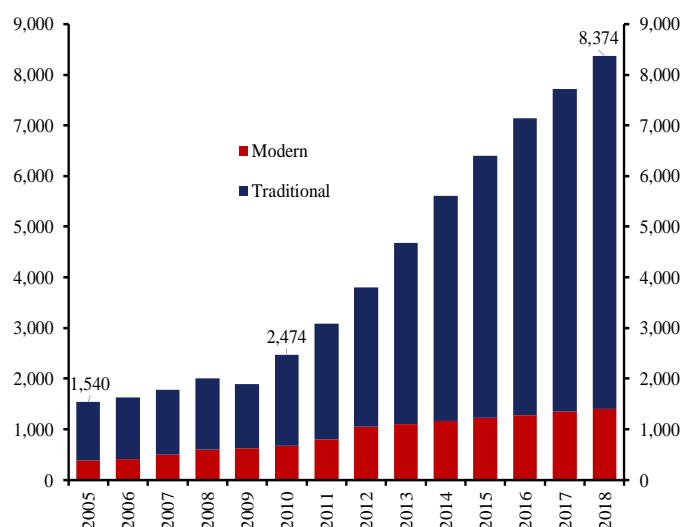


Figure 9: Sri Lanka's Services Exports by Type (US\$ Millions)²⁷



	2005	2010	2018
Services Exports	1,540	2,474	8,374
<i>Traditional Services</i>	<i>1,153</i>	<i>1,800</i>	<i>6,967</i>
- Travel	429	576	4,381
- Transport	673	1,162	2,486
- Construction	29	42	65
- Govt. Services n.i.e.	21	21	35
<i>Modern Services</i>	<i>386</i>	<i>674</i>	<i>1,407</i>
- Computer Services	82	265	848
- Financial Services	-	-	242
- Telecoms Services	44	83	147
- Insurance and Pensions	73	80	130
- Other Business Services	188	245	40

Sri Lanka Has the Potential to Be a Services Hub...

The emergence of a small, but successful, modern services sector in Sri Lanka over recent years points to competitive strengths for the country in this area. In fact, the country has been identified as an under-recognised centre for ICT, business process outsourcing, and other knowledge services, thanks to a pool of skilled English-speaking labour and competitive operation costs.²⁸ Average costs can be as much as 30% lower than other service outsourcing locations.²⁹ What's more, Sri Lanka's investment laws permit total foreign ownership, with no restrictions on repatriation of earnings, fees, capital, or foreign exchange transactions relating to current account payments. The country also has one of the most rigorous IP protection regimes in the region and a relatively efficient ICT infrastructure.³⁰

In addition, Sri Lanka's geographical positioning place it well to become a regional hub for modern services. Its time zone allows it to cover customers in both Europe and East Asia during working hours, as well as India's rapidly growing market. Sri Lanka is also located at the centre of the increasingly dynamic Indian Ocean region. This grouping is on course to become a new global growth pole, accounting for over 20% of global GDP by 2025 (at PPP exchange rates),³¹ with Sri Lanka having the potential to become one of the premiere centres for modern services in the region.

These positive features have helped to support the development of a number of successful local IT companies across finance, engineering, law, and architecture. For example, Millennium IT's success in providing software to stock exchanges around the world led to its acquisition by the London Stock Exchange Group in 2009, which has transformed it into a truly global company. Similarly, LegalBase provides a range of legal services to jurisdictions as diverse as Norway and the Maldives, and has been ranked as one of the world's five best legal outsourcing providers.³² As a result, a number of large foreign companies are clients of Sri Lankan IT, software and BPM services, including the holiday booking sections of Emirates and Qatar Airways. In addition, several multinational companies have set up offshore business support operations in Sri Lanka, including HSBC, Pearson, Sysco, and Navantis.

...but the Sector Faces Challenges

However, modern services firms in Sri Lanka also face a number of significant challenges that are hindering the development of the sector into a major part of the economy. Chapter Four will explore some of these issues in greater detail, but key areas are:

- i. *Unsupportive Policy and Regulatory Framework*: Sri Lanka's business environment ranks only 99th on the World Bank's Ease of Doing Business Report. This reflects a number of issues including large amounts of red tape, limited access to credit, cumbersome property registrations, inflexible labour regulations, and persistent policy uncertainty.
- ii. *Limited Availability of Industry-Relevant Labour*: The ICT industry alone believes that the sector will need as many as 18,000 newly qualified graduates annually in the coming years.³³ This far exceeds the numbers currently been produced by local universities and is worsened by the persistent drain of talent from the country due to outward migration. In addition, while local graduates generally have good technical skills, they are often missing the soft skills, practical experience, and English language proficiency the industry requires. The skills deficit is further aggravated by restrictive immigration procedures, which make occupational visas for foreign professionals difficult to obtain.
- iii. *Need to Consistently Brand Sri Lanka's Modern Services Sector*: Sri Lanka's potential as a global centre for modern services is under-recognised. An effective global brand would ensure that global customers have a positive image of the capabilities of Sri Lankan companies, thereby increasing sales, and reducing selling costs for individual entrepreneurs, as well as helping to attract greater FDI to the sector.³⁴ The benefits of effective global branding are already proven in other sectors in Sri Lanka, such as the apparel, tea, and tourism sectors.

The net result of these constraints has been the limited development of a modern services centre in Sri Lanka, partially due to limited FDI in the sector. Between 2009 and 2018, Sri Lanka received US\$2.5 billion of FDI into the services sector, which is equivalent to around 20% of the total inward FDI received. However, around half of this was destined for the hospitality sector, while just US\$0.3 billion went to the ICT and BPM sectors.³⁵

2.4 The Potential of Port City Colombo as a Services-Orientated SEZ

As a services-focused SEZ, Port City has the potential to address many of the challenges Sri Lanka's modern services sector faces and act as a catalyst for its development. This would help drive the country towards becoming a high-income economy.

SEZs Help to Address Private Sector Constraints

SEZs are commonly defined as a clearly demarcated geographical area with necessary supporting infrastructure, which has a legal and regulatory regime distinct from the rest of the economy.³⁶ Differences most commonly include varying tax and customs rules, but may also include any other relevant regulation, including reduced restrictions on foreign ownership or employment, and administrative streamlining.

The purpose of SEZs is to create a more attractive environment for businesses to invest and thereby create jobs, boost exports, diversify the economy, and build productive capacity. This occurs both through the direct impact of investments in SEZs on jobs and exports, as well as the indirect (or spillover) effects of increased income in the economy and supplier linkages beyond the zones, which creates additional employment. SEZs focused on particular sectors can also benefit from clustering effects (or agglomeration externalities) such as, knowledge and technology sharing, and labour pooling.³⁷

The concept of SEZs has a long history under various different names, but they have become increasingly popular in recent decades. The spread of exports-orientated industrial development strategies during the 1980s, particularly in Asia, and the increasing reliance of global manufacturing on offshore production alongside the development of global value chains throughout the 1990s and 2000s, have driven exponential growth in the use of SEZs. UNCTAD reported in 2019 that there were at least 5,383 varying types of SEZs across 147 economies.³⁸

The enduring popularity of SEZs reflects a number of attractive features. They present a relatively easy way of addressing business reform issues and attracting investment without facing the difficulties involved in addressing these throughout the economy, including coordination, funding, and vested interests. In addition, SEZs are also considered relatively low risk and low-cost endeavours as they are geographically constrained and the only direct cost the government usually incurs is the associated infrastructure. The popularity of SEZs may itself also be reinforcing, as competition to attract globally-mobile investment pushes countries to offer more favourable environments and incentives.

What's more, SEZs are not just used by developing countries to attract low-value added manufacturing activities. Emerging and developed economies tend to focus on using SEZs to stimulate industrial upgrading or high-value services activities. This demonstrates the ongoing relevance of SEZs at all levels of development.³⁹

SEZs Helped to Drive Sri Lanka's Move to Manufacturing

Sri Lanka has significant experience of SEZs in the form of Export Processing Zones (EPZs), which are a subset of SEZs focused primarily on manufactured exports. The first EPZ in Sri Lanka was established in Katunayake in 1978 under the authority of the Greater Colombo Economic Commission, which was later renamed the Board of Investment.⁴⁰

Today, there are twelve EPZs in Sri Lanka concentrated in the Western and Southern Provinces,⁴¹ and an additional three are planned⁴². These zones have played a crucial role in the development of Sri Lanka's exports, particularly the garment sector⁴³, which today continues to account for around 50% of the country's goods exports⁴⁴.

Port City Can Play a Similar Role for Services

Port City has the potential to play a similar role for the country's modern services sector. As an SEZ, it has the potential to overcome many of the challenges the sector currently faces, including the easing of a number of policy and regulatory constraints. It can also address issues with limited Grade A office space in Colombo and the limited pool of skilled labour, depending on immigration rules for Port City companies. This would create a more conducive and attractive environment for foreign investment in the modern services sector.

What's more, Port City will have a number of positive spillover effects for the modern services sector outside of its geographical boundaries, as well as the rest of the country. For example, all firms in the sector will benefit from an increase in the pool of skilled and experienced labour. The successful development of Port City can also play a central role in increasing global awareness of Sri Lanka as an attractive centre for modern services, which will boost FDI throughout the economy.

2.5 Conclusion

The development of Port City presents a unique opportunity to fast-track the development of the modern services sector in Sri Lanka, and thereby drive the next stage of the country's development. Services are a central part of the global economy and look set to only become more important over the coming years. Sri Lankan ICT and finance companies have already made impressive inroads into the industry with little support. By addressing many of the constraints the modern services sector faces, Port City can accelerate the development of the sector and play a key role in moving Sri Lanka towards becoming a high-income economy.

3. The Future of Port City Colombo – A Scenario Approach

3.1 Introduction

Due to the project's substantial scale and long-term nature, a broad range of factors will influence Port City's development. Some of these, such as local labour resources or easing infrastructure bottlenecks, are within Sri Lanka's control, while others, including global economic and technological developments are not. The unpredictability of certain factors and events therefore calls for a tool, such as scenario analysis, to assess how the Port City project may unfold.

This chapter attempts to outline potential factors which are likely to influence the building process and ultimately the completion of Port City. It will outline three scenarios with varying underlying assumptions. Our qualitative analysis thereby complements a quantitative analysis conducted by PwC Sri Lanka, which assesses the economic impact of Port City across various indicators such as employment, FDI inflows, value addition, balance of payments and government revenue. The PwC Sri Lanka study identifies Port City's potential economic impact, taking account of the three scenarios outlined in our analysis. Together, both analyses enable a more holistic assessment of the potential impact Port City can have as a multi-services hub on Sri Lanka's economy. The key takeaway of the scenario analysis is that domestic reforms and consistent government policy are likely to be the most important determinants of Port City's success.

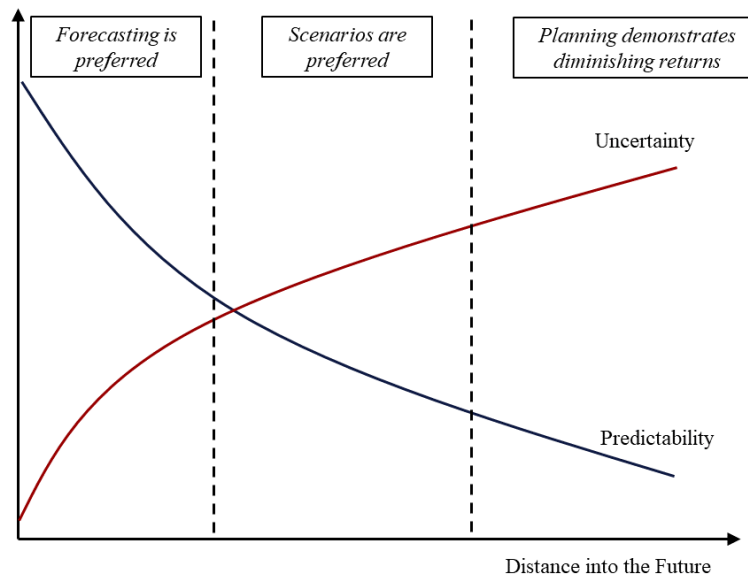
3.2 Why use Scenario Analysis?

Scenarios are a structured means of thinking about the future. They can be more precisely defined as '*consistent and coherent descriptions of alternative futures that reflect different perspectives on past, present and future developments*'.⁴⁵ They are not attempts to predict the future and should not be confused with forecasts. Rather, they are tools that help explore different ways the future might unfold. Indeed, while scenarios should always be plausible, the probability of a detailed scenario playing out exactly in reality is close to zero.

The strength of scenario analysis lies in its ability to incorporate large amounts of uncertainty around how the future will develop. Instead of only considering the developments that are most probable, this approach looks at a range of possible futures to reveal the dynamics of change and make risks around expected future developments clearer.⁴⁶ This is particularly important for medium-to-long-term planning. In contrast, quantitative forecasting assumes that it is possible to predict the future based on existing correlations between variables. This is useful in the short-term when it may be reasonable to assume that these relationships remain the same. However, as we look further ahead and uncertainty grows, there is more likely to be changes in these relationships (i.e. structural breaks) that render the forecast incorrect. By constructing multiple scenarios, we can integrate uncertainty into a handful of plausible futures that help us consider a range of possibilities. Figure 10 helps to illustrate this point graphically, showing where scenario analysis can be more useful than forecasting.

Of course, one limitation of scenario analysis is that it does not lead to precise conclusions and is generally qualitative in nature. As such, it is subject to the personal bias of those who contribute to the scenarios and should be treated with caution. This said, they remain useful as a tool to increase awareness of the risks around the expected course of events and inform major policy or business decisions.

*Figure 10: The Balance between Predictability and Uncertainty*⁴⁷



The usefulness of scenario analysis is demonstrated by its enduring popularity in professional applications.⁴⁸ In the modern context, its initial use is generally attributed to Herman Kahn who developed scenarios as part of strategy research for the US military at the RAND Corporation during the 1950s. Application spread to the private sector during the 1970s, with scenario analysis famously used by Royal Dutch Shell as part of strategy planning, allowing the Company to weather the turbulent decade.⁴⁹ The turbulence of the 1990s and 2000s further reinforced interest in scenario thinking and the approach is now commonly used across the private and public sector.

Scenario analysis can be used for a range of purposes, including strategy development.⁵⁰ The purpose of this chapter's scenario analysis, however, is to highlight the key factors that will influence the development of Port City and how they are likely to interact. It is also hoped that these scenarios will be a useful starting point for discussions about how to support the successful development of the project.

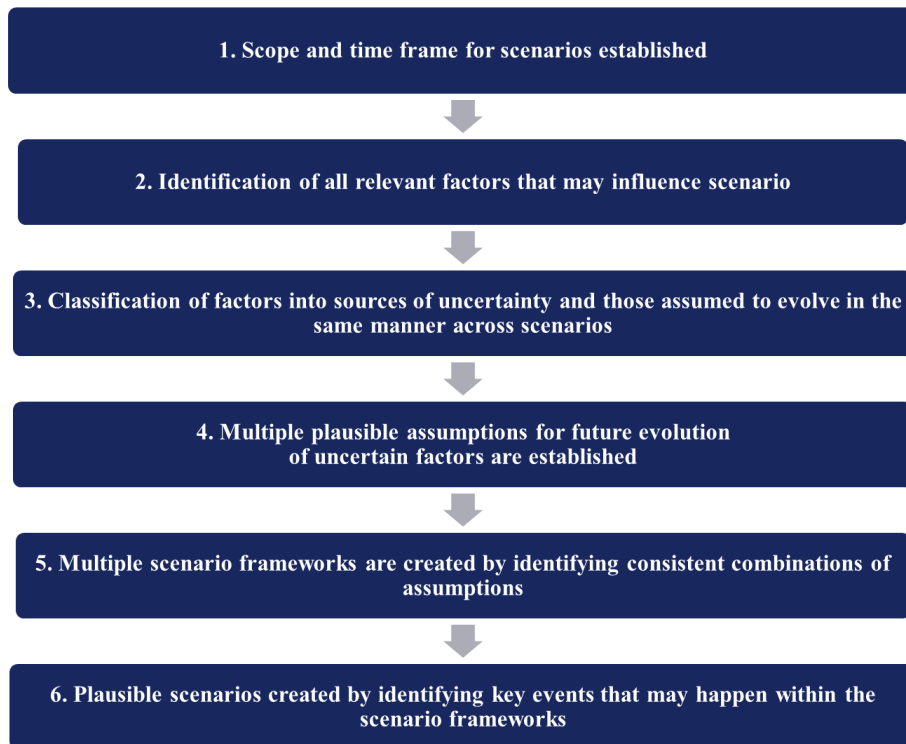
3.3 Methodology

Various methods for constructing scenarios can be found in the literature⁵¹, but in broad terms they follow a similar structure. Our approach is closest to that outlined by Bood and Postma (1997)⁵², with an overview of our methodology being provided in Figure 11.ⁱ

The first step is to establish the scope and timeframe for the scenarios. In our case, we are interested in the domestic and international context that will affect the development of Port City. The time frame covers the period between 2020 to 2041, which is the expected completion date for the project.

ⁱ All stages were carried out in a collaborative manner by the project team to reduce the influence of individual bias and allow for the widest possible range of views. It should also be noted that the intention of the scenario development is not to assess every possible future, but only those that are significantly different and provide additional insights for the topic being considered.

*Figure 11: The Process of Scenario Development*⁵³



The second step is to identify all factors that are likely to influence the development of Port City over this period. These are outlined in the following section. The factors are classified between those that can be expected to evolve in the same way across all scenarios (also referred to as trends) and those that are uncertain and may therefore vary across scenarios. Multiple plausible assumptions (or states) for the factors are subsequently established. For example, the global economy could be expected to become less integrated over the next twenty years due to the recent increase in trade protectionism and the weakening of multilateral institutions. However, it is equally plausible that recent developments are a temporary blip and globalisation continues to link the economies of different countries more closely. These different assumptions are based on detailed research of the historical development and current states of the factors. This ensures that assumptions about how they will evolve are based on a sound understanding of the dynamics of the factor.

The final stage is the creation of scenario frameworks by identifying consistent combinations of assumptions for uncertain factors. For example, if domestic political instability increases, it is unlikely that comprehensive policies will be implemented to address environmental issues as political attention will be focused elsewhere. Using these frameworks, plausible scenarios are then created by identifying key events that would contribute to these assumptions being realised. These can be represented on a timeline and form part of a narrative that explains how the scenario may evolve.

3.4 Factors Affecting the Future Development of Port City Colombo

The project team identified ten factors that are likely to have a major impact on the development of Port City and are subject to significant uncertainty – three external factors and seven internal to Sri Lanka. The following section provides a brief description of these factors, including their relevance to the development of Port City. Chapter 4 provides a more in-depth analysis of the various internal factors, including their current state and how they compare to other services SEZs.

External Factors

- I. **Global Economic Developments:** As much of the investment in the Port City project is expected to come from international investors, the performance of the global economy during the scenario period will have an important influence on demand for its facilities. This includes the trajectory of global GDP growth, developments in the international trading system, and the stability of global financial markets.
- II. **International Political Order:** Given the intention to establish Port City as a global centre for trade in services, international politics may have a significant impact on demand for its facilities. For example, greater isolationism and mistrust between countries may lead to increased trade barriers and conflict, which would hamper global trade growth and potentially reduce global demand for services exports.
- III. **Global Technological Advances:** Revolutionary advances in technology have transformed the way business is carried out in the 21st century and been a key driver of the increased importance of trade in services. Future technological developments may continue to reinforce this by reducing the cost of trading services. This would help to support demand for Port City's office facilities. However, it is also possible that future technological developments, for example in artificial intelligence, reduce the need to outsource services or have regional offices. This may lead to a reduction in demand for the facilities Port City will offer.

Internal Factors

- IV. **Sri Lanka's Domestic Stability:** This refers to the stability of Sri Lanka's political system and security environment. It is a crucial factor for investors when assessing the attractiveness of Port City as it determines whether Sri Lanka can maintain rule of law, the absence of violence, and terrorism, and therefore a stable business environment.
- V. **Port City SEZ Legislation and Investment Incentives:** SEZs generally provide a regulatory and legal regime to investors that is distinct from the rest of the economy. The details and successful implementation of this regime, as well as any associated investment incentives, will play a crucial role in attracting investors and international companies to Port City.
- VI. **Sri Lanka's Labour Market Resources:** Port City will require a steady supply of skilled workers to be involved in both the construction and operational phases. As the project develops, challenges such as Sri Lanka's aging population, skill mismatches, labour shortages due to outward migration, and a restrictive immigration regime may adversely impact the prospects of the project if they are not adequately addressed.
- VII. **Infrastructure Development Outside of Port City:** The provision of efficient transport and utilities infrastructure will be critical to the smooth functioning of Port City. A large number of people are expected to enter Port City each day to work and will require efficient roads and public transport to ensure this does not become a prohibitively time-consuming task. In addition, the reliability of utilities, including electricity, and internet services, will be an important consideration for businesses looking to invest in Port City.

- VIII. **Sri Lanka’s Environmental Policies:** The surrounding environment is a key determinant of Port City’s liveability and is an increasingly important concern for international investors. If Sri Lanka does not adopt policies to address increasing pollution (particularly air, water and solid waste pollution) and mitigate the negative effects of climate change, it will undermine the attractiveness of Port City as an investment location.
- IX. **Growth of Sri Lanka’s Economy:** This refers to Sri Lanka’s GDP growth, as well as increases in per capita income. These are potentially important factors for the development of Port City as a portion of the demand for its facilities will come from the local economy. Strong economic growth and stable macroeconomic conditions will also be an attractive factor for international investors and companies considering locating in Port City.
- X. **Sri Lanka’s International Relations:** Strong bilateral relations with major world powers, including China, India, the US, and EU, will help to support foreign investment into Port City. In contrast, if relations with some major powers deteriorate, they are likely to deter their private sector from investing in the project.

In addition to the ten factors mentioned above, the team considered three additional factors they believe are subject to a lower degree of uncertainty. As such, they are assumed to develop in the same manner across all scenarios. They are as follow:

- i. The agreement between the GoSL and CPCC for the construction of the project is assumed to remain unchanged during the scenario period.
- ii. The development of Port City is assumed to follow the existing Masterplan and Development Control Regulations.
- iii. Global climate change is assumed to continue during the scenario period, leading to increased global temperatures and a greater incidence of extreme weather events.

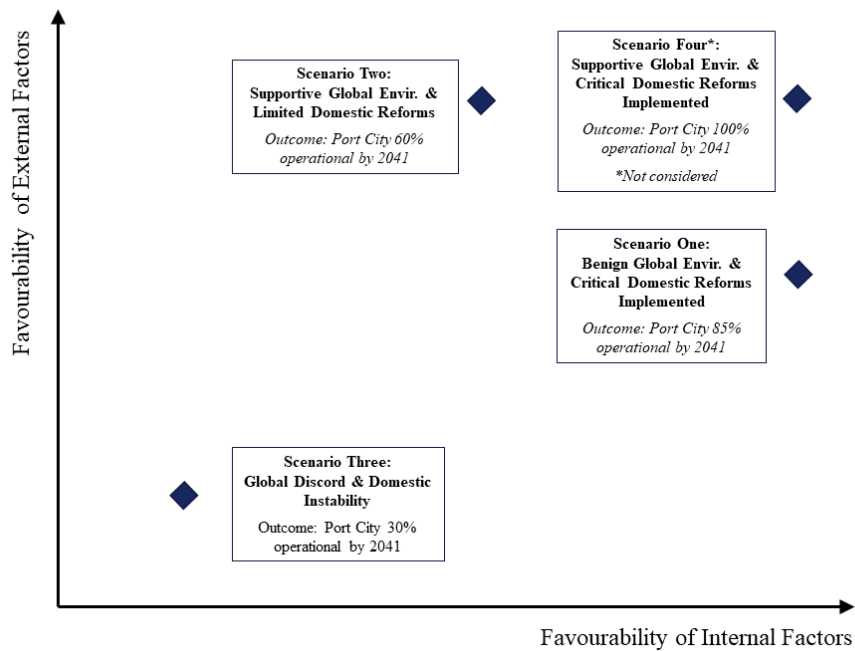
3.5 Three Scenarios for the Development of Port City 2020-2041

Three scenarios were constructed for the development of Port City between 2020 and 2041. Each is based on plausible combinations of assumptions about the future path of the ten uncertain factors mentioned above. These scenarios can broadly be categorised along two dimensions – the favourability of internal factors and the favourability of external factors – and are titled as follows:

- Scenario One: Benign Global Environment & Critical Domestic Reforms Implemented
- Scenario Two: Supportive Global Environment & Limited Domestic Reforms Implemented
- Scenario Three: Global Discord & Domestic Instability

The relative position of the scenarios on these two dimensions is illustrated in Figure 12. A fourth ideal scenario could be considered, where both global conditions and critical domestic reforms are more supportive than in *Scenario One*, and is included in Figure 12. However, this scenario was considered to be unrealistic and does not provide significant additional insights to the existing three scenarios. As such, we have not considered this scenario in further detail.

Figure 12: Overview of Scenarios for Port City 2020-2041⁵⁴



The following section provides an overview and illustrative timeline for each of the scenarios considered. The details of the assumptions (or scenario frameworks) underlying these scenarios are provided in Appendix 4 for reference. It should be noted that the events mentioned in the scenarios are examples of possible developments that would be consistent with the scenario frameworks and are not intended to be predictions or descriptions of desirable futures.

Scenario One: Benign Global Environment & Critical Domestic Reforms Implemented

In this scenario, fears of a reversal in globalisation are not realised and world trade continues to increase. The US-China trade war continues to be paused, though tariffs are only partially reduced and attempts to find a permanent arrangement do not come to fruition. Nonetheless, the Regional Comprehensive Economic Partnership (RCEP), a megaregional trade agreement covering the Association of Southeast Asian Nations (ASEAN), and a number of other major Asian economies, is signed in the early 2020s. Renewed momentum in multilateral trade negotiations also means the WTO’s Doha round is completed in 2025. This said, global GDP growth remains lacklustre as productivity gains are limited. Domestic political trends move the US towards a reduced role in global political institutions. In response, major Asian economies step up their engagement on a range of issues and the Asia Infrastructure Investment Bank becomes the largest development bank in the world. With Asia emerging as the new global leader, the UN General Assembly relocates from New York to Singapore by 2035. Sri Lanka responds to the shifting global environment by strengthening relations in Asia through regional initiatives. The country joins RCEP by 2030 and is later granted observer status by ASEAN, which is a potential precursor to full membership.

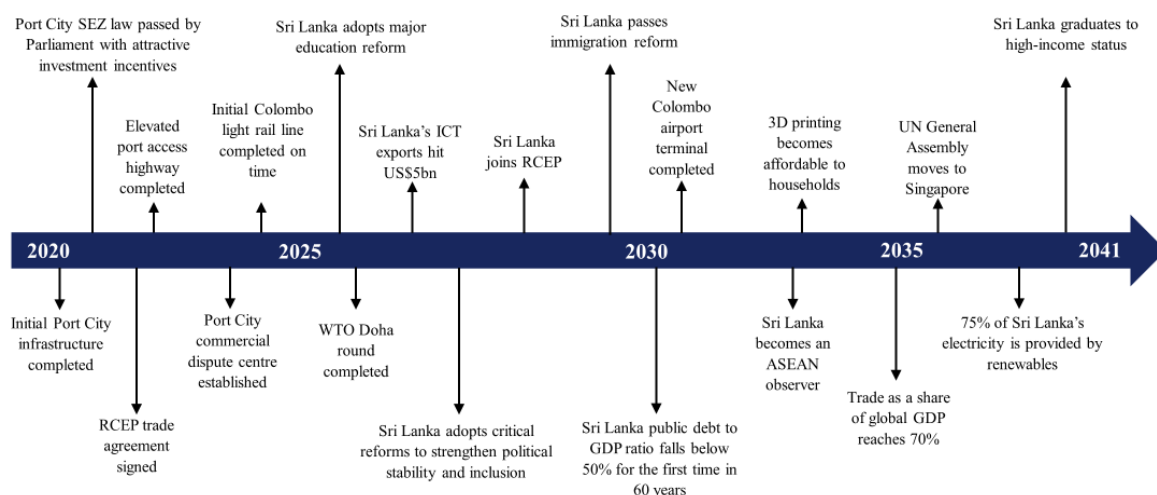
Domestically, Sri Lanka’s institutions are reinforced and new domestic reforms are adopted to promote political stability and inclusion. This helps to create political conditions that are supportive of major macroeconomic and structural reforms, which in turn lay the groundwork for strong growth in the economy. This includes the passing of major reforms to the education, immigration, and legal systems,

which ease skills shortages and improve business conditions. SEZ legislation for Port City with attractive investment incentives is approved promptly by Parliament and an efficient commercial dispute resolution centre is established. Well-planned and implemented infrastructure projects reduce bottlenecks in transport and utilities services across the Western Province, while comprehensive environmental policies are adopted to ensure that rapid growth in the economy does not lead to a major increase in pollution. Technological developments, such as falling costs for 3D printing, support further growth in trade in services. These developments help Sri Lanka to graduate to high-income status by 2040.

Implications for Port City

This scenario is broadly positive for the development of Port City. The achievement of major reforms in Sri Lanka would make it one of the fastest growing economies in the region and an attractive investment destination. Effective infrastructure investment and stronger environmental policies would also make Colombo an increasingly attractive place to live. While there are major shifts in the global political environment, these are peaceful and have a limited impact on the global economy. As such, the Port City project receives significant investment and is around 85% completed by 2041.

Figure 13: Timeline of Scenario 1



Scenario Two: Supportive Global Environment & Limited Domestic Reforms Implemented

In this scenario, globalisation deepens and a new era of strong global economic growth emerges driven by a wave of technological advances that boost services trade. Existing multilateral political institutions are reinforced and emerging powers are successfully integrated. The US-China trade war is resolved by 2025 as China agrees to increase purchases of American goods and strengthen protection of intellectual property. What's more, a comprehensive trade agreement between the US and China is signed by 2030. Meanwhile, the Belt and Road Initiative eases infrastructure constraints across the world and is considered to be successful. Increased business confidence and positive economic momentum help to drive income convergence between developed and emerging economies. As a result, the UN announces the elimination of extreme poverty by 2030, in line with the Sustainable Development Goals.

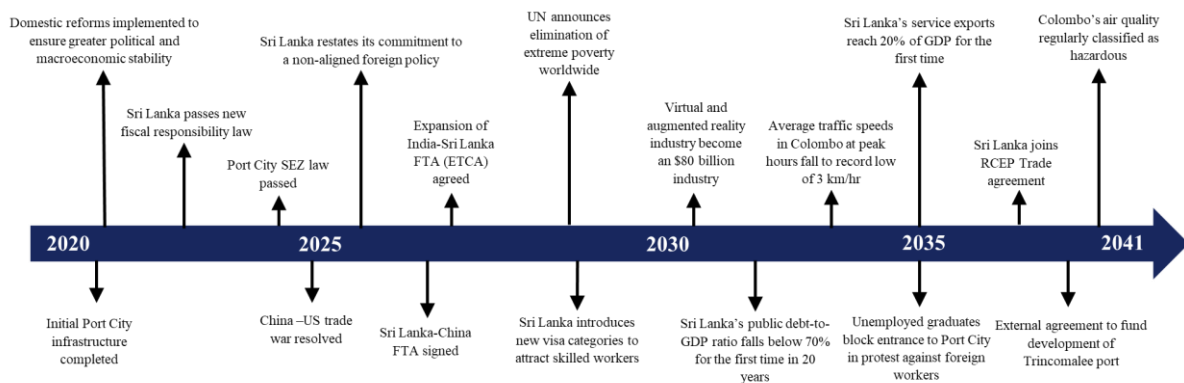
Domestically, limited reforms help to ensure greater political and macroeconomic stability. A new fiscal responsibility law with binding targets for the government budget deficit is passed. SEZ legislation for Port City is approved in parliament by 2025 with attractive investment incentives. New visa categories

are also introduced to facilitate the hiring of skilled workers from abroad, while Sri Lanka continues to maintain good relations with all major world powers. The Sri Lanka-China Free Trade Agreement (FTA) is signed by 2025, closely followed by an agreement on the expansion of the India-Sri Lanka FTA (also known as the Economic and Technology Co-operation Agreement). Sri Lanka later agrees external funding to develop Trincomalee port. However, more difficult structural reforms are not completed. As a result, businesses face persistent challenges in recruiting local labour with sufficient skills and have to rely on foreign workers to fill the gap. This leads to protests from local unemployed graduates. The growth of the Sri Lankan economy also remains below potential as bottlenecks in the economy are only partially addressed. For example, major highways are completed behind schedule, leading to a substantial worsening of traffic in Colombo during peak hours. Environmental issues also become more pressing, undermining Sri Lanka’s attractiveness as an investment destination.

Implications for Port City

This scenario is moderately positive for the development of Port City. The achievement of greater domestic political and macroeconomic stability, as well as a supportive global environment, trigger reasonable levels of investment in the SEZ. This said, the persistent underlying problems, particularly skills gaps in the local labour market and infrastructure issues, mean that a number of companies decide not to open regional offices in Port City. As such, its development proceeds at a slower pace than expected and it is only around 60% completed by 2041.

Figure 14: Timeline of Scenario 2



Scenario Three: Global Discord & Domestic Instability

In this scenario, de-globalisation takes hold and the global multilateral order disintegrates. Global trade and FDI flows fall as the US-China trade war intensifies and many economies opt to pursue more inward-looking economic policies. This trend is reinforced by technological developments in artificial intelligence and robotics, which reduce the incentive for countries to trade. Global growth also slows as Chinese GDP growths falls below 5% by 2025. Meanwhile, NATO collapses by 2030 as the US withdraws, claiming that other members are not meeting defense spending targets. The UK completes its departure from the EU and by 2025 Italy has also withdrawn from the organisation and the eurozone. Sri Lanka responds to the turbulent global environment by improving ties with emerging Asian powers.

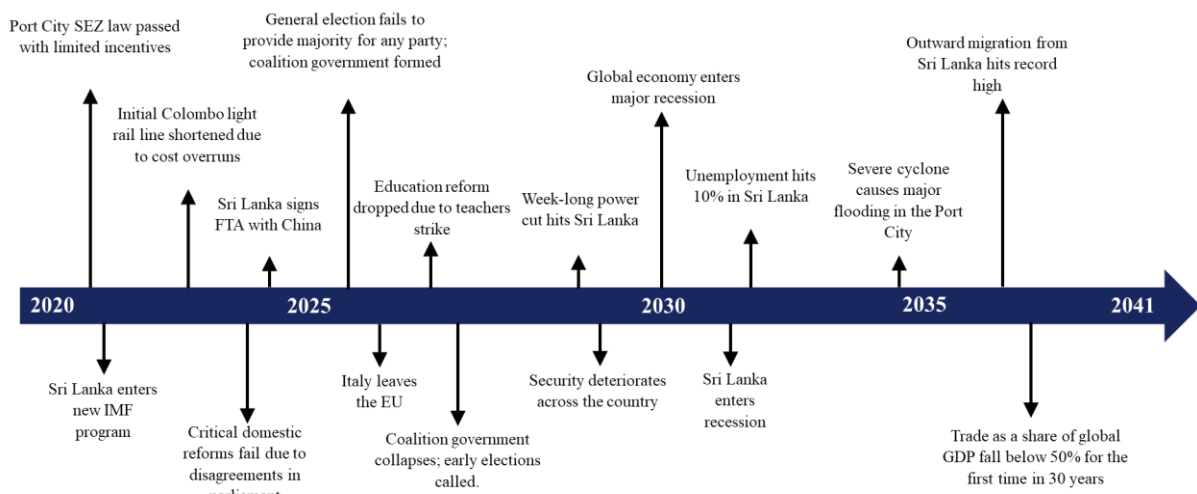
Domestically, major political and economic issues are left unaddressed. Sri Lanka could enter a new International Monetary Fund (IMF) programme in the early 2020s and SEZ legislation for Port City is passed by parliament, but with limited investment incentives. Attempts at wide-ranging domestic reforms are eventually abandoned due to divisions in Parliament and the 2025 general election fails to

provide any party with a majority in Parliament. A coalition government of opposing parties is formed, but it soon collapses after an education reform bill fails due to a teacher’s strike. The coalition government is replaced by a minority government, which avoids controversial policies to remain in power. Political turmoil also coincides with a deterioration in security across the country, which the government is slow to combat. Meanwhile, power cuts and severe flooding become a regular occurrence in Colombo due to limited infrastructure investment and the worsening effects of climate change. The economic situation deteriorates as a major global recession strikes in 2030. With no space to increase government spending to offset the effects of the global downturn, Sri Lanka soon enters recession too. Despite the persistent skilled labour shortages, the unemployment rate surges to 10%, and outward migration from Sri Lanka reaches a record high.

Implications for Port City

This scenario presents major challenges for the development of Port City. Domestic political instability and a volatile economy make Sri Lanka an unattractive investment location. Turmoil in the global economy and world politics also reduce demand for Port City’s facilities. As a result, most investments come from the local economy, but this is limited due to domestic economic problems and progress is much slower than expected. The project is only around 30% completed by 2041.

Figure 15: Timeline of Scenario 3



3.6 Port City’s Potential Economic Impact

PwC Sri Lanka carried out a quantitative assessment of Port City’s potential economic impact, as outlined in “Economic Impact Assessment of the Port City Colombo”.⁵⁵ Due to the possibility of unforeseen internal as well as external factors, PwC Sri Lanka have estimated outcomes against varying degrees of completion levels, in careful consideration of the three scenarios mentioned in this chapter.

PwC Sri Lanka’s analysis is based on various information sources including census and survey data, firm specific information and key informant discussions which were incorporated in a model of over 500 variables. The assessment spans three stages of the Port City project, namely the (1) land reclamation & infrastructure development, (2) construction, and (3) operational phases. At the time of

writing, the land reclamation process has been successfully completed, for which we will focus on the findings for the construction and operational phases. These are highlighted in tables 3 and 4 below.

PwC Sri Lanka have constructed a base case scenario, which assumes 100% completion of Port City and disregards any potential hinderances that may impact completion and operation of Port City. In addition, outcomes were estimated based on the three different scenarios provided by LKI, which led to adjustments in the amount of gross floor area completed and impacted the respective outcome variables such as employment, FDI, economic value addition, BoP, and government revenue.

Table 3 highlights the possible outcomes during Port City’s construction phase, which encompasses the development of real estate and required infrastructure in Port City, spanning a twenty-year time frame.

Table 3: Port City’s Potential Economic Impact - Construction Phase

Construction Stage	100% developed	85% developed	60% developed	30% developed
Total employment (man hours)	160,172	136,657	97,489	50,459
FDI (US\$ bn)	5.6	4.8	3.4	1.8
Value addition (US\$ bn)	13.0	11.0	7.6	3.4
BOP effect (US\$ bn)	4.2	3.5	2.3	0.9
Government revenue (US\$ bn)	2.8	2.3	1.6	0.7

PwC Sri Lanka project, that annual value addition accounts for US\$ 650 mn, totaling US\$ 13 bn over the entire construction period and will be mainly driven by the sale of residential units, followed by commercial and retail spaces. The BoP effect is expected to be positive, with the lease of land and sale of residential units anticipated to offset outflows through the import of construction materials. Government revenue is expected to be substantial, accounting for approximately 3.2% of current GDP.

Table 4 highlights the annual economic impact of Port City once operational under the assumption that businesses have reached maturity and are operating during a normal year of operation.

Table 4: Port City's Potential Economic Impact - Operational Phase

Operational Stage	100% developed	85% developed	60% developed	30% developed
Total employment (no. of jobs)	210,355	177,097	121,698	55,181
FDI (US\$ bn)	0.7	0.6	0.4	0.2
Value addition (US\$ bn)	11.8	9.9	6.7	2.9
BOP effect (US\$ bn)	4.6	3.9	2.6	1.2
Government revenue (US\$ bn)	0.8	0.7	0.5	0.2

Estimates relating to the operational phase assume that the following industries settle in Port City: IT services (40%), maritime services (25%), financial services (20%), and other professional services (15%). PwC Sri Lanka estimate that against a 100% completion of Port City, more than 200,000 jobs will be added to the economy, boosting per capita incomes by approximately US \$550 per annum. Their analysis also highlights Port City’s potential to attract significant amounts of FDI, which will contribute to a positive BoP effect. Tourism-related industries and services exports from IT and other professional services are expected to be the main contributors towards the positive BoP effect.

Contributions to GDP are assumed to amount to US\$11.9 bn per annum, mainly driven by investments and consumption within Port City's commercial, residential and retail spaces. Government earnings are expected to increase by US\$811 mn yearly through revenue from income taxes, import duties and license fees.

PwC Sri Lanka's study highlights Port City's potential to significantly contribute to the Sri Lankan economy and at the same time underlines the importance of providing an enabling political and economic environment, under which the project can reach its full potential. A failure to do so, can lead to a significant reduction in economic output as outlined under the three different scenarios and depicted in Tables 3 and 4 above.

3.7 Conclusion

The three scenarios outlined in this chapter highlight the very divergent paths that the development of Port City may take and the potential associated impact on the economy. The scenarios demonstrate important lessons and point towards crucial policy areas that will require attention to support the successful development of the project.

One major takeaway from the scenarios is that the development of Port City will be partially influenced by global factors that Sri Lanka has little ability to control. The evolution of the global economic and political environment will have a significant impact on international investors' appetite for the facilities that Port City will provide. For example, as *Scenario One* suggests, if global growth remains lacklustre, it is likely to limit the amount of international investment Port City would receive. Similarly, while Sri Lanka has long been a strong advocate for a rules-based multilateral system, its smaller size means it is primarily a global rules taker. As such, it has a limited ability to influence the future of the current multilateral system. *Scenario Three* outlines an extreme, though still plausible, scenario where the global political system fragments and the countries turn to more inward-looking economic policies. In this event, the expected international investment in Port City does not materialise and much of the necessary investment has to come from the domestic economy. With these risks in mind, it is important that Port City's vision as a hub for global services, as well as the supporting policies, remain flexible, and adaptive to potential shifts in the global environment.

The scenarios also demonstrate that domestic conditions within Sri Lanka's control will be critical to Port City's success. *Scenario Two* suggests that even if global conditions are very supportive to the development of the Port City project, weaknesses in the supporting domestic environment would likely be a significant constraint on the project's development. As such, an important focus should be on ensuring a supportive domestic environment for the SEZ. Given the scope of the project, this can cover an extremely broad range of areas from the details of SEZ legislation to economic development in the rest of Sri Lanka. Chapter Four will explore these domestic determinants in more detail to provide a greater insight into the most pressing areas.

4. Benchmarking Port City Colombo as a Multi-Services SEZ

4.1 Introduction

This chapter assesses how Port City compares to other established services SEZs, making use of benchmarking analysis. As a first step, this section will look at the importance of benchmarking as a tool for identifying best practices and assessing project performance. This is followed by an overview of the selected comparators and their economic impact on their home countries. Subsequently, Port City will be benchmarked against four suitable comparators in the Middle East and Asia, paying close attention to the zones' internal and external operating environment and allowing for the identification of common characteristics and success factors.

The analysis identifies determinants of success at both a country and SEZ-level. An overview of the findings is provided below.

Country-Specific Success Factors

Our analysis finds that successful SEZs operate in countries with good supply side factors. They have access to a large market, are supported by well-developed and reliable country-wide infrastructure and have access to a highly skilled labour force. What's more, they operate in an environment that is economically and politically stable. In particular, they have sound macroeconomic policies and a stable political system with low levels of corruption and high regulatory quality. These factors create a conducive environment for businesses to flourish and develop.

SEZ-Specific Success Factors

Successful SEZs are strategically located areas, which offer good accessibility. They are aided by excellent infrastructure and logistics, which connect them to other domestic and international business centres. In addition, they offer clearly defined regulations and procedures, with one unified regulator responsible for all investment approvals and facilitation. Where a single regulator is not available, successful SEZs often engage in deregulation efforts in order to provide a more conducive business environment for entities.

Competitive and generous fiscal policies are also an important determinant of success. SEZs offer competitive tax regulations, which are distinctively different from the rest of the country and are meant to draw in domestic as well as foreign investors. This includes the provision of tax holidays and additional incentives, such as rent subsidies. In some cases, the extent and duration of these incentives is conditional on factors such as the type of business.

Land ownership laws are an integral part of the overall legislative framework governing SEZs and play an important part in determining the zone's attractiveness for local as well as foreign investors. SEZs operate under laws which allow for easier access to land than the rest of the country. Land ownership regulations are therefore often less restrictive than in the host countries. What's more, well-positioned SEZs often operate under less stringent immigration policies. Their success is largely driven by the availability of suitably skilled labour, for which they employ less restrictive immigration regulations.

The sustainable development agenda increasingly drives businesses' strategic decisions and operations. Successful SEZs therefore focus on implementing sustainable practices and smart technologies in the zone's building process, as well as operating stage. In addition, various SEZs incorporate environmentally friendly and sustainable development practices to improve the liveability of the city, whilst at the same time minimising its environmental impact.

Focussing particularly on modern services-oriented SEZs shows, that they seek to cater for the specific needs of service sector entities such as an efficient operating environment aided by reliable technological infrastructure, access to a skilled labour pool, and defined areas that foster the mutual exchange of knowledge. Successful services SEZ therefore often undertake efforts in establishing linkages with local universities to generate and retain high skilled labour. They seek to continuously upgrade their internal technological infrastructure and create clusters for knowledge exchange to foster innovation.

Sri Lanka's Position

Our assessment finds that Sri Lanka compares well across certain SEZ-specific dimensions, such as its focus on sustainability as well as the centre's accessibility. That said, Port City cannot be assessed on a number of SEZ-specific indicators, due to a lack of information on the project's potential future legislative and regulatory framework. An important finding therefore is, that the Port City law has the potential to significantly boost the zone's attractiveness, through fiscal as well as non-fiscal incentives, thereby laying the foundation for a conducive operating environment, which can compete with already well-established SEZs.

The analysis further highlights the importance of the country context for an SEZ's continued success. Sri Lanka's current macroeconomic environment and political stability compare less favourably. It is therefore important that macroeconomic imbalances are addressed, and political stability is ensured.

4.2 The Importance of Benchmarking

The importance of benchmarking has been increasingly acknowledged by both private as well as public sector entities.⁵⁶ It is widely used to systematically assess performance against a target and draw lessons from successful cases. Studies⁵⁷ have found that benchmarking can generate a shift in organisational thinking and action.

Benchmark analysis commonly identifies best performers and determines relevant qualitative and quantitative indicators. These indicators are subsequently compared against a defined set of criteria. The outcome will thereby highlight areas for improvement.⁵⁸ Entities subsequently decide whether to use the findings as a source of inspiration, copy best practices, or combine elements found across different comparators.⁵⁹

It is a popular approach used by academia, think tanks, multilateral organisations, and consultancy firms to inform business and policy decisions. In the context of Port City, this benchmarking exercise delivers important insights into good practices of well-established services SEZs and identifies any discrepancies between Port City and its comparators. In addition, it provides important insights into the foundations of successful SEZ legislations.

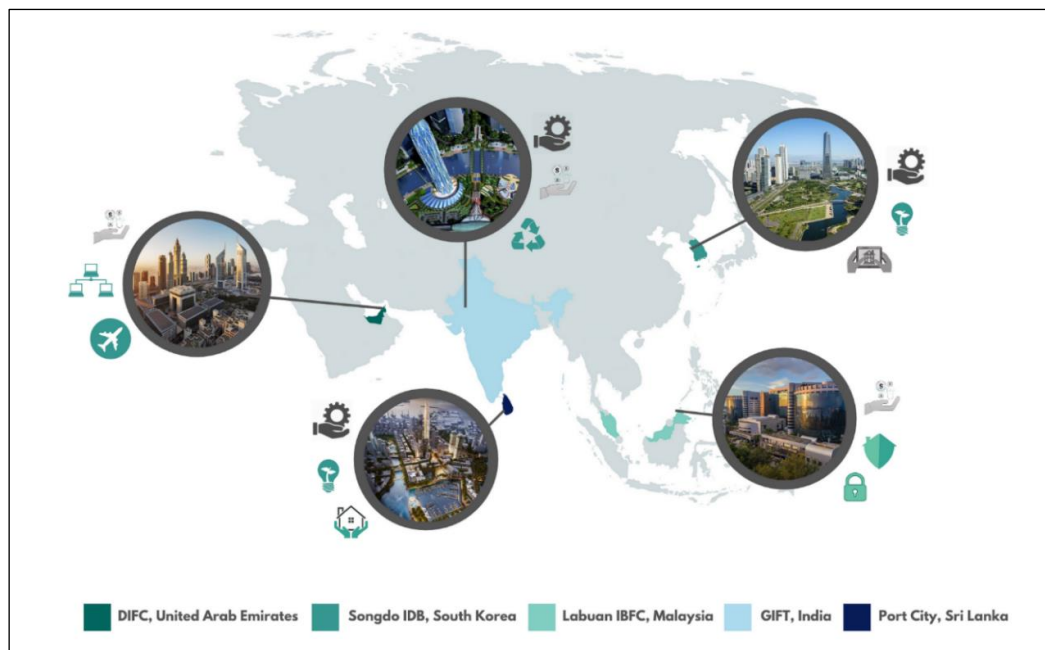
4.3 Comparator Overview

Port City will be compared against four SEZs, namely:

- *Dubai International Financial Centre (DIFC) in the United Arab Emirates,*
- *Gujarat International Financial Tech-City (GIFT) in India,*
- *Songdo International Business District (IBD) in South Korea, and*
- *Labuan International Business and Financial Centre (IBFC) located off the coast of Malaysia.*

The above SEZs have been carefully selected based on data availability and due to their comparable focus on triggering services-led growth in their host economies. They operate under different rules and regulations than the rest of their home country, with the aim of creating an attractive business environment through fiscal and non-fiscal incentives. Their broader aim is to foster economic growth within and outside the zone, whilst at the same time providing a high quality of life for the resident population through the provision of recreational and cultural spaces. For an overview of the respective comparator SEZ's and their geographic location, please refer to Figure 16.

Figure 16: Geographic Overview of SEZs



© DIFC: LinkedIn, Songdo IDB: webuildvalue.com, GIFT: Twitter, Port City: CPCC

Against its widely acknowledged success and remarkable growth over the last 40 years, Shenzhen SEZ initially appeared a suitable comparator. This said, a closer look revealed that various characteristics make it less of a suitable comparator for Port City, some of which are 1) the sheer size and scale of Shenzhen's economy and population, the 2) fact that Shenzhen was established as a pilot city to test out innovative policies for future country-wide roll out and the associated change in policies over time, and 3) the importance of manufacturing as part of the SEZ's growth and only later shift towards modern services. Nevertheless, Shenzhen's success story gives insights into factors which have contributed to its staggering growth and can provide useful insights for Port City. (See Figure 17.)

Figure 17: The Success of China's first SEZ - Shenzhen⁶⁰

Shenzhen, initially a poor fishing village in the Chinese Pearl River Delta region, received SEZ status in 1980, providing it with special tax, investment, and trade privileges, which allowed it to grow into a booming global tech and manufacturing hub and one of the busiest financial centres in the world.

Shenzhen's per capita GDP has grown a staggering 24,569% from 1978 to 2014 and the population has increased to nearly 13 million people. In 2018, Shenzhen's GDP of US\$ 355 billion allowed it to surpass neighbouring Hong Kong. Dubbed the "Silicon Valley of China", the megacity is home to tech giants like Huawei, ZTE, Tencent, and several rising start-ups.

Various factors have thereby contributed to Shenzhen's development into a successful SEZ:

Accessibility – Shenzhen is blessed with excellent international and regional connectivity. Its proximity to Hong Kong has linked Shenzhen to a myriad of economic opportunities along with significant flows of FDI, human capital, and technology. The city's global and regional connectivity is bolstered by an international port equipped with modern shipping infrastructure, 8 railway stations, one of which is the Guangzhou-Shenzhen-Hong Kong Express Rail Link, and the Shenzhen Bao'an International Airport, which offers direct connectivity to major Asian cities and other international destinations such as Los Angeles, Frankfurt, Melbourne, and London. Shenzhen's geographical positioning, and resulting favourable time zone, reinforces its role in international financial markets.

A conducive policy environment - Shenzhen's small municipal government has been crucial in creating a supportive business environment and developing favourable policies capable of drawing in foreign investors. The absence of political interference and economic planning allowed the SEZ to pursue innovative reforms and development initiatives specific to its needs and facilitated Shenzhen's efforts in establishing a market-oriented system. Shenzhen's municipal government also made necessary modifications and additions to existing laws and regulations to support the unique development needs of the SEZ and partially modelled its legal system after those in Hong Kong and foreign countries.

Innovative capabilities - In its transition from low value-added manufacturing to a global tech hub, Shenzhen has fostered an ecosystem laden with innovative capabilities. The investment in new graduate schools and the expansion of higher education in Shenzhen has produced the high-skilled human capital needed to sustain its innovation levels. The municipal government also offers financial aid to grassroots innovation, such as the *kongque* program for tech start-ups which offers US\$447,000 to entrepreneurs who have studied or worked abroad. Shenzhen accounted for 52% of all Chinese patent applications in 2018, standing testament to the SEZ's success in building innovative capabilities.

The above has highlighted various factors, which have led to Shenzhen's development towards becoming a regional economic hub. The accessibility and geographic location of the SEZ, its conducive policy environment and innovative capabilities fostered by the local government have thereby provided a favourable ecosystem for Shenzhen's miraculous growth.

DIFC, United Arab Emirates

DIFC was selected as comparator against its widely-acknowledged success in establishing itself as a recognised financial services hub and SEZ. The centre is ranked eighth in the Global Financial Centres Index (GFCI), placing it not far behind other successful financial hubs, such as Singapore and Tokyo. Since starting its operations in 2004, DIFC has successfully attracted businesses and employees from around the world, as testified by 99% occupancy rate since inception. The centre is expected to be tripled in size in the next five years.

The investment and wealth management business play an integral role in this SEZ and assets under management were valued at US\$ 99 bn in September 2019. As of 2018, more than 23,000 employees worked in over 2,100 registered financial and non-financial businesses, such as consultancy, accountancy, and law firms. DIFC has grown continuously, with 437 companies newly incorporated in 2018. It also attracts approximately 8.5 million visitors on an annual basis, who can benefit from more than 280 retail and hospitality facilities.

Songdo IBD, South Korea

Songdo IBD is a services-orientated SEZ, which shares its focus on sustainable and green building techniques with Port City. The focus on sustainability has been incorporated from the onset of construction onwards and forms an integral part of the centre, similar to Port City. In addition, the business district has been built on reclaimed land, another characteristic it shares with Port City.

Songdo IBD strives to be a smart and sustainable business centre, which focusses on the finance and IT industry, as well as biotechnology. The district is not fully operational yet, with approximately 50% of the city built. Nevertheless, Songdo IBD has managed to attract 1,600 companies (as of 2017), providing jobs to around 60,000 employees. Upon project completion a total of 65,000 residents are expected. With proximity to South Korea's capital, the IBD receives approximately 1 million visitors per annum. Both, residents and visitors can make use of over 1,000 retail, hospitality, and lifestyle facilities.⁶¹

Labuan IBFC, Malaysia

Labuan IBFC is a midshoreⁱⁱ international business and financial centre, located off the coast of Malaysia. It was incorporated in 1991 and has evolved into an important business and financial services centre. The SEZ was selected against its long track record of successfully attracting businesses and establishing itself as an attractive investment destination for companies operating in the services sector.

The centre's main focuses are banking (including Islamic Finance), wealth and fund management, insurance, and the leasing sector, which leases capital equipment in the oil and gas, aviation, and maritime sectors. It is home to over 15,000 companies and around 6,000 employees (as of 2019). The centre continues to expand and has attracted over 1,000 new businesses in 2018. As a midshore centre, it has over recent years increasingly attracted private foundations and trust companies, significantly raising the number of registered companies.⁶²

ⁱⁱ Midshore jurisdictions fall in the spectrum between traditional offshore and on-shore jurisdictions. They operate under favourable tax regimes, whilst at the same time adhering to international standards in terms of tax transparency. Hong Kong and Singapore are examples of other midshore jurisdictions.

GIFT, India

Located in India's state of Gujarat, GIFT is a smart city and multi-services SEZ, looking into setting up an International Financial Services Centre (IFSC), the first of its kind in India. It is a useful comparator for Port City due to the centre's positioning in a developing economy with similar challenges to Sri Lanka. What's more, GIFT is also a potential competitor for Port City in future.

Like Songdo IBD, GIFT is still under construction, aiming to be fully operational between 2020 and 2023. So far, a total of 225 companies have registered within the SEZ, providing 9,000 jobs to both local and foreign employees. GIFT aims to increase the number of jobs to 30,000 over the next three years.⁶³

For a summary of the above mentioned SEZs and an overview of their economic impact, please refer to Table 5 at the end of this section.

Port City, Sri Lanka

Port City is strategically located on reclaimed land north-west of Colombo and aims to become a hub for international services. It will expand the Colombo Central Business District and is expected to operate as a multi-services SEZ, including, but not limited to, financial services. Built on 2.69 square km of reclaimed land, Port City will be smaller than GIFT (3.6 square km) and Songdo (6 square km), but more than twice the size of DIFC.

Port City is an ambitious project that seeks to attract a large number of visitors through the inclusion of a theme park and convention centre. This will contribute to an expected day-time population of 250,000 people. The SEZ is anticipated to become home to 75,000 national and international residents. Based on PwC Sri Lanka's quantitative analysis,⁶⁴ Port City is further expected to create over 210,000 jobs, whilst drawing in US\$ 0.7bn FDI per year and generating US\$ 0.8bn Government revenue annually, once fully completed and operational.

*Table 5: Overview of Comparator SEZs and their Economic Impact*⁶⁵

	Dubai International Financial Centre (DIFC)	Songdo International Business District (IBD)	Labuan International Business and Financial Centre (IBFC)	Gujarat International Finance Tech-City (GIFT)	Port City
Overview	Financial services hub	Smart and sustainable business centre, focussing on finance and IT industry	Midshore International Business and Financial Centre	Multi-service SEZ, focussing on developing an International Financial Services Centre (IFSC)	Multi-service SEZ
Status	Initial project finished Continues to grow Expansion project introduced to triple in size by 2024	Partially operational, business district ca. 50% built. Completion scheduled between 2020-2023	Initial project finished Continues to grow	Mostly under construction, partially operational City to be fully operational between 2020 - 2023	Under construction To be fully operational in 2041
Size	1.1 sq km	6 sq km	89.4 sq km*	3.58 sq km	2.69 sq km
Economic Impact					
No. of companies	Total: 2,137 (2018) Newly created (in 2018): 437	1,600 companies (2017)	Total: 15,260 companies (2018). Newly created: 1,059 (2018)	Total: 225 companies (2019)	No information
No. of employees	Total: 23,604 (2018) Newly created (in 2018): 1,226	Total: 60,000 (2017) To be 300,000 upon project completion (projected for 2020)	Total: 6,000 (2019)	Total: 9,000 (2016) (to reach 30,000 jobs during next three years)	PwC impact assessment estimates creation of 210,000 jobs (under assumption of 100% completion of Port City)
No. of residents	No information	Total: 36,000 (2017) Estimated 65,000 residents upon project completion (projected for 2020)	Total: 100,000 (2018)*	Residential part of city currently under construction.	Expected total of 75,000 Day-time population of 250,000
No. of visitors	8.5 million per annum	1 million per annum (only taking account of visitors from Seoul Metropolitan Area (2015))	No information	No information	175,000 daily (including commuters)
No. of retail, hospitality and lifestyle facilities	Total: 281 (2018)	Total: 1000 (2017)	Wide range of facilities & amenities available (e.g. an international golf club, an international school and a sea sports complex)	No information	Provision of various recreational facilities (e.g. central park, marina & theme park) Variety of hotels (including hotels in proximity to the convention centre and theme park)

*Size of Labuan Island. No information available on size of IBFC.

4.4 Benchmark Analysis

Various studies⁶⁶ have outlined the factors that influence the business environment of SEZs and drive their success. Typically, success depends on a combination of external factors, such as the political and economic country context, as well as internal factors, namely the regulatory framework and supporting infrastructure. This chapter will therefore analyse both, country and SEZ-specific factors across the four comparators.

4.4.1 Country-Specific Success Factors

An SEZ's economic dynamism depends on the country context in which it operates. As such, the economic and political environment of the host country are crucial in shaping the SEZ's performance. The following section will look more closely at these factors and analyse how Sri Lanka ranks in relation to the four comparator SEZs' home countries. Important economic dimensions such as the macroeconomic environment and supply side factors, which comprise Sri Lanka's market size, infrastructure provisions and labour market, will be assessed alongside the political environment.

For the purpose of this report and the sake of brevity, the below analysis is restricted to a few major and well-known determinants and therefore provides a high-level overview of the country context. As part of the analysis it is important to take into consideration that the comparator countries are currently in different development stages, which may lead to a less favourable comparison of Sri Lanka across certain dimensions. Table 6 at the end of this section provides an overview of the respective dimensions which will be assessed. An overview of how the indicators are measured is available in Appendices 5-7.

Supply Side Environment

Successful SEZs operate in countries with good supply side factors. In particular, they generally have access to a large market, highly-skilled labour, and are supported by well-developed and reliable infrastructure. Based on these supply side factors, both, the United Arab Emirates and South Korea provide an attractive and enabling business environment for investors. Sri Lanka's supply side environment offers various incentives for businesses, albeit to a lesser extent, and is more comparable with Malaysia and India.

Market Size

An important determinant for businesses' success is the size of the market they operate in, which is directly linked to consumer demand. Businesses which operate in India have access to a large market in terms of population, significantly larger than the United Arab Emirates, South Korea, Malaysia, and Sri Lanka, providing entities with a significant number of business opportunities. That said, high per capita incomes in the United Arab Emirates and South Korea allow for a comparatively larger market, too. Sri Lanka cannot compete on the same level as the comparator countries being a small island economy.

That said, the country recently graduated to upper middle-income country status, reflecting increased incomes (likely to translate into a rise in demand for goods and services) of the local population. Per capita GDP (PPP, in 2018 international US\$) thereby also exceeds Indian per capita incomes. What's more, Sri Lanka is regionally integrated through having entered various FTAs with countries such as India, Pakistan and Singapore, providing access to a much larger market. In addition, Sri Lanka is a member of the South Asian Free Trade Area (SAFTA) as well as the Asia-Pacific Trade Agreement (APTA), which provides an important counterweight to the islands' comparatively small size.⁶⁷

Infrastructure

The provision of high-quality infrastructure, spanning utilities as well as transport infrastructure, is the basis for a well-functioning SEZ. Both the United Arab Emirates and South Korea provide a high standard of transport and utility infrastructure, followed by Malaysia. Sri Lanka is on par with Malaysia across certain dimensions and ranks broadly in line with India.

Sri Lanka is well positioned in terms of providing electricity access to its population (97.5% coverage) and compares more favourably than India in terms of the quality of supply. That said, access to internet is only provided to 34% of population, which is in line with India, but some distance away from the United Arab Emirates and South Korea, which achieve almost 100% coverage. Sri Lanka's coverage thereby also falls below the world average (50%). Sri Lanka and India can however both offer significant cost advantages in terms of internet. 1GB of mobile data is sold at an average price of US\$0.78 and US\$0.26 in Sri Lanka and India respectively, significantly cheaper than in South Korea (US\$15.12) or the United Arab Emirates (US\$10.23).

In terms of road connectivity, Sri Lanka lags behind most of its comparators. According to the World Economic Forum's Global Competitiveness Index (GCI), which assesses a country's long-term competitiveness, Sri Lanka's road connectivity (96/141) and quality of roads (76/141) falls behind the United Arab Emirates, South Korea, and India. The only exception is Malaysia which takes one of the last ranks in terms of road connectivity (133/141). Recent infrastructure projects in Sri Lanka, such as the build-out of the National Highway Network, have the potential to improve inter-provincial connectivity and thus Sri Lanka's comparative standing going forward.

Labour Market and Skills

The availability of highly skilled labour is an important determinant of the success of SEZs. The labour markets in the United Arab Emirates, South Korea, and Malaysia provide businesses with highly skilled employees, with Sri Lanka lagging somewhat behind these countries, but ranking slightly ahead of India.

Workers will be in high demand for Port City. The availability of workers will therefore be an important determinant of investment decisions and ultimately Port City's success. According to the GCI survey, Sri Lanka ranks ahead of India in terms of the quality of vocational training services and far ahead with regards to the skillset of graduates, which takes into consideration both, school leavers and university graduates. In terms of skill levels, Sri Lanka thereby places in the top third of all countries worldwide, which positions it well for providing an adequately skilled workforce for Port City.

Nevertheless, the overall rate of tertiary school enrolment in Sri Lanka is relatively low, which may lead to a shortage of highly skilled labour for Port City in future. Indeed, Sri Lanka is currently already experiencing a shortage of highly skilled employees, especially in the ICT industry. What's more, the country lags all four comparator countries in terms of the population's digital skill set, which will play an important factor for driving Port City's development as a multi-services SEZ.

Macroeconomic Environment

Successful SEZs operate in an environment that is economically stable. Sound macroeconomic policies and reforms lay the foundation for an environment in which businesses can flourish. Based on the selected indicators, the United Arab Emirates, South Korea, as well as Malaysia can be classified as having a strong macroeconomic environment. Sri Lanka's macroeconomic environment is comparatively more vulnerable and falls slightly behind India.

Average GDP growth (2014-2018) has been higher in Sri Lanka than in the United Arab Emirates and South Korea, but remains below its potential. GDP growth dropped to around 3% in 2017 and 2018 and has remained below potential in 2019. Fiscal consolidation efforts, alongside adverse weather events and the Easter Bombings in April 2019, have had a negative impact on growth.

Sri Lanka has been grappling with twin deficits for much of its post-independence history. Over the last 5 years, the country has experienced the largest current account and budget deficits across all 5 countries. Both, the United Arab Emirates and South Korea have current account surpluses and low budget deficits. Similar to Sri Lanka, India has been struggling with a twin deficit, albeit to a smaller extent.

The above developments are also reflected by the countries' sovereign ratings. The major credit rating agencies perceive Sri Lanka's capacity to pay back its debt obligations as likely to be impaired by business, financial or economic conditions, whereas India is expected to have "adequate protection measures", and the United Arab Emirates, South Korea, and Malaysia are believed to have very high debt repayment capacities.⁶⁸

Political Environment

Successful SEZs operate in a politically stable environment with low levels of corruption and high regulatory quality. These are crucial factors taken into consideration by investors as they directly link to the overall stability of the business environment. The political environment in both, the United Arab Emirates as well as South Korea can be broadly described as stable, followed by Malaysia. Both India and Sri Lanka rank similarly in terms of political stability and behind the other comparators.

According to Transparency International's Corruption Perception Index, which indicates perceived levels of corruption in the public sector based on expert assessments and opinion surveys, the United Arab Emirates (23rd) rank ahead of South Korea (45th), Malaysia (61st), India (78th), and Sri Lanka (89th). Sri Lanka has made some progress over the last two years, advancing from its 2016 ranking (95/176).

The Worldwide Governance Indicators (WGI) look at various dimensions of governance and are based on the views of enterprises, citizens, and expert surveys. Sri Lanka ranks in the top half of countries globally in terms of rule of law and in line with India. Both countries however fall substantially behind the other three comparator countries. In terms of political stability & absence of violence, and regulatory quality, Sri Lanka lags countries such as the United Arab Emirates, South Korea, and Malaysia, which rank in the top quartile of all countries. This said, Sri Lanka compares better than India across both dimensions.

Table 6: Country-Specific Success Factors⁶⁹

Indicator	Year	Source	United Arab Emirates	South Korea	Malaysia	India	Sri Lanka
Supply-side environment							
Market size							
Country size (land area in sq. km)	2018	World Bank	71,020	97,489	328,550	2,973,190	62,710
Population (million)	2018	World Bank	9.6	51.6	31.5	1,352,62	21.7
GDP per capita, PPP (current international US\$)	2018	World Bank	74,942	40,111	31,698	7,761	13,449
Infrastructure							
Access to electricity (% of population)	2017	World Bank	100	100	100	92.6	97.5
Electricity supply quality (rank)	2019	Global Comp. Index	42	7	38	108	39
Access to internet (% of population)	2018	World Bank	98	96	81	34 ⁽³⁾	34 ⁽³⁾
Cost of internet (average cost in US\$ of 1GB mobile data)	2019	cable.co.uk	10.23	15.1	1.2	0.3	0.8
Road connectivity (rank)	2019	Global Comp. Index	23	26	133	72	96
Quality of road infrastructure (rank)	2019	Global Comp. Index	7	9	19	48	76
Airport connectivity (rank)	2019	Global Comp. Index	19	16	20	4	59
Labour market & skills							
Expected years of schooling (per school starter)	2017	UNESCO	15.0	16.5	13.7	12.2	13.9
School enrolment, tertiary (% gross of population age group)	2018 ⁽³⁾	World Bank	N/A	94	45	28	20
Quality of vocational training services (rank)	2019	Global Comp. Index	25	23	12	67	55
Skillset of graduates (rank)	2019	Global Comp. Index	14	34	17	93	44
Digital skills among active population (rank)	2019	Global Comp. Index	14	25	10	59	68
Macro-economic environment							
Average real GDP growth (%)	2014-2018	IMF	2.9	3.0	5.2	7.5	4.2
Average inflation (%): Average Consumer Prices	2014-2018	IMF	3	1	2	4	4
Average unemployment rate (% of total labour force)	2014-2018	World Bank	2.1	3.7	3.2	2.7	4.4
Average government gross debt (% of GDP)	2014-2018	IMF	19	37	56	68	78
Average current-account balance (% of GDP)	2014-2018	IMF	7.7	5.67 ⁽¹⁾	2.9	-1.4	-2.6
FDI inflows (% of GDP)	2014-2018	UNCTAD	2.6	0.8	3.1	1.8	1.3
Credit rating (in order: S&P 500, Fitch, Moodys) ⁽²⁾	2019	S&P, Fitch, Moodys	AA, AA, Aa2	AA, AA-, Aa2	A-, A-, A3	BBB-, BBB-, Baa2	B, B, B2
Political environment							
Corruption Perceptions Index (rank / 180 countries)	2018	CPI	23	45	61	78	89
Political stability & absence of violence (percentile rank ⁽⁴⁾)	2018	World Gov. Indicator	72	66	55	15	41
Rule of law (percentile rank ⁽⁴⁾)	2018	World Gov. Indicator	78	87	75	56	56
Regulatory quality (percentile rank ⁽⁴⁾)	2018	World Gov. Indicator	80	83	75	47	48

⁽¹⁾ Includes estimate for 2017.

⁽²⁾ Ratings for Moody's taken from trading economics. Ratings for United Arab Emirates exclusively from trading economics.

⁽³⁾ 2017 data.

⁽⁴⁾ Countries' positions are indicated as percentile ranks, with higher numerical values implying a better positioning.

4.4.2 SEZ-Specific Success Factors

The following section will look more closely at internal factors, which drive the success of SEZs and will thereby pay special attention to the regulatory and legal environment, as well as internal infrastructure provisions and sustainability considerations. At the time of writing the Port City legislation has not been made public. This benchmark analysis will therefore analyse how Sri Lanka as a country is positioned relative to the comparator SEZs, where information on an SEZ-level is missing.

Regulatory Institutions

Competitive SEZs seek to offer a solid and simplified regulatory environment by providing access to a single regulator, which oversees all business activities in the zone and is responsible for issuing relevant permits and approvals. Where a single regulator is not available, SEZs often undertake deregulation efforts in order to improve the business environment for entities.

At the time of writing, the regulatory framework for Port City is still under discussion and can therefore not be benchmarked. This said, Sri Lanka's positioning in the World Bank's Ease of Doing Business Index can be viewed as an indicator for its current country-wide regulatory regime. According to the index, South Korea (5th) ranks ahead of Malaysia (12th), the United Arab Emirates (16th), India (63rd), and Sri Lanka (99th). Sri Lanka's business-regulatory environment is therefore comparatively less conducive. For more detailed information of the country's respective positioning and the applied methodology please refer to Appendix 8.

DIFC's legal system is consistent with the Common Law, providing independent civil and commercial laws from the United Arab Emirates. Businesses have access to the Dubai Financial Services Authority (DFSA), which is responsible for all regulating activities of financial institutions. DIFC further offers access to a dispute resolution authority (DRA).⁷⁰

Similar to DIFC, Labuan IBFC operates under common law and seeks to provide an attractive regulatory environment, by giving investors access to one single authority, the Labuan Financial Services Authority (FSA), which administers, licenses and oversees the setting up of all Labuan entities.

In Songdo IBD, the Incheon Free Economic Zone (FEZ) Authority is responsible for the day-to-day management of affairs relating to the zone.⁷¹ The SEZ continuously aims to improve the prevailing regulatory environment, reporting a total of 18 cases of deregulations and system improvements in 2018. Similar to DIFC, businesses have access to the Association of Commercial Arbitration, which seeks to establish and maintain order of the business environment in the IBD.⁷² What's more, the IBD seeks to attract investors by providing administrative support through a designated project manager, who will oversee companies' investment procedures, providing a preliminary review of the investment as well as follow-up management. The manager thereby also offers administrative support for legal affairs, accounting and tax management.⁷³

GIFT comprises a multi-services SEZ, which aims to establish an IFSC.⁷⁴ Financial service entities (i.e. banks, insurance companies and capital market players) are overseen by three regulators, namely the Reserve Bank of India, the Securities and Exchange Board, and the Insurance Regulatory and Development Authority of India. Following the example of other financial centres such as the DIFC, the Indian government passed a bill in December 2019 to establish a unified authority for regulating all financial services and institutions in the IFSC to improve its business environment.⁷⁵

Legislative Framework

Successful SEZs often operate under a more liberal legislative framework than the domestic economy to create a more conducive environment for businesses to invest and operate in. For an overview of how two environments, i.e. the SEZ and rest of the domestic economy, with different legal systems can coexist in one country, please refer to Figure 18 below.

Successful SEZs implement consistent, transparent, and predictable SEZ policies and try to minimize bureaucracy. They provide an enabling legal environment which is flexible to adapt to changing circumstances and therefore continuously monitor and evaluate policies. Some of the most important policy areas are highlighted below:

Land and Property Ownership

Land ownership laws are an integral part of the overall legislative framework governing SEZs and play an important part in determining the zone's attractiveness for local as well as foreign investors. Competitive SEZs therefore often operate under laws which allow for easier access to land than the rest of the country. Where information on an SEZ-level is not available, this section compares prevailing legislations across comparator countries rather than SEZs themselves. For information on common incentives provided for Real Estate Developers in SEZs refer to Appendix 10.

At a country-level, South Korea's and Malaysia's legislations are comparatively more lenient than prevailing laws in Sri Lanka and India. However, Sri Lanka's land and property regulations, as outlined in the 'Land (Restrictions on Alienation) Act', are more liberal than India's regulations. For an overview of the prevailing regulations, please refer Appendix 11.

Land and property ownership legislation in Dubai's DIFC are comparatively liberal. DIFC allows non-nationals to acquire any non-freehold properties inside as well as outside the SEZ through companies registered within the SEZ. What's more, foreign nationals can buy freehold property in designated areas.⁷⁶

At a country-level, South Korea permits the purchase and ownership of land and property by non-nationals in all of its provinces.⁷⁷ In comparison, Malaysia allows non-nationals to purchase residential and commercial properties provided that a financial threshold is met (circa US\$145,000).⁷⁸ This said, non-nationals are prohibited from buying agricultural land.

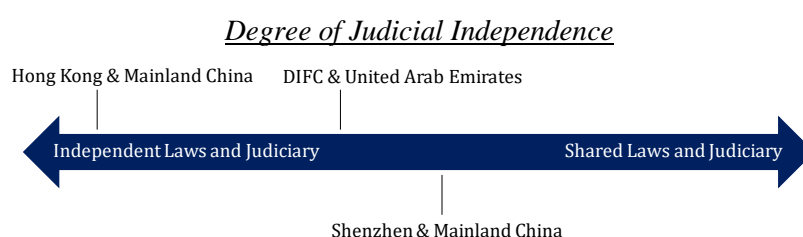
The current legislation in Sri Lanka dictates that foreign investors are not permitted to buy land unless (1) their stake accounts for less than 50% or (2) they intend to purchase a condominium outright. An exception is made to publicly traded companies, with a foreign shareholding of more than 50%, which can purchase land on a freehold basis. Foreign investors are generally permitted to lease land for a maximum tenure of 99 years.

Similar to Sri Lanka, India imposes stricter laws on non-nationals. The latter are not allowed to purchase immovable property unless it is acquired through inheritance from an Indian resident or they classify as residents (with some nationalities however not being granted this freedom). That said, non-residents are allowed to acquire or transfer property in India on a lease.⁷⁹

Figure 18: The Coexistence of Two Systems in One Country⁸⁰

The provision of fiscal and non-fiscal incentives in SEZs leads to the question, how these zones can operate in a country without causing economic imbalances through rent seeking and resource misallocation. Tax incentives, modern infrastructure, and simplified procedures may create competitive distortions, with companies and human capital accumulating within the SEZ without corresponding benefits to the national economy.

A cabinet appointed three-member committee is reviewing the draft Port City SEZ law and would make recommendations to the cabinet. One focus of the work is looking into whether Port City can function under separate economic and commercial laws than the rest of the country. From a legal perspective, various examples show how special economic and/or administrative zones can coexist alongside the domestic economy and in fact create positive spill-over effects for the national economy. The below illustration provides examples of how different legal systems can coexist in one country with varying degrees of independence.



Hong Kong operates as a Special Administrative Region of the People's Republic of China reflecting the principle of 'one country, two systems'. Hong Kong has a distinct legal system based on English common law, whereas mainland China is a civil law jurisdiction. Hong Kong is a low-tax jurisdiction with more liberal immigration laws than mainland China. The Hong Kong Court of Final Appeal is the highest appellate court, though subject to final interpretation by the Standing Committee of the National People's Congress in Beijing. Hong Kong is separated from mainland China by a physical border and immigration checks. Most of China's FDI comes via Hong Kong, indicating positive spillovers for China's national economy.

Of the seven emirates that comprise the United Arab Emirates, Dubai is one of only two emirates with its own judicial system, which operates independently of the federal court system of the United Arab Emirates. Dubai's DIFC is a distinct legal zone within Dubai, as the DIFC has the authority to promulgate its own laws for civil and commercial matters. While the rest of Dubai operates in a hybrid civil law-Islamic law system, DIFC laws are based on English common law. The decision to apply English law in the DIFC was taken in recognition of the fact that the world's leading financial centers, including London, New York, Hong Kong, and Singapore, all share the common law tradition. DIFC courts handle civil and commercial disputes and the DIFC Court of Appeal has final appellate jurisdiction over these disputes. Criminal cases remain within the jurisdiction of the Dubai courts.

The Shenzhen SEZ has been granted broad discretionary powers, giving it more special authority than the rest of the country to foster a conducive economic environment for developing the region and to test policies in a confined space for a potential later country-wide roll out. Under the principle of 'legislative delegation', the Shenzhen Municipal People's Congress has been given authority to introduce laws for specific situations and needs to promote business in the SEZ. As such, tax concessions are offered to SEZ companies and immigration laws are more liberal. Commercial disputes and other legal matters are decided upon by the Circuit Court of Shenzhen, which was established as the first circuit (local) court of the Supreme People's Court in China (SPC) with equivalent authority to the SPC in Beijing. Both Shenzhen and China follow the civil law system.

The above examples highlight how two (in the case of DIFC, three) judiciaries can coexist within one country. The China-Shenzhen relationship in particular provides valuable insights into how an SEZ can serve as test environment to assess economic policies and their suitability for later nationwide economic liberalisation efforts, thereby also decreasing potentially distorting effects from an imbalance of incentives within and outside the SEZ.

For a more detailed overview of the respective judicial systems, please refer to Appendix 3

Immigration Policies

The success of well-established SEZs is largely driven by the availability of suitably skilled labour. Therefore, they employ less stringent immigration policies and impose fewer conditions on for example, the applicant's skill-level or investment amount.

The below benchmarking is conducted based on Sri Lanka's current visa application process due to a lack of available information on the Port City legislation. Sri Lanka's immigration laws share some of its characteristics with Songdo IBD, which allows non-nationals to reside and work in the SEZ upon meeting a certain amount of investment. Current legislations in DIFC and Labuan's IBFC are comparatively more liberal. There is very little information available on GIFT's approach to issuing work visas, with the available information however implying a more restrictive approach than in Sri Lanka. For an overview of the existing regulations, please refer to Appendix 11.

According to Sri Lanka's current legislation, residence visas allow foreign nationals to take up work, provided they meet one of eight requirements (e.g. the type of work or investment amount), as laid out by the Department of Immigration and Emigration.⁸¹ Non-nationals enter on an entry visa and convert it into a resident visa within 30 days of arrival. Visas are valid for a one-year period, after which they can be renewed annually. In contrast to GIFT, which issues a limited number of work visas based on quotas, the Sri Lankan government does not impose restrictions on the number of visas issued.

Songdo IBD issues residence visas linked to investments in real estate or public projects. In case of real estate investments, the type of visa issued depends on the actual investment amount and time spent in the zone.⁸² Upon approval, the individual is allowed to live, work and run a business in the zone.

Labuan island has adopted a liberal immigration policy, with multiple entry visas issued to expatriates who have been granted employment permits. It operates under softer immigration laws than the rest of Malaysia, which imposes various restrictions on the issuance of residence visa (e.g. the provision of special expertise). Work visas are typically granted for 2-3 years and are extendable to dependants.⁸³

In DIFC, companies can apply for employee residence visas, which are valid for a period of two years. Long-term visas of up to 10 years are available to investors, entrepreneurs, specialists, and outstanding students. What's more, the SEZ provides access to a single service provider for obtaining employment and residency permits in order to facilitate the visa process.⁸⁴

Taxation Framework

Successful SEZs offer competitive tax regulations, which are distinctively different from the rest of the country and are meant to draw in domestic as well as foreign investors. SEZ laws thereby offer a variety of tax holidays, reductions or exemptions, with their extent and length in some cases conditional on factors such as the type of business.

There is currently no detailed publicly available information on Port City's proposed taxation framework. Therefore, this benchmarking exercise will draw on Sri Lanka's country-wide applicable tax legislation. DIFC and Labuan IBFC's tax concessions are very competitive, followed by Songdo IBD, and GIFT, which provide various concessions, too. In comparison, Sri Lanka's current taxation framework cannot compete with the comparator SEZs despite the recently implemented tax cuts under the new Government. An overview of the comparator SEZ's taxation frameworks is provided in Appendix 12.

DIFC offers a 40-year tax holiday to companies. The SEZ further provides an extensive network of 115 double taxation treaties which are available to United Arab Emirates-incorporated entities. Foreign companies are allowed 100% ownership of their DIFC-based subsidiaries and additionally do not face restrictions with regards to repatriating profit and capital.⁸⁵

Malaysia's Labuan island is a low tax regime, with tax reliefs applying to all entities, whose activities are conducted in, from or through Labuan. Incomes are taxable at 3% flat. Companies alternatively have the option to be charged at a flat rate of MYR 20,000 (circa US\$2,800) annually. Labuan does not impose tax on non-trading activities (relating to the holding of securities, stocks and deposits). Further, non-residents do not have to pay withholding tax on interest or dividend payments. Like DIFC, Labuan IBFC allows for a 100% foreign ownership of companies set-up in its SEZ.

Companies conducting business in Labuan IBFC have the opportunity of retaining protection through Malaysia's laws and regulations, including various double taxation avoidance agreements, in which case they however have to give up their preferential income tax status.^{iii 86}

In order to attract domestic and international businesses, Songdo IBD provides three types of incentives, namely tax reductions, estate support and subsidies. Depending on the size and type of business, profits are 100% tax-exempt for a five or three year period respectively, followed by two years at 50% of the applicable tax rate.^{iv} What's more, Songdo IBD offers a 50-100% rent reduction to companies, dependant on factors such as the amount of FDI, number of employees and the companies' export orientation.⁸⁷ Ultimately, Songdo provides additional fiscal incentives to investors such as relocation subsidies, employment subsidies, as well as educational and training subsidies.⁸⁸

GIFT offers several tax incentives to resident companies. IFSC and SEZ units are exempt from tax for a period of 5 years followed by a 50% tax reduction for a 5-year period. This said, entities' profits are subject to Minimum Alternate Tax (MAT), which varies across IFSC and SEZ units. Whereas the former benefit from a MAT reduction down to 9%, SEZ companies have to pay the full amount of 18.5%. IFSC companies are further offered various other tax exemptions from dividend distribution tax, security transaction tax, capital gains tax and goods and services tax.⁸⁹

Sri Lanka's banking, finance and insurance sector are subject to 24% corporation tax. In addition, VAT is levied at 15% on financial services.⁹⁰ These sectors are likely to make up a significant part of Port City, for which the comparatively high VAT and corporate tax burden will weigh on Port City's competitiveness. That said, the Sri Lankan government recently announced full implementation of the Strategic Development Projects Act (SDPA) in a bid to boost FDI. Recognised as Strategic Development Project in 2016⁹¹, Port City may benefit from the implementation of the act, which provides tax holidays of up to 25 years to foreign investors.

What's more, the recent tax revisions grant a number of concessions to the financial sector, including the abolishment of capital gains tax on stock market transactions, tax on foreign exchange earnings and withholding tax on interest payments. Sri Lanka has entered into 44 double taxation avoidance

ⁱⁱⁱ In this case the entity will be taxed at 25% rather than 3% under the Labuan Taxation Act.

^{iv} As an example, a manufacturing company investing more than US\$30 million, would benefit from a 5-year tax holiday, whereas a manufacturing company investing less than US\$30 million, would be granted a 3-year tax holiday.

agreements with 44 countries. Further, the country allows for a 100% repatriation of foreign company earnings.

Accessibility

Successful SEZs are strategically located zones, which offer good accessibility aided by excellent infrastructure and logistics. They are positioned close to other major businesses or financial centres and improve connectivity through state-of-the art infrastructure.

Dubai is an international air travel hub and therefore makes DIFC easily accessible. Considering Sri Lanka's and therefore Port City's strategic position between Europe and Asia, it compares well against Songdo IBD and fares better than Labuan IBFC, which is more difficult to reach due to a lack of airport connectivity. For an overview of the respective infrastructure provisions of the comparator SEZs, please refer to Appendix 13.

Port City is strategically located on reclaimed land west of Colombo. Current infrastructure plans include a direct connection to the capital's business district, with part of the transport integration happening through the Colombo Light Rail System. Port City is close to Bandaranaike International Airport, establishing direct connectivity to major cities such as Singapore, Kuala Lumpur, Mumbai, and New Delhi, which are reachable within 4 hours or less. Other direct destinations include Hong Kong, Dubai, and London. To increase inter-island connectivity, the Project Master Plan (PMP) includes the setting up of an express highway to Bandaranaike Airport as well as an underground tunnel for improved access to the south.⁹² In addition, Port City operates in a time zone, which bridges the business hours of financial centres in both Asia and Europe.

Dubai's IFC connects three dynamic regions, namely the Middle East, Africa and South Asia. The SEZ is geographically located between Eastern financial centres such as Hong Kong and Tokyo and Western financial hubs such as London and Frankfurt, striking a good balance in terms of trading times. With regards to its transport infrastructure, DIFC offers two metro stations with quick access to Media City, downtown Dubai and the world-class Dubai International Airport.

Located 56km southwest of the country's capital Seoul, Songdo IBD is accessible within 60 minutes through direct commuter buses and various subway connections. The district also shares a direct connection with Incheon International Airport via a 21km long bridge. Shanghai and Beijing are accessible within a 2 hours flight, with Tokyo and Hong Kong reachable within a 2.5-hour period.⁹³

Similar to the above-mentioned SEZs, Labuan IBFC is in proximity to other financial capitals such as Hong Kong, Jakarta, Kuala Lumpur, and Singapore. It is located on Labuan island, which borders Brunei by sea and lies off the coast of the Eastern Malaysian state "Sabah". The island offers various ferry connections to Malaysia and Brunei, whilst the airport conducts daily flights to Kuala Lumpur and Sabah's state capital Kota Kinabalu. Labuan island also has a deep sea port.

Nevertheless, IBFC's infrastructure lacks direct connectivity with other major cities and depends on connecting flights from Kuala Lumpur.⁹⁴ The government acknowledges the need for infrastructure development and is increasing efforts to improve the island's physical infrastructure. There is however limited information available on the actual infrastructure development strategy.⁹⁵

GIFT can be accessed from the National Highway 8, which connects Delhi with Mumbai. It can further be easily reached from other core cities in the region such as Ahmedabad and Gandhinagar. A Bus

Rapid Transit System (BRTS) and metro rail system is planned to connect GIFT to its surrounding cities and beyond.⁹⁶ Ahmedabad international Airport is in GIFT's proximity, with its flight destinations however mainly concentrated on Asia and the Middle East.

Sustainability Considerations

Successful SEZs focus on sustainable practices in the zone's building process and operating stage to improve the liveability of the city, whilst at the same time minimising its environmental impact. These considerations are increasingly sought after by investors and contribute to the overall attractiveness of SEZs.

Port city's PMP includes sustainable and environmentally friendly concepts, which will be built into the city from the onset of construction. Port City therefore shares comparable ambitions with Songdo's IBD and India's GIFT in terms of sustainability and greenness, which against the increasing calls for incorporating environmental-friendly and sustainable business practices, has the potential to draw in businesses. Port City is thereby better positioned in terms of sustainability than DIFC and Labuan IBFC. For an overview of the different approaches taken, refer to Appendix 13.

Songdo IBD is marketed as a smart and sustainable business hub, priding itself with its state-of-the-art infrastructure, which focuses on environmentally friendly practices and green building. It follows the "Leadership in Energy and Environmental Design" (LEED) standard, accounting for approximately 40% of all LEED-certified space in South Korea. The focus on sustainability also manifests itself through a pneumatic waste disposal system, the availability of bicycle tracks and electric vehicle charging stations. In 2012, the United Nations Green Climate fund acknowledged Songdo IBD's efforts when establishing an office in the city.⁹⁷

Similar to Songdo IBD, India's GIFT seeks to incorporate sustainable and environmentally friendly building practices into the city-design, aiming to create a "next class city in terms of quality of life, infrastructure and ambience [...] treating land as a precious resource."⁹⁸ In order to minimize space requirements and impact on health, GIFT provides residents and companies with an automated waste collection system, sucking waste through underground pipes. The city also provides a district cooling system, a more energy efficient and sustainable air conditioning system. The building of a utility tunnel shall combine all utilities (including water, electricity, waste collection) underground, preventing future excavations for repair or maintenance works.⁹⁹

Port City's PMP includes an integrated approach to the management of utilities, with power and communication cables, sewage transport systems and water supply all running underground. It therefore compares well to GIFT's utility management approach. In addition, the SEZ aims to include water, energy and waste loops ("eco cycles") to reduce losses and increase recycling. Port City further seeks to establish a liveable environment, "where environmentally friendly people, organizations and visitors will want to live and do business", by creating waterways and open areas such as the Central Park, whilst at the same time building pedestrian and cycle paths to reduce the amount of greenhouse gas emissions.¹⁰⁰ As part of its commitment to sustainability, there will be sustainability guidelines for third party developers when developing their plots of land.¹⁰¹

Labuan IBFC concentrates on continuously improving its regulatory environment, whilst DIFC's focus lies on providing state-of-the-art ICT infrastructure, with sustainability and environmentally friendly practices finding less attention in both SEZs.

Against Port City's ambition of becoming a globally-recognised modern services hub, incentives which are particularly aimed at creating an attractive operating environment for the modern services industry are considered in Figure 19.

Figure 19: Attracting Modern Services Companies to Port City¹⁰²

Modern services companies, including financial, insurance, ICT, and a wide range of professional services businesses, by nature have special requirements to operate and develop successfully. SEZs therefore increasingly try to meet these demands by providing a combination of state-of-the-art infrastructure, access to a high-skilled labour pool and creating an environment which allows for the mutual exchange of knowledge.

Modern and Reliable Technological Infrastructure - Successful SEZs invest in state-of-the-art technological infrastructure to increase efficiencies by offering better connectivity and capacity to support innovative smart services. Dubai's DIFC is a pioneer in terms of its dedication to continuously improve the SEZ's technological infrastructure. It has recently launched the next-generation wifi 6, providing businesses with the fastest available WLAN technology, thereby improving network connectivity, capacity and the overall ease of doing business. What's more, DIFC provides companies co-working spaces, with high-speed Wi-Fi and highly developed audio/visual conferencing facilities. Similarly, Songdo IBD has been repeatedly classified as smart and high-tech city, providing companies and residents with fibre-optic networks and ultra-fast wifi.

Industry-Relevant and Suitably Skilled Labour - Access to and retention of high-skilled labour is a crucial factor determining an SEZ's attractiveness for modern services businesses. Linkages with the local education systems and more liberal immigration laws can help increase and maintain a pool of suitably skilled labour for companies. India's GIFT has access to a high number of well-trained and high-skilled human capital, with approximately 10% of India's skilled labour being home to the state of Gujarat. In Songdo, large Korean and international universities have inaugurated new campuses, with many students following suit. Implementing a 'knowledge densification strategy', the Incheon Free Economic Authority puts strong emphasis on attracting national and international universities to nurture and retain high-skilled labour, employing a team specially dedicated to this task. What's more, many SEZs, such as DIFC and Labuan IBFC, provide easier access to work visas for highly-skilled labour, further improving businesses' access to suitably-skilled labour.

Clusters for Knowledge Exchange - A local community of entrepreneurs and researchers, which can interact face-to-face, are crucial for the transmission of knowledge and the furthering of services and innovative activities in SEZs. As such, zones have undertaken efforts to foster the formation of clusters and science parks for the exchange of ideas and creation of knowledge spillovers, thereby attracting modern services companies. Songdo IBD actively seeks to agglomerate high-tech and cutting-edge research in the areas of ICT and biotechnology by creating a cluster-like environment, aiming to boost innovation and competitiveness. Over time, various companies have set-up their R&D units in the SEZ. In comparison, DIFC provides co-working spaces and collaborative working areas to companies to drive new product growth. In 2017, the SEZ launched the region's largest FinTech accelerator, which connects DIFC's companies with start-up FinTech businesses and creative entrepreneurs, providing them with an environment to develop, test and adapt their products to meet the need of the regional financial services sector.

The above examples highlight efforts undertaken by established SEZs to create an attractive operating environment for modern services businesses. By offering access to a highly skilled labour pool, cutting edge technological infrastructure, and access to clusters for knowledge transmission, SEZs can lay the foundation for boosting modern-services led growth in the domestic economies.

4.5 Conclusion

This chapter has identified best practices on a country, as well as SEZ-level, across four comparator SEZs based on the available information at the time of writing. Table 7 below provides a simplified overview of the respective findings. This is partially based on the subjective views of the authors as many of the SEZ-specific factors cannot be easily quantified but provides a useful overview of the findings.

Country-Specific Factors

The analysis highlights that businesses in both the United Arab Emirates and South Korea operate in an economically and politically stable environment, providing a strong foundation for the success of their SEZs. Businesses face more restrictions in Malaysia and India, mostly so due to a mixed supply side environment and a less stable political environment. Sri Lanka's position can be broadly compared to India but lags slightly behind from a macro-economic perspective.

The benchmark analysis shows that Sri Lanka performs well overall in terms of *supply side* factors such as the provision of electricity. The country compares comparatively strongly in terms of graduates' skill sets which is an important determinant for Port City's success. This said, businesses face a general shortage of skilled labour in Sri Lanka, which is likely to be aggravated by additional demand from Port City. In addition, the analysis highlights the country's potential to extend and improve its road infrastructure.

Sri Lanka's below-potential growth alongside comparatively high unemployment levels and its persistently large twin deficit weigh on the country's economic competitiveness. Sri Lanka's BoP position remains vulnerable to a sudden drop in remittances, a decline in inflows of foreign investment and tourism numbers. In addition, businesses face a comparatively less favourable political environment, being subject to lower political stability and higher levels of perceived public sector corruption, which acts as a disincentive.

#1 The above findings highlight the importance of implementing policies targeted at long-term competitiveness and growth, whilst at the same time addressing macroeconomic imbalances and political stability in Sri Lanka. Investments in infrastructure and human capital will further help create a conducive business environment which attracts domestic as well as international investors.

SEZ-Specific Factors

The benchmark analysis shows that Port City ranks in line with Songdo IBD and ahead of the comparator SEZs in the areas of *accessibility* and *sustainability*. Geographically located between major business and financial centres, Sri Lanka and thus Port City are comparatively easier to reach than GIFT and Labuan IBFC. Its proximity to Bandaranaike International Airport ensures international accessibility and the proposed airport links will help to reduce travel times further in future. This said, Port City cannot compete on the same level than DIFC from an accessibility perspective.

Port City has impressive ambitions to incorporate sustainable and green practices in the building process as well as operating stage of the zone. It therefore compares well to Songdo IBD, which has been repeatedly classified as "sustainable city". It is also better positioned than DIFC and Labuan IBFC, which pay less attention to sustainable practices

Table 7: Findings of Benchmark Analysis

	Dubai International Financial Centre (DIFC) United Arab Emirates	Songdo International Business District (IBD) South Korea	Labuan International Business and Financial Centre (IBFC) Malaysia	Gujarat International Finance Tech-City (GIFT) India	Port City Sri Lanka
Country-specific factors					
- Supply side environment					
- Macro-economic environment					
- Political environment					
SEZ-specific factors					
- Regulatory institutions					
- Land and property ownership					
- Immigration policies					
- Taxation framework					
- Accessibility					
- Sustainability					
Legend	High competitiveness	Limited competitiveness	Low competitiveness	No SEZ specific information available	

The benchmark analysis highlights that Port City compares favourably on dimensions which are independent of its SEZ legislation (i.e. sustainability and accessibility). It further shows that various dimensions can so far only be assessed on a country level, due to a lack of information on the proposed legislative framework for Port City. As such, the analysis underlines the potential of the Port City law to further boost the SEZ's relative positioning, by providing a conducive, transparent and reliable legislative framework alongside the below dimensions:

Regulatory Institutions: Entities must deal with various authorities when conducting business in Sri Lanka, whereas the comparator SEZs mostly have one unified regulator. A framework which ensures that SEZ entities have access to a single regulator, alongside clearly defined and communicated responsibilities of all governing SEZ bodies are crucial for Port City to compete with well-established SEZs such as DIFC. At the time of writing, a Government committee has been appointed to assess the scope of regulatory institutions for Port City, including a commission, advisory committee, arbitration board and court. The proposed outcome will have a significant impact on the attractiveness of Port City's regulatory environment.

Land and Property Ownership: Sri Lanka's governing laws impose restrictions on the purchase of land by foreign nationals and are comparatively restrictive. Port City has a significant amount of office and residential space, accounting for a total of 72% of the built-up area. The SEZ legislation therefore has the potential to define property and land regulations, which will draw in domestic as well as foreign investors.

Immigration Policies: Once operational, Port City seeks to add 83,000 jobs to the Sri Lankan economy, with many of them likely to be in the financial and ICT sector, the latter of which is already experiencing a shortage of skilled labour. This highlights the importance of exploring opportunities of adopting visa regulations for Port City, which will cater for the increasing demand for highly skilled workers. This should be complemented by efforts targeted at increasing tertiary school-enrolment rates and establishing collaborative links between Port City, local and international universities to improve the situation in the long-term.

Taxation Framework: The recent tax revisions are likely to improve Sri Lanka's ranking (142/190) in terms of paying taxes in the Ease of Doing Business Index^v. The implementation of the SDPA is another crucial step towards improving the fiscal environment for investors. The Port City legislation has the potential to allow for additional tax reductions and concessions which are in line with other successful SEZ, boosting Port City's attractiveness further.

#2 The above analysis highlights important success factors which can be addressed by the Port City legislation. Adopting best practices for Port City's legislative and regulatory framework will help the zone become a successful and internationally recognised multi-services SEZ. Complemented by a transparent country-wide legal infrastructure, which allows for predictable implementation of SEZ policies, will thereby be key for attracting businesses to the zone.

^v The indicator takes into account payments, time, total tax, and contribution rate for a firm to comply with all tax regulations as well as the postfiling processes. For further information on the measurement of this indicator, please refer to Appendix 9.

Appendices

Appendix 1:

Measuring Trade in Services

Trade in services is more difficult to measure than trade in goods as it does not require the movement of a physical object across a border, which can be relatively easily tracked. In addition, due to the historical importance of trade-related taxes (e.g. import tariffs), governments have tended to keep close track of goods crossing their borders. This has helped to ensure that global statistics on trade in goods are comparatively extensive and have a significant degree of detail.

Trade in services can take a number of different forms, which further complicates measurement. The General Agreement on Trade in Services¹⁰³ (GATS), a World Trade Organisation (WTO) treaty that came into force in 1995 and extended the multilateral trading system to cover services, distinguishes between four modes of supplying services:

- **Cross border supply (mode 1):** services supplied from the territory of one country into the territory of any other country i.e. only the service itself crosses the border, not the buyer or supplier. Examples include services provided by electronic means, such as financial or consultancy services.
- **Consumption abroad (mode 2):** services supplied in the territory of one country to a service consumer from another country. Examples include purchases made by tourists for local services or foreign citizens paying for services like health care and education.
- **Commercial presence (mode 3):** services supplied through commercial presence in the territory of another country. For example, a foreign bank setting up operations locally.
- **Presence of natural persons (mode 4):** services supplied by individuals of a country through temporary presence in the territory of another country. For example, a computer services company sending its employees to assist a customer in another country.

The most common and globally consistent method used to capture trade in services are BoP statistics. These statistics generally use a common methodology in the form of the IMF's BoP Manual, currently in its sixth edition¹⁰⁴, which allows services trade to be broken down into a limited sectoral classification. However, this approach only covers trade in services under modes 1, 2, and 4. It does not account for the majority of mode 3 trade, which is partially captured by foreign direct investment statistics.

To address this issue, the WTO recently produced an experimental database on trade in services by mode of supply (TiSMoS). This uses foreign affiliates statistics to approximate services provided by commercial presence in another country (i.e. mode 3), which are based on data obtained from Eurostat, the OECD, and national sources where available. Where data is not available for a particular country, values are obtained through mirror data or estimation of a gravity model. The final database suggests that mode 3 account for almost 60% of global trade in services and, as such, standard BoP statistics significantly underestimate trade in services.

In more recent years, some have argued that a fifth mode of supplying services should also be considered to account for the significant and increasing amount of service inputs embodied in traded manufacturing goods.¹⁰⁵ As an example, in order to produce a car there is a need for engineering,

consulting and design services as well as electricity and retail services in order to operate the factory and to purchase necessary inputs. One attempt to capture this trade, is the joint OECD – WTO Trade in Value-Added (TiVA) database. This finds that in value-added terms, services accounted for around 50% of gross exports from OECD countries in 2016¹⁰⁶, compared to around 25% when calculated using standard BoP statistics. This said, the TiVA database has limited country coverage and does not include Sri Lanka.

Measuring Trade in Services in Sri Lanka

Sri Lanka has published trade in services data as part of its BoP statistics going back to the mid-1970s. There have been statistical breaks due to changes in international BoP compilation methodologies, but the IMF's BoP statistics provide a consolidated version covering the period 1975 and 2018.

While BoP data only provides limited coverage of trade in services as outlined above, particularly due to its lack of coverage of mode 3 services trade, this data is likely to provide the best guide to the current status of Sri Lanka's services trade. The more comprehensive WTO TiSMoS database provides estimates for Sri Lanka, but the data for mode 3 services export is primarily derived from an estimated gravity model rather than from a statistical source. In any case, the estimates from this database suggest that less than 10% of Sri Lanka's total services exports are classified as mode 3. Moreover, the country is not included in the OECD's TiVA database so no inference can be made on the quantitative importance of services value added in Sri Lanka's exports.

As such, data on Sri Lanka's trade in services in this report primarily relies on BoP data. The role for Port City is primarily envisaged as a hub for services to be traded across borders (e.g. finance, legal, and IT services), which would be classified as mode 1. Since these are suitably covered by BoP data, we believe these data are sufficiently comprehensive for our analysis.

Appendix 2:

Table 8: Benchmarking Sri Lanka's Service Economy Against Selected Asian Countries¹⁰⁷

	Services Value Added (% of Total Value Added, 2017)				Services Exports (% of GDP, 2018)			Services Employment
	Total	Trading, Accomod. & Food	Transport, Storage & Comms	Other Services	Total	Traditional Services	Modern Services	% of Total Employment (2019)
Sri Lanka	61.4	13.3	13.1	34.9	9.5	7.9	1.6	46.0
<i>Other South Asia</i>								
Bangladesh	56.5	14.1	10.0	32.4	1.9	1.4	0.5	39.8
India	53.9	11.6	11.2	31.1	7.5	2.7	4.9	31.9
Pakistan	56.3	18.7	13.2	24.4	1.7	0.8	0.9	52.9
<i>South East-Asia</i>								
Indonesia	45.4	16.5	9.6	19.3	2.7	1.9	0.8	47.8
Malaysia	51.7	19.5	9.0	23.3	11.1	8.1	3.0	61.8
Philippines	59.9	20.3	6.1	33.5	11.3	4.4	7.0	56.7
Singapore	75.2	19.7	11.4	44.0	50.5	22.1	28.5	83.0
Thailand	56.3	21.0	7.5	27.9	16.7	14.1	2.5	46.1
Vietnam	45.8	16.2	3.7	26.0	6.3	6.2	0.1	34.7
<i>East Asia</i>								
China	50.4	11.3	4.5	34.5	2.0	1.0	1.0	45.2
Hong Kong	92.3	25.1	9.8	57.4	31.4	24.5	7.0	N/A
Japan	70.8	16.8	10.2	43.7	3.9	1.7	2.1	72.2
South Korea	58.3	10.7	7.3	40.2	5.6	3.4	2.2	70.5

Notes: Modern services exports include financial, insurance & pension, ICT, and other professional business services, as well as charges for use of intellectual property.

Appendix 3:

Table 9: Country Examples - Varying Degrees of Judicial Independence¹⁰⁸

	Hong Kong Special Administrative Region	Mainland China	Dubai International Financial Centre (DIFC)	United Arab Emirates	Shenzhen SEZ	Mainland China
Shared border	Despite being one country, Hong Kong and China operate as two separate jurisdictions and are divided by a border.		No hard border between DIFC, Dubai and UAE.		No hard border with China (Barbed wire to curb immigration was abolished in 2018)	
Legal system	Based on Common Law Hong Kong has its own legal system, based on the combination of English common law and local legislation codified in the Laws of Hong Kong Enjoys executive, legislative and independent judicial power	Civil Law Law of the People's Republic China	Based on Common Law Dubai's DIFC is a distinct legal zone, having the authority to promulgate its own laws for civil and commercial matters	Based on civil law, depending on Roman, French and Egyptian law. Main source is the Sharia Law, which is widely used in the construction and interpretation of UAE law Dubai operates under a hybrid civil law-Islamic law system	Civil Law Shenzhen SEZ has been granted broad discretionary powers, giving it more special authority than the rest of the country Powers are decentralised to government of Shenzhen to allow for promotion of business and policy innovation	Civil Law Law of the People's Republic China
Highest court	Separate court system to China Hong Kong Court of Final appeal is the highest appellate court, though subject to final interpretation by the Standing Committee of the National People's Congress in Beijing	Four-level court system (Supreme, High, Intermediate, Basic) Supreme People's Court has final say	DIFC courts: Jurisdiction governs civil and commercial disputes (nationally and internationally) Court of Appeal has final say	Dual law court system, consisting of local and federal courts Supreme Court has got final say	Circuit court of Shenzhen, selected and sent by China's Supreme Court (SPC) Circuit court shares equivalent authority with SPC Responsible for administrative, civil and commercial matters Decisions made by circuit court are final (equivalent to those of SPC)	Four-level court system (Supreme, High, Intermediate, Basic) Supreme People's Court has final say
Legislations						
Taxation	Independent from mainland China Low-tax jurisdiction (e.g. no VAT, withholding or capital gains tax) Existence of four taxes (profits tax, salaries tax, property tax and stamp duty) Corporate income tax at 16.5%	Five categories of taxes (turnover tax, income tax, property and behaviour taxes, taxes on resources, special purpose taxes) Corporate income tax at 25%	40 year exemption for DIFC entities	Taxation determined on an Emirate level Dubai: 0 -55% coporation tax (for banks and oil companies)	SEZ authority possesses powers to introduce laws conducive for business environment Existence of tax concessions (particularly for foreign companies) Corporation Tax levied at 15%	Five categories of taxes (turnover tax, income tax, property and behaviour taxes, taxes on resources, special purpose taxes) Corporate income tax at 25%
Immigration	Foreign nationals can apply for Hong Kong permanent residency (and keep their original citizenship) After 7 years of residency, foreign nationals can be granted 'Right of Abode' allowing a person to live and work without restrictions or conditions to stay	Comparatively more difficult and time-consuming process Foreign nationals can obtain permanent residency if they fulfill certain conditions (e.g.): - are investors/have a stable business - are highly skilled/work in key industries - have been married to Chinese citizen for at least 5 years	Federal jurisdiction applicable Lenient visa system Long-term visas (up to 10 years) given out to investors, entrepreneurs, specialists in science, medicine, research and technical fields and outstanding students	Federal jurisdiction applicable Lenient visa system Long-term visas (up to 10 years) given out to investors, entrepreneurs, specialists in science, medicine, research and technical fields and outstanding students	Shenzhen is China's largest immigrant city More liberal immigration system	Comparatively more difficult and time-consuming process Foreign nationals can obtain permanent residency if they fulfill certain conditions (e.g.): - are investors/have a stable business - are highly skilled/work in key industries - have been married to Chinese citizen for at least 5 years
Land and property ownership	China owns all land in Hong Kong, which is available on a leasehold basis (for a 50 year period for new leaseholds)	Individuals cannot privately own land, but can obtain land-use rights for a number of years for a fee	DIFC has its own property laws handled by the Registrar of Real Properties	Real estate ownership and leasehold rights are determined at Emirate level	Shenzhen was first city in China to open up land market and commercialise residential land	Individuals cannot privately own land, but can obtain land-use rights for a number of years for a fee

Appendix 4:

Table 10: Scenario Framework Assumptions

<i>Factor</i>	<i>Scenario One: Benign Global Environment & Critical Domestic Reforms Implemented</i>	<i>Scenario Two: Supportive Global Environment & Limited Domestic Reforms Implemented</i>	<i>Scenario Three: Global Discord & Domestic Instability</i>
External Factors			
<i>Global Economic Developments</i>	Globalisation continues but global growth remains weak	Globalisation continues, driving strong global growth and income convergence between emerging and developed economies	De-globalisation occurs, leading to slow global growth and economic instability
<i>International Political Order</i>	Asian-led global order emerges	Existing multilateral order is reinforced and emerging powers are successfully integrated	Global political order disintegrates and is not replaced
<i>Global Technological Advances</i>	Technological advancements reinforce demand for Port City's facilities	Technological advancements reinforce demand for Port City's facilities	Technology disrupts need for Port City facilities
Internal Factors			
<i>Domestic Stability</i>	Democratic institutions reinforced to promote political inclusion and stability; security and law & order is maintained	Political power concentrated in executive presidency, increased political stability & security	Division between government branches increases, political instability & insecurity worsens
<i>Port City SEZ Legislation</i>	SEZ law passed with attractive incentives and effectively implemented	SEZ law passed with attractive incentives and effectively implemented	Port City SEZ law passed, but incentives are not attractive
<i>Labour Market Resources</i>	Availability of local and foreign labour market resources improves	Limited skilled domestic labour resources available, but immigration system is reformed to allow easier recruitment of foreign workers	Labour market resources are insufficient for Port City. Immigration laws remain unchanged and domestic skills gaps are not addressed
<i>Infrastructure Development outside Port City</i>	Infrastructure development outside Port City proceeds in line with coherent plan to meet emerging demands	Limited infrastructure development carried out in an ad-hoc manner	Limited infrastructure development carried out in an ad-hoc manner
<i>Environmental Policies</i>	Comprehensive environmental policies implemented; environmental conditions improve	Limited environmental policy advancements; environmental conditions deteriorate	No major environmental policy advancements, environmental conditions deteriorate
<i>Growth of the Sri Lankan Economy</i>	Economic growth in Sri Lanka is stable and strong	Low and stable economic growth	Volatile economic growth in Sri Lanka
<i>Sri Lanka's International Relations</i>	Sri Lanka strengthens relations with emerging Asian powers	Sri Lanka maintains strong relations with all major powers	Sri Lanka strengthens relations with emerging Asian powers

Appendix 5:

Table 11: Measurement of Indicators - Macroeconomic Environment

Indicator	Year	Source	Measurement
Macroeconomic environment			
Average real GDP growth (%)	2014-2018	IMF	Gross domestic product is the most commonly used single measure of a country's overall economic activity. It represents the total value at constant prices of final goods and services produced within a country during a specified time period, such as one year.
Average inflation (%): Average Consumer Prices	2014-2018	IMF	Annual percentages of average consumer prices are year-on-year changes.
Average unemployment rate (% of total labour force)	2014-2018	WB	Unemployment refers to the share of the labor force that is without work but is available for and seeking employment.
Average government gross debt (% of GDP)	2014-2018	IMF	Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. This includes debt liabilities in the form of SDRs, currency and deposits, debt securities, loans, insurance, pensions and standardized guarantee schemes, and other accounts payable. Thus, all liabilities in the GFSM 2001 system are debt, except for equity and investment fund shares and financial derivatives and employee stock options. Debt can be valued at current market, nominal, or face values (GFSM 2001, paragraph 7.110).
Average current-account balance (% of GDP)	2014-2018	IMF	Current account is all transactions other than those in financial and capital items. The major classifications are goods and services, income and current transfers. The focus of the BOP is on transactions (between an economy and the rest of the world) in goods, services, and income.
FDI inflows (% of GDP)	2014-2018	UNCTAD	Foreign direct investment: Inward flows and stock, annual (as % of GDP) FDI flows comprise mainly three components: acquisition or disposal of equity capital. FDI includes the initial equity transaction that meets the 10% threshold and all subsequent financial transactions and positions between the direct investor and the direct investment enterprise; reinvestment of earnings which are not distributed as dividends; inter-company debt. FDI flows are transactions recorded during the reference period (typically year or quarter). FDI stocks are the accumulated value held at the end of the reference period (typically year or quarter).

Appendix 6:

Table 12: Measurement of Indicators - Supply Side Environment

Indicator	Year	Source	Measurement
Supply side environment			
Market size			
Country size (land area in sq. km)	2018	WB	Land area is a country's total area, excluding area under inland water bodies, national claims to continental shelf, and exclusive economic zones. In most cases the definition of inland water bodies includes major rivers and lakes.
Population (mio.)	2018	WB	Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship. The values shown are midyear estimates.
GDP per capita, PPP (current international \$)	2018	WB	GDP per capita based on purchasing power parity (PPP). PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current international dollars based on the 2011 ICP round.
Infrastructure			
Access to electricity (% of population)	2017	WB	Access to electricity is the percentage of population with access to electricity. Electrification data are collected from industry, national surveys and international sources.
Electricity supply quality (rank)	2019	GCI	Electric power transmission and distribution losses as a percentage of domestic supply 2016 estimate Electric power transmission and distribution losses are losses in transmission between sources of supply and points of distribution and in the distribution to consumers, including pilferage.
Access to internet (% of population)	2018	WB	Internet users are individuals who have used the Internet (from any location) in the last 3 months. The Internet can be used via a computer, mobile phone, personal digital assistant, games machine, digital TV etc.
Cost of internet (average cost in \$ of 1GB mobile data)	2019	cable.co.uk	Data from 6,313 mobile data plans in 230 countries were gathered and analysed by Cable.co.uk between 23 October and 28 November 2018. The average cost of one gigabyte (1GB) was then calculated and compared to form a worldwide mobile data pricing league table.
Road connectivity	2019	GCI	Score on the Road Connectivity Index, which measures average speed and straightness of a driving itinerary connecting the 10 or more largest cities that together account for at least 15% of the economy's total population
Quality of road infrastructure (rank)	2019	GCI	Response to the survey question "In your country, what is the quality (extensiveness and condition) of road infrastructure?" [1= extremely poor—among the worst in the world; 7 = extremely good—among the best in the world] 2018–2019 weighted average or most recent period available
Airport connectivity (rank)	2019	GCI	This represents the IATA airport connectivity indicator, which measures the degree of integration of a country within the global air transport network
Labour market & skills			
Expected years of schooling (per school starter)	2017	UNESCO	Number of years a person of school entrance age can expect to spend within the specified level of education. ISCED levels 1-8 (total)
School enrollment, tertiary (% gross of population age group)	2018	WB	Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Tertiary education, whether or not to an advanced research qualification, normally requires, as a minimum condition of admission, the successful completion of education at the secondary level.
Quality of vocational training services (rank)	2019	GCI	Response to the survey question "In your country, how do you assess the quality of vocational training?" [1 = extremely poor among the worst in the world; 7 = excellent among the best in the world] 2018–2019 weighted average or most recent period available
Skillset of graduates (rank)	2019	GCI	Average score of the following two Executive Opinion Survey questions: "In your country, to what extent do graduating students from secondary education possess the skills needed by businesses?" and "In your country, to what extent do graduating students from university possess the skills needed by businesses?" In each case, the answer ranges from 1 (not at all) to 7 (to a great extent). 2018–2019 weighted average or most recent period available
Digital skills among active population (rank)	2019	GCI	Response to the survey question "In your country, to what extent does the active population possess sufficient digital skills (e.g. computer skills, basic coding, digital reading)?" [1 =not all; 7 = to a great extent] 2018–2019 weighted average or most recent period available

Appendix 7:

Table 13: Measurement of Indicators - Political Environment

Indicator	Year	Source	Measurement
Political environment			
Corruption Perceptions Index (rank / 180 countries)	2018	CPI	The Corruption Perceptions Index (CPI) is an index published by Transparency International that ranks countries based on perceived levels of public sector corruption based on expert assessments and surveys from institutions such as the World Bank, the African Development Bank and World Economic Forum. A country can score from zero (highly corrupt) to hundred (low levels of corruption).
Political stability & absence of violence (percentile rank)	2018	World Governance Indicator	Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.
Rule of law (percentile rank)	2018	World Governance Indicator	Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
Regulatory quality (percentile rank)	2018	World Governance Indicator	Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

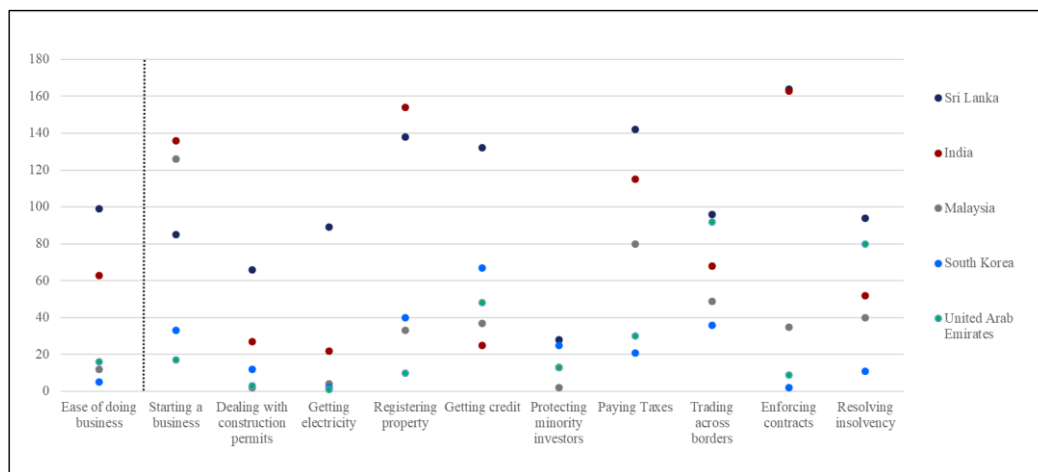
Appendix 8:

Sri Lanka's Positioning in the World Bank's Ease of Doing Business Index

The country has moved up one position (from 100th to 99th) in the World Bank's Ease of Doing Business Index, after having implemented four business regulating reforms since the 2019 Ease of Doing Business report.

The report covers business regulations and their enforcement on domestic small and medium-sized firms at the subnational and regional levels. It allows country-comparisons of the prevailing regulatory environment for businesses based on a variety of underlying factors. A questionnaire, designed by a team of expert advisers, is used to collect the data. The questionnaires are subsequently administered to over 15,000 experts such as lawyers, business consultants, accountants, government officials, and other professionals who advise on legal and regulatory requirements. For an overview of the respective indicators and their measurement refer to Appendix 9.

Figure 20: Ease of Doing Business Ranking (2020)¹⁰⁹



The United Arab Emirates, South Korea, and Malaysia almost exclusively rank in the top half of countries across all dimension, whereas Sri Lanka and India rank in the bottom half across various categories. That said, the Ease of Doing Business Report highlights that Sri Lanka scores ahead of South Asia's regional average across most categories, with the exceptions being *getting credit*, *paying taxes*, and *enforcing contracts*.

Sri Lanka scores ahead of India and Malaysia for *starting a business*. In addition, the country is globally well-positioned in terms of protecting minority investors, placing only shortly behind Korea, India, and the United Arab Emirates. What's more, Sri Lanka ranks ahead of India with regards to registering property.

The survey highlights Sri Lanka's potential for developing administrative and legislative procedure along the dimensions *enforcing contracts*, *registering property*, and *getting credit*, which have dragged on the country's overall ranking. Reducing regulatory complexity and strengthening legal institutions will help establish a more enabling environment for entrepreneurs and small and medium-sized enterprises and thereby help Sri Lanka move up further in the Ease of Doing Business ranking in future.

Appendix 9:

Table 14: Measurement of Indicators - Ease of Doing Business Index¹¹⁰

Indicator	Measurement
Starting a business (rank)	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits (rank)	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity (rank)	Procedures, time and cost to get connected to the electrical grid, and the reliability of the electricity supply and the transparency of tariffs
Registering property (rank)	Procedures, time and cost to transfer a property and the quality of the land administration system
Getting credit (rank)	Movable collateral laws and credit information systems
Protecting minority investors (rank)	Minority shareholders' rights in related-party transactions and in corporate governance
Trading across borders (rank)	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts (rank)	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency (rank)	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency

Appendix 10:

Figure 21: Incentives for Real Estate Developers¹¹¹

Port City comprises a total area of 178 hectares of marketable land and a total gross floor area of approximately 5.7 million square meters, spanning offices, housing, medical, educational and hospitality facilities. Attracting real estate developers is therefore crucial for Port City's successful completion.

Fiscal and non-fiscal incentives are commonly used by governments to attract private sector capital for strategic urban development projects that are aimed at fostering economic growth. The provision of incentives for urban development projects can promote investment in strategically important projects, while mitigating the risks associated for developers.

Fiscal Incentives – These are an effective tool to attract investment by lowering initial project costs and are offered to real estate developers in the form of tax holidays, preferential tax rates, investment allowances, and import tariff concessions. Songdo IBD for instance offers various fiscal incentives such as a 100% elimination of corporate taxes and a 50% reduction on income taxes for a three- and two-year period respectively to developers of foreign investment projects conditional on meeting a minimum investment amount (US\$ 30 million). Developers, which fulfill these requirements are also offered a 100% exemption on acquisition taxes (for up to fifteen years) and a 100% reduction in property taxes (up to ten years), followed by a 50% reduction (three years). Further, developers which import capital goods are exempted from tariffs for up to 5 years.

What's more, financial assistance, in the form of grants, is commonly provided to real estate developers for projects that are deemed desirable for the country's economic growth. Grants are thereby often conditional on the project having a positive impact on the local economy, i.e. through the creation of a specific number of jobs.

Public-Private Partnerships - Cooperation through public-private partnerships can be used to facilitate joint development ventures and investment opportunities for private developers. PPPs facilitate the transfer of skills, technology and innovation between sectors and can therefore improve operational efficiency. As an example, the lack of sufficient funds for the development of urban infrastructure and property in Shenzhen SEZ, led its local government to form a joint venture between overseas firms and state-owned enterprises. The joint venture provided local developers with crucial expertise in a market-oriented property development landscape.

The provision of fiscal and non-fiscal incentives can help alleviate greater entrepreneurial risk and financial burdens for real estate developers in Port City, putting the zone at a competitive advantage in attracting investors. The incentives have the potential to lower initial operating costs while enhancing competitiveness in the regional real estate market and can help foster additional economic development within the SEZ.

Appendix 11:

Table 15: SEZ-Specific Success Factors - Regulatory and Legal Environment¹¹²

	Dubai International Financial Centre (DIFC)	Songdo International Business District (IBD)	Labuan International Business and Financial Centre (IBFC)	Gujarat International Finance Tech City (GIFT)	Sri Lanka
Regulatory institutions	<p>Various independent authorities responsible for the administration and execution of laws and regulations:</p> <p>Dubai Financial Services Authority (DFSA): Main regulator for financial businesses DIFC authority DIFC courts Independent Dispute Resolution Authority (DRA)</p>	<p>Two main regulatory bodies: Incheon Free Economic Zone (FEZ) Authority FEZ Committee (aided by the FEZ Planning Office)</p> <p>Access to the Association of Commercial Arbitration</p> <p>Project manager who offers a one-shop stop administrative support in legal, accounting and tax matters</p>	<p>A single regulator: The Labuan Financial Services Authority (Labuan FSA), which is responsible for the setting up of all Labuan entities</p>	<p>Currently three regulators: Reserve Bank of India Securities and Exchange Board Insurance Regulatory and Development Authority</p> <p>Government plans to establish one unified authority</p>	<p>Government committee looks into setting up of regulatory institutions for Port City, including a commission, advisory committee, arbitration board and court</p>
Legislation - Land and property ownership	<p>Non-nationals can buy any non-freehold properties within DIFC and are allowed to acquire freehold property in designated areas</p>	<p>South Korea: Permits purchase of land and property in all its provinces</p>	<p>Malaysia: Non-nationals can purchase residential and commercial properties provided investment exceeds RM 600,000 (ca. USD145,000)</p> <p>No sale of agricultural land</p>	<p>India: Non-nationals are not allowed to purchase immovable property unless they classify as resident or property is acquired through inheritance (from Indian resident) Transfer or acquisition possible on a leasehold basis</p>	<p>Sri Lanka: Foreign investors not allowed to purchase land, unless their stake <50% (Companies listed on CSE, which have a foreign shareholding of > 50% can however purchase land) Outright purchase of condominium allowed Land can be leased for 99 year period</p>
Legislation - Immigration policies	<p>Access to single service provider for obtaining employment and residency permits Residence visas are valid for a two year period Long-term visas (up to 10 years) are given out to investors, entrepreneurs, specialists in science, medicine, research and technical fields and outstanding students</p>	<p>Issuance of resident visa dependent on investments (in the real estate sector or public projects) and time spent in zone</p> <p>Visa allows to live, work and run a business in Songdo</p>	<p>Liberal immigration policies Multiple entry visas are issued to expatriates who have been granted employment permits to work with offshore companies Visas can be extended to dependants</p>	<p>GIFT limits the number of issued work visas through quotas</p>	<p>Sri Lanka: Residence visas are obtainable for a one-year period and can be renewed annually Non-nationals first have to enter on an entry visa and convert it within 30 days of arrival Residency visas can be obtained through purchase of property (length of visa depends on investment amount)</p>

Appendix 12:

Table 16: SEZ-Specific Success Factors - Taxation Framework¹¹³

	Dubai International Financial Centre (DIFC)	Songdo International Business District (IBD)	Labuan International Business and Financial Centre (IBFC)	Gujarat International Finance Tech-City (GIFT)	Port City
Legislation - Taxation framework	Tax holidays provided Limited information available for applicable tax regulations in DIFC	Tax reductions, estate support, and subsidies provided Extent of relief depends on e.g. type of company, number of employees and FDI amount	Low tax regime applicable to entities whose activity is conducted in, from or through Labuan	Availability of tax exemptions and reductions Additional concessions provided to IFSC compared to SEZ	Port City: SDPA provides tax holidays of up to 25 years for foreign investors Further provisions of fiscal incentives under discussion and information not publicly available at the time of writing Sri Lanka: Recent tax relief package* will ease tax burden for both, companies and consumers
Corporation tax	40 year exemption for DIFC entities Dubai: No corporation or income taxes levied Exception: Oil and gas companies. Charged at up to 55% (depending on concession agreements) & foreign banks at 20% tax	Depending on type of business and investment amount, tax breaks are available: 5 years exempt, followed by 2 years @ 50% reduction rate or 3 years exempt, followed by 2 years @ 50% reduction rate	Tax charged at 3% flat Alternatively, entity may elect to be charged at flat rate of MYR 20,000 (ca. USD 2,800) annually	IFSC and SEZ entities: Exemption from tax 100% for the first 5 years 50% for the next 5 years IFSC units: Minimum Alternate (MAT) tax reduced from 18.5% to 9% SEZ units: Charged at 18.5% MAT	Sri Lanka: Standard rate: 28% Amendments*: IT sector and enabling services: 0% Exports, tourism, construction: 14% Manufacturing: 18% Trading, Banking, Finance, Insurance: 24%
Capital gains tax	Dubai: No capital gains tax	No information	Non-trading activities (relating to the holding of investments in e.g. securities, shares, loans and deposits) are exempt form tax	IFSC companies: Nil Security Transaction Tax, Commodity Transaction Tax, Dividend Distribution Tax, Short- and Long Term Capital Gains Tax and Goods and Services Tax	Amendments*: No capital gains tax on stock market transactions Foreign currency earnings exempt from income tax
Withholding tax	Dubai: No withholding tax	No information	No withholding taxes on payments (including interest, dividends, royalties etc.) applicable to non-residents	No information	Amendments*: Withholding tax removed on interest income (non-resident interest income > LKR 250,000 is levied with 5% withholding tax)
Real estate/property tax	Dubai: Land registration fee: 4% of sales value of property Property tax: 5% of annual rental value No stamp duties	Rent reductions of 50 - 100% available conditional on type of company, number of employees, size of FDI and export orientation of business Property tax reductions available conditional on type of business and investment amount For 10 years: 100% exempt After 10 years, 3 years @ 50% tax rate	No estate tax, no stamp duty	Stamp duty exempt for entities conducting capital market activities.	Sri Lanka: No VAT on condominium purchases 1-4 % Stamp duty (depending on lease or freehold)
VAT/goods and services tax (GST)	Dubai: 5% applicable to goods and services (with exemptions made to e.g. certain financial services)	No information	No information	No information	Proposed amendments*: 8% on goods and services VAT on financial services maintained at 15% VAT on tourism at 0%
Other taxes	No information	Import tax on capital goods: 5 years exempt Acquisition tax*: 15 years exempt	No indirect taxes such as import and export duties levied Goods and Services Tax (GST) only chargeable on goods and services exports (not imports)	IFSC and non-IFSC: Exemption from customs duty for imported goods Exemption from services tax	Sri Lanka: Social security payments (EPF) Employees Trust Fund contributions
Double Taxation Avoidance Agreements	Access to network of double taxation avoidance treaties available	No information	Labuan company can be taxed under Malaysian Income Tax Act, gaining access to the majority of Malaysia's double taxation agreements Entity then loses preferential tax status and will be taxed at 25% corporation tax	No information	Sri Lanka: Double Taxation Avoidance Agreements with 44 countries

*Proposed amendments to the Sri Lankan taxation framework as at November/December 2019 and January 2020. Internal Revenue Act reforms are yet to be enacted although administratively adopted.

Appendix 13:

Table 17: SEZ-Specific Success Factors - External and Internal Infrastructure¹⁴

	Dubai International Financial Centre (DIFC)	Songdo International Business District (IBD)	Labuan International Business and Financial Centre (IBFC)	Gujarat International Finance Tech-City (GIFT)	Port City
Accessibility	<p>Strategically located, connecting the Middle East with Africa and South Asia</p> <p>Strikes a good balance between the time zones of major Eastern cities such as Hong Kong and Tokyo and western cities such as London</p> <p>DIFC offers two metro stations with links to Media City, Downtown Dubai and two airports, all accessible within 10-45 minutes</p>	<p>Songdo IDB offers a direct connection to Incheon International Airport (via 21km long bridge), with onwards connection to other major cities: Shanghai: 2hrs Beijing: 2 hrs Tokyo/Hong Kong: 2.5 hrs</p> <p>Direct commuter buses and subway connection to Seoul (56km away)</p>	<p>Close proximity to Hong Kong, Jakarta, Kuala Lumpur and Singapore</p> <p>Lack of direct flights and therefore limited accessibility: Dependant on connecting flights from Kuala Lumpur or Kota Kinabalu</p> <p>The island has a deep sea port and operates ferry connections to mainland Malaysia and Brunei</p>	<p>Domestically easily accessible through National Highway 8, which connects Delhi to Mumbai.</p> <p>In proximity to core cities such as Gandhinagar & Ahmedabad.</p> <p>Located ca. 12km from Ahmedabad International Airport, flying to e.g. Bangkok, Singapore and Dubai</p>	<p>Port City is in proximity to the Colombo Bandaranaike International Airport, Colombo Port and Ratmalana Domestic Airport</p> <p>Major cities such as Singapore, Kuala Lumpur, Mumbai, New Delhi, are reachable withing a 4 hrs flight (or less)</p> <p>Project Master Plan provides for two road connections (underground tunnel for access to the south and express highway to the Bandaranaike Airport as well as other major cities in Sri Lanka)</p>
Sustainability	<p>No special focus on sustainability. Comparatively populated, with a lack of green spaces.</p> <p>Focus on development of ICT infrastructure</p>	<p>Focus on environmentally friendly practices and green building</p> <p>IBD accounts for ca. 40% of all LEED-certified space in South Korea</p> <p>Offers pneumatic waste disposal system</p> <p>Provides access to foot paths, bicycle tracks and electric vehicle charging stations</p>	<p>No special focus on sustainability or green developments</p>	<p>Establishment of utility tunnel (combining waste disposal, water and electricity access)</p> <p>Provision of district cooling system (energy efficient and more sustainable air conditioning system)</p> <p>Plan to plant 100,000 trees in the SEZ</p>	<p>"Walk to work" principle - creation of walk and cycle paths</p> <p>Project Master Plan includes an integrated approach for the management of utilities, with power & communication cables, sewage transport systems and domestic water supply all running underground</p> <p>Goal to build eco-cycles (water, energy and waste loops) to reduce losses and increase recycling</p> <p>Establishing pedestrian and cycling paths to reduce the city's emissions of greenhouse gases and pollutants</p> <p>Creation of a Central Park to serve as "green lung" for the city</p>

Endnotes

Chapter 2:

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