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Sri Lanka's Export Renaissance:

Diversification, Innovation, & Global Competitiveness

REFLECTIONS OF FORMER EDITORS

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(1977-2009)

As People's Bank celebrates its 65th anniversary, I am delighted to reflect on my long association with *Economic Review*, one of the Bank's most enduring contributions to economic knowledge and public understanding in Sri Lanka. Having joined the Research Department as a young researcher in 1977 and later serving as its Head of Research until my retirement in 2009, I had the opportunity to contribute to the journal as a writer, editor and supporter of its development.

Since its inception in 1975, *Economic Review* has played an important role in disseminating economic knowledge and encouraging informed discussion on issues of national importance. Among the milestones in its journey, the relaunch of the journal in 2025 deserves special recognition. Following a period of discontinuation, its successful revival ensured the continuation of a valuable platform for economic analysis and research, thereby preserving and important intellectual resource for the country.

I also wish to acknowledge the pioneering contributions of Dr. Susantha Goonatilake and Late Mr Chrys Gunaratne, whose vision and commitment helped establish the strong foundations upon which the journal has continued to build.

Over the past five decades, *Economic Review* has rendered and invaluable service to researchers, policymakers, academics, students and the wider public. By promoting evidence-based analysis and a deeper understanding of economic and development issues, it has made a meaningful contribution to Sri Lanka's intellectual and policy discourse and served as a trusted source of knowledge for generations of readers.

As the journal enters a new era of digital publishing, I extend my sincere congratulations to the editorial team and all those associated with its success. Its enduring relevance lies in its ability to adapt to changing times while remaining faithful to its founding mission. I wish *Economic Review* every success in continuing to inform, enlighten and inspire future generations of readers.

"Economic Review is more than a magazine; it is a legacy of knowledge that continues to shape informed thinking and inspire future generations."

Dr. Fredrick Abeyratne

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Consultant Editor, Economic Review

(2012-2017)

I am writing these few sentences with a lot of joy. I was the consultant Editor of the Economic Review from 2012 to 2017, for 6 years continuously. There were a lot of books, refereed journals. related to social science related issues. These were mostly catering to acedemics and professionals interested in socio-economic issues. But there were hardly publications in the category of semi academic journals/ Magazines in Sri Lanka, focusing on secondary level students, and other professionals, including the general public, who are trying to understand how the economy works and related issues, and to get an unbiased opinion.

Economic Review of the Peoples Bank closed this this gap. We ensured articles were unbiased, had true rather than exaggerated facts. Hence, especially for those who were looking for real facts on real issues, this was very popular.

I would re-call it had issues related to the annual budget every year, covered important Global events like CHOGM (2013) and other Regional and Global Issues. It used to cover areas related to Gender, youth, poverty, ICT etc. One of the most useful areas it covered was issues related to monetary and fiscal policies. This helped many to understand economic indicators such as GDP, Foreign exchange rates and inflation, as well as issues related to taxation, government expenditure etc.

I am pleased to note it has commenced publication again, after a lapse of a short period. I do hope it will continue to educate Sri Lankans in general, on information with regard to socio-economic aspects and development.

"An informed citizenry is the foundation of a strong economy. Economic Review remains a trusted source of such knowledge."

ECONOMIC REVIEW

PEOPLE'S BANK
Pride of the Nation

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The Economic Review is intended to promote knowledge of, and interest in, the economy and the economic development process through a multifaceted presentation of views, reportage, facts, and debate.

The Economic Review is a CSR project of People's Bank. However, its contents are based solely on editorial considerations and do necessarily reflect the policies or official viewpoints of the Bank. The articles also represent the personal views of the authors and do not reflect the positions of the institutions to with which they are affiliated.

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EDITOR'S
NOTE

Sri Lanka stands at a pivotal moment in its economic trajectory. As global trade continues to evolve in response to technological change, shifting supply chains, and emerging economic powers, the country faces both significant challenges and unprecedented opportunities. This issue of the Economic Review focuses on the theme ***"Sri Lanka's Export Renaissance: Diversification, Innovation, and Global Competitiveness,"*** exploring how the nation can reposition its export sector for sustained growth and resilience.

This issue of the magazine includes articles that examine export competitiveness, sectoral trends and challenges, and the broader macroeconomic context shaping Sri Lanka's trade performance. It brings together discussions on economic recovery and its linkages to export-led growth, as well as in-depth analyses of key export industries and their need for structural resilience and strategic transformation. The issue also explores the role of international trade in the Sri Lankan economy, the financial and institutional dimensions that support export expansion, and emerging perspectives on the forces influencing economic and financial outcomes. Further, it underscores the importance of understanding both the structural challenges and the untapped potential in Sri Lanka's export landscape.

Sustainability has emerged as a defining element of global competitiveness. Increasingly, international markets demand adherence to environmental, social, and governance standards. Sri Lanka must therefore align its export strategies with these expectations by promoting environmentally responsible production, ethical business practices, and compliance with global standards. Ultimately, Sri Lanka's path to an export renaissance lies in its ability to adapt, innovate, and strategically position itself within the global economy. By embracing diversification, investing in innovation, and committing to sustainable competitiveness, the country can unlock new avenues for growth and resilience.

It is our hope that this issue will contribute to informed dialogue and inspire actionable strategies that support the long-term development of Sri Lanka's export sector.

Ruwani Fernando

Prof. Ruwani Fernando
Editor in Chief

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THOUGHT CONTRIBUTORS

Mr. Mangala Wijesinghe

Mangala Wijesinghe serves as the 16th Chairman and Chief Executive Officer of the Sri Lanka Export Development Board (EDB), assuming office on 16th October. He brings over 25 years of senior management experience across diverse sectors, including pharmaceuticals, chemicals, consumer electronics, and telecommunications. Prior to this role, he served as Chief Operating Officer at Brown and Company PLC. He holds a Bachelor's Degree in Economics from the University of Sri Jayewardenepura, an MBA, and is a Chartered Professional Manager. Known for his strategic vision and operational excellence, he is committed to driving Sri Lanka's export growth and expanding its global market presence.

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Mr. Bradley Emerson has built a distinguished career at the intersection of banking and education, both in Sri Lanka and internationally. Over the years, he has lectured extensively, trained senior executives, and designed impactful workshops that seamlessly blend policy insight with practical application. Widely recognized for his expertise in strategy formulation and corporate turnarounds, he has guided institutions through complex challenges, helping reposition them for sustainable growth and long-term resilience. His unique combination of financial acumen and academic engagement, enriched by global exposure, positions him as a compelling voice on reform, transformation, and nation branding.

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Professor Saliya C. Arachchige (PhD-AUT, New Zealand) is a distinguished academic, researcher, and Chartered Accountant whose career spans both the financial and higher education sectors. He began his professional journey at KPMG Sri Lanka before advancing to board-level positions in diverse financial institutions, including merchant banks, development banks, savings banks, and primary dealers. His academic experience extends across Sri Lanka, New Zealand, and Fiji, providing valuable multicultural and international perspectives. A prolific scholar, he has authored several influential books on social research methodology and published more than 200 peer-reviewed articles. He also contributes to public discourse through his weekly "Out of the Box" column in The Island newspaper.

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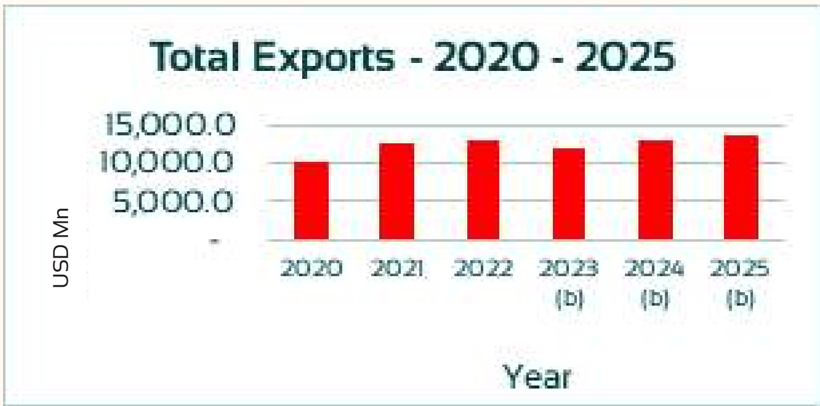
Export Performance Highlights

Year	2020	2021	2022	2023(b)	2024(b)	2025(b)
Total Exports (USD Mn)	10,047.4	12,498.6	13,106.4	11,910.7	12,772.0	13,581.4



(b) Provisional

Sources:
Ceylon Petroleum Corporation and Other Exporters of Petroleum
National Gem and Jewellery Authority
Sri Lanka Customs
Central Bank of Sri Lanka

Total exports rose strongly from 2020 to 2022, increasing from USD 10,047.4 Mn in 2020 to USD 13,106.4 Mn in 2022, indicating a period of solid export growth. This likely reflects recovery and expansion following the 2020 downturn.

In 2023, exports are estimated to have declined to USD 11,910.7 Mn, suggesting a slowdown or contraction in export performance after the 2022 peak. However, in 2024 and 2025, exports are projected to recover to USD 12,772 Mn and USD 13,581.4 Mn respectively, showing a rebound by surpassing the 2022 performance.

Sector wise Exports 2020 - 2025

(US$ Million)

Year	2020	2021	2022	2023(b)	2024(b)	2025(b)
Agricultural Exports	2,336.2	2,729.5	2,568.0	2,566.5	2,774.5	3,072
Industrial Exports	7,672.0	9,702.0	10,465.3	9,277.7	9,946.9	10,460.8
Mineral Exports	25.1	44.5	50.0	38.5	24.5	24.2
Unclassified	14.1	22.6	23.2	28.0	26.1	24.4

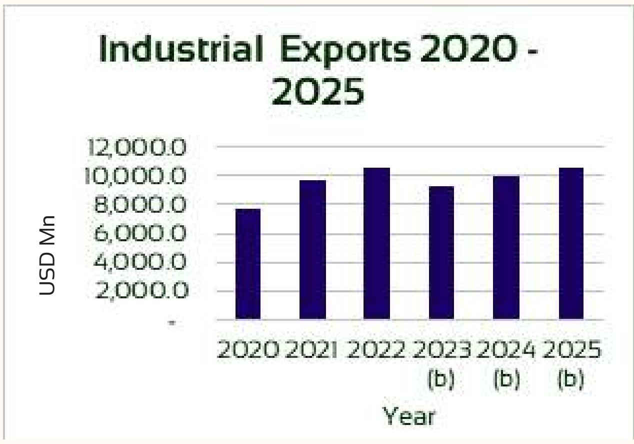
(CBSL – External sector performance) (b) Provisional

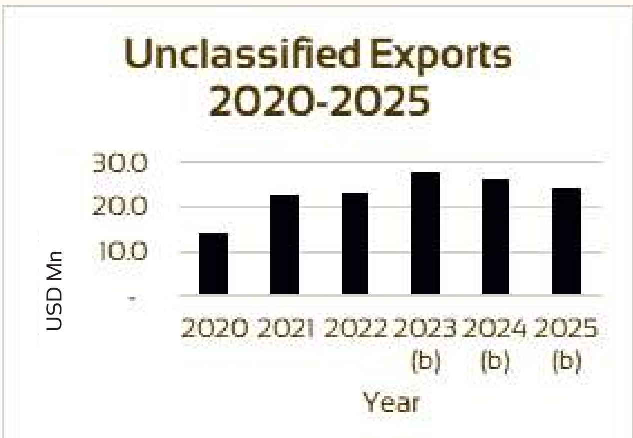
Industrial exports dominate the export structure throughout the period, while agricultural, mineral, and unclassified exports play smaller roles.

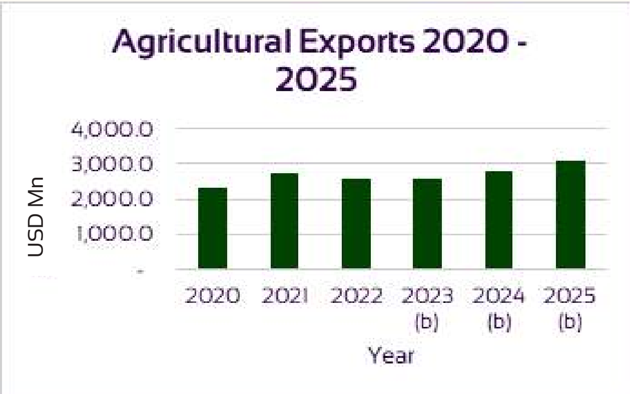
Agricultural exports increased from USD 2,336.2 Mn in 2020 to USD 2,729.5 Mn in 2021, then declined in 2022 and 2023, indicating some instability in agricultural performance. In 2025, agricultural exports are projected to recover to USD 3,072 Mn, suggesting renewed growth.

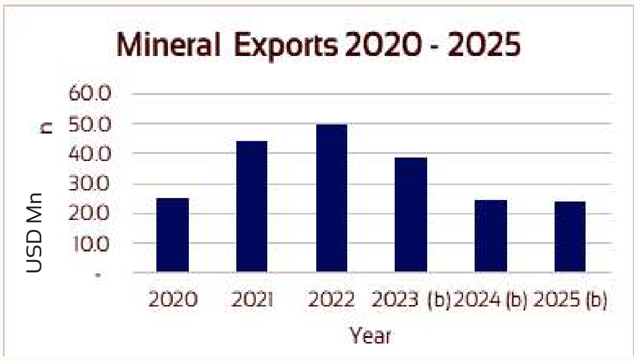
Industrial exports showed strong growth from 2020 to 2022, rising from USD 7,672.0 Mn to a peak of USD 10,465.3 Mn. However, they are estimated to have fallen sharply in 2023 to USD 9,277.7 Mn, reflecting a slowdown in industrial activity or external demand. A partial recovery is expected in 2024 to USD 9,946.9 Mn and in 2025 to USD 10,460.8 Mn, though still below the 2022 peak.

Mineral exports remain small and volatile. They increased significantly from USD 25.1 Mn in 2020 to USD 50.0 Mn in 2022, before declining in 2023 and further in 2024 and 2025, suggesting reduced output or lower global demand/prices.



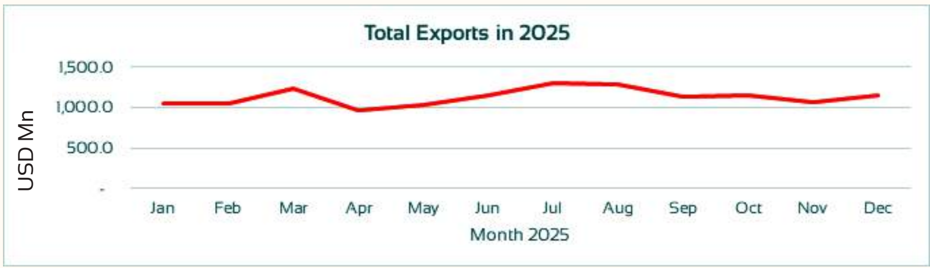






CBSL – External sector performance

Total Exports in 2025



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Structural Resilience and Strategic Reorientation: A Macroeconomic Review of Sri Lanka's Tea Export Sector

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Introduction

For many years, the tea sector in Sri Lanka has been a vital part of the country's economy, providing jobs, export revenue, and rural livelihoods while connecting the nation to global commodity markets (CBSL, 2023). Despite external shocks such as decreased tourism, unpredictable remittances, interruptions in global supply chains, and pressure on the balance of payments, tea remains a significant source of foreign currency, providing comparatively steady inflows (CBSL, 2022). Its steady net foreign exchange contribution and minimal dependency on imports have strengthened its economic importance. The industry is also dealing with structural issues. Rising labour and energy costs, competition from low-cost manufacturers, climate-related hazards, and changing global consumption patterns make traditional volume-based production methods increasingly unsustainable (FAO, 2021). However, there are strategic prospects due to the well-established reputation of "Ceylon Tea" and the rising demand for speciality, premium, and ethically produced teas. To maintain the industry's long-term economic and social contribution, a change toward value addition, productivity enhancement, and climate-resilient growth is necessary.

Sri Lanka's Tea Output has Experienced both Production Trends

Structural limitations and cyclical swings over the last fifteen years. Due to favourable weather conditions, a stable supply of fertiliser, and efficient land management, production peaked in the early 2010s and has remained consistently above 300 million kg (SLTB, 2021). However, due to ageing tea bushes that yield lower quantities and incur higher care costs, output began to decline in the mid-2010s (TRI, 2020). Low replanting rates, substantial investment needs, and limited access to long-term financing have exacerbated the decrease. Long-term droughts, intense rainfall, landslides, and temperature fluctuations are examples of climate variability that have further impacted yields and leaf quality, raising producer income uncertainty (FAO, 2021). Production has also been hindered by policy and regulatory changes, particularly in relation to fertiliser management and input availability (Ministry of Plantation Industries, 2022).

Concerns have been raised over the long-term sustainability of Sri Lanka's tea supply and the industry's ability to meet demand worldwide as a result of these combined issues, which have caused production to plateau considerably below historical highs.

Export Volume and Value Dynamics

Referring to Table 1, Sri Lanka's tea export revenues have remained resilient despite stagnating or declining export volumes. Sri Lanka's tea export revenues have remained robust, underscoring the significance of pricing dynamics, product composition, and exchange rate variations (CBSL, 2023). Export values have increased due to greater packaged and branded tea exports, as well as higher average prices, even while volumes have stabilised at lower levels than in prior decades. Additionally, local currency revenues have increased due to the devaluation of the Sri Lankan rupee. Future growth in export revenues is unlikely to depend solely on volume expansion, given land restrictions, labour issues, and climate-related hazards. Rather, sustainable export growth is anticipated to be driven by value-added products, branding, and higher unit prices.

Table 1
Sri Lankan Tea Production & Export Volumes (2017-2024)

Year	Tea Production (million kg)	Tea Exports (million kg)
2017	307.1	289.0
2018	303.8	282.4
2019	300.1	292.7
2020	278.5	265.6
2021	299.3	286.0
2022	251.5	250.2
2023	256.0	241.9
2024	262.2	245.8

Role in Export Earnings and Foreign Exchange Stability

Tea remains one of Sri Lanka's top sources of foreign income, consistently accounting for a substantial portion of the country's merchandise export earnings. With export quantities of 245.79 million kilograms, Sri Lanka's tea exports generated USD 1.43 billion in 2024, representing a year-over-year increase of more than 9%. As a result, tea became one of the primary sources of foreign exchange for the nation's export industry. Recent trade figures indicate that tea accounted for nearly 12.8% of merchandise export earnings in 2025, underscoring its ongoing significance in generating national income. In the first eight months of 2025, cumulative tea export revenues surpassed USD 1 billion, demonstrating resilience in the face of global market volatility and serving as a reliable source of foreign exchange inflows that support the balance of payments. Tea production's efficiency as a net foreign exchange earner for Sri Lanka is further enhanced by its comparatively low import content.

Employment and Rural Livelihoods

Livelihoods that either directly or indirectly sustain more than 2.5 million people, or over 10% of the country's workforce, particularly in the central highlands and their surrounding areas (ILO, 2024). Regional Plantation Companies employ over 115,000 people on large estates, whereas the majority of workers are smallholder farmers who cultivate 60% of the tea land and produce more than 70% of green leaf (ILO, 2024). The approximately 700,000 workers demonstrate the sector's significant contribution to female employment in rural areas, where most of the workers are women, performing manual tea picking and estate work (ABC News, 2024). The industry faces fundamental issues, including declining estate employment, wage constraints, and climatic and market vulnerabilities, despite generating approximately 2% of GDP and substantial foreign exchange (SLTB, 2024). Smallholder domination has decreased expenses and enhanced output, but it has also made it more vulnerable to input and price shocks. Thus, it is a social and economic imperative to maintain steady employment and revenues.

Compared to bulk producers like Kenya and India, where mechanised, high-volume CTC tea predominates, Sri Lanka has been able to fetch higher export prices thanks to its concentration on orthodox and value-added tea products. Ceylon Tea's premium positioning and well-known brand continue to be critical competitive advantages in discriminating international markets, even as other exporters increase their output.

Global Market Position in the Global Tea Economy

Despite growing competition from larger, lower-cost growers, Sri Lanka remains a significant player in the global tea industry, consistently ranking among the top exporters worldwide. Even though total output has fluctuated below record peaks of over 300 million kg a decade ago, Sri Lanka shipped approximately 245.8 million kilograms of tea in 2024, valued at around USD 1.4 billion, underscoring its sustained export significance. With an average Free on Board (FOB) price of nearly USD 5.83 per kilogram, export revenues reached all-time highs in 2024, indicating high demand for premium Ceylon Tea varietals on global markets.

Referring to Table 2, due to its emphasis on high-quality orthodox teas rather than high-volume bulk grades, Sri Lanka accounts for approximately 15% of the world's tea exports, despite its proportion of the world's tea production being less than 5%.

Table 3 presents the leading tea-exporting countries in 2024 by export value. China and Sri Lanka are the top tea-exporting nations by export value in 2024, as shown in the table. With corresponding values of USD 1.42 billion, 1.41 billion, and 1.41 billion, China, Sri Lanka, and Kenya account for roughly 18–19% of all tea exports worldwide. Due to its emphasis on premium orthodox tea and Ceylon Tea's widespread popularity, Sri Lanka enjoys a strong position that allows it to generate export earnings on par with many larger manufacturers. Due to significant domestic consumption, India, the world's second-largest producer of tea, ranks fourth in terms of export value at USD 0.82 billion. Although they make smaller contributions, other nations, including Poland, Japan, Germany, and Vietnam, are essential in specialised or regional markets. According to the data, bulk-focused producers, such as China and Kenya, dominate in total export volume, while Sri Lanka maintains its competitiveness despite lower production levels.

Table 2:
Sri Lanka's Tea Export Performance and Global Comparison (2020-2024)

Year	Average FOB Price (USD/kg)	Global Export Share (%)	Notes
2020	5.21	14.8	High demand for orthodox tea; pandemic effects on supply chains
2021	5.38	14.9	Recovery post-COVID; steady premium pricing
2022	5.46	15.0	Orthodox tea focus maintained; smallholder production increases.
2023	5.58	15.0	Rising global tea prices; continued brand recognition
2024	5.83	15.0	Record export revenues; premium Ceylon Tea in high demand

Table 3
Top Tea Exporting Countries by Export Value (2024)

Rank	Country	Tea Export Value (USD billion)	% of Total Global Tea Exports
1	China (Mainland)	1.42	18.8%
2	Sri Lanka	1.41	18.7%
3	Kenya	1.41	18.7%
4	India	0.82	10.8%
5	Poland	0.27	3.5%
6	Japan	0.24	3.2%
7	Germany	0.24	3.1%
8	United Arab Emirates	0.17	2.3%
9	United Kingdom	0.14	1.8%
10	Vietnam	0.11	1.5%

Competitive Landscape

There is fierce pricing competition in the worldwide tea business, particularly in mass-market categories. Producers with higher levels of automation, economies of scale, and lower labour costs enjoy structural cost advantages. Sri Lanka must differentiate itself through quality, branding, and value-added goods because its comparatively high cost base makes it difficult for it to compete solely on price. At the same time, premium producers now have more options due to consumer preferences shifting toward speciality teas, ethical sourcing, sustainability certifications, and traceability. If Sri Lanka strengthens its institutional, marketing, and regulatory frameworks, it will be well-positioned to benefit from these trends.

Structural Challenges Facing the Tea Sector

Rising Cost of Production

One of the primary challenges the tea industry faces is the increasing cost of manufacturing. Labour expenditures account for a sizable share of total production expenses, and productivity growth has lagged behind pay increases (CBSL, 2023). Growing costs for energy, transportation, packaging, and compliance have further reduced profit margins.

The wage-based labour paradigm employed by large estates is becoming increasingly impractical. In the absence of productivity-linked compensation plans, higher wages immediately put estate operators' long-term viability at risk.

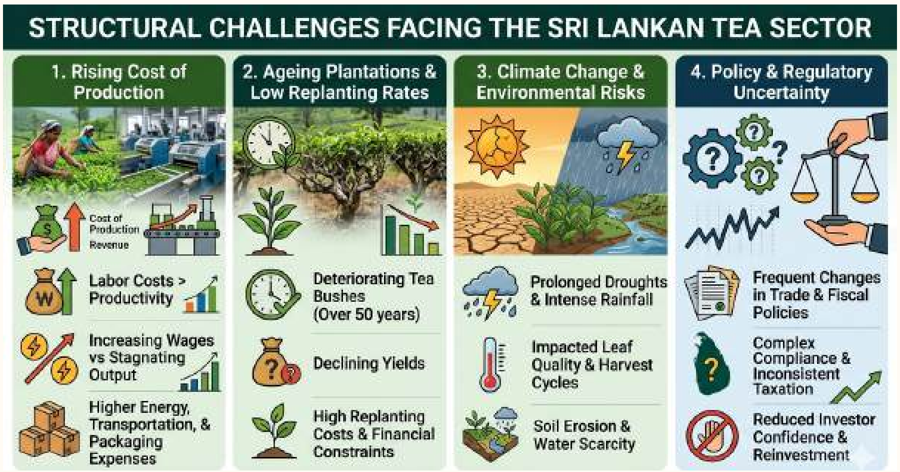
Ageing Plantations and Low Replanting Rates

One long-term structural limitation on productivity is the ageing profile of tea bushes. Long gestation periods, restricted access to concessional loans, and uncertainty about future returns on investment are some of the financial, institutional, and legislative hurdles that contribute to low replanting rates (TRI, 2020). If this problem is not resolved, the sector's viability will be in jeopardy due to the ongoing yield decline and deterioration of its global competitiveness.

Climate Change and Environmental Risks

Climate change and environmental degradation pose a growing threat to Sri Lanka's tea industry. Prolonged droughts, severe rainfall, floods, and rising temperatures are examples of extreme weather occurrences that have decreased yields, interfered with harvesting cycles, and impacted leaf quality (FAO, 2021). Additionally, pest outbreaks, water scarcity, and soil erosion are made worse by climate pressures, which increase production costs for plantations and smallholders.

The industry's long-term productivity, export competitiveness, and rural livelihoods are seriously threatened in the absence of adaptation strategies, including climate-resilient cultivars, improved resource management, and institutional support.



Policy and Regulatory Uncertainty

Planning is made more difficult, and investor confidence is diminished for Sri Lanka's tea exporters and producers due to the country's growing regulatory and policy uncertainty (Ministry of Plantation Industries, 2022). Small and medium-sized businesses are particularly affected by complex compliance requirements, inconsistent taxation, delayed incentives, and frequent changes in trade, fiscal, and agricultural policies. This uncertainty reduces the sector's competitiveness and capacity to adapt to changing global market conditions, restricts strategic decision-making, and hinders reinvestment in sustainability, efficiency, and value creation.

Strategic Opportunities and Policy Directions

Value Addition and Product Diversification

The best course of action for Sri Lanka's tea industry is to increase value addition. Without relying on increased output levels, export earnings can be significantly improved by increasing the manufacture and export of branded, packaged, flavoured, and speciality teas. Due to this diversity, Sri Lanka can secure a larger share of the final retail price, thereby increasing the profit margins for exporters, producers, and processors. Additionally, this strategy lessens susceptibility to fluctuating bulk tea prices in global commodity markets.

Strengthening Brand Equity

The preservation and improvement of the "Ceylon Tea" brand is crucial to the long-term competitiveness of Sri Lanka's tea industry. In high-end international markets, substantial brand equity, which is supported by reliable quality standards, authenticity, and geographic identity, is a crucial distinction. To prevent trademark dilution and abuse, effective certification programs, robust enforcement procedures, and stringent regulatory control are essential. In addition to commanding higher prices, strategic worldwide promotion can strengthen consumer confidence.

Productivity-Oriented Labour and Estate Reforms

Increasing labour productivity is necessary to restore the tea industry's financial sustainability. The profitability of estates has been under increasing pressure from traditional wage-based systems due to rising costs. Revenue-sharing and out-grower agreements are examples of productivity-linked remuneration schemes that offer alternative frameworks that align employee incentives with performance outcomes. These adjustments can increase output, encourage employee participation in decision-making, and build a more resilient and cooperative plantation management system.

Climate-Smart and Sustainable Practices

To ensure the long-term sustainability of tea production, climate-smart and ecologically sustainable approaches are essential. Risks associated with climate change can be mitigated by investing in climate-resilient plant varieties, implementing effective water management practices, conserving soil, and utilising environmentally friendly inputs.

Sustainability certifications enhance access to high-value markets, where ethical and sustainable production is increasingly influencing consumer preferences and pricing structures, while also promoting environmental protection.

Role of Financial Institutions

Financial institutions focused on development play a crucial role in helping the tea industry undergo structural change. Replanting programs, mechanisation, factory modernisation, and value-added projects all depend on having access to long-term financing. Concessional loans, risk-sharing arrangements, and customised credit products can lower investment barriers, especially for small and medium-sized enterprises. The sector's worldwide competitiveness can be improved and productivity growth accelerated by a supporting financial ecosystem.

Conclusion

Sri Lanka's tea industry remains a vital component of the nation's economy, generating employment, generating foreign income, supporting rural livelihoods, and maintaining international recognition through the high quality of Ceylon Tea. The industry has demonstrated resilience in export revenues and value-added goods despite obstacles such as ageing plantations, low replanting rates, rising expenses, climate variability, and regulatory uncertainty. Quality improvement, branding, productivity, and sustainability, rather than volume growth, will determine future competitiveness.

To maintain economic contributions, rural livelihoods, and Sri Lanka's position in the global tea market, it is imperative to strategically implement value-added production, climate-smart practices, productivity-linked labour reforms, and increased institutional and financial support.

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Improving Export Competitiveness in Sri Lanka: The Way Forward

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Introduction

Competitiveness, for a firm, is meeting customers' needs more efficiently and effectively than its competitors. It is the ability of a firm to produce the right goods and services of the right quality at the right place at the right time (Pilinkienė & Balzaravičienė, 2012). Simply, it allows a company to perform better than its competitors. Taking a step further, export competitiveness for a firm is simply the firm's ability to compete in international markets at a micro level (Thamiem et al., 2011). Similarly, from a macro perspective as a country, OECD defines export competitiveness as a nation's ability to sell goods (under free and fair conditions) in global markets while maintaining and expanding the real incomes of its people over the long term (Zhelev et al., 2012). Accordingly, if a nation is successful in its export trade, it should be reflected in the increase in its income. However, the question arises whether the same can be said for the case of Sri Lanka.

Since its independence, Sri Lanka has been classified as a developing country for over 70 years. In the story of economic development, at the time of gaining independence, Sri Lanka was a model nation to Singapore and a peer nation to developing countries like Japan. However, as the decades progressed, while her peers made massive progress, Sri Lanka remained stagnant. In the 1980s, these peer nations were replaced by countries such as Vietnam and Korea, which also eventually surpassed Sri Lanka. This inability to transition from a middle-income country to a high-income country is the middle-income trap. An economy's declining competitiveness is a key driver of this economic stagnation (Griffith, 2011).

What about our peers over the decades?

Looking at the merchandise exports of these peer nations across the decades, we can see that in the 1960s, Sri Lanka was equal, if not ahead, in terms of merchandise exports (Table 1). However, over time, these nations managed to leap ahead of Sri Lanka. Particularly, nations such as Vietnam and South Korea saw an exponential rise in their exports, while South Asian peers like Bangladesh and Pakistan also maintained steady growth throughout. Although Sri Lanka was one of the most open Asian economies, restrictive trade policies over the past decades have created an anti-export bias, reducing local firms' incentives to export (World Bank, 2016). The existing export basket has been stale and is highly concentrated on garments and labour-intensive industries.

Table 1
Merchandise Exports in US$ Million (1960-2024)

	1960	1970	1980	1990	2000	2010	2020	2024
Sri Lanka	**385**	**342**	**1,062**	**1,912**	**5,430**	**8,602**	**10,047**	**12,772**
Bangladesh		260*	759	1,671	6,389	19,194	33,605	47,245
South Korea	32	836	17,512	65,016	172,268	466,384	512,498	683,609
Pakistan	400	449	2,618	5,589	9,028	21,410	21,979	32,321
Vietnam	86	8	338	2,404	14,483	72,237	282,629	403,241

Source: World Trade Organisation
*Note: Data for Bangladesh are available from 1972 onwards

When considering the East Asian economies, the region's success has been powered by its remarkable growth in exports. In theory, export-led growth is a generally accepted norm in a Keynesian framework, where, through positive net exports, demand for domestic output is generated, causing output growth. Further, a trade surplus would allow a nation to efficiently import capital goods and intermediate goods required for long-term sustained output growth (Razmi & Hernandez, 2011). Also, externalities such as international knowledge spillovers and economies of scale associated with improved export performance would catalyse technological change and, thereby, economic growth (Melitz, 2003).

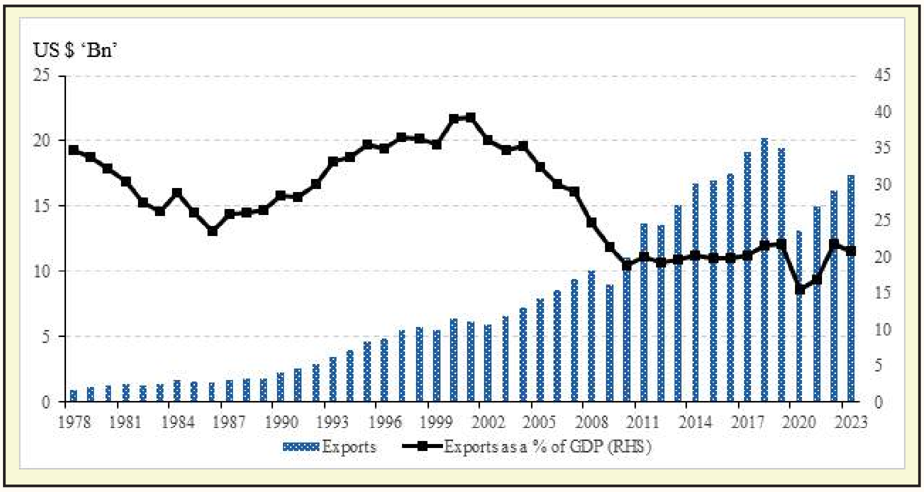
The Sri Lankan external sector

Improved export performance is often associated with improved export competitiveness. One measure of export competitiveness would be the volume and growth of exports. For Sri Lanka, while exports have grown as an absolute value, as a percentage of the GDP, it indicates a declining trend, particularly in the past few decades, suggesting that exports have not kept up to the economic potential (Figure 1). Therefore, the positive growth in absolute values is not an appropriate assessment of export competitiveness.

In the recent past, higher import growth has led to persistent negative trade balances, highlighting the structural problems within the Sri Lankan external sector (Figure 2). An interesting development is that until the economic liberalisation of 1978, Sri Lanka was able to keep the trade deficit at a marginal level. This was during a period when the economy was inward-oriented and highly regulated, with stringent trade and exchange controls (Athukorala & Jayasuriya, 2005).

Figure 1

Export Growth in Sri Lanka (1978-2023)



Source: World Bank Data

With the expectation of driving the economy towards export-led growth, the government subsequently removed many trade restrictions (Herath et al., 2014). However, this expectation has not been realised, and Sri Lanka has instead been burdened with a substantial trade deficit, mainly driven by the rapid rise in imports and the weak competitiveness of exports.

Prior to the economic crisis of 2022, the persistent trade deficits were usually financed through worker remittances and tourism income (Figure 3). However, the COVID-19 pandemic-driven economic crisis saw a substantial decline in tourism revenue. Further, worker remittances stagnated towards the later part of 2021 (Figure 4). At the same time, intending to stabilise the currency during the Covid-19 pandemic period, the monetary authorities in Sri Lanka artificially fixed the exchange rate to prevent currency depreciation, effectively subsidising imports and taxing the country's exports.

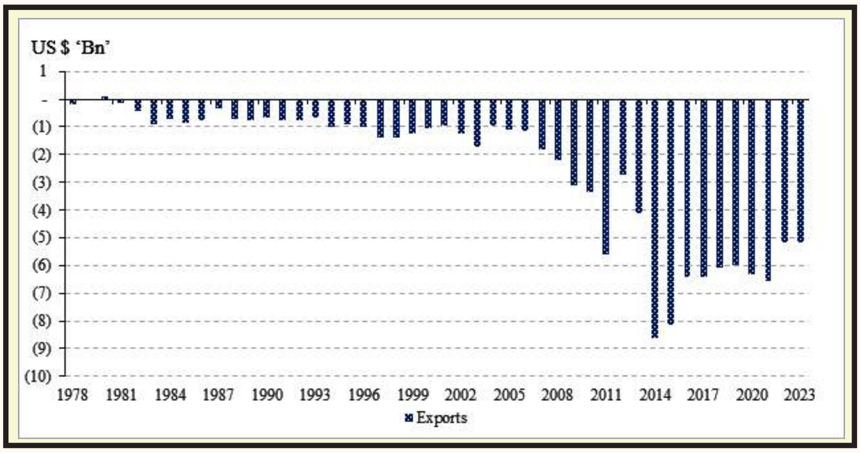
This fixed rate caused a black market price for foreign currency, leading to a snowball effect where much of the formal remittance flows were directed to the country through the much more attractive rates offered by the informal channels. Ultimately, on top of the decline in 2021, Sri Lanka experienced a further drop of nearly 51% in remittance inflows from \$3.3 billion to \$1.6 billion from January to June 2022, compared to the same period in 2021 (Central Bank of Sri Lanka, 2022).

As the usable foreign currency reserves drained to near-zero levels defending the fixed rate, the monetary authority floated the currency in March 2022, leading the rupee to collapse from Rs. 200 to Rs. 365 against the US Dollar by May 2022, ultimately causing the sovereign nation to declare bankruptcy. In the period that followed, from 2022 to 2025, the country entered into debt restructuring arrangements and implemented a series of fiscal and monetary reforms to stabilise the economy. Inflation, which had peaked at record levels in 2022, was gradually brought under control, and foreign reserves showed improvement with the support of multilateral assistance.

Yet, despite signs of macroeconomic stabilisation, the structural weaknesses of the external sector remain unresolved.

Figure 2

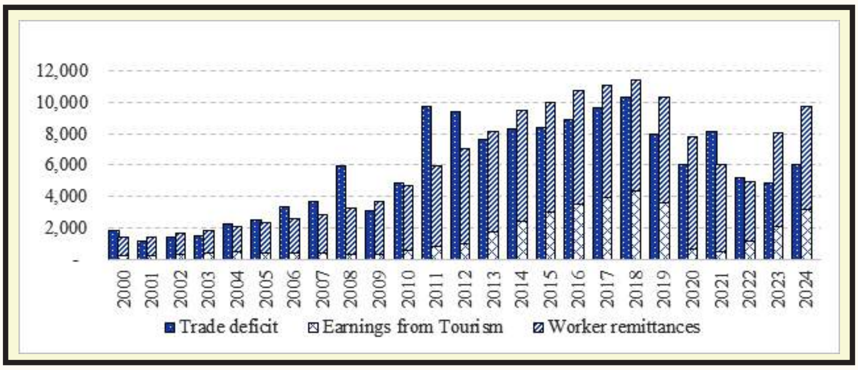
Trade Balance in Sri Lanka (1978 - 2023)



Source: World Bank Data

Figure 3

Trade Deficit vs Worker Remittances and Tourism Revenue - Sri Lanka (2000-2024)

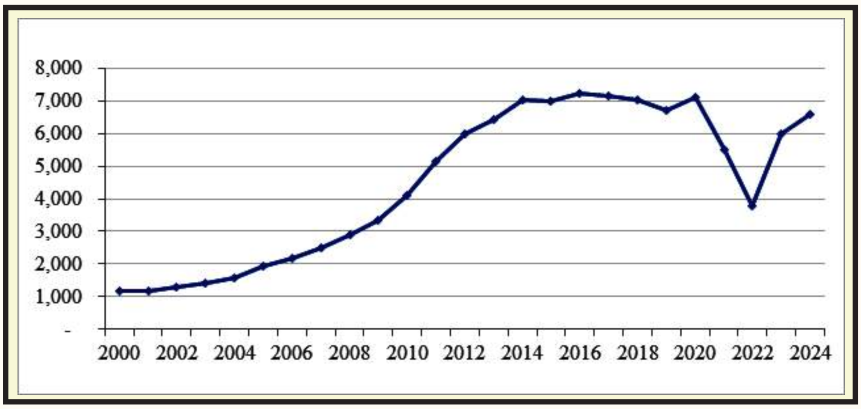


Source: Central Bank of Sri Lanka

*Note: Considers Goods Deficit

Figure 4

Worker Remittances Inflows – Sri Lanka (2000-2024)



Source: Central Bank of Sri Lanka

Export performance is yet to achieve its potential, and the economy continues to rely heavily on a few products and markets, leaving it vulnerable to policy shocks abroad, rising input costs, and shifts in global demand.

It is crucial that Sri Lanka increases its export competitiveness to facilitate long-term, sustained growth of exports to effectively fund the nation's imports rather than relying on tourism and remittances.

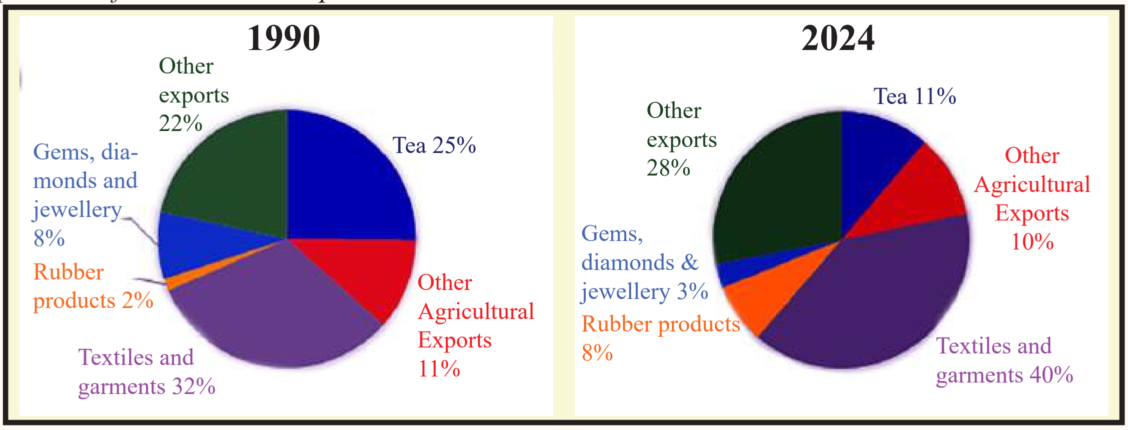
The Sri Lankan export sector has experienced a decline as a percentage of the nation's GDP and as a share of total global exports, with much of this attributed to its heavy reliance on a few markets and products (Abeysinghe, 2017). Such reliance would also increase a country's vulnerability to external shocks. Today, 40% of total merchandise exports are apparel exports, up from a contribution of 32% in 1990 (Figure 5). This increased dependence on apparel exports, where in 2024, the two markets of the USA and EU contributed to 44.2% of the total export value (Central Bank of Sri Lanka, 2025), further exacerbates vulnerabilities faced by the Sri Lankan economy due to external demand shocks such as recessions in key export markets.

Upon analysing the sectoral contribution to the GDP of Sri Lanka, it can also be seen that since the early '70s, the service sector has been the key contributor to the Sri Lankan economy. That contribution has increased from around 48% in 1970 to around 66% in 2024 (Figure 6). This suggests that, primarily over the past few decades, Sri Lanka's economic growth was mainly driven by the services sector. Similar to the rest of the world, Sri Lanka, too, has seen a transformation in the service sector at the expense of agriculture and industry (Priyankara, 2018).

Originally, it was believed that services are usually driven by domestic demand, where the expansion of services in an economy does not necessarily benefit the external trade. However, today, most economies worldwide are transitioning toward service-based economies, resulting in the increasing importance of services in international trade (White et al., 2013).

Figure 5

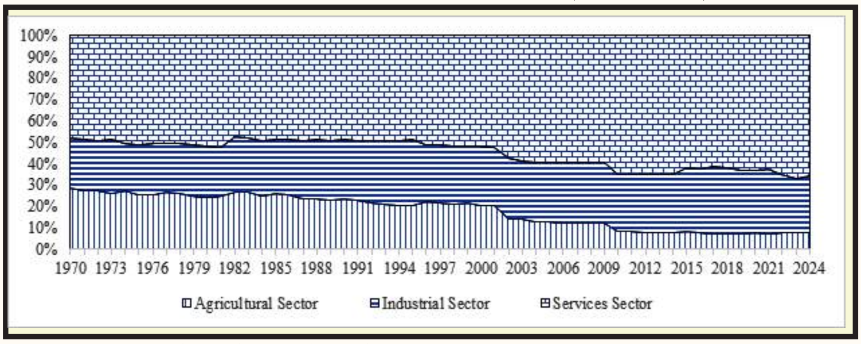
Composition of Merchandise Exports



Source: Central Bank of Sri Lanka

Figure 6

Sectoral Contribution to the GDP – Sri Lanka (1970-2024)



Source: Central Bank of Sri Lanka

Due to the rapid growth of information communication technologies, most Western economies are now increasingly delivering previously domestically traded services from abroad. Owing to the current technologies, they are increasingly able to outsource much of their business processing and knowledge processing service requirements to East and South Asia's relatively cheaper labour markets.

On top of the expanding services sector, Sri Lanka is among the most literate countries in Asia. Free education extends to primary and secondary education and a select number of tertiary education students. This reflects a fairly developed human capital in the country, providing a unique opportunity to tap into the expanding semi and high-skilled services trade, particularly among Knowledge and ICT services, to improve export performance.

The way forward

Knowing what went wrong in an economy for decades is a must in order to make its way out of the crisis. The background analysis of the Sri Lankan economy has highlighted areas needing closer attention and many missed opportunities over time. Firstly, addressing the structural problems of the Sri Lankan export sector is highly recommended.

A heavy dependence on a narrow basket of goods must be reduced, along with reliance on a few key export destinations. In diversifying Sri Lankan exports, it is vital to identify and promote growing sectors and industries such as tourism services, information technology, logistics, semiconductors and electronic components, as well as higher value-added agriculture and food processing. These areas can create a sustainable and diversified source of export income. At present, more than 60% of exports are directed to the USA and European markets, leaving Sri Lanka vulnerable to regional downturns, shifting consumer demand, and tariff shocks. The recent announcements of possible US tariff hikes on apparel and rubber highlight the dangers of such reliance, as these sectors form the backbone of Sri Lanka's export earnings. For greater resilience, Sri Lanka should strengthen trade relationships with East Asia, South Asia, Southeast Asia, the Middle East, and Africa. A wider product and market spread will reduce the economy's vulnerability to external shocks and ensure stability of export earnings.

Secondly, the long-standing dependence on worker remittances and tourism income to finance the trade deficit is no longer advisable, as both sectors have shown high volatility. The global pandemic, geopolitical tensions, and fluctuating migration flows have exposed the fragility of this model. More recently, global energy price hikes and disruptions in shipping lanes have added further risks. Hence, sustainable ways of financing the trade deficit should be identified, with a diversified export basket being the most reliable long-term solution.

Thirdly, Sri Lanka has seen a steady rise in its services sector while agriculture and industry have declined in relative importance. Economic growth is increasingly tied to services, which offers an opportunity. By combining this trend with the country's skilled human capital, Sri Lanka can effectively target service exports such as ICT-enabled services, financial services, education, and health. Catering to the outsourced service requirements of international clients can generate steady export revenue, provided the necessary digital and physical infrastructure is strengthened. Investments in broadband connectivity, data security, and uninterrupted power are essential to guarantee smooth service provision. With the right support, Sri Lanka can establish itself as a competitive service hub in the global economy.

Fourth, Sri Lanka should mark its position as a part of the global value chain, which is being highly accomplished by other developing countries due to the integrated and interdependent global economy. Yet, Sri Lanka has not been able to secure a place in the global value chain, though it is blessed with a strategic location in the Indian Ocean. With the international fragmentation of the production process, it is important to look into the innovative and vital parts of the global value chain. In addition, Sri Lanka can use its agricultural and primary goods exports, where the value addition can be improved to fit with the global value chain rather than exporting them in the primary form. Similarly, new industries should be identified and promoted with state support, such as creating investment-friendly environments, tax exemptions for exporters, establishing export-oriented industrial zones, setting up information centres, and training exporting agents who could assist and handle the exporting process. Moreover, carefully identifying the disparities between regions within Sri Lanka and customising the export support system should be done. Therefore, pro-poor economic growth can be achieved along with employment creation in rural areas. Industrialisation strategy should be focused on high-value-adding industries which are further evolving in times to come. Thus, combining innovative technology, research, development, carefully identified standardisation procedures to fit the global market, and creativity should be the utmost pillars of success in winning the global market. At the same time, it is crucial to remain mindful of emerging challenges such as tariff hikes in key markets, which can quickly erode competitiveness if not addressed. Encouragingly, new trade agreements, including the Sri Lanka - Thailand FTA signed in 2024, provide opportunities to strengthen integration into regional production networks.

Development is not a one-off achievement but a continuous process. Sri Lanka has the avenues to overcome its challenges and reposition itself for sustainable growth. The country has already shown positive momentum through new regional trade partnerships and policy reforms. The choice now lies in whether the nation acts decisively or delays further, risking more lost opportunities. Without postponing the take-off phase of the economy, Sri Lanka should fast-track the strengthening of its external sector and mark its presence in global markets immediately. The way forward for the economy relies on exports more than ever before.

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THE POLICY PERSPECTIVE

From Policy to Performance:

Driving Sri Lanka's Export Transformation

The future of exports lies in value addition diversification and global interrogation

Mr. Mangala Wijesinghe
Chairman/Chief Executive
Export Development Board

EDB

Q1 How competitive are Sri Lanka's exports today, and what key policy changes are needed to increase productivity and value addition?

Sri Lanka's export sector has remained resilient and continues to be one of the most important pillars of the national economy, particularly in generating foreign exchange. Traditional sectors such as apparel, tea, rubber, and coconut-based products have sustained export performance over time and continue to anchor the country's export base. However, when viewed in comparison with regional economies such as Vietnam and Malaysia, it becomes clear that competitiveness is no longer defined purely by export volumes or market presence, but by productivity, scale, and the level of value addition embedded in exports.

A key concern is that a significant portion of Sri Lanka's exports still falls within the low to medium value-added category. This limits the country's ability to capture higher margins and move into more sophisticated segments of global trade.

Therefore, the focus going forward must be on moving up the value chain-through greater product sophistication, improved process efficiency, and stronger alignment with international standards.

From a policy perspective, several structural changes are essential. Rationalising the tariff framework, particularly by phasing out para-tariffs, can reduce input costs and improve competitiveness. At the same time, the implementation of the National Single Window is expected to streamline trade procedures, reduce delays, and create a more efficient operating environment for exporters.

Equally important is strengthening the "Made in Sri Lanka" proposition. This goes beyond branding-it involves building a reputation based on quality, traceability, sustainability, and ethical production. Improving productivity will also require investment in technology, infrastructure, and innovation systems. In this context, stronger coordination at the policy level has become increasingly important in addressing sector-specific constraints and enabling faster decision-making.

Q 2

Even with many policies in place, export diversification has been slow. What changes are needed to expand exports into new products and markets?

Export diversification has been relatively slow largely because of structural dependence on a narrow export base and a limited number of markets. A significant share of Sri Lanka's exports continues to be directed towards the United States and European regions. While these markets remain important, such concentration exposes the country to external shocks and limits the scope for expansion.

To move beyond this, a more deliberate and strategic approach to diversification is required. The focus must shift both in terms of products and markets. On the product side, there is a clear need to transition from traditional exports towards high-value, technology-driven and resource-based sectors. Areas such as information and communication technology and business process management, logistics and maritime services, electrical and electronic manufacturing, as well as value-added food, spice, and mineral-based exports, offer significant potential for growth.

At the same time, market diversification must be pursued in parallel. While maintaining a strong presence in existing markets, Sri Lanka needs to actively expand into regions such as Asia, Africa, and the Middle East. This requires not only new trade agreements, but also more targeted, product-specific arrangements that facilitate market entry.

The role of foreign missions becomes particularly important in this context. They can support exporters through market intelligence, business matching, and promotion activities. Ultimately, diversification requires a coordinated effort-bringing together policy, institutions, and industry-to create sustained momentum rather than isolated initiatives.

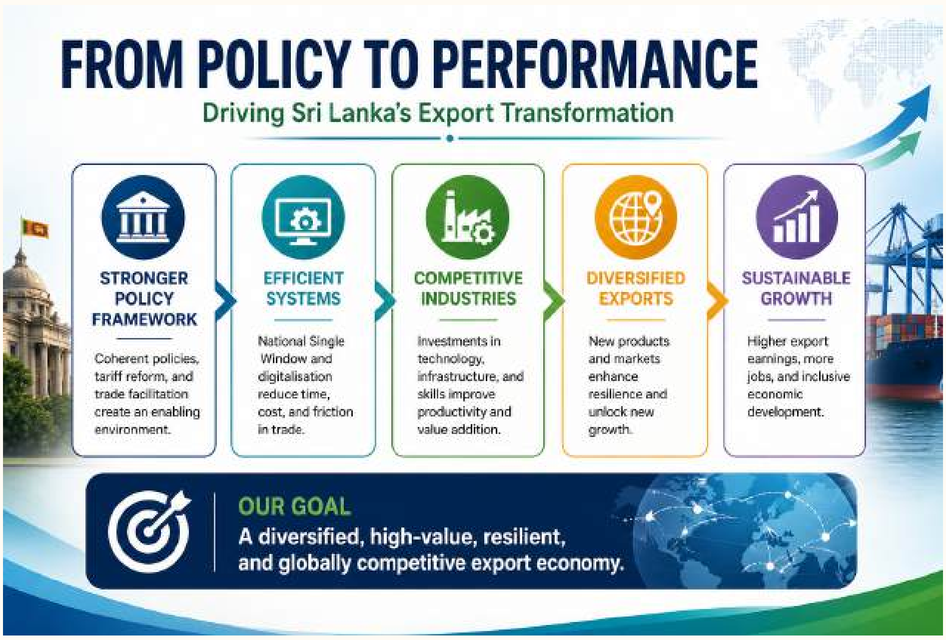
Q 3

What policies can best help Sri Lankan SMEs become part of global and regional value chains?

Small and medium enterprises are central to Sri Lanka's economic structure, contributing significantly to employment, regional development, and domestic production. However, their participation in exports remains limited, indicating a clear gap between potential and actual performance.

The challenge is not the absence of capable entrepreneurs, but the barriers they face in accessing international markets. Many small and medium enterprises produce high-quality goods, yet struggle with meeting international certification requirements, developing competitive branding and packaging, and understanding market expectations.

To address this, policy support must go beyond financing and focus on capability development. Structured export readiness programmes, technical training, and mentoring are essential to equip enterprises with the skills needed to compete globally. Certification support is particularly critical, as compliance with international standards is often a prerequisite for entering export markets.



In addition, improving access to markets is key. Participation in international trade fairs, business-to-business engagements, and buyer-seller meetings can help enterprises build connections and credibility. Initiatives undertaken by the EDB, including exporter development programmes and market linkage support, play an important role in integrating small and medium enterprises into global and regional value chains.

Q4 How is the EDB using the priorities of Budget 2026 to support export led growth?

The EDB has aligned its strategy closely with the priorities outlined in Budget 2026, with a strong emphasis on improving the overall environment for exports. The focus has shifted towards enabling structural improvements that support long-term export growth rather than short-term interventions.

One of the most important initiatives is the implementation of the National Single Window, which is expected to integrate key institutions involved in trade processes and significantly reduce processing times. This will improve efficiency, transparency, and ease of doing business for exporters.

In parallel, tariff reforms are being pursued to reduce unnecessary cost burdens and create a more competitive trade environment. Infrastructure development is another critical area, with investments in ports, roads, and industrial zones aimed at improving logistics and attracting both domestic and foreign investment.

The EDB has also expanded its export promotion activities, focusing on both established exporters and emerging small and medium enterprises. These initiatives are designed to enhance market access, strengthen export capabilities, and increase foreign exchange earnings in a structured and sustainable manner.

Q5 How can policymakers ensure that concessionary financing is used mainly for export-oriented activities?

Ensuring that concessionary financing is effectively used for export-oriented activities requires a stronger link between financing and export performance. Financial support should be targeted towards verified exporters and enterprises with clear export potential, ensuring that funds are channelled towards productive activities.

Introducing structured monitoring mechanisms, such as exporter registration systems, can improve accountability and reduce the risk of misuse. This allows policymakers and financial institutions to better track how funds are utilised and ensure alignment with export objectives.

At the same time, risk mitigation is essential. Export markets involve inherent uncertainties, and both exporters and financial institutions face risks related to payment defaults and market volatility. Strengthening mechanisms such as export credit insurance can provide protection and encourage banks to extend credit, particularly to innovative and non-traditional exporters.

Close coordination between banks, regulatory bodies, and export promotion agencies is therefore critical to ensure that concessionary financing contributes directly to export growth.

Q 6

How should export policy respond to increasing climate-related risks that affect supply chains and infrastructure?

Climate-related risks are increasingly becoming a defining factor in export performance, particularly in sectors such as agriculture, food processing, and small-scale manufacturing. Disruptions caused by extreme weather events can affect production, supply chains, and delivery reliability, posing challenges for exporters.

In response, export policy must integrate climate resilience as a core priority. This includes promoting environmentally sustainable production practices, encouraging the adoption of renewable energy, and supporting low-carbon manufacturing processes. These measures not only reduce vulnerability but also enhance competitiveness in global markets where sustainability standards are becoming more stringent.

Improving logistics and infrastructure is equally important. Climate-smart logistics systems, better storage facilities, and resilient infrastructure can help minimise disruptions and reduce losses. Over time, these investments will strengthen Sri Lanka's position as a reliable export partner, even in the face of climate-related challenges.

Q 7

What is your long term vision for Sri Lanka's export sector, and what reforms are needed to achieve it?

The long-term vision is to transform Sri Lanka into a diversified, technology-driven, and sustainable export economy with significantly higher value addition. The objective goes beyond increasing export volumes-it is about improving the structure, quality, and resilience of exports, while enhancing productivity and raising per capita export income.

Achieving this transformation will require a comprehensive reform agenda. Key priorities include improving trade facilitation, rationalising tariffs, expanding trade agreements, and strengthening the investment environment. Faster approval processes, policy consistency, and infrastructure development will be essential to attract investment and support export growth.

At a strategic level, the direction is clear. Sri Lanka must move away from commodity-based exports and towards high-value, innovation-driven, and service-oriented exports. By doing so, the country can position itself as a competitive and reliable participant in global trade.

Export Sector Development in Sri Lanka: Trends, Impediments and Potentials

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Historical Experience

Upon adopting liberal economic policies in 1977, the Sri Lankan economic landscape transformed dramatically, and successive governments made many efforts to enhance the sustainability of the market-oriented economic setup, thereby creating a conducive environment for the development of the export sector.

Phase I - During the first wave of liberalization, establishing export processing Zones was the important action that has taken to promote export sector development in Sri Lanka. Many local and international experts' opinions were to diversify the export structure from primary product exports to manufactured exports to increase competitiveness and gain higher export revenue (Faini et al., 1992). Hence, the export structure underwent a remarkable shift from the historical dependence on land-intensive primary commodity (the traditional trio: tea, rubber and coconut) to labor-intensive manufacturing, placing exports as one of the main sources of foreign exchange earnings. During 1976/1977, the primary exports of Sri Lanka accounted 85.7%, while manufacturing was at 4.6% (Athukorala, 2003). However, at present it accounts for 60.03% of total exports, while primary exports are at 2.7% (World Bank, 2026).

Phase II - Starting second wave of liberalization (1989-1994), a large privatization process was carried out in the country privatizing state owned enterprises and reforms in the financial sector. Removal of exchange controls and harmonizing tariff structure towards a single band over medium term facilitates export sector (Athukorala, 2012). Until early 2000s, Sri Lanka experienced a higher market concentration, however, this has gradually been declining in mid-2000s and continued to stay between 25 and 26% since then. The introduction of Free Trade Agreements (FTAs) facilitates exporters; however, the diversification occurred at a slower rate.

Phase III - During 2000s to 2015, the government focused deeply on the development of infrastructure after defeating a three-decade long ethnic conflict in May 2009, which was one of the most responsible factors for hampering the country's development. Owing to high cost of war, Sri Lankan government imposes many import duties to accumulate revenue to cover its expenses. This led to increase the cost of raw materials needed for manufacturing sector, hence experiencing a profit margin. After ending the war, the government's top priority was to develop war-affected areas and rural sector of the country through rapid development of infrastructural facilities especially road and highways. During this time import/export gap has widened owing to several factors including the importation of high volume of consumer goods and intermediate goods, high import tariff, export demand reduction in major trading partners including US and EU due to global financial crisis and the temporary suspension of GSP+ by the European Commission (Karunanayake, 2010).

Since the government aimed for infrastructure development in the country, and export sector did not receive adequate attention during this time.

Phase IV: From 2015 Sri Lanka marked a strategic shift towards modernizing Sri Lanka through digital transformation, agricultural innovation and global integration aiming to achieve ‘developed’ status by 2048. The introduction of National Export Strategy (NES) 2018 - 2022 enabled Sri Lanka to move beyond traditional sectors (apparel, tea, rubber) and promote high-value, tech-enabled exports, including information technology and business process management (IT/BPM), logistics, and processed foods (CBSL, 2019). An increase in service-oriented exports was also a significant feature during this time.

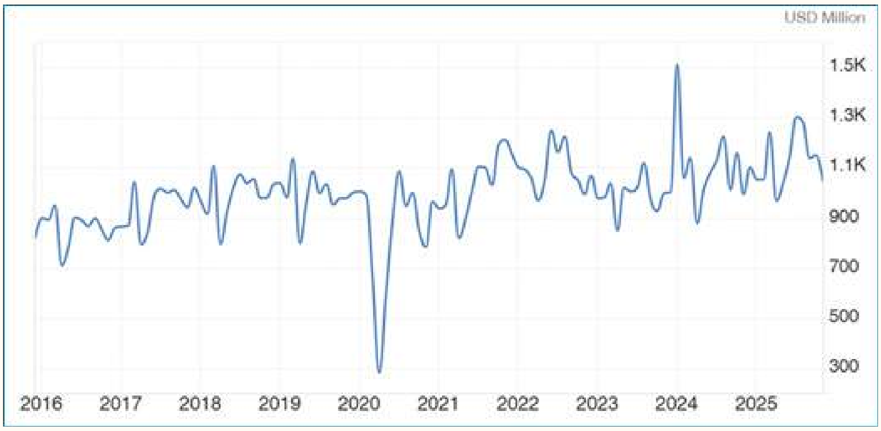


Figure 1: Export Performance in Sri Lanka
Source: https://tradingeconomics.com/sri-lanka/exports

A notable expansion of IT/BPM exports and logistics was observed in Sri Lanka following the launch of the NES. However, the disappointing fact identified during this period was the high import content in manufacturing exports, which ultimately led to a lowering of the net returns on exports in the country.

Recent Trends

After the liberalization, Sri Lankan exports perform quite well until March 2020. In March 2020, merchandise exports dropped by a massive 42.3% to $ 656 million due to COVID-19 tightening its grip on Sri Lanka’s economy, and the rapid expansion of COVID-19 across the globe influence the vital value chains and suffocating consumer demand (Daily FT, 2021). However, it was back on track by 2021, increasing 183% in April 2021. Earnings from merchandise exports again declined by 17.9 per cent in November 2022, over November 2021, to 994 million US dollars, owing to severe economic downturn in 2022. Data indicated that the merchandise exports that consist largely of industrial and agricultural products recorded a decline of 3.4 %, while placing tea exports to their lowest (25.5%) after 23 years, despite high average export prices which recorded 20.5% increase y-o-y average (CBSL, 2023).

Table 1 : Merchandise Statistics

Summary of Merchandise Trade Statistics - as per Central Bank Sri Lanka’s Merchandise Trade Classification(a) Export Performance (USD mn)

Category	Nov 2024	Nov 2025	YoY %	Jan–Nov 2024	Jan–Nov 2025	YoY %
Agricultural Exports	**228.0**	**238.5**	**4.6**	**2,517.9**	**2,826.5**	**12.3**
o/w Tea	118.2	111.8	-5.4	1,304.3	1,401.4	7.4
Coconut	32.7	47.1	44.1	380.5	529.2	39.1
Spices	40.7	37.0	-9.0	407.9	399.3	-2.1
Seafood	16.5	16.9	2.5	212.8	216.8	1.9
Industrial Exports	**762.9**	**806.5**	**5.7**	**9,105.3**	**9,542.2**	**4.8**
o/w Textiles & Garments	398.0	389.9	-2.0	4,613.4	4,842.0	5.0
Rubber Products	75.1	73.5	-2.1	897.2	840.4	-6.3
Petroleum Products	70.0	88.1	25.8	975.5	880.9	-9.7
Food, Beverages & Tobacco	51.2	70.6	37.8	594.0	829.5	39.7
Machinery & Mechanical Appliances	36.7	54.7	49.2	446.0	453.3	1.6
Gems, Diamonds & Jewellery	27.9	13.5	-51.6	365.5	353.9	-3.2
Leather, Travel Goods & Footwear	4.9	4.2	-13.9	57.3	63.7	11.2
Mineral & Other Exports	**3.3**	**2.9**	**-12.1**	**46.9**	**44.0**	**-6.2**
Total Exports	**994.1**	**1,047.8**	**5.4**	**11,670.2**	**12,412.8**	**6.4**

Source: CBSL Statistical Bulletin (2025).

Despite those calamities, the export sector continues to evolve towards higher value addition and attract more market opportunities through expanding regional integrations. Sri Lanka closely integrated with Asian region submitting its willingness to join the Regional Comprehensive Economic Partnership (RCEP) in 2023. In early 2026, UK liberalized its Developing Countries Trading Schemes (DTCS) rules for Sri Lankan apparels granting duty-free access to inputs and removal of processing rules (Business News, 2026). These changes will boost the revenue of export sector in Sri Lanka in the future.

Notwithstanding these notable economic achievements, Sri Lanka is yet to achieve its full growth potentials through its export sector. The inability of Sri Lanka's export sector to perform at its full capacity lies mainly in policy related issues. The purpose of this article is therefore to discuss those policy mishaps and explore new development avenues to enhance the export sector's performance, which can direct towards the desired economic growth target of the country.

1. Predominant Impediments and the Potentials

In many situations, economic growth failure of Sri Lanka was due to the issues related to its policy decisions.

The same logic can be applied to the export sector as well. Government policy decisions including forced foreign exchange (FX) changes, abrupt agricultural bans, and inconsistent tax policies appeared as disruptive that weaken the export sector's performance. During the crisis time, government notices of repatriation of foreign exchange earnings within 180 days of transactions made exporters uncomfortable incurring losses from currency conversion that led to hindering the profit margin and import potential. Further, owing to the fact, many foreign owned companies have discouraged to repatriate their money into businesses in Sri Lanka.

Besides, decision to ban the chemical fertilizer was another policy mishap of the government. Owing to the fact, tea production dropped by 15%, and hence, the export revenue (Dahanayake & Wijayasiri, 2022). In addition, imposition of 15% VAT on imported textiles and apparel industry raw materials posed a significant challenge to apparel industry in the country. Moreover, removal of proposed SVAT (simplified VAT) threatened to disturb the working capital of exporters (Makalanda et al., 2025).

Prevalence of high para-tariff on intermediate goods was another impediment for export growth.

Sri Lanka's manufacturing sector heavily depends on imported raw materials; therefore, the industry bears high production costs and hence lowers the net returns. Sri Lanka needs to focus on simplifying the tariff structure to safeguard the operational expenses of exporters.

On the other hand, a low and inadequate foreign reserve position in the country puts the export sector in jeopardy as it prevents/lowers the imports of necessary inputs for industrial and agricultural production. Further, forex shortage continues to discourage foreign entities who invested in Sri Lanka, and hence they divert their investment to other destinations. Theoretically, it is said that a country must accumulate foreign reserves for both precautionary and transaction motives. It is said that a country must have forex reserves at least to cover their import bills for 3-6 months, in case of emergencies. However, Sri Lanka is yet to realize that potential. Streamlining of remittances inflow is one of the actions that can be taken to accumulate foreign reserves. Besides, boosting tourism through improved service delivery and creating a secure environment through strict law enforcement is another way of improving the forex reserve position.

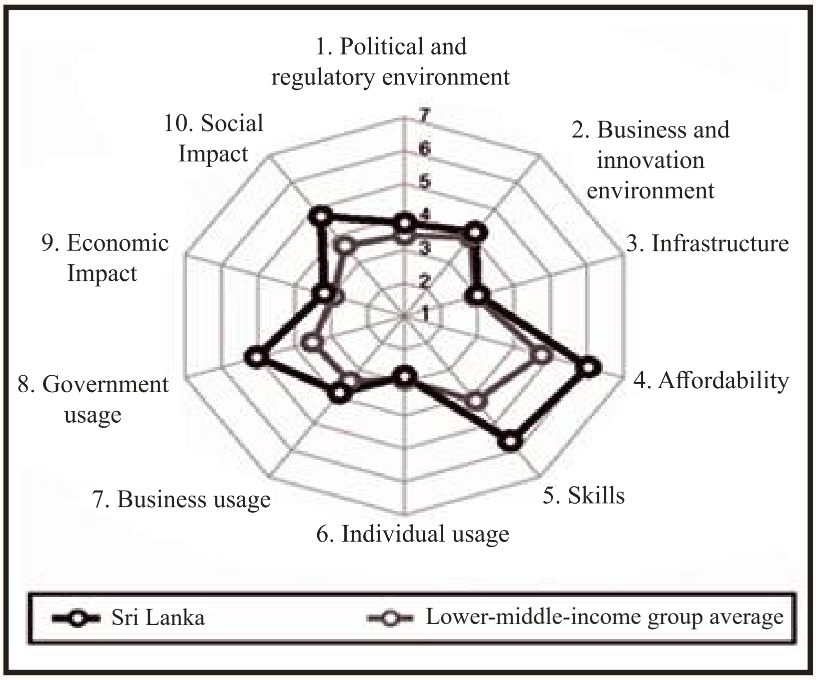
Nevertheless, ongoing energy crisis is another hurdle for the export sector development. Discontinuation of electricity from time to time disrupts the production sector and fails to meet the demand on time, which on the other hand may lead to losing market share due to deterioration of buyers' confidence in advanced countries. Even though the manufacturing sector utilizes alternative energy sources at present, they suffer lack of capacity required for production of some goods and services.

Moreover, Sri Lanka is still lagging in technology adoption classified as a "nascent economy" in the Fourth Industrial Revolution (4IR), hindering faster growth in tech-based manufacturing (IPS, 2019). Upon launching national digital economy strategy 2030, Sri Lanka demonstrates notable strengths in ICT affordability, digital skills, government usage, and social impacts, indicating that foundational conditions for digital transformation are largely in place (Figure 1).

Despite these strengths, the country exhibits weaker outcomes in individual usage, infrastructure, and economic impacts, highlighting a critical gap between digital readiness and effective utilization. This disconnect suggests that affordability and skills alone are insufficient to drive widespread digital adoption without complementary investments in reliable, high-quality digital infrastructure, especially in rural and underserved areas. Therefore, infrastructure policy should prioritize expanding broadband coverage, improving service quality, and encouraging private sector participation through regulatory incentives and public–private partnerships. Fiscal incentives, access to digital finance, and innovation-oriented regulatory frameworks can play a crucial role in translating digital usage into measurable productivity and growth outcomes.

Sri Lanka's export sector has considerable potential for growth if it moves beyond reliance on a narrow range of traditional products and focuses more on diversification and value addition. Focusing on export services: especially IT and business process services, professional services, and diversified tourism, can also help acquiring growth momentum in the export sector. These offer strong opportunities, given Sri Lanka's human capital and increasing digital connectivity. In addition, emerging areas such as knowledge-based industries, creative sectors, sustainable and green products, and participation in regional and global value chains can further strengthen export performance.

Figure 1: Sri Lanka's Network Readiness



Source: http://www3.weforum.org/docs/GITR2016/WEF_GITR_Sri%20Lanka_2016.pdf

2. Government Efforts

Since Sri Lanka is at a critical juncture on export - led economic growth path, “export or Perish” is the slogan that we must remember. In this respect, the existing outward-oriented trade strategies must be continued to achieve high economic growth momentum and secure its sustainability. The newly elected government seems to realize the importance of export expansion and hence placed a strong emphasis on export diversification through the Budget Speech 2026. The implementation of the National Export Development Plan (2025–2029), supported by a dedicated public investment of LKR 500 million, reflects the developmental state argument within export - led growth theory, which recognizes the role of targeted government intervention in overcoming coordination failures and information asymmetries (Rodrik, 1995).

The budget prioritizes diversification of the export basket, improving export competitiveness, and deeper integration into global value chains, which is a much-needed resolution for Sri Lanka’s export sector. The government aims to facilitate access to new and faster growing international markets like China, India and Southeast Asian region while simultaneously expanding Sri Lanka’s presence in existing export destinations in EU and USA.

Moreover, the budget proposes the appointment of a specialist committee to evaluate existing trade policies and to guide the negotiation and signing of new trade agreements aligned with national development objectives. This would support a more responsive and forward-looking trade policy framework which enhances the sustainability of international trade flow of the country. The budget also introduces a revised tariff structure, replacing the existing tariff bands of 0, 15, and 20 percent with a more graduated structure of 0, 10, 20, and 30 percent, with the objective of rationalizing protection, enhancing competitiveness, and improving revenue efficiency. This would be beneficial for maintaining the sustainability of necessary imports required for thriving manufacturing sector of Sri Lanka.

Furthermore, the budget emphasizes the importance of financial facilitation for new trade- and service-oriented activities, particularly to support exporters and emerging sectors. Complementing these measures, the government plans to establish a National Single Trade Window, aimed at streamlining trade procedures, reducing transaction costs, and improving the overall ease of doing business. This implementation will secure existing foreign investments and attract more private sector investments from both domestic and foreign entities.

Overall, the Budget Speech 2026 reflects a renewed commitment to an export-led growth strategy, combining diversification, competitiveness, institutional reforms, and trade facilitation. If effectively implemented, these measures have the potential to strengthen Sri Lanka's export sector and reinforce the role of exports as a key engine of economic growth.

3. Alternative Strategies

One of the promising alternative strategies for export sector development in Sri Lanka which didn't discuss so far, is utilizing the diaspora network and capital. As defined by Sheffer (1986), diaspora represents "groups of migrant origins residing and acting in host countries but maintaining strong sentimental and material links with their countries of origin - their homelands". Since 2009, the term "Overseas Sri Lankans" is used to officially refer to the Sri Lankan diaspora, which accounts 3 million in total across the globe making Saudi Arabia, United Kingdom, Quatar, India and Canada as their top destinations (SLBFE, 2024). Overseas Sri Lankan in Europe alone accounts for 22.3%, consisting of 52.3% of males and 47.7% of females. At present, diaspora engagements can be seen in key sectors like housing, restoring livelihoods, psychosocial wellbeing, economic diversification and the tourism sector.

Sri Lanka set up an Office for Overseas Sri Lankan Affairs (OOSLA) in January 2023, on the objective of networking the overseas Sri Lankan and attract their capital for the development purposes. However, lack of policy framework to support diaspora investment is the main hurdle at present. Lack of direction in promoting specific sectors and limited regulatory framework prevents overseas Sri Lankans from investing in Sri Lanka (Sen, 2023).

Thus, a huge opportunity is at government's fingertip, and it is government responsibility to formulate a concrete policy framework to attract investments from overseas Sri Lankans. Since the export sector appears to be the engine of growth, government can guide the diaspora to invest in it. Tourism, hospitality and ICT are the most reliable sectors in export industry in this setting. Diaspora entrepreneurs can bridge local firms with global markets, providing crucial knowledge on international standards, procedures, and certification requirements. Therefore, by attracting them Sri Lanka can create a conducive environment for service exports generating a competitiveness in the global service market. Thriving export sector, on the other hand, safeguards the forex reserve position of the country.

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Creative Poster Competition 2025

Grade 6-7

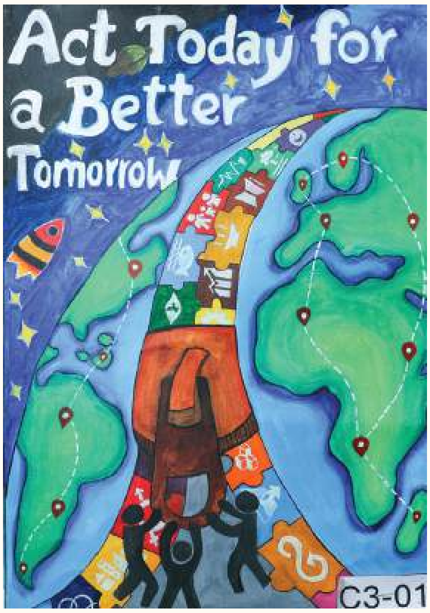
K.P.Upeksha Sandamali Perera
Algama Central College, Algama, Kegalle

Ashmi Methusari Bandara
Mahamaya Girls' College, Kandy

"Our Responsibility towards Achieving Sustainable Development Goals."

Ishen Wijesundara
Trinity College, Kandy

Grade 12-13



P.H.Isuri Kavindya Madhuhansi

The Creative Poster Competition 2025 was organized to promote awareness of the Sustainable Development Goals (SDGs) and encourage students to reflect on their role in achieving them under the theme "Our Responsibility towards Achieving Sustainable Development Goals." The competition provided a platform for school and university students to express their ideas creatively while highlighting the importance of youth engagement in sustainable development.

The initiative was organized by the Committee for the Popularisation of Science (CPS) of the Sri Lanka Association for the Advancement of Science, in collaboration with the Open University of Sri Lanka and the University of Kelaniya, with People's Bank as the Business Promotional Partner.

The Poster Exhibition and Competition was held on 22 August 2025 at the University of Kelaniya, with the participation of academic leaders, industry representatives, a panel of judges, and student participants, making it a vibrant platform for learning and creativity.

Creative Poster Competition 2025

Grade 9-11

Y. G. O.Pabasara Chandrasiri
Ibbagamuwa Central College- Kurunegala

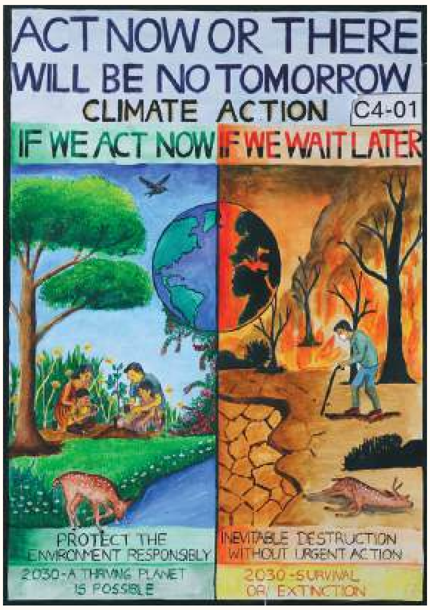
W.M.A.G.D.N.Wijethunga
Kengalla Maha Vidyalaya- Kengalla

E.G. Kavithma Induwarani
Mahamaya Girls' College, Kandy

University

R.K.S.Nethmini Ramanayaka
University of Kelaniya

W.M.W.Sahanya Wijekoon
University of Kelaniya



P. Savindu Nadeen
University of Kelaniya

Beyond the Shell

Haycarb's Blue Print for Sri Lanka's Export Transformation

Company Overview

Haycarb PLC is a global leader in coconut shell-based activated carbon, with a strong presence across Asia, Europe, and the Americas. As part of the Hayleys Group, the company specialises in high-performance carbon solutions for applications such as water purification, air filtration, gold recovery, and energy storage. With a focus on innovation, sustainability, and technical excellence, Haycarb has transformed a renewable agricultural by-product into a globally competitive industrial material, serving some of the world's most demanding markets.

1 Haycarb has successfully transformed an agricultural by-product into a globally competitive industrial material. What does this journey reveal about how Sri Lanka can move beyond commodity-based exports toward higher value, specification-driven manufacturing?

Haycarb's journey demonstrates that Sri Lanka can move beyond commodity based exports when local raw materials are effectively combined with technology, innovation, sustainability, disciplined execution, and long-term market development.

The company began with coconut shell, a renewable agricultural by-product, and transformed it into a highly specialised industrial material serving demanding global applications. This transformation was not achieved by competing solely on raw material availability or price. Rather, it was driven by building deep technical knowledge, investing in continuous product development, maintaining consistent quality, and understanding the evolving requirements of global customers.

> "Our journey is built on **innovation, sustainability** and a relentless focus on **value creation** for customers, communities and shareholders alike."
>
> **Mr. Rajitha Kariyawasan**
> Managing Director
> Haycarb PLC

A key lesson from this experience is that value addition must be driven by specification-led manufacturing. Over time, Haycarb moved from basic activated carbon applications into advanced segments such as gold recovery, water purification, air filtration, respirator-grade carbons, chloramine removal, PFAS-related water treatment solutions, supercapacitor carbons, and emerging battery-related applications.

KEY TAKEAWAYS

LOCAL ROOTS, GLOBAL IMPACT
Transforming a renewable local resource into a specialised industrial material for the world.

VALUE ADDITION THROUGH SPECIALISATION
Moving from basic applications to advanced, specification-led solutions that create sustained value.

INNOVATION AS A GROWTH ENGINE
Investing in R&D and advanced solutions to enter high-value technology value chains.

SUSTAINABILITY AS A COMPETITIVE ADVANTAGE
Integrating renewable inputs, clean energy recovery and low-emission technologies to build a responsible and resilient business.

DIVERSIFIED MARKETS, RESILIENT FUTURE
Expanding across key global markets and manufacturing bases to reduce risk and strengthen long-term growth.

THE WAY FORWARD
Build specialised, knowledge-intensive, innovation-led industries to secure Sri Lanka's export future.

Innovation has therefore been central to the company's progress. For instance, its work on supercapacitor-grade carbon illustrates how a Sri Lankan company can enter advanced technology value chains. Similarly, the development of high-surface-area carbons for silicon-carbon composite applications reflects its ability to align with future technologies such as lithium-ion battery enhancement.

Sustainability has also been embedded in the operating model from the outset. The use of renewable coconut shell, energy recovery from production processes, the elimination of fossil fuel in activation processes, and initiatives such as Recogen demonstrate how environmental responsibility can become a source of competitiveness rather than a compliance burden.

A notable example is Recogen, a patented "Recover and Generate" technology. This system converts coconut shell into charcoal within a closed reactor, capturing methane-rich gases that would otherwise be released and using them to generate electricity supplied to the national grid. This not only reduces emissions but also strengthens backward integration by ensuring a reliable supply of high-quality, environmentally responsible raw material.

Another important lesson is the need for both market and manufacturing diversification. Haycarb has built strong markets in the United States and Europe while expanding into China, South Korea, Taiwan, Thailand, Indonesia, and other Asian markets. It has also established overseas manufacturing operations in key coconut-producing countries, thereby reducing raw material and supply-chain risks.

Ultimately, this journey shows that Sri Lanka's export future lies not in exporting raw or semi-processed commodities, but in building specialised, knowledge-intensive, globally certified, and innovation-led industries.

2

From your experience, which factors most constrain the competitiveness of Sri Lankan industrial exporters today logistics efficiency, regulatory approvals, policy consistency, or trade facilitation and which reforms would deliver the greatest immediate impact?

One of the most significant constraints faced by Sri Lankan industrial exporters is the lack of consistency and efficiency in the policy and regulatory environment. Export manufacturing requires long-term investment, and investors need confidence that policies, approvals, taxation, infrastructure, and trade facilitation mechanisms will remain predictable.

Sri Lanka has experienced repeated disruptions in its policy and political environment. While the overall economic direction has remained relatively open since 1977, inconsistencies in messaging and execution have created uncertainty for exporters and potential foreign investors.

Bureaucracy is another major constraint. Slow decision-making, outdated regulations, excessive red tape, and limited modernisation of legal and administrative systems increase the cost of doing business. Exporters operating in competitive global markets cannot afford delays in approvals, customs processes, utilities, environmental clearances, or infrastructure access.

Infrastructure remains a critical concern. Competitive electricity tariffs, reliable power supply, access to industrial water, waste and effluent treatment, incineration facilities, ports, airports, and properly serviced industrial zones are essential for attracting large-scale export-oriented investment.

The most immediate and impactful reform would be the creation of a truly effective one-stop investment and export facilitation mechanism. Investors should be able to obtain approvals, utility connections, environmental clearances, and regulatory support through a single empowered institution with direct government-level accountability.

At the same time, Sri Lanka needs to accelerate the development of fully serviced industrial zones. These zones must provide industrial water, reliable power, waste treatment, logistics access, and environmental compliance infrastructure. Without such facilities, it will be difficult to attract the level of foreign direct investment required to significantly expand exports. Digitalisation must also be prioritised. Integrating customs, inland revenue, banking systems, and trade documentation through digital platforms would reduce delays, improve transparency, lower transaction costs, and strengthen compliance.

3

What policy or regulatory changes would most encourage firms to invest in advanced manufacturing capabilities, R&D, and compliance systems required to compete in high-regulation export markets?

The first priority should be the creation of a fast, empowered, and accountable investment facilitation mechanism. Sri Lanka previously benefited from a strong one-stop-shop structure under the Greater Colombo Economic Commission and later the BOI. A similar mechanism is required today, but with stronger execution power, digital systems, and direct visibility at the highest level of government.

Secondly, Sri Lanka must establish a more attractive fiscal framework for export-oriented investment. At present, tax incentives are limited due to fiscal constraints and IMF-related commitments. However, if the country is serious about attracting foreign direct investment into advanced manufacturing, targeted incentives for export-oriented, technology-based, and high-value industries will be necessary.

Thirdly, R&D must be encouraged through practical policy support. Countries competing for advanced manufacturing often provide incentives for technology acquisition, new product development, laboratory facilities, certification, testing, and process innovation. Sri Lanka previously had mechanisms such as enhanced tax deductions for R&D, and similar carefully designed incentives should be reconsidered.

Compliance is another critical area. High-regulation export markets require strong systems in quality, traceability, environmental management, labour practices, and governance. Digitalisation can support compliance by reducing manual processes, improving transparency, and limiting opportunities for inefficiencies or delays.

Sri Lanka should also strengthen the legal and institutional framework for commercial integrity, including improved systems for addressing white-collar crime, corruption, and regulatory abuse. A transparent, rules-based environment will significantly enhance investor confidence.

Finally, the country must invest in human capital. Advanced manufacturing requires engineers, scientists, technical specialists, and skilled operators. Expanding higher education, particularly in STEM fields, and attracting reputable foreign universities can support both export industries and service sector growth.

4

Haycarb serves demanding markets such as the United States and Europe. What organisational and technical capabilities are most critical for entering, retaining, and expanding presence in such regulated global markets?

Serving markets such as the United States and Europe requires far more than the ability to manufacture a product. These markets demand consistency, compliance, documentation, traceability, ethical manufacturing, sustainability, and strong customer responsiveness.

Quality consistency is one of the most critical requirements. Customers in regulated markets operate under strict standards and cannot tolerate variations in product performance. This is particularly important in applications such as water purification, air filtration, and respirator filtration, where technical specifications are highly demanding.

Compliance is equally important. Suppliers must meet relevant quality, environmental, safety, and product certification standards. In the case of activated carbon, markets such as the United States require adherence to strict standards related to water quality, filtration, and consumer safety.

Customer-centricity is another key capability. Customers in these markets expect reliable supply, fast response times, technical support, logistics discipline, and strong problem-solving capabilities. A supplier must therefore be integrated into the customer's value chain rather than operate purely as a commodity provider.

New product development is also essential. Customer requirements continue to evolve due to regulatory changes, technological advancements, and shifting end-user expectations. Suppliers must therefore maintain the capability to innovate and develop customised solutions.

In addition, strong digital platforms, internal compliance systems, documentation processes, audit readiness, and governance structures are essential. These capabilities enable companies to build trust, retain customer confidence, and expand their presence in sophisticated global markets.

5 How important are automation, digital systems, and process control in ensuring product consistency, traceability, and compliance when serving global industrial customers?

Automation, digital systems, and process control are fundamental in modern export manufacturing, particularly when serving regulated industrial customers. Global buyers increasingly expect not only a high-quality product, but also clear evidence that it has been produced under controlled, traceable, and auditable conditions.

For a company such as Haycarb, process consistency is critical because activated carbon is used in highly sensitive applications, including drinking water purification, air filtration, respirator protection, gold recovery, and energy storage. In these contexts, even minor variations in quality can directly affect customer performance.

Automation and process control therefore play a vital role in maintaining consistency across batches, plants, and markets. At the same time, digital systems strengthen traceability by enabling the tracking of raw materials, production parameters, quality test results, and shipment details.

Digitalisation also reinforces compliance. It improves documentation accuracy, reduces manual errors, strengthens internal controls, and enables faster responses during customer audits or regulatory reviews. As expectations in global markets continue to rise, these systems are no longer optional they form a core part of the capability required to compete effectively.

6 Raw material availability and freight costs can be highly volatile. How has Haycarb strengthened supply-chain resilience while continuing to meet global customer commitments reliably?

Supply chain resilience is a critical factor in Haycarb's business, particularly because its primary raw material coconut shell is an agricultural input influenced by weather patterns, cultivation practices, competing uses, and long-term shifts in coconut-growing regions.

To address this, Haycarb has adopted a multi-layered approach. First, it has built strong backward linkages with suppliers across its operating regions, working closely with them to improve processes, provide technical support, and facilitate upgrades in charcoal production.

In Sri Lanka, initiatives such as the Haritha Angara green charcoal programme have played a key role. By supporting the transition from traditional open-pit systems to more controlled closed-pit methods, the company has improved both environmental standards and the reliability of its raw material supply.

This initiative has been further strengthened by providing proprietary technology, training, soft financing, and technical assistance to a wide network of micro-entrepreneurs and small-scale suppliers. The result is not only improved environmental performance, but also enhanced livelihoods and more inclusive supply-chain development. This model has also been extended to countries such as Indonesia and Thailand.

In parallel, Haycarb has invested in producing part of its own raw material. Projects such as Recogen in Sri Lanka, as well as charcoal production facilities in Thailand and Indonesia, have strengthened supply security and reduced dependence on external sources. Inventory management provides an additional buffer. By maintaining significant raw material stocks across its manufacturing locations, the company is able to continue operations even during supply disruptions.

Finally, its global manufacturing footprint-spanning Sri Lanka, Thailand, Indonesia, and the Philippines-further enhances resilience by reducing exposure to localised disruptions and freight volatility in any single location.

7 To what extent has ESG performance and sustainability integration influenced customer qualification, buyer confidence, and long-term competitiveness in environmentally regulated markets?

ESG performance has become an increasingly important factor in customer qualification, buyer confidence, and long-term competitiveness, particularly in environmentally regulated markets. For Haycarb, however, sustainability has been embedded in the business model long before ESG became a formal corporate framework.

This foundation begins with the use of coconut shell, a renewable agricultural by-product, and is further reinforced through energy recovery, cleaner production methods, fossil fuel reduction, and structured sustainability initiatives.

Programmes such as Haritha Angara and Recogen provide tangible operational evidence of this commitment. While Haritha Angara strengthens rural enterprise development and reduces emissions, Recogen demonstrates how industrial processes can be redesigned to capture emissions and generate renewable energy.

Haycarb has also formalised its sustainability approach through its ESG framework, “Activate,” which aligns with broader Hayleys Group initiatives. This framework sets measurable targets across environmental, social, and governance dimensions up to 2030 and is supported by clearly defined projects, KPIs, and governance structures.

Importantly, ESG is driven at the senior leadership level, ensuring that it is integrated into both strategic decision-making and day-to-day operations rather than treated as a reporting exercise.

In regulated markets, buyers increasingly evaluate suppliers based on environmental responsibility, labour practices, governance standards, traceability, and ethical manufacturing. Strong ESG performance therefore enhances customer confidence and provides a clear competitive advantage.

At the same time, authenticity remains critical. The real challenge lies in balancing credible reporting with meaningful execution. While Sri Lanka’s corporate sector has made progress in ESG disclosure, broader policy support particularly in areas such as renewable energy is necessary to enable companies to scale their sustainability efforts effectively.

8 Beyond traditional export destinations, where do you see the next growth opportunities new applications, emerging markets, or deeper penetration within existing markets and how should Sri Lankan exporters prepare for these shifts?

Future growth is likely to emerge from a combination of new applications and expanding markets. For Haycarb, market diversification has been a deliberate and strategic priority. While the United States and Europe remain key destinations, the company has steadily strengthened its presence across Asia, including China, South Korea, Taiwan, Thailand, and Indonesia, while also exploring opportunities in India.

This diversified market portfolio has helped reduce exposure to trade disruptions, tariff changes, and geopolitical risks. For instance, during periods of tariff-related uncertainty in the United States, the company's broader market base provided resilience.

China represents a particularly important growth opportunity, especially in energy storage applications. As a global hub for battery and energy technologies, it offers significant potential, supported by Haycarb's long-term investments in market development, distribution networks, and customer relationships.

South Korea also stands out as a sophisticated, high-value market with strong demand for advanced applications, while Thailand and Indonesia benefit from the company's local manufacturing presence.

In terms of applications, growth is expected in areas such as advanced water purification, air filtration, respirator protection, energy storage, supercapacitors, and battery-related materials. These are highly specialised markets that require strong technical capability, certification, and close customer engagement.

To prepare for these shifts, Sri Lankan exporters must invest in innovation, technical marketing, certification, market intelligence, and regional presence. Overdependence on a single market or product category must be avoided.

The comparison with India is also instructive. With a larger coconut base, stronger policy support, and better-organised supply chains, India offers structural advantages. Sri Lanka must therefore strengthen its own agricultural base, improve yields, support replanting, and consider controlled mechanisms for importing raw materials for value-added exports.

9 Which organisational capabilities have been most critical in making Haycarb a long-term supplier of choice globally, and which of these should Sri Lankan exporters prioritise?

Several organisational capabilities have been central to Haycarb's success. Foremost among these is technical expertise. The company has developed deep knowledge in activated carbon production, application development, process control, and customer-specific performance requirements.

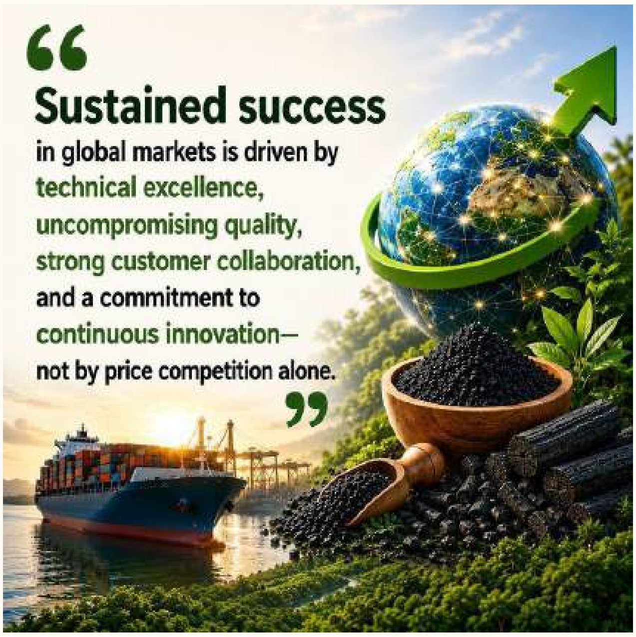
Equally important is quality discipline. Global customers require consistent performance over extended periods, making robust quality systems, testing capabilities, documentation, traceability, and corrective action processes essential.

Customer integration is another defining strength. Rather than operating as a commodity supplier, Haycarb has worked closely with customers to understand their applications, regulatory environments, and future needs. This has enabled the company to move into higher-value, specialised segments.

Innovation has also played a critical role. Continuous investment in R&D and product development has supported the transition from basic applications to advanced solutions, including PFAS-related treatment, respirator carbons, supercapacitors, and battery materials.

Finally, governance and organisational culture have been key enablers. Experienced leadership, long-serving teams, strong institutional values, and a performance-driven culture have contributed to continuity and long-term strategic execution.

Sri Lankan exporters seeking sustained success should prioritise these same capabilities technical depth, quality systems, customer responsiveness, innovation, governance, and people development recognising that price competitiveness alone is insufficient in global markets.



10 Based on Haycarb's experience, what should be the core elements of Sri Lanka's export renaissance over the next decade?

Sri Lanka's export renaissance must be built around high-value, innovation-driven, and globally competitive industries. The country must move beyond reliance on traditional exports and focus on sectors where technology, quality, and sustainability create differentiation.

Market diversification should be a central pillar. Exporters must reduce dependence on a limited number of traditional markets and expand into Asia, the Middle East, Africa, and other emerging regions, while continuing to serve established Western markets.

Innovation-led growth is equally critical. Investment in R&D, product development, and advanced manufacturing capabilities will enable Sri Lankan firms to participate in specialised global value chains rather than compete in low-margin commodity segments.

Investment attraction is another key element. Foreign direct investment will be essential to support growth in manufacturing, services, infrastructure, and technology, particularly given domestic capital constraints.
Export-ready infrastructure must also be prioritised. Reliable power, serviced industrial zones, water availability, waste treatment, efficient logistics, and digital trade facilitation systems are all necessary to support export expansion.

Human capital development is equally important. Expanding the pool of engineers, scientists, technicians, and skilled workers particularly through STEM education will be critical to sustaining industrial growth.

Finally, sustainability must be integrated into the export strategy. Global markets are increasingly shaped by ESG considerations, and Sri Lanka's natural resources, biodiversity, and governance standards can serve as competitive advantages.

Haycarb's experience demonstrates that Sri Lankan companies can compete globally when they combine local strengths with innovation, sustainability, quality, and long-term strategic focus. This approach should form the foundation of the country's next phase of export growth.

LEADERSHIP INSIGHT

The Mindset That Will Define Future Leaders

Future leadership will not be defined by titles, but by mindset. At its core lies sustainable innovation – the ability to think long-term, act responsibly, and continuously create value. Organisations of the future will be built by individuals who combine purpose with performance, and innovation with impact.

> “Be known for sustainable innovation that is what will set you apart.”

1 LEARN. UNLEARN. ADAPT.

In a rapidly evolving world shaped by technology and artificial intelligence, the ability to continuously learn and unlearn is essential. Future leaders must be agile, open to change, and willing to let go of outdated thinking to stay relevant.

2 PATIENCE OVER SPEED

Success is not immediate. While the modern environment encourages quick results, meaningful progress requires patience, consistency, and discipline. Long-term growth is built through steady commitment, not short bursts of activity.

3 LEAD WITH RESPONSIBILITY

Global work environments demand responsiveness, accountability, and flexibility. Leadership today requires the ability to operate across boundaries—time zones, cultures, and expectations—while maintaining reliability and trust.

4 THINK LONG TERM

Avoid the trap of short-term thinking. Future leaders must focus on creating enduring value for stakeholders, communities, and society. Purpose-driven decisions today build a stronger, more sustainable tomorrow.

5 WORK WITH PEOPLE

Leadership is fundamentally about people. The ability to engage across teams, listen actively, and build strong relationships is critical. Influence is earned through connection, not hierarchy.

6 WALK THE TALK

Integrity remains one of the most powerful leadership traits. Future leaders must ensure alignment between what they say and what they do. Credibility is built through action, not intention.

7 USE TECHNOLOGY WISELY

Digital tools and AI are powerful enablers of productivity and innovation. However, discipline is essential. Leaders must leverage technology strategically—without becoming dependent on it.

8 BUILD A BALANCED LIFE

Sustainable performance requires personal balance. Health, well-being, and mental clarity are critical to long-term success.

- Physical health
- Mental well-being
- Healthy routines
- Reduced screen time

FINAL TAKEAWAY

True leadership is built over time through consistency, adaptability, integrity, and purpose. Those who succeed will not simply react to change, but will shape it with clarity and discipline.

> “Leadership is not about speed it is about consistency, purpose, and the courage to adapt.”

Sri Lanka Economic Revival - ‘ When Land Meets the Sea’

Mr. Bradley Emerson
DBA Scholar, MBA Sri J., FBI

Introduction

At independence in 1948, Sri Lanka inherited from the British a strong agricultural economy built on plantations and peasant farming. Agriculture contributed more than 30% of GDP, and over half the population was engaged in farming and plantation work. The export basket was overwhelmingly agricultural: tea, rubber, and coconut together accounted for more than 92% of foreign exchange earnings, while rice cultivation sustained domestic food security. Vast tracts of land in the central highlands were devoted to tea, the wet zone nurtured rubber, and the coastal belt flourished with coconut estates. With over 40% of land classified as agricultural, the country was positioned as one of the more prosperous economies in Asia, though heavily dependent on a narrow set of commodities.

The only trade surplus in independent history, achieved in 1977, was fleeting, born of the closed economy policies of the SLFP government under Sirimavo Bandaranaike, influenced by Indira Gandhi’s “Be Indian, Buy Indian” philosophy. Import restrictions and state control briefly conserved foreign exchange, but inefficiency and stagnation in agriculture meant the model was unsustainable. By 1978, liberalization reversed the surplus into a deficit, ushering in an era of persistent trade imbalances.

Today, agriculture’s share of GDP has fallen to just 8.3%, its contribution to exports below 20%, and fisheries despite record allocations continue to underperform, with Sri Lanka paradoxically importing fish despite its island geography. This contrast between a strong inheritance and systemic decline underscores the urgency of rethinking agriculture and fisheries not as residual sectors, but as strategic engines of recovery.

Historical Decline: From Pillars to Margins

Sri Lanka's agricultural and fisheries sectors, once the backbone of the economy, have steadily lost ground over the past seven decades. What began as a strong inheritance at independence has been eroded by policy missteps, budget misallocation, and missed opportunities for modernization and diversification. Agriculture's contribution to GDP fell from one third at independence to less than one tenth today, reflecting structural neglect and the rise of services and garments.

Year/Period	Agriculture as % of GDP
1948 (Independence)	-30 - 33%
1974 (Peak)	33.5%
1960-2024 Average	21.2%
2016 (Lowest Point)	7.2%
2024 (Latest)	8.3%

Agriculture and fisheries, once the twin pillars of Sri Lanka's economy, have been reduced to marginal roles. Agriculture's share of GDP has collapsed. Production of tea, rubber, and coconut has stagnated or declined, reflecting decades of underinvestment in research, mechanization, and climate resilience.

Fisheries tell a similar story: despite record allocations, exports have fallen. The contrast with the Maldives, which has made fisheries its export backbone, highlights the scale of opportunities missed.

Crop	Historical Peak	Recent Levels	Trend
Tea	~300,000 MT annually (late 1990s-2000s)	~280,000 MT	Plateaued
Rubber	>105,000 MT (1990s)	<80,000 MT	Declining
Coconut	Strong in 1970s- 80s	Stagnant productivity	Vulnerable to climate shocks

Sri Lanka's fisheries story reveals a stark contrast between past self sufficiency and present dependence. In the post independence decades (1948–1960s), the sector was primarily coastal and inland, with domestic catch sufficient to meet local consumption. Imports of fish and dried fish were minimal, and policy was focused on food security and self reliance rather than exports. Over the last ten years, however, the picture has reversed. Fish imports have risen sharply, from LKR 6,764 million (≈ US$47 million) in 2015 to 48,808 MT in 2023 and 58,351 MT in 2024 - a 19.6% increase in volume and a 37.2% jump in value to Rs. 36,672 million.

Dried fish imports have also surged, climbing steadily between 2010 and 2022 to reach US$194 million, sourced mainly from India, the Maldives, and Southeast Asia. (Sri Lanka | Imports and Exports | World | Fish, dried, salted or in brine, smoked fish, flours, meals and pellets of fish | Value (US$) and Value Growth, YoY (%) | 2011 - 2023) Despite being an island nation with a 200 mile EEZ and centuries of fishing tradition, Sri Lanka now relies heavily on imports of a staple that once symbolized its self sufficiency - a reversal that underscores the urgent need for modernization and strategic reform.

The decline of agriculture and fisheries was not simply the result of global competition; it was the product of systemic destruction from within. Budgets were skewed toward subsidies rather than productivity, institutions multiplied without accountability, and modernization was postponed decade after decade. Nationalization created inefficiency, while weak project appraisal wasted scarce resources. The result was stagnation in tea, rubber, and coconut, declining inland fisheries, and importing fish. Sri Lanka missed the chance to brand its agricultural and marine products globally, while smaller neighbors like the Maldives turned fisheries into an export backbone. The story is one of squandered potential, where policy choices undermined the very sectors that once defined prosperity.

Another dimension of decline is the reduction of cultivated land as a share of cultivable land. At independence, more than 90% of cultivable land was actively farmed, sustained by plantation estates and peasant rice cultivation. Over time, however, urbanization, land fragmentation, and weak irrigation maintenance reduced the cultivated share to less than two thirds today. This underutilization of land, alongside budget misallocation and institutional inefficiency, underscores how Sri Lanka squandered its natural resource base.

Indicator (approx.)	1948–50	1980s	2000s	2020s
Agricultural land (% of total)	~45%	~44%	~43%	~43%
Arable land (% of total)	~25%	~23%	~21%	~20%
Cultivated land (% of cultivable)	>90%	~80%	~70%	<65%

Institutional Fragmentation

The nationalization of estates in the 1970s created bloated bureaucracies such as the JEDB and SLSPC, which quickly became symbols of inefficiency. Instead of streamlining governance, successive administrations multiplied agencies, diluting accountability and creating overlapping mandates. Agriculture and fisheries alike suffered from weak coordination between ministries, leading to duplication, wastage, and poor project delivery. This fragmentation eroded institutional capacity, leaving the sectors unable to adapt to changing global markets or to harness modernization opportunities.

Year/Period	Fisheries Allocation (Rs. bn)	Production Trend	Export Contribution	Notes
2014	~6.4% of government expenditure (agriculture + fisheries combined)	Stable	~2–3% of exports	Allocations higher relative to today
2020	~Rs. 7 bn	Declining	Falling	Imports rising
2025	Rs. 11.4 bn (highest ever)	12.1% YoY decline	Weak	Despite record allocation, output fell
Maldives (2025)	N/A	Rising	Fisheries dominate exports	Tuna branding successful

Failure to Modernize

Sri Lanka consistently lagged behind regional peers in mechanization, storage, and logistics. Farmers and fishers were left vulnerable as climate resilience and digital extension services were neglected, while investment in modern technology remained minimal. Fisheries modernization stalled most visibly: inland fisheries declined, and the country imported fish despite being surrounded by sea. The absence of a coherent modernization drive meant that both land and sea resources were underutilized, reinforcing stagnation rather than transformation.

Missed Branding and Export Diversification

Sri Lanka's global reputation for premium commodities was systematically lost due to the failure to brand. Ceylon Tea, cinnamon, and tuna could have been positioned as high-value exports, yet they remained bulk commodities vulnerable to price swings and competition. The Maldives, by contrast, successfully branded tuna as its export backbone, turning fisheries into a consistent source of foreign exchange. Sri Lanka's inability to leverage its agricultural and maritime advantages reflects a deeper strategic gap: the neglect of value creation in favour of volume, leaving the country dependent on low-margin exports.

Comparative Insight: Maldives vs. Sri Lanka

The Maldives offers a striking counterpoint to Sri Lanka's trajectory. With far fewer resources and a smaller population, it has successfully positioned fisheries as the backbone of its exports. Tuna and related products are not only the country's largest foreign exchange earner but also a carefully branded commodity, marketed globally as premium Maldivian Tuna. Strong policy alignment, investment in processing, and export oriented branding transformed fisheries into a strategic pillar of national prosperity.

Sri Lanka, by contrast, presents an inconsistency. Despite its natural abundance and record allocations to the fisheries sector - including continuous budgetary allocations (Rs. 11.4 billion in 2025, the highest ever) - the country continues to import fish and dried fish. Inland fisheries have declined, modernization has stalled, and competitiveness has eroded. The failure to brand Sri Lankan tuna or leverage its maritime advantage underscores a deeper malaise: while the Maldives turned its natural resource into a global asset, Sri Lanka allowed its fisheries to become a symbol of inefficiency and lost opportunity.

Over the past decade, the Maldives has consistently leveraged fisheries as its export backbone, with tuna branded and marketed globally, contributing around 6% of GDP and up to 30% of exports. Policy alignment, streamlined institutions, and targeted branding ensured competitiveness in EU and Asian markets.

Indicator	Maldives	Sri Lanka
Fisheries Share of Exports	Consistently 25-30% of total exports, dominated by tuna	Fell below 2–3% of exports, overshadowed by other sectors
Production Trend	Tuna catch stable and rising; skipjack and yellowfin dominate	Declining fish production, with a 12.1% year-on-year fall in 2025, especially in inland fisheries
Policy Focus	Strong branding of "Maldivian Tuna"; export markets in the EU, UK, and Thailand	Record allocations but weak execution and poor modernization
Trade Balance	Net exporter of fish; fisheries are a backbone of foreign exchange earnings	Net importer of fish and dried fish despite island geography
Institutional Outcome	Streamlined fisheries governance aligned with export strategy	Fragmented institutions, duplication of functions, and poor project appraisal

Sri Lanka, by contrast, has seen fisheries exports decline to below 3% of total exports, even as domestic production fell due to project appraisal and institutional fragmentation, leading to lagging outcomes. The misalignment is stark: an island nation importing fish while its neighbor thrives on tuna exports. This comparative insight underscores how policy coherence and branding can transform a sector, while misallocation and fragmentation can destroy it.

Sri Lanka's fisheries sector today is trapped in a dialogue of complacency versus urgency. The voice of complacency whispers "ohoma yang"... we've always fished the same way. The sea provides, no need to change." Yet the global reality shouts back: "Over 56% of the world's seafood now comes from aquaculture. You are still catching wild fish?" Sri Lanka's hesitant reply - "But we have NARA... it was formed in 1981" - only exposes the hollowness of dormant institutions. As the world reminds us, "Dormant institutions don't feed nations. Imports of fish and dried fish are rising every year. You're buying what you should be selling." The realization is glaring: a 200 mile EEZ lies untapped, while households pay the price of dependency. The final call is unmistakable - "Wake up. Deep sea farming is not optional, it is survival. Break the 'ohoma yang' mindset before opportunity slips away."

Agriculture: Comparative Insights India vs. Sri Lanka

Agriculture is not just about land and labor it is about vision, scale, and purpose. Few countries illustrate this better than India, which has transformed its agricultural base into a global export engine. Over the past decade, India's Agri exports have surged, diversified, and branded themselves into premium markets, while Sri Lanka's share has steadily diminished. The contrast is stark: where India demonstrates how policy coherence and investment in human capital can elevate agriculture into a strategic growth sector, Sri Lanka reveals the cost of neglect, fragmentation, and missed opportunity.

Over the past decade, India's agricultural exports have grown from US$ 36 billion in 2013–14 to over US$ 53 billion in 2022–23, before stabilizing around US$ 48 billion in 2023–24. As a share of GDP, they consistently contributed 1.2–1.6%, which is significant given India's enormous economy. More importantly, agriculture accounts for 10–12% of India's total merchandise exports, making it a strategic pillar of trade. (India's Agriculture Export Performance in Last 10 years)

Sri Lanka's agricultural exports, by contrast, remain below US$ 3 billion, contributing less than 2% of GDP and under 20% of total exports. India scaled agriculture into a global growth sector, while Sri Lanka stalled in bulk commodities.

India Scaled, Sri Lanka Stalled

Agriculture is not just about land and labor it is about vision, scale, and purpose. India demonstrates how deliberate investment in human capital, coherent policy, and global branding can transform agriculture into a strategic growth engine. Over the past decade, India's agricultural exports surged past US$ 50 billion, supported by nearly 300 agriculture focused universities producing graduates who enter the sector with ambition and purpose.

Sri Lanka, by contrast, has allowed its agricultural exports to shrink below US$ 3 billion, with students often "selected" into agriculture faculties due to lower exam scores rather than passion. The result is stagnation in yields, weak R&D, and missed branding opportunities. Where India scaled through diversification and purposeful talent pipelines, Sri Lanka stalled trapped in subsidies, fragmentation, and a narrow export basket.

Agri Education: India vs. Sri Lanka

India has invested heavily in agricultural education, with nearly 300 agriculture focused universities and institutes spread across the country. Students enroll with clear purpose and ambition, seeing agriculture as a pathway to innovation, entrepreneurship, and national development. This deliberate cultivation of talent has produced a steady stream of agronomists, researchers, and policy thinkers who drive India's agricultural exports and modernization.

Sri Lanka, by contrast, treats agricultural education as a fallback option. Students are often "selected" into agriculture faculties because of lower Advanced Level (A/L) scores, rather than a purposeful choice. The result is a mismatch between talent and sectoral need: agriculture becomes stigmatized as a second tier discipline, and the country loses the chance to build a cadre of motivated professionals. Where India's purposeful enrollment fuels growth, Sri Lanka's passive selection reinforces decline.

Indicator	Maldives	Sri Lanka
Number of agriculture-focused universities	~300 universities and institutes dedicated to agriculture and allied sciences	Fewer than 10 agriculture faculties within general universities
Enrollment purpose	Students enroll deliberately, viewing agriculture as a career path in innovation, agribusiness, and research	Students are often "selected" into agriculture due to lower A/L scores rather than choosing it purposefully
Research output	Strong pipeline of agronomists, biotechnology researchers, and extension specialists; significant contributions to export competitiveness	Limited R&D capacity, weak innovation culture, and agriculture often viewed as a fallback discipline
Sectoral impact	Supports India's emergence as a leading global agricultural exporter (US$ 48–53 billion annually)	Contributes to stagnant yields, weak branding, and declining competitiveness
Talent perception	Agriculture is viewed as a strategic sector with prestige in policy and industry	Agriculture is often stigmatized as a second-tier field, reinforcing neglect and underinvestment

India's investment in agricultural education has created a purposeful pipeline of talent, producing graduates who drive innovation, exports, and modernization. Students enroll with ambition, seeing agriculture as an opportunity-rich sector. Sri Lanka, by contrast, treats agriculture as a fallback option, with students often "selected" into faculties due to lower exam scores. This mismatch between talent and sectoral need has left the country with weak R&D, limited innovation, and stagnant productivity. The contrast is stark: India's purposeful cultivation of human capital fuels growth, while Sri Lanka's passive selection reinforces decline.

Benchmarking Opportunity: "Grow in India"

Dubai's US$ 2 billion investment in India's agriculture sector, with 70% of output destined for Gulf markets, demonstrates how aggrotech and foreign partnerships can transform food systems. India positioned itself as both a supplier and innovator, attracting capital to modernize production while securing long term export contracts.

The India–UAE Food Corridor

In 2024, India and the United Arab Emirates announced plans for a food corridor with an initial investment of about US$ 2 billion in food processing and logistics for food parks. The goal is to strengthen the UAE's food security while benefiting Indian farmers. (India, UAE to set up food corridor with $2 billion initial funding | News - Business Standard)

However, the specific claim that "70% of production is channeled to Gulf markets" is not supported in the available sources. What is confirmed is that the UAE views India as a strategic partner for food security, and large portions of output from these food parks are expected to be exported to Gulf countries, but no official figure of 70% has been cited.

Sri Lanka, struggling to import fertilizer and underinvesting in aggrotech, can learn from this model. By inviting strategic investment into controlled environment farming, vertical agriculture, and climate resilient crops, Sri Lanka could simultaneously strengthen domestic food security and build export pipelines to the Gulf and Asia. With local poverty at 30% and food shortages looming globally by 2030, such partnerships would not only stabilize supply but also reposition Sri Lanka as a regional food hub.

Sri Lanka's Gulf Gateway: Learning from India-UAE Food Corridor

India's partnership with the United Arab Emirates through the US$ 2 billion Food Corridor shows how foreign capital can be leveraged to modernize aggrotech and secure export markets. The initiative focuses on food processing, logistics, and dedicated food parks, with much of the output destined for Gulf countries to strengthen UAE's food security. For India, this has meant not only attracting investment but also creating long term demand pipelines for its farmers, while positioning itself as a reliable supplier to a region highly dependent on imports.

Sri Lanka, by contrast, struggles to import fertilizer and has underinvested in aggrotech, leaving farmers vulnerable to volatility and waste. Yet the opportunity is clear: Gulf nations are actively seeking secure food supply chains, and Sri Lanka's fertile land and proximity make it a natural partner.

By benchmarking against India's Food Corridor, Sri Lanka could invite strategic investment into controlled environment farming, vertical agriculture, and climate resilient crops, while guaranteeing export flows to Gulf markets. Such partnerships would not only stabilize domestic food security but also reposition Sri Lanka as a regional food hub at a time when global shortages loom.

Recovery Potential: From Shortage to Strategy

Global demand for food is set to rise sharply. The World Food Organization projects severe shortages by 2030, driven by wars, climate change, and demographic pressures. Africa is already facing acute deficits, and by the next decade, food insecurity will become a defining global challenge. For Sri Lanka, this is not just a risk - it is an opportunity. With poverty still near 30%, and with 27,000 MT of fruits and vegetables wasted in the past two years due to unregulated production cycles, the country must pivot from waste to value.

Demand–Supply Forecast: Sri Lanka's Export Potential (2025–2035)

Product Category	Top Importing Nations (Demand)	Sri Lanka's Export Potential	Strategic Opportunity
Tea & Cinnamon	EU (Germany, UK, France), USA, Japan	World-renowned Ceylon Tea and cinnamon, but under-branded	Rebrand as premium-origin products; expand organic niche markets
Tropical Fruits & Vegetables	China, Middle East (UAE, Saudi Arabia, Qatar), EU	Mango, pineapple, papaya, jackfruit; however, 27,000 MT was recently wasted	Regulate crop cycles, promote vertical farming, and strengthen Gulf partnerships
Spices & Herbal Products	USA, EU, Middle East	Cinnamon, pepper, cardamom, ayurvedic herbs	Position products as health and wellness exports; pursue organic certification
Fisheries (Tuna, Shrimp, Aquaculture)	EU (Spain, Italy, France), Japan, USA, China, Middle East	Tuna branding remains largely untapped; inland aquaculture is underdeveloped	Brand "Sri Lankan Tuna" expand aquaculture, and integrate with tourism
Organic & Climate-Resilient Crops	EU, USA, Singapore	Small but growing organic sector	Benchmark Singapore's "30 by 30" initiative and attract agritech investment
Processed Foods & Value-Added Products	Gulf States, India, ASEAN	Limited processing capacity	Develop food corridors (India–UAE model) with Gulf investors

Source : industry-capability-report-fishery-products-industry-2025.pdf

The coming food shortage is a global crisis, but for Sri Lanka it can be a strategic opening. Nations like Israel have shown that even deserts can become exporters; Singapore is investing to grow 30% of its food domestically by 2030. If Sri Lanka acts decisively - focusing on high value crops, branded fisheries, and climate resilient reforms - it can transform scarcity into opportunity, turning agriculture and fisheries into engines of recovery and resilience.

Sri Lanka's agriculture and fisheries sectors stand at a decisive crossroads. In the past two years alone, 27,000 MT of fruits and vegetables have rotted due to unregulated production cycles, as farmers rushed into crops that appeared profitable, flooding markets, depressing prices, and creating shortages of essentials. Poverty and climate change threatens to deepen vulnerabilities. Yet the looming global food shortage, predicted for 2030, is not just a crisis. It is an opportunity for Sri Lanka to reposition itself.

Agriculture: High Value and Resilient

The future lies in high value crops, organic exports, and Agri tourism. Global demand for organic produce is forecast to grow at 8-10% annually, while niche crops such as spices, tropical fruits, and medicinal plants are increasingly sought after in premium markets. By regulating crop cycles, investing in vertical farming, and adopting greenhouse technology, Sri Lanka can reduce waste and stabilize supply. Benchmarking against Singapore's "30 by 30" plan - to produce 30% of its food domestically by 2030 - and Israel's desert agriculture exports, Sri Lanka can prove that innovation and focus matter more than geography.

Fisheries: Branding and Integration

Across the world, nations are turning to deep sea farming as the next frontier of food security and exports. China leads the way, pioneering deep sea vessel farming and offshore ranching to meet rising demand, while Norway has made advanced offshore salmon farms a backbone of its export economy by integrating technology and sustainability. Japan and South Korea are investing heavily in offshore cages and deep sea aquaculture to ease pressure on coastal ecosystems, and the United States has launched pilot projects in offshore aquaculture vessels despite regulatory hurdles. Even Singapore, constrained by land, is experimenting with offshore aquaculture as part of its ambitious "30 by 30" plan to produce 30% of its food domestically by 2030. Together, these examples show how countries are moving decisively into the deep sea, transforming aquaculture into a strategic industry - a path Sri Lanka has yet to explore despite its vast maritime zone.

The looming protein shortage makes tuna branding and aquaculture strategic priorities. Global fish demand is expected to grow by 20% by 2030, yet Sri Lanka consistently imports fish. By branding "Sri Lankan Tuna" as a premium export, expanding inland aquaculture, and integrating fisheries with coastal tourism, the country can emulate the Maldives, which turned tuna into its export backbone. Linking fisheries to tourism also creates new value chains, positioning Sri Lanka as both a supplier and an experience economy.

Policy Reforms

Recovery requires budget reorientation, climate resilience, and institutional streamlining. Subsidies must shift from recurrent handouts to productivity enhancing capital: R&D, mechanization, and digital extension. Climate resilience strategies - such as drought - resistant crops, water management, and insurance schemes - are essential to withstand shocks. Institutional reform must cut duplication, strengthen accountability, and align ministries under a coherent modernization agenda.

Sri Lanka's choice is compelling continue with waste and stagnation, or pivot toward value, resilience, and branding. The looming global food shortage is not just a warning - it is a strategic opening. Nations like India, Singapore, and Israel prove that even resource constrained countries can secure food sovereignty and build export strength. If Sri Lanka acts decisively, agriculture and fisheries can become not relics of decline but engines of recovery, turning waste into value at the very moment the world needs it most.

Conclusion

Sri Lanka's path to economic revival cannot rely solely on fiscal adjustments or external bailouts.

The IMF's five year horizon sets ambitious but necessary targets: GDP growth of 4.5%, inflation contained at 5%, debt servicing reduced to 4.5% of GDP, debt to GDP brought below 95%, fiscal deficit narrowed to 5.2%, and social spending increased alongside a primary surplus by 2030. Achieving these benchmarks requires more than austerity - it demands new engines of growth.

Meeting the IMF's targets will not come from fiscal tightening alone. It will come from new value creation in agriculture and fisheries, sectors that can generate exports, reduce poverty, and attract investment.

Agriculture and fisheries, long neglected, can provide that engine. By shifting from waste to value, branding premium exports, and attracting aggrotech investment, Sri Lanka can expand foreign exchange earnings, stabilize rural economy and household incomes, and reduce import dependence. High value crops, organic produce, and branded tuna can diversify exports beyond garments and remittances, while regulated production cycles and climate resilient farming will reduce volatility

It is not a mere choice, but an economic compulsion: continue with fragmentation and waste, or seize the global food crisis as an opportunity. If Sri Lanka acts decisively, it can align sectoral revival with macroeconomic stabilization turning IMF expectations into a national recovery story powered by its land and seas.

THE HIDDEN FORCES SHAPING BANK'S PROFITS

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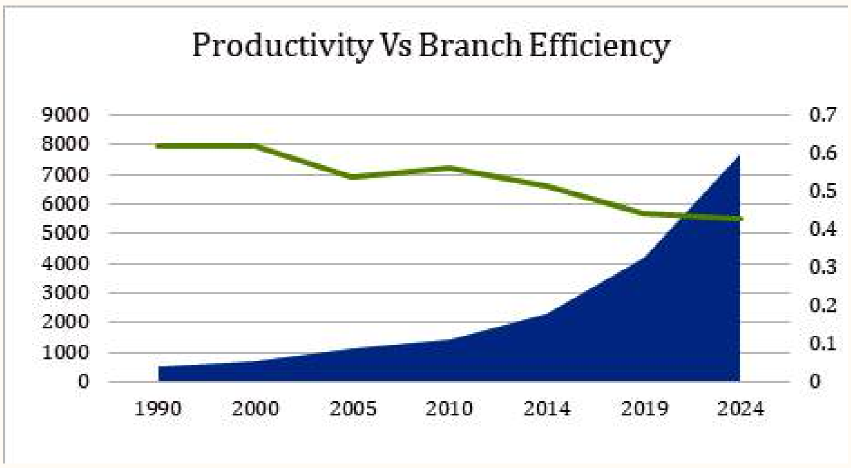
INTRODUCTION

Understanding the determinants of bank profitability remains a central question in financial economics, with profound implications for financial stability, economic development, and the efficiency of resource allocation (Berger et al., 2020). While extensive literature has examined banking performance in developed markets, the dynamics in emerging economies present distinct challenges characterized by institutional volatility, regulatory unpredictability, and persistent information asymmetries (Claessens & van Horen, 2014).

Conventional banking wisdom favors scale, branch density, and market share (Demirgüç-Kunt & Huizinga, 2010), but evidence from emerging Asian markets shows that efficiency, asset quality, and adaptability matter more (Sufian & Habibullah, 2014; Tan & Floros, 2012).

Digital transformation further reshapes these dynamics, reducing the importance of physical branches while boosting efficiency (DeYoung et al., 2007). In Sri Lanka, rising assets per branch reveal that fewer, smarter branches now outperform geographic expansion.

Figure 1
Fewer, smarter branches beat mindless geographic sprawl



The Invisible 72%: Management Quality, Strategic Clarity, Operational Discipline

Figure 2 reveals a surprising truth: branch efficiency doesn't predict profitability. Banks with Rs. 4–6 billion per branch show ROA ranging from 0.75% to 2.84%. Success hinges on management quality, strategy, and discipline, not size. Outlier performers win through execution, proving banking performance is multidimensional and beyond simple expansion metrics.

International Trade and Bank Profitability

Figure 3 reveals the absence of correlation between bank profitability (ROA) and international trade income as a percentage of total income across 34 years (1990-2024). Despite declining trade income concentration (4.38% to 2.46%), ROA fluctuated independently, demonstrating that specialized revenue streams function as hygiene factors rather than profitability drivers in Sri Lankan banking.

The Hidden Hand of Government

Figure 4 shows how government policy shapes bank profitability. ROA closely follows shifts in the statutory reserve ratio and policy rates: tighter rules cut profits, looser ones lift them. The pattern reveals that in emerging markets, regulatory decisions in Colombo often influence outcomes more than managerial brilliance or strategy.

Figure 2
The invisible management quality, strategic clarity, operational discipline

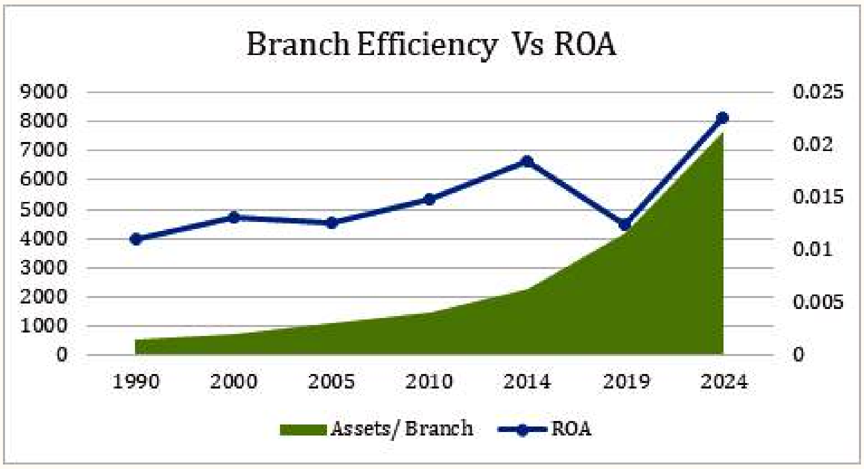


Figure 3
International Trade Related Income as % of Total Income on ROA.

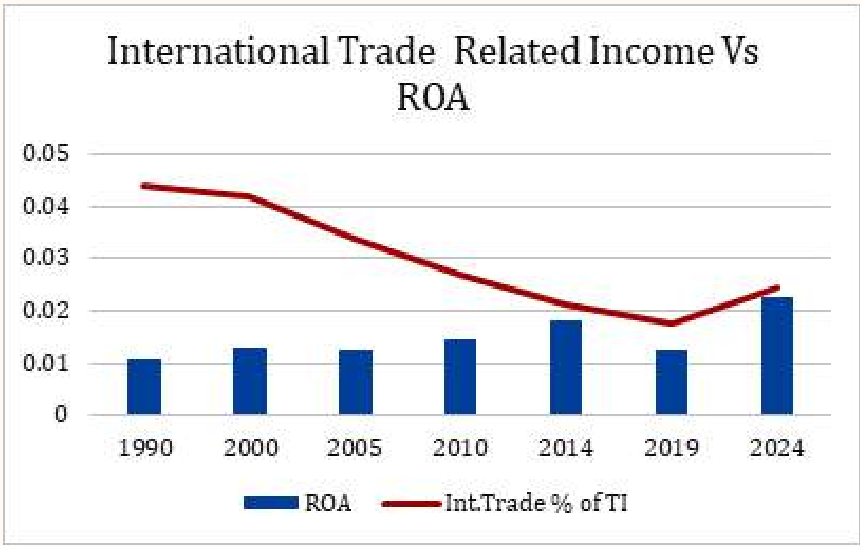
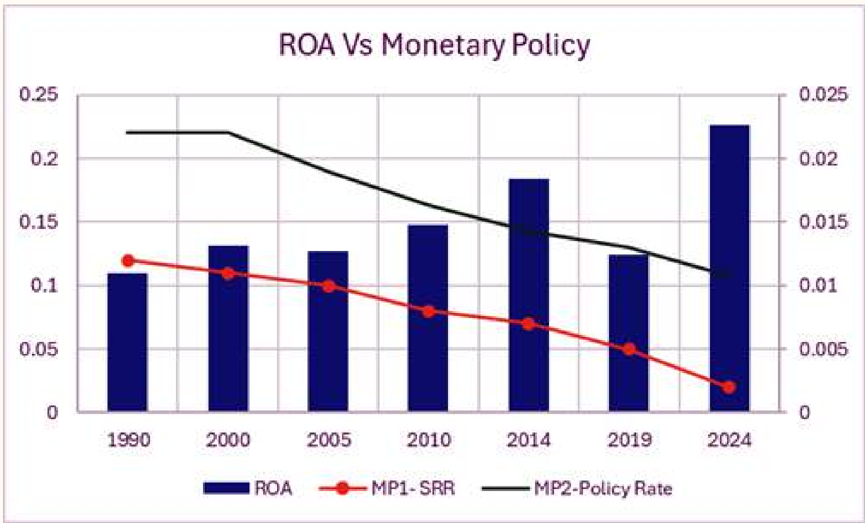


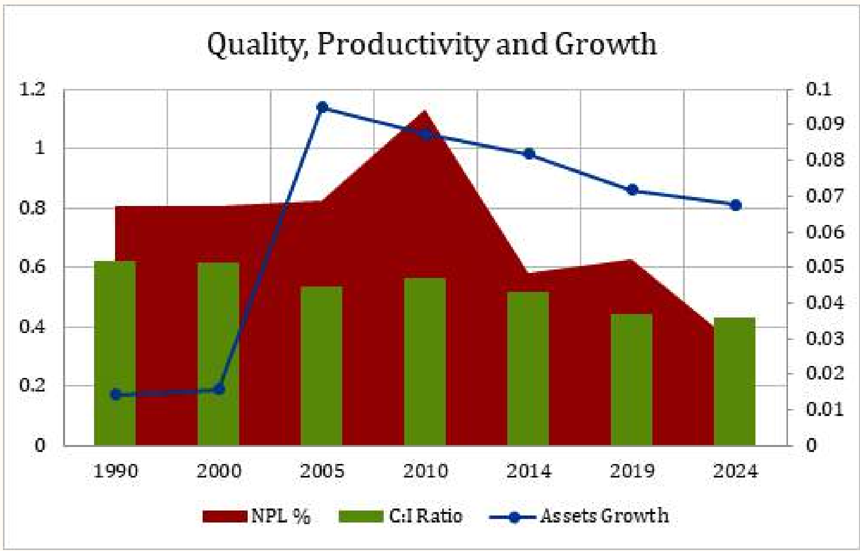
Figure 4
Central Bank's pen can be mightier than the CEO's strategy



The Three Pillars of Banking Success

Figure 5 captures Sri Lankan banking's evolution across scale, efficiency, and asset quality. Asset growth, cost to income productivity, and NPL intensity reveal that improving one dimension alone is insufficient. Sustainable performance demands balanced mastery: growing responsibly, operating efficiently, and maintaining credit discipline. Excel in all three, and long term success follows.

Figure 5
Master one or two? You'll struggle. Master all three? You'll thrive



Significant gap in literature

Despite substantial research, key gaps persist. Most emerging market banking studies rely on cross sections or short panels, limiting insights into long term strategic shifts and structural breaks (Beck et al., 2013). Soft factors such as management quality, governance, and culture remain empirically under measured due to identification challenges (Barth et al., 2013). Debate also continues over whether scale driven or efficiency focused strategies generate superior long run performance (Berger & Mester, 1997). This study fills these gaps using 34 years of Sri Lankan banking data, employing ten regression models to evaluate traditional size metrics, efficiency measures, asset quality indicators, and monetary policy variables to identify persistent profitability drivers.

The Implications

Our findings challenge assumptions. Traditional structural factors, size, branches, service capacity, explain only 22–28% of profitability, leaving ~72% tied to organizational capabilities (management quality, strategic clarity, operational excellence). Monetary policy constraints, especially the statutory reserve ratio, have the strongest effect (R^2=0.253): each 1 point increase cuts ROA by ≈0.09 points, rivaling or exceeding bank specific choices.
Branch density slightly beats absolute size (R^2 0.237 vs 0.224); efficiency (assets per branch) performs similarly, underscoring a shift toward productivity over sprawl. Methodologically, we extend the horizon; theoretically, quantify regulatory burden; empirically, expose limits. Implication: banks win via adaptive discipline; policymakers must weigh reserve costs against stability.

This review synthesizes literature on emerging market banking performance to contextualize Sri Lanka's results and guide interpretation. Profitability cannot be separated from regulatory and macroeconomic conditions, as reserve requirements and interest rate policies directly shape lending capacity, yet their quantitative effects remain underexamined (Mishra et al., 2016). Sri Lanka's large SRR shifts, from 12% in 1990 to 2% in 2024, offer a natural experiment. Asset quality is equally critical, with NPLs strongly linked to profitability declines (Klein, 2013; Dimitrios et al., 2016), especially during Sri Lanka's 2010 and 2019–2022 crises. Broader studies show institutional context heavily influences outcomes (Berger et al., 2020; Wijesiri et al., 2019).

Bank Size and Scale Economies

Conventional theory argues that larger banks gain scale efficiencies enhancing profitability (Demirgüç Kunt & Huizinga, 2010), yet South Asian evidence shows these benefits plateau, with managerial efficiency often more decisive (Sufian & Habibullah, 2014).

Branches remain vital for trust and customer acquisition in emerging markets despite digitalization (Mazambani & Mutambara, 2019). Asset quality strongly affects performance, as high NPLs reduce profitability, a recurring issue in Sri Lanka during crises (Klein, 2013; CBSL, 2023). Regulatory tools like the SRR constrain lending and profits (Galbis, 1993), consistent with findings that reserve requirements shape monetary transmission (Mishra et al., 2016). Intangible factors, governance, technology, culture, also influence outcomes (Levine, 2005; Barth et al., 2013).

The idea that "bigger is better" only partially holds. Total assets predict just 22.4% of profitability (Model 1), meaning over 75% of success reflects unseen capabilities, not size. Although the size–ROA link is statistically significant, the effect is minuscule. Branch networks perform slightly better, explaining 23.7% of variation (Model 2), reflecting Sri Lankan customers' continued reliance on physical access despite digitalisation (Saliya, 1999; 2010). This aligns with research showing that in emerging markets, trust and personal interaction sustain branch value (Saliya, 2009; 2019; 2020; Saliya & Jayasinghe, 2016; Saliya & Yahanpath). Yet both size and branches explain under one quarter of performance, underscoring the dominance of intangible factors such as management quality and organisational culture.

Model 11 shows that international trade income contributes essentially nothing to profitability ($R^2 = 0.000029$). The coefficient is statistically meaningless ($\beta = 0.002222$, $p = 0.978$), indicating that trade finance, despite its strategic prominence, has no measurable effect on ROA. This suggests that letters of credit, documentary collections, and foreign exchange services strengthen customer relationships but do not materially drive profits.

RESULTS AND INTERPRETATIONS

Table 1

Comprehensive Regression Results Summary

Model	Independent Variable(s)	Coefficient	Std Error	R^2	F-Stat	Key Remarks
1	Total Assets (A)	4.00×10^{-9}**	1.46×10^{-9}	0.224	7.50**	Scale positively predicts ROA
2	Number of Branches (B)	3.50×10^{-5}**	1.23×10^{-5}	0.237	8.10**	Physical reach strongest single predictor
3	Service Hours/ Week (S)	7.50×10^{-7}**	3.52×10^{-7}	0.149	4.54**	Weakest operational factor
4	NPL Percentage	-0.066***	0.024	0.222	7.41**	Asset quality negatively impacts ROA
5	Assets per Branch	1.12×10^{-6}**	3.97×10^{-7}	0.234	7.92**	Efficiency metric comparable to scale
6	A×B×S (Interaction)	1.45×10^{-15}	6.13×10^{-16}	0.178	5.62	Multiplicative effects are weaker than additive
7	Assets + Branches+Hours	See below†	,	0.285	3.18**	Combined: multicollinearity observed
8	Statutory Reserve Ratio	-0.090**	0.030	0.253	8.81**	Strongest monetary policy constraint
9	Policy Interest Rate	-0.134^{ns}	0.095	0.071	2.00^{ns}	Not significant (volatile rate environment)
10	MP Combined (SRR+Rate)	-0.063	0.023	0.230	7.76**	Combined policy effects significant
11	International trade % of TI	0.000	0.080	0.000	0.00	No explanatory power, No impact

† Model 7 coefficients: Assets: 1.80×10^{-9} (ns), Branches: 4.89×10^{-5} (ns), Service Hours: -7.46×10^{-7} (ns). All individual predictors lose significance when combined due to multicollinearity.

Significance levels: *** $p < 0.01$ (highly significant), ** $p < 0.05$ (significant), * $p < 0.10$ (marginally significant), ^{ns} not significant

Efficiency tells a different story. Model 5 shows that "assets per branch," a proxy for branch level productivity, explains 23.4% of profitability variation, almost identical to the branch count model. This supports the view that optimized, technology enabled branches outperform network expansion strategies. Operational discipline, not scale, is the real differentiator.

Credit quality emerges as a core profitability determinant. Model 4 finds that each 1 point rise in NPLs reduces ROA by 0.066 points, with NPLs explaining 22% of performance differences. Poor underwriting destroys earnings through lost interest, provisioning costs, and reputational damage. A small bank with strong credit discipline can therefore outperform a large bank with weak lending standards. The strongest effect, however, comes from government policy. Model 8 shows the statutory reserve ratio explains 25.3% of profitability variation. Every 1 point SRR increase cuts ROA by 0.090 points, confirming that regulatory liquidity requirements function as an implicit tax on bank earnings, exerting more influence than size, branches, or efficiency.

Why Policy Rate Doesn't Matter

Counterintuitively, while the statutory reserve ratio strongly influences profitability, the policy interest rate shows only weak, insignificant effects (Model 9: $R^2 = 0.071$, $p = 0.169$).

Although interest rates should affect lending margins, Sri Lanka's volatile monetary environment complicates measurement. Large swings in policy rates create timing lags, offsetting impacts on lending and funding costs, and adaptive bank behavior that obscures clear relationships. Thus, policy rate effects are real but difficult to detect statistically. When SRR and policy rates are combined (Model 10), they explain 23% of profitability meaning monetary policy shapes bank performance as much as management decisions on scale and branch networks.

The Regulatory Trade-off: Stability Vs Profitability

The strong negative relationship between SRR and bank profitability (Model 8: $\beta = -0.090$) creates a clear policy dilemma. The results quantify this trade-off: each 1-point SRR increase reduces ROA by 0.09 points equivalent to Rs. 900 million in lost profits for a bank with Rs. 1 trillion in assets. Sector wide, the cost runs into billions, raising the question of whether moving SRR from 2% to 5% is worth the resulting drag on credit and economic activity.

Equally important is what remains unexplained. Even our best models account for less than 30% of profitability variation, meaning roughly 72% derives from unmeasured factors such as management quality, culture, strategy, risk governance, technology, talent, and customer experience. These human and organizational elements, absent from balance sheets, ultimately differentiate winners from laggards.

Model 7 illuminates why: size, branches, and service hours lose significance when combined because they are highly correlated expressions of scale. This multicollinearity reveals a strategic truth: scale drivers work synergistically, not independently. Banks succeed when size, reach, service capacity, and efficiency reinforce one another; not when they grow haphazardly or pursue fragmented, “stuck in the middle” strategies.

Practical implications

Across 34 years of data, one conclusion is clear: banking success is far more complex than size, branches, or efficiency alone suggest. Size explains only 22% of profitability, branches 24%, efficiency 23%, asset quality 22%, and reserve requirements 25%—yet together they account for less than 30%. The remaining 72% stems from intangible factors: management quality, strategy, culture, technology, and execution. This means smaller banks can outperform giants, while large banks can falter through complacency. Monetary policy shifts can also add or erase nearly a full ROA point. Ultimately, understanding bank performance requires looking beyond the balance sheet to the invisible drivers of excellence.

DISCUSSION

The study’s result that total assets explain only 22.4% of profitability (Model 1: $R^2 = 0.224$) aligns with evidence that scale advantages plateau in fragmented, institutionally weak markets, risking diseconomies of scale (Demirgüç Kunt & Huizinga, 2010; Sufian & Habibullah, 2014; Berger et al., 2020). Model 2 ($R^2 = 0.237$) shows branches marginally outperform size, yet the modest effect underscores that presence without productivity is insufficient (Mazambani & Mutambara, 2019). The strong negative NPL ROA link (Model 4: $\beta = -0.066$, $p < 0.01$) confirms asset quality as a non negotiable driver of performance (Klein, 2013).

The most striking result is monetary policy dominance: the statutory reserve ratio (SRR) explains 25.3% of profitability variation (Model 8), quantifying regulatory burden at scale and echoing the view of reserves as implicit taxation and a primary transmission channel in developing economies (Galbis, 1993; Mishra et al., 2016). By contrast, policy rates exhibit a weak, non significant effect (Model 9: $R^2 = 0.071$, $p = 0.169$), consistent with volatile monetary conditions where offsetting margin and funding effects, lags, and bank adaptation mute direct impacts (World Bank, 2022). International trade income adds virtually no explanatory power (near zero R^2, negative adjusted R^2), reflecting thin margins and parity services that do not differentiate performance. Model 5 ($R^2 = 0.234$) shows “assets per branch” nearly matches branch count, implying productivity per outlet matters as much as network breadth. Model 7 ($R^2 = 0.285$) reveals multicollinearity, size, branches, service hours are intertwined expressions of scale, signaling that coherent, balanced strategies beat piecemeal expansion.

Crucially, ~72% of profitability drivers are unobserved, management quality, strategy, culture, technology, risk governance, innovation, echoing the centrality of organizational capital (Levine, 2005; Barth et al., 2013). Limitations include focus on major commercial banks (excluding specialized institutions), limited causal inference, and annual data that may miss intra year dynamics (Wijesiri et al., 2019). Future work should use panel techniques, richer macro controls, and proxies for the “invisible 72%.” Thus, it is vital to calibrate SRR (e.g., tiered reserves) to balance stability and viability. Managerial implication: outperform via hard to replicate intangibles and disciplined credit risk.

CONCLUSION

This study used an integrated methodology combining longitudinal strategic trajectory analysis with cross sectional regression modeling to examine 34 years of performance data from Sri Lanka’s major commercial banks. By triangulating eleven statistical models with qualitative documentary evidence, the study identifies profitability drivers in an emerging market context where structural volatility challenges conventional assumptions.

Three principal conclusions emerge. First, traditional structural variables; size, branches, service capacity explain only 22–28% of profitability variation. Branch density ($R^2 = 0.237$) marginally outperforms size ($R^2 = 0.224$), while efficiency delivers comparable power ($R^2 = 0.234$). International trade income, despite sectoral prominence, has no profitability effect (Model 11: $R^2 \approx 0$), indicating that trade finance functions as a hygiene factor rather than a competitive differentiator.

Second, monetary policy exerts the strongest single influence. The statutory reserve ratio explains 25.3% of ROA variation (Model 8: $\beta = -0.090$, $p < 0.01$), confirming reserve requirements as a significant regulatory burden (Galbis, 1993; Mishra et al., 2016). Sri Lanka's SRR decline from 12% (1990) to 2% (2024) mechanically contributed ~0.90 percentage points to ROA exceeding the combined effect of bank specific strategic choices.

Third, roughly 72% of profitability remains unexplained even in the most comprehensive model ($R^2 = 0.285$), pointing to intangible organizational capabilities; management quality, strategic clarity, cultural cohesion, risk discipline—that statistical models cannot fully capture (Levine, 2005; Barth et al., 2013).

The methodological contribution is the integration of statistical rigor with strategic interpretation, offering a framework generalizable to emerging market banking systems.

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International Trade and the Sri Lankan Economy

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International trade has been a central pillar of Sri Lanka's economic development, enabling the country to integrate with the global economy, earn foreign exchange, and support domestic production and employment. This article examines the structure, performance, and significance of Sri Lanka's international trade, with a particular emphasis on exports, imports, the trade balance, major trading partners, and policy challenges.

International trade refers to the exchange of goods and services across national borders. For a small open economy like Sri Lanka, international trade is essential for economic growth, employment generation, technology transfer, and foreign exchange earnings. Sri Lanka relies heavily on exports to finance imports of fuel, machinery, pharmaceuticals, and intermediate goods necessary for domestic production.

Historically, Sri Lanka transitioned from an inward-looking trade policy to a more liberalized regime after 1977. Since then, exports and imports have expanded significantly, although the country has continued to face persistent trade deficits. Understanding Sri Lanka's international trade performance is therefore critical for evaluating macroeconomic stability and long-term development prospects.

The Central Bank of Sri Lanka reported Sri Lanka's top five international trade partners (both on exports and imports) as presented in the table below:

Table 01

Top Five International Trade Partners of Sri Lanka (2024)

Rank	Top Export Partners (2024)	Exports Share (%)	Top Import Partners (2024)	Imports Share (%)
1	United States	22.8%	China	23.2%
2	United Kingdom	7.1%	India	20.5%
3	India	6.9%	United Arab Emirates	7.9%
4	Germany	4.9%	Singapore	6.9%
5	Italy	4.7%	Malaysia	3.5%

Source: CBSL Report (2024)

As per Table 01, the United States remains Sri Lanka's largest export market, accounting for nearly 23% of total exports in 2024. China and India dominate Sri Lanka's import market, together accounting for over 43% of all imports in 2024. The European markets, including the United Kingdom, Germany, and Italy, are also significant export destinations for apparel and other manufactured goods. The United Arab Emirates and Singapore feature among the largest import partners, reflecting Sri Lanka's broader trade with Middle Eastern and Southeast Asian economies.

Structure of International Trade in Sri Lanka

Exports

Sri Lanka's export sector is dominated by a mix of agricultural, industrial, and service-based products. According to provisional monthly and annual data from Sri Lanka Customs and related trade reports, the export items and their estimated export earnings are given in Table 02.

In 2024, Sri Lanka's export performance was primarily driven by a few major commodity categories, reflecting both traditional strengths and industrial capabilities. Apparel and textiles remained the leading export item, generating approximately USD 5.05 billion, largely due to sustained demand from key markets, including the United States and the United Kingdom. Tea and tea products, a long-established export, earned around USD 1.44 billion, supported by both bulk and value-added tea exports. Rubber and rubber-based products, including industrial and surgical gloves, contributed about USD 1.00 billion, while coconut and coconut-based products accounted for nearly USD 0.86 billion, driven by exports of coconut oil, desiccated coconut, and related products. Together, these major categories accounted for a substantial share of Sri Lanka's total merchandise exports in 2024, highlighting the continued importance of apparel manufacturing and plantation-based exports to the country's international trade structure (Central Bank of Sri Lanka, 2025; Sri Lanka Export Development Board, 2025).

Table 02

Major Categories of Exports in Sri Lanka in 2024

Export Product Category	2024 Export	Notes / Trends Earnings (Approx.)
Apparel & Textiles	USD 5,050.99 million markets such as the USA & UK.	Strong export performance, with increases in key
Tea & Tea Products	USD$ 1,435.86 million	Bulk & packaged tea export growth.
Rubber & Rubber Products	USD 1,001.54 million	Industrial & surgical gloves, tyres.
Coconut & Coconut-Based Products	USD 856.39 million	Includes coconut oil, desiccated coconut.
Other Food & Beverages / Spices / Concentrates	Not individually broken out, but significant	Showing positive export growth.

Source: Sri Lanka Customs & Export Performance (2024)

Imports

Sri Lanka's imports largely consist of essential and intermediate goods, reflecting the country's dependence on foreign supplies. Below is a clear summary of Sri Lanka's import category data for 2024, using the latest provisional merchandise trade statistics published by the Central Bank of Sri Lanka (CBSL). Key import categories include:

In 2024, Sri Lanka's import structure was dominated by energy, industrial inputs, and essential consumer goods. Mineral fuels and petroleum products remained the largest import category, accounting for nearly USD 4 billion, reflecting the country's heavy dependence on imported energy. Machinery, electrical equipment, and textile fabrics collectively accounted for a substantial share of imports, underscoring Sri Lanka's reliance on imported intermediate and capital goods to support domestic manufacturing, particularly the apparel sector. Essential imports such as pharmaceuticals, cereals, cotton, and iron and steel also remained significant, underscoring the structural dependence of the economy on foreign supplies for production, consumption, and infrastructure development (Central Bank of Sri Lanka, 2025).

Contribution of International Trade to the Economy

Trade Openness:

Trade openness, measured as the ratio of total trade (exports + imports) to GDP, indicates the degree of integration with the global economy. Sri Lanka's trade-to-GDP ratio has fluctuated over time but remained significant. In 2024, total trade accounted for nearly 45% of the country's GDP, underscoring the significance of international trade to the nation's overall economic activity (World Bank, 2024).

Employment and Income:

Export-oriented industries, particularly apparel manufacturing and plantation agriculture, provide employment for hundreds of thousands of workers. The apparel sector alone employs over 300,000 workers, many of whom are women, contributing to income generation and poverty reduction (CBSL, 2024).

Table 03

Major Categories of Imports in Sri Lanka in 2024

Import Category	Import Value 2024 (USD Billion)	Remarks
Mineral fuels, oils & distillation products	3.9 – 4.0	Largest import category: includes crude oil, petroleum, and coal
Machinery & mechanical appliances	1.4 – 1.5	Capital goods and industrial machinery
Electrical machinery & equipment	1.1 – 1.2	Electronics, power equipment, household appliances
Textile fabrics (knitted/crocheted)	0.9 – 1.0	Key input for the apparel export industry
Plastics & plastic articles	0.65 – 0.70	Industrial and consumer inputs
Cotton	0.55 – 0.60	Raw material for garment manufacturing
Iron & steel	0.55 – 0.60	Construction and manufacturing
Pharmaceutical products	0.50 – 0.55	Essential medical imports
Cereals (mainly wheat)	0.45 – 0.50	Food security-related imports
Motor vehicles & transport equipment	0.40 – 0.45	Increased following the partial easing of import restrictions

Source: CBSL (2024)

Trade Balance and Recent Trends

Trade balance is the difference between the value of a country's exports and imports of goods and services over a specific period (usually a year).

- Trade Surplus: When a country exports more than it imports (Exports > Imports).
- Trade Deficit: When a country imports more than it exports (Imports > Exports).

In simple terms, the trade balance shows whether a country is earning more from selling goods and services abroad (exports) than it spends on buying from other countries (imports). It is an important indicator of a country's economic health and its competitiveness in international trade. Sri Lanka has consistently recorded a trade deficit due to higher import expenditure relative to export earnings.

Table 04

Sri Lanka's Merchandise Trade Balance (USD Million)

Year	Exports	Imports	Trade Balance	Trade Balance (% of GDP)
2021	12.5	20.6	- 8.1	- 9.1 % (- 8.1/ 88.61)
2022	13.1	18.3	-5.2	-7.0 % (-5.2/ 74.14)
2023	11.9	16.8	- 4.9	- 5.8 % (-4.9/ 84.36)
2024	12.8	18.8	-6.0	- 6.1 % (-6.0/ 98.98)

Source: Central Bank of Sri Lanka (2024)

The table shows Sri Lanka's exports, imports, and trade balance in USD million from 2021 to 2024. Over this period, Sri Lanka consistently ran a trade deficit, meaning imports exceeded exports each year.

The table indicates that Sri Lanka's trade balance as a percentage of GDP remained consistently negative throughout the period 2021–2024, highlighting a persistent external trade deficit. The deficit was highest in 2021 at –9.1% of GDP, reflecting a substantial imbalance between exports and imports relative to the size of the economy. This ratio improved in 2022 (–7.0%) and 2023 (–5.8%), mainly due to reduced import demand during the economic crisis rather than strong export growth. However, in 2024, the trade deficit widened again to -6.1% of GDP, indicating renewed import growth alongside economic recovery. Overall, the percentages suggest that improvements in the trade balance were largely cyclical and not structurally driven.

Overall, the data indicate that while exports exhibited moderate fluctuations, imports remained high, resulting in a persistent negative trade balance. This highlights the importance of increasing export earnings and managing import demand to enhance Sri Lanka's trade position. The contraction of the trade deficit in 2023 reflects import compression measures and a gradual recovery in export earnings.

Trade Policy and Institutional Framework

Sri Lanka's international trade is guided by a combination of national trade policies, regulatory frameworks, and institutional arrangements that aim to promote exports, attract foreign investment, and integrate the economy with global markets. The trade policy framework is formulated by the Ministry of Trade, Commerce and Food Security, in line with national development strategies and international commitments, such as World Trade Organization (WTO) agreements and Free Trade Agreements (FTAs) with partner countries. The country's trade policy emphasizes:

- Export Promotion: Encouraging industries such as apparel, tea, spices, rubber, and fisheries to compete internationally.
- Import Regulation: Ensuring essential goods and raw materials are available while managing trade deficits.
- Diversification of Trade: Expanding markets beyond traditional partners to reduce dependency on specific countries or products.
- Trade Facilitation: Simplifying customs procedures, improving logistics, and reducing non-tariff barriers to enhance competitiveness.

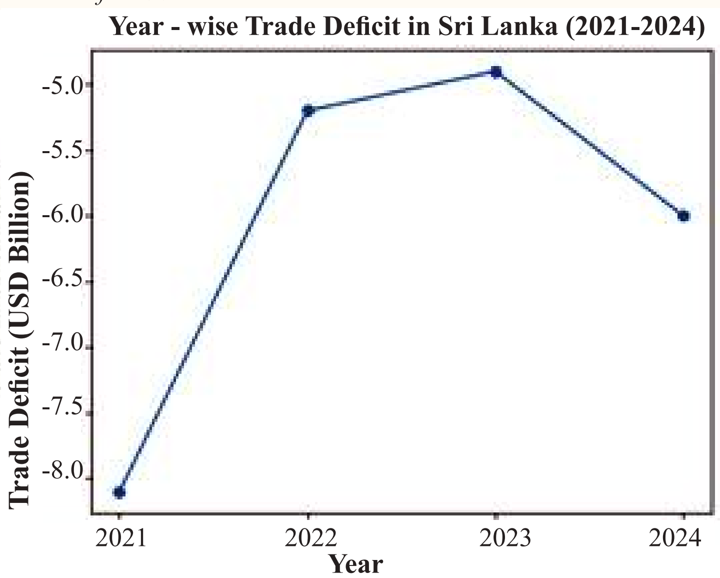
Sri Lanka's institutional framework includes:

- Central Bank of Sri Lanka (CBSL): Monitors foreign exchange, balance of payments, and trade finance policies.
- Sri Lanka Customs: Regulates imports and exports, collects duties, and ensures compliance with trade regulations.
- Export Development Board (EDB): Promotes exports, provides support to exporters, and facilitates market access.
- Board of Investment (BOI): Attracts foreign investment in trade-related sectors and industrial zones.

Trade Associations and Chambers of Commerce: Represent industry interests, provide policy feedback, and support trade promotion.

Table 05

Trade Deficit % in Sri Lanka



Source: Central Bank of Sri Lanka (2024)

Together, these policies and institutions aim to enhance trade competitiveness, generate foreign exchange earnings, create employment, and contribute to overall economic growth. Over the years, Sri Lanka has been gradually liberalizing trade while maintaining strategic protections to support domestic industries.

Challenges Facing International Trade

Persistent Trade Deficit: The long-standing trade deficit exerts pressure on foreign exchange reserves and contributes to the balance of payments.

Limited Export Diversification: Sri Lanka's exports are concentrated in a few products and markets, making them vulnerable to external shocks.

Global Economic Conditions: Global inflation, geopolitical tensions, and supply chain disruptions have a direct impact on Sri Lanka's trade performance.

Prospects for International Trade

The prospects of international trade for Sri Lanka remain significant due to its strategic location in the Indian Ocean, diversified export base, and ongoing efforts to integrate with global markets. With growing demand for apparel, tea, spices, rubber, and emerging sectors such as IT services, Sri Lanka has the potential to expand its export markets and attract foreign investment. Participation in regional trade agreements, such as the South Asian Free Trade Area (SAFTA), and negotiations with countries like India, China, and members of the European Union, provide opportunities to strengthen trade ties and diversify markets.

Impact on Sri Lanka:

- Economic Growth: Expanding international trade can boost GDP (Gross Domestic Product) by increasing export revenues and encouraging domestic production.
- Employment Generation: Export-oriented industries such as garments, tea plantations, and fisheries provide jobs for thousands of workers, helping reduce unemployment.
- Foreign Exchange Earnings: Increased exports bring in foreign currency, which helps stabilize the Sri Lankan rupee and support imports of essential goods and services.
- Industrial and Technological Development: Exposure to global markets encourages the adoption of modern technology, higher production standards, and improved efficiency.
- Income and Living Standards: Growth in trade translates to higher incomes for workers and businesses involved in export sectors, thereby enhancing overall living standards.

While opportunities are strong, Sri Lanka faces challenges such as global market volatility, dependence on a few key export commodities, trade deficits, and infrastructure limitations. Addressing these challenges through trade facilitation, diversification, and investment in technology can maximize the benefits of international trade.

Conclusion

International trade remains vital to Sri Lanka's economic development, mainly due to interdependency. Although the country faces challenges such as trade deficits and export concentration, international trade continues to support employment, income generation, and access to essential goods and services. Policy reforms, export diversification, and stronger global integration can help Sri Lanka realize greater benefits from international trade in the future.

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THE NEXT ISSUE

THE FORTIFIED FRONTIER: NAVIGATING GLOBAL VOLATILITY

In our upcoming edition, we will examine Sri Lanka's exposure to external shocks particularly energy-related disruptions and trade disruptions and the resulting pressures on inflation and the import bill. The issue will highlight the importance of financial sector stability and liquidity management during periods of uncertainty, along with the maintenance of fiscal discipline to support macroeconomic credibility. Furthermore, we will focus on long-term structural solutions, including renewable energy investments and a shift toward high-value tourism, to reduce external vulnerability and strengthen economic resilience.

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