A Summary of Discussion
CityU CSHK PASS Workshop Series – Workshop 2
Cultural Diversity and Efficient Management: Hong Kong Professional Services, Overseas Investments and Ports in Sri Lanka[1]
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Yan Xin, Yao Chao, Linda Tjia, Linda Li and Jeffrey Chung[2]
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On 27 April, the Research Centre for Sustainable Hong Kong (CSHK)[3] organized the second PASS workshop, focusing on economic development and challenges in Sri Lanka, as well as exploring the opportunities and risks of Hong Kong investment and professional service sectors in special economic zones and ports in Sri Lanka. Business leaders, seasoned managers and expert researchers in Sri Lanka and Hong Kong robustly discussed and brought with them diverse experiences from the sectors of port management, infrastructure construction, telecommunications and retailing. About 200 participants joined the workshop online. Here is a summary of the insight sharing and panel discussion in the workshop.

Ms. Subhashini Abeysinghe – Research Director, Verité Research

Ms. Abeysinghe is an economist specializing in international trade. She is an expert on Sri Lankan economy, private sector development, economic and trade policy, trade regulations, non-tariff barriers, trade facilitation, WTO and regional trade agreements. She started by

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[1] For details of CSHK PASS Workshop Series, please refer to Project Brief in Appendix.

[2] Ms. Yan Xin is former Research Assistant at Department of Public Policy, CityU. Currently, she is Research Assistant at School of Law, CityU.
Ms. Yao Chao is PhD Student Researcher at Department of Public Policy, CityU.
Prof Linda Yin-nor Tjia is Member of CSHK and Assistant Professor at Department of Asian and International Studies, CityU.
Prof Linda Chelan Li is Director of CSHK and Professor at Department of Public Policy, CityU.
Mr. Jeffrey Chung is Research Assistant at Department of Public Policy, CityU. He is also Project Manager for this PASS programme.

[3] Established in June 2017 by a cross-disciplinary research team, the Research Centre for Sustainable Hong Kong (CSHK) is an Applied Strategic Development Centre of City University of Hong Kong (CityU). CSHK conducts impactful applied research with the mission to facilitate and enhance collaborations among the academic, industrial, and professional service sectors, the community, and the government for sustainable development in Hong Kong and the Region. Linda Chelan Li, Professor of the Department of Public Policy at CityU, is Centre Director. For more information, please visit www.cityu.edu.hk/cshk. Please send comments on the paper to sushkhub@cityu.edu.hk.

introducing the factors that shape or influence the trade policies in Sri Lanka. It was noted that Sri Lanka lacks a comprehensively articulated and documented trade policy and it is believed to have caused instability during government transition. Public opinion on trade policy has been very divergent. Trade policies here refer to taxation, regulations and trade negotiations. She identified three major factors, including 'twin deficits', domestic industry and public sentiments.

First, 'twin deficits' refers to fiscal deficit and trade deficit of a country. The two are interrelated in the case of Sri Lanka. Sri Lanka is in a challenging fiscal position, and it has one of the lowest tax-to-GDP ratios in the world. In 2018, Sri Lanka's tax-to-GDP ratio (11.6%) placed in the bottom 20% among all countries in the World Bank database. Its fiscal indicators, including government debt, fiscal debt and government revenue, are weaker relative to its regional peers, such as India, Laos, Vietnam, Philippines and Indonesia. Such status would affect its trade policy because the Sri Lankan government's revenue is heavily dependent on its imports, which generates import-based tax revenue. The data from 2014 to 2018 shows that import-based taxes take up 49% of the total government tax revenue, while domestic consumption-based taxes share 30% and income and other taxes share 21%. Thus, business that are highly sensitive to revenue will experience instability under such environment, such as motor vehicles, mineral fuels/oils, reactors/boilers/machinery, plastics, and animal/vegetable fats/oils. For example, taxes on motor vehicle imports are the largest source of import taxation for the Sri Lankan Government. In 2020, tax revenues from motor vehicles substantially declined by 66% due to import restrictions. Although the Sri Lankan Government has introduced reforms and collaborated with the International Monetary Fund (IMF) to increase tax revenue from domestic industries, it seems that these actions were not very effective. Therefore, if the government wants to improve fiscal deficit, the fastest and easiest way to bring in more revenue for the government is to expand import (which will also expand trade deficit).

The second factor is domestic industry. If businesses and professional services are dealing with sensitive domestic products, the demand and potential market share for foreign players will become an important area of tension when discussing the policies. Many scholars - and many members of the public as well - in Sri Lanka agree that para-tariffs in Sri Lanka may protect domestic industries and recover lost revenues. Ms. Abeysinghe also observed that though the percentage of import tariffs in total tax revenue is generally going down in recent years, the fact is that Sri Lanka has been losing revenue while not performing well in domestic tax collection reforms. This has pushed the government to impose para-tariffs to recover the lost revenue. In the meantime, Sri Lanka is increasingly taking the para-tariffs in the form of unit taxes, which will protect domestic industries. Unit tax could prevent hit on tax revenue due to drastic price fluctuation. Therefore, these are important areas to cover during the trade negotiations, such as what areas Sri Lanka and its partner countries could liberalize, and how to manage the dilemma between liberalization of trade and erosion of tax revenue.

The third factor is public sentiment. Whether public opinion favours a certain policy is a very important factor to take into account for the Sri Lankan Government. The popularity of the policies can push or restrain the process of decision making.

Questions:

Professor Linda Li: "From the presentation we know that Sri Lankan Government's revenue is heavily dependent on imports. Import-based taxes account for 49% of the total government revenue, which is really a huge portion. Is the tariff itself getting heavier or the volume of imports getting higher and increasing over the years?"

Ms. Abeysinghe: "Actually, Sri Lanka cannot afford to allow its imports to expand. For the last ten years, Sri Lanka's exports have expanded to around USD 10 to 11 billion, while its imports have extended to around USD 19 to 20 billion. Definitely, Sri Lanka does not have the luxury of allowing its trade deficit to expand. Further, the tax revenue has not been improved, for which the percentage of tax revenue to GDP has declined from around 20% to 11% today. This shows that the tax revenue has not been expanding. This is the problem because you could not allow the imports to expand, and you keep on taxing imports at fluctuating rates due to changes of the fiscal deficit. This could lead to instability in taxation. Thus, the challenge is that Sri Lanka depends on import taxes, but the import taxes cannot be increased further, while in the meantime, Sri Lanka is not able to expand its domestic tax revenue and has declining percentage of tax-to GDP ratio over years."

Mr. Chris Lau: "Since the end of civil war, the road network in Sri Lanka has improved a lot. Over the last ten years, high traffic from increasing vehicles and transportation enhancement shows economic growth. However, is the high motor vehicle import tax a contradiction to the Sri Lanka's economic development?"

Ms. Abeysinghe: "True, Sri Lanka has very high import rate on vehicles. There is very high demand for vehicles in Sri Lanka because the public transportation is not that great, which leads to high consumption for people to buy vehicles. So, this is exactly what the government is exploiting. The price elasticity of import revenue is relatively high. So, it is easy to take these taxes and increase demand to bring in revenue within a shorter period of time. Personally, I am for higher taxes, discouraging private vehicles, and improving public transportation for the country. Overall, for the economic growth, the real return for highways and transportation networks comes from improved public transportation system, not by encouraging private vehicles in a small country like Sri Lanka. However, for now the focus on improving public transportation system is not forthcoming and thus you could see a very high level of private vehicles on the roads. Unfortunately, this also means that the expansion on roads has not led to great efficiency and deduction of time."

Mr. Tissa Wickramasinghe – Chief Operating Officer, Hambantota International Port Group

Mr. Wickramasinghe has 40-year career in maritime transportation, and his career encompasses 30 years in the Ports and Terminals industry, and 10 years with the British Merchant Navy. After servicing 10 years as General Manager of South Asia Gateway Terminals (Pvt) Ltd. (SAGT) the first public-private partnership project of the Port of Colombo, he joined Colombo International Container Terminals (Pvt) Ltd. (CICT), the second public-private partnership project between China Merchants Port Holdings and the Sri Lanka Ports Authority in the Port of Colombo.

Ms. Wickramasinghe introduced the port development in Sri Lanka. There are four major ports in Sri Lanka, which are Port of Colombo, Port of Galle, Port of Hambantota and Port of Trincomalee. He mainly covered the ports in Colombo and Hambantota. Port of Colombo ranked 22nd in the world and 15th in the global port connectivity index. In Port of Colombo, there are two operators in the old inner harbour, one 100% run by Sri Lanka Ports Authority (SLPA) and the other under Public-Private-Partnership (PPP) called South Asia Gateway Terminal which is a joint venture between APMT and John Keells (local company). In the new outer harbour, there are three terminals designed, and the only one in operation is the Colombo International Container Terminals (CICT) run under PPP by China Merchants Port and SLPA. Another terminal in the west has been planned to be jointly run by Adani Ports (Indian company) and John Keells. Right now, CICT has over 8 million TEUs capacity and the capacity is approaching 90%. CICT has an immediate plan for increasing the capacity to 12 million TEUs within three years in phases. In the long term, CICT plans to increase to over 35 million TEUs capacity in 2035. Port of Hambantota was first run by the SLPA but did not take off for a few years. Then, they decide to change it to PPP model with China Merchants Port. As of now, the business is focusing on cargo, oil and gas.

Hong Kong's role as a gateway for mainland China is comparable to Sri Lanka's role for India. Hong Kong's capacity as a gateway is 184 TEUs per thousand people, while Sri Lanka's capacity is 12 TEUs per thousand people for now. So, Sri Lanka still has potential for growth as a hub in South Asia. Government of India has taken several initiatives to promote a healthy environment for the growth of manufacturing sector in the country and to develop itself to a major manufacturing nation with its large population and volume output.

Ms. Wickramasinghe then introduced the PPP model for port development in Sri Lanka. The first PPP in port industry started in 1999, the South Asia Gateway Terminal (SAGT). It was motivated by the then P&O Ports of Australia and John Keells as joint venture with USD 240 million investment under a 30-year Build-Operate-Transfer (BOT) project. Then the second PPP is the CICT, the first deep-water terminal BOT which was awarded through global tender. Government of Sri Lanka followed the process as per the guidelines of the Asian Development Bank (ADB) who funded the breakwater. The third PPP was the Hambantota International Port (HIPG/HIPS) which was done without calling for public bids, as there was a formal government-to-government agreement. Although, the government still called for two separate competing bids from two different organizations identified by the Government of Sri Lanka. In addition, the Government of Sri Lanka has the right to buy back 20% shares within 10 years which will increase the government's share to 35%. The fourth PPP project, East Container Terminal (ECT), was launched with ADB assistance, and seven parties were shortlisted in 2016. However, it was abandoned in favour of partnership with India and Japan through government-to-government agreement, operated by SLPA. The fifth one, West Container Terminal (WCT), did not have public bids. It will be under joint operation by India and Japan same as the HIPG negotiation with China.

The CICT project started bidding process in 2005 when it received 5 proposals, but the process was cancelled in 2008. In 2009, re-invitation of proposals began. Though there were 15 bidders collected documents, they only received proposal from China Merchants Port. The first phase started operation in 2013. In record of 28 months, Sri Lanka's first deep-water terminal completed construction in 2014. The Port of Hambantota is owned 85% by China Merchants Port and 15% by SLPA, with two operating companies Hambantota International Port Group (HIPG) and Hambantota International Port Services (HIPS).

CICT and HIPG both perform well over recent years. In 2014, CICT had 14% growth rate which brought Port of Colombo to the second fast-growing port in the world. In 2018 again CICT grew at 14% and made Port of Colombo the first place of growing port in the world. Since the hit of COVID-19 pandemic, CICT is experiencing negative growth at -5% in 2020 and -3% in first quarter of 2021. Port of Hambantota has been expanding roll-on and roll-off (RO-RO) business since take-over of China Merchants Port in 2017. The volume reached over 400,000 units in 2019 and declined a bit to slightly below 400,000 units in 2020. In 2020, HIPG started bunkering business and it increased to over 50,000 MT in 2021.

Opportunities for Port of Hambantota are numerous: Sri Lanka's strategic location, interests from top customers and its position as maritime and logistic hub in Asia. Port of Hambantota has its uniqueness of having an industrial zone within the free port, with around 300 hectares of land and related industries to be set up. There have been two industries set up and other two are in the pipeline. These are the opportunity for Sri Lanka to change the balance between gateway cargo and transhipment cargo. Currently, the gateway cargo of Sri Lanka accounts for 18% while the transhipment cargo accounts for 82%. Sri Lanka Board of Investment also runs a free zone near the free port boundary, which will also promote the local cargo volume and change the formula of domestic and transhipment cargo. There are also challenges for Port of Hambantota, including policies, lack of funds, and capacity crunch. Now there is no official regulator for ports in Sri Lanka. SLPA is the landlords, regulator as well as the competitor. Meanwhile, the progression for capacity addition is slow.

Questions:

Mr. Lau: "As one challenge for port is lack of funds, the government introduced PPP to invite private investors to join port construction and investments. Will the government provide more attractive conditions and terms for investors such as longer operation period?"
Mr. Wickramasinghe: "The complexity mentioned in the challenge is that landlord SLPA will be mandated to own 50% of the equity. They also stay in the business and act as the regulator. However, BOI decides on the investment incentives negotiates with the investors. BOI should work with the SLPA who also happens to be the landlord on the incentives. So, depending on the model introduced by the investors, it is open for negotiation."

Professor Linda Tjia: "I also learn that WCT model may have a slightly different PPP model than that in Colombo. So, would you please explain the difference?"
Mr. Wickramasinghe: "The WCT model and the HIPG model are both done with G-to-G agreement with India, Japan and with China without public bids being called. For Hambantota, China nominated two companies and Sri Lanka had the opportunity to get two bids and start negotiation. For WCT, now there is only one company nominated and the Government of Sri Lanka has no option but to negotiate with that company. This is the subtle difference. Both SATG and Port of Hambantota are operating terminals that go into PPP model."

Mr. Chris Lau – Zhen Hua Engineering Company Director & China Harbour Engineering Company BDD Department Deputy General Manager

Mr. Lau has participated in the construction industry for more than 35 years; he has extensive experience in managing and overall planning of large-scale site formation works, earthwork, road and drainage, bridgework and infrastructure work. He has engaged in various contracts with different nature and is familiar with different systems of project administration and contract management. During his 4 years of works in Sri Lanka, he participated in the formulation of some major infrastructure projects which became realized in later stage, the Hambantota Port Development and Mattala Rajapaksa International Airport.

Mr. Lau introduced Chinese business development and major projects in Sri Lanka. Locating at a strategic location on the "One Belt and One Road", Sri Lanka is also eager to attract foreign investment by establishing Board of Investment, signing investment protection agreements and entering bilateral investment promotion and treaties. Since the decade of 2005 to 2015, China has been a leading source of Official Development Assistance (ODA) and foreign direct investment (FDI) in Sri Lanka with the amount of USD 14 billion. Most of the ODA are in loans and grants, which is USD 12 billion in sectors such as energy, infrastructure, and services. Chinese private investment is USD 2 billion, and it is still growing. Belt and Road Initiative (BRI) is closely related to the involvement of Chinese enterprises in Sri Lanka. Major BRI projects are Colombo port City Development Project, Hambantota Port and Adjoining Industrial Estate, Colombo Port Expansion, Hambantota International Airport, Norochcholai Coal power plant, Colombo-Katunayake Expressway, Moragahakanda Project, etc. Chinese private investment to Sri Lanka largely comes from Hong Kong, for example, AVIC International Hotels Lanka (USD 250 million), Shangri-La Hotels Lanka (USD 16 million), Hutchison Telecommunication (USD 20 million).

Mr. Lau's experience is more focused on infrastructure in Sri Lanka. The condition of infrastructure has been improved a lot. Up to 2020, there are now three international airports with the capacity of annual passenger turnover of 9,975,151 people. In total, three international terminals can handle 7.2 million TEUs capacity. Highways are extended further: Colombo – Matara Expressway (126 km), Outer Circular Expressway (29 km), Colombo – Katunayake Expressway (25.8 km), and Colombo – Kandy Expressway (98.9 km). CHEC has involved in several infrastructure business development projects, such as construction of Hambantota Port, Hambantota Rajapaksa International Cricket Stadium, South Colombo Port Expansion, Shangri-La Hotel, and Colombo Port City. The Colombo Port City is the first foreign investment of that kind in Sri Lanka which is also under the scheme of Belt and Road Initiative, with both construction work and share of business on the reclaimed land. CHEC also has infrastructure project in the north part of Sri Lanka, the Trincomalee Integrated Infrastructure Project valued USD 69.2 million.

Mr. Lau also highlighted that foreign players need to respect local culture, religious belief, discipline and value of lives. For example, in the Hambantota Airport project they designed and built the infrastructure with due care and in harmony with the wildlife in local areas. They strived to minimize the impact to the surrounding environment. Local manpower is also well trained and employed in the projects.

Questions:

Professor Linda Li: "Some of these are financed by soft loans/grants and some are financed through FDI projects. For those financed by soft loans/grants, is there any concern for long years for return?"

Mr. Lau: "Soft loans are coordinated with the bank in China who provides good terms and interest rates under OBOR. Sri Lanka is also supported by other developed countries such as Japan, Norway in the case of Trincomalee port. In addition, international organizations such as Asian Development Bank and World Bank also provide funding for soft loans. For investment projects such as hotels, the annual volume of tourism was less than one million during the civil war period, but it has been substantially increased since the end of war. As the natural environment in Sri Lanka is really good, it still interests investors a lot. In the case of Colombo Port City, China Communications Construction Company finances the whole construction and acquires return by the use of land. This is the first time of such kind of projects in the country."

Mr. Thirukumar Nadarasa – CEO, Hutchison Telecommunications Sri Lanka

Mr. Nadarasa is a UK qualified telecoms professional with a Bachelor's (Hons) Electronics Degree from Loughborough University, a Master's Degree in Telecommunications from Aston Birmingham and a Master's Degree in Management from Imperial College. He has over 30 years of experience in the telecom industry initially with Singapore Telecoms and then for more than 20 years with Hutchison Telecoms, Hong Kong. He is presently based in Sri Lanka and last year has led a unique merger of two nationwide mobile operations of Hutch & Etisalat in order to compete more effectively with the market leaders and also to position the merged company for future broadband data expansions in 4G and 5G.

Mr. Nadarasa mainly introduced the Group's works in Sri Lanka. As a member of CK Hutchison Holdings (CKHH), the company targets global business and recruits over 300,000 employees across 50 countries. It is not just a telecom company. The business area is wide, including retail, infrastructure, energy, finance and port business. In telecoms, CKHH operates telecommunications across 12 markets catering to 128M subscribers globally, especially in Europe and Asia. On the port side, the group operates 53 ports across 27 countries across the globe.

In Sri Lanka, Hutchison has a long history. The group entered the Sri Lanka market in 1997, thus it's more than 20 years that the company have been in Sri Lanka. Hutchison is a patient investor and today it has developed the mobile network in stages from GSM to 3G, and finally network merger and new 4G network in Sri Lanka in 2019. The group has invested more than 100 million dollars for this merger and 4G network in the last 2 years, staying in such a well position in telecom market in Sri Lanka. There are a lot of opportunities in Sri Lanka for telecom sectors because only 50% of the population have got a smart phone. That is the potential for the company. The group is also competing with other two international operators, one is Axiata from Malaysia, and the other is Sri Lanka Telecom Mobile, which also has a Malaysia investor. Thus, there are three major investors plus actors from India and other small operators. The market in Sri Lanka is well invested and all investors are foreign investors. It could be one sector that is successful as part of FDI success story in Sri Lanka. Together the sector could be able to grow and be more influential in the region. The group have a 100% mobile phones' penetration, almost everybody has a mobile phone today. It is very affordable of mobile service. But the new opportunity is promoted by more advanced technology, high speed broad band, 4G, 5G services.

There are some commonalities between Sri Lanka and Hong Kong. Sri Lanka and Hong Kong were both British colonies in the past. They all have British based system of government, like Sri Lankan law is based on English common law; a common language, English is taken as the main language of business; education system is largely modelled by British missionaries; and a common religion in Buddhism. The strong relationship with China also has a long history. Sri

Lanka was one of the first countries to recognize the People's Republic of China in 1957. China is today the major trading and investment partner of Sri Lanka. These commonalities could be useful for future investment opportunities.

The market in Sri Lanka has emerging opportunities in several aspects. The first is the resilient economy. As one of the South Asian economy, Sri Lanka has the highest GDP per Capita (USD 3,853 in 2019) in region after Maldives, which is driven primarily by export in apparel, tea, rubber, and professional services - along with the tourism sector. The ICT industry is also under development. Secondly is the skilled workforce. Labour productivity is higher than other emerging countries in region. The third aspect is about infrastructure development. Rapid development of transport and commercial infrastructure underpin economic growth – primarily under the Belt & Road Initiative. For example, the New Port City Development Project, which is a Special Economic Zone with preferential tax treatment, prioritized regulatory approvals, and multi-currency transactional ability. Ports & Highways Development is a new international airport and port developed in last decades, along with ongoing cross-country highway infrastructure development to facilitate increasing FDI & commercial activity. These projects could become a strong basis and foundation for investors in Sri Lanka.

As with any emerging market, associated risks need to be understood. There are risks in political, economic and social aspects that investors need to consider. When basic caution is exercised, the rewards of investing in an emerging market can outweigh the risks. Despite their volatility, the most growth and the highest-returning stocks are going to be found in the fastest-growing economies. As long as the risks get managed, there are a lot of opportunities in Sri Lanka.

Questions:

Professor Linda Li: "Based on the rich experience of Hutchison, could you share a little bit about what is the most important message for people who haven't entered the Sri Lankan market to consider?"

Mr. Nadarasa: "Hutchison also invested in infrastructure projects, such as telecom infrastructure. Most infrastructure investments, including hotel, port, highway, telecom network, call for a long-term view. These businesses are not about only one or two years. Investors must have a long-term view, which is also important for an emerging market quality. For any emerging market, they might have short term volatilities. With a long-term view, you can rip this out and keep developing opportunities. What I suggest is the long-term view with an open mind, grow with the country, and seek opportunities to develop with the country with full consideration about risks."

Professor Linda Tjia: "You mentioned about the common past history between Hong Kong and Sri Lanka, from your experience, how have such commonalities helped you expand the long-term business?"

Mr. Nadarasa: "As an investor from Hong Kong, Hutchison has to look at the environment or the ground of places which the group prefers to invest in. These commonalities became the long-term basis for investments in Sri Lanka, and also a positive factor for investors. That also helps us to understand and to engage because of the similar legal frameworks and agreements."

Professor Linda Li: "What would you advise on achieving success in the long term? Rather than telecom infrastructure, you also mentioned about retailing, market, competing services to your clients including individuals and families. Any advice for SMEs who might be interested in this area?"

Mr. Nadarasa: "Hutchison is a long-term investor but not a permanent investor. As a long-term investor, what I would advise is investors should have a long-term mind-set, look for opportunities where they can expand or promote business. We have also invested in India, and we wanted to be the first telecom investor in India. We have been there for several years. So sometimes you have to wait for right opportunities with a long-term mindset. In terms of local marketing, we operated 40,000 retailors out there. As an industry, we have jointly developed with 5 or 6 other operators. The same retailor is not just selling our services but comparing all services. It's a commonly infrastructure supporting 40,000 outlets to make sure that our services are competing and also commonly distributed."

Mr. Peter Cheng – Chairman, Hanbo Enterprises Limited

Mr. Cheng is the cofounder and Chairman of Hanbo Group. He had been responsible for the company's business development and marketing and successfully led the group to list on the mainboard of the Hong Kong Exchange in July 2014. He sold all his shares of Hanbo in October 2016 and has diversified into various businesses including food and beverages, program trading, blockchain and IT, ESG reporting, co-working and incubation center. His recent focus is on IT deployment in supply chain management and trade finance, and Smart Chain has recently partnered with HSBC to complete the first digital end-to-end trade finance transaction on eTradeConnect, a blockchain-based trade finance platform in Hong Kong.

Representing entrepreneurs and SMEs, Mr. Cheng shared his stories and working experience in Colombo. Mr. Cheng worked as a trainee in Colombo in 1987. After that, Mr. Cheng started his own business and the production in Colombo. With the cooperative partner, the Hanbo group went out to have a project in Kenya in 2000. After several changes, such as the totally open market, no quota restrictions, China's opening, they had no choice but to move forward. The year of 2018 is a very important signal for the relationship between China and ASEAN countries. The company had its first import event in Shanghai. Sri Lanka has a very famous restaurant, Ministry of Crab, ranking in top 50 ASEAN restaurants. The group also wanted to be involved in health investments with consideration about sustainability, and also ESP standards. Ministry of Crab was a good choice for the company to learn in a cross-culture environment.

The group slowly transformed into a company, FUFA Lab. Right now, the group focuses on lifestyle, supply chain, IT, and finance. People may comment that it seems like an eco-system. For example, BARBAROSSA, which is quite famous in Shanghai. It is a good match. Bringing in the Ministry of Crab, the group could give BARBAROSSA the best part they have and established a joint venture.

Because of the pandemic, the projects slow down. The group also thinks about opening café in Colombo, but people usually ask for tea. So, space is spared to experience what kind of tea could be brought to Hong Kong, which is more like a promotion.

FUFA Lab also has some other projects. The group based in Wuxi, Shanghai, Shenzhen, Hong Kong, Macau, and also in Phnom Penh, Colombo and Chittagong.

The group has some insights to work with local partners. There are a lot of good locations for agricultural lands because the economy has been slowing down. Literacy level is high and the group has partners who have been working in Sri Lanka for 20 years. Properties in Colombo is not that expensive as some expect. For the city, the growth is always there. The other improvement is foreign exchange control. For foreigners right now, you can have your own bank account, which was very difficult to have one before, leading to people sometimes have no foreign currency to purchase. People still have to get US dollars from the central bank. As to the ownership, it still has to a barrier to foreign investors. You cannot have a share of a company more than 50%.

Nuke café is one of the projects in Cambodia. It was started with small investments. But the group wants to contribute more to local GDP and local culture using a coffee brand. Nuke café has been in Phnom Penh for 5 years and the next step will be e-commerce. There is also a nail bar in the coffee shop, selling local skin-care products too. These products are easily sold but it is not a major industry. The second case is the coconut farm. People might reject the project because the long-time cycle for profit earning which is about 14 years. But Mr. Cheng insisted to have a second study for its other valued products, such as coconut oil as he sees opportunities and values in the industry.

Some difficulties are pointed out in Colombo. As a foreign investor, , especially for SMEs, it is difficult to get into a project in Colombo unless you are working with some PPP projects. What the group did is bring in coffee shop, small business, e-commerce, and get contact with Hong Kong Trade Development Council.

Questions:

Professor Phillis Mo: "14 years are considered to be long for coconut farming. What is the average period for the other business?"
Mr. Cheng: "Frankly, for me, 14 years is not too long but there is an opportunity for the budget. We have to argue that shall we invest our budget in other places. That is the challenge. The whole project refers to different entity, different partnership. You could diversify the business to make the project sustain. You have to get the right location in Colombo, shake hands with your partner. It is better not to do it on your own."

Professor Linda Tjia: "What is the most important thing for you to identify success of your businesses?"
Mr. Cheng: "People always consider they will take some risks. Our group has committee and our team is considered as a whole. Most of the investment plan for commercial terms would have no goal, unless you have a special purpose. My team made the coconut plan, but I want it to be sustained by making the cross-over through added value. That is the challenge. It depends on your own corporation, your mission statement, company vision. There is always an opportunity cost for commercial consideration."

Professor Linda Li: "Maybe that is the nature of business. By definition, enterprises may always take risks. There is no risk-free business."
Mr. Cheng: "It really depends on your own choice. For me, Sri Lanka is describedby people as the paradise, and it has a lot of natural resources. Education background (of people there) is good. Sometimes management committee say no but the team who investigate and seek business opportunities may think the project is viable. In different position, different choice is made."

Mr. Lau: "Nowadays in Sri Lanka, what do small and medium-sized enterprises from Hong Kong focus on? What sort of business are there?"
Mr. Cheng: "For me, it is the Ministry of Crab, which is a very successful case. Only because of the pandemic, otherwise we even try in Hangzhou in a nice bar. They need our services, and then we show where crabs come from (- Sri Lanka). It is natural resources-related business. Another area of business is e-commerce. Sometimes I recommend our Sri Lanka partners to start their business in Hong Kong, but infrastructure might be too complex. That's the reason I encourage partnership."

Panel Discussion:

Professor Linda Li: "The five speakers have discussed Sri Lanka from different perspectives, drawing from their experiences in their respective sectors. Ms. Subhashini talked about their trade policies. Sri Lanka highly relies on import tariffs, as source of government revenue, which is reflective of industrial development. I would like to draw the discussion closer (to Hong Kong). What do you think how Hong Kong talents - professionals, educators, or businesspeople, might make a contribution (to Sri Lanka's development)? What may Hong Kong's experience, Hong Kong's professionals, entrepreneurs and young people contribute?"

Ms. Abeysinghe: "I am not very familiar with Hong Kong in this area. But I will tell you opportunities are for anyone who want to invest in Sri Lanka. One is the cross-border trade, especially automation, electronic platform, which has been the target industry of Sri Lanka for a long time. To be honest, we have made slow progress. But there is growing interest that Sri Lanka cannot really become a competitive and attractive investment destination, even some of Sri Lanka related business are doing well. That is very important for investors to deal with. Multiple-government agency seems to get few words. Investors have to physically deal with them and going through this paper-based system. That is important factor, and it should be fixed. Some enterprises might specialize in this technology or facilitation in automation or could offer technical assistances. Second is about revenue administration. How could taxes be collected more effectively? How can we facilitate people to pay tax online? How can we stimulate people to get registration and pay fees online? It should be improved as part of our revenue administration. Many issues are mentioned previously like loans, foreign assistance, but there are a growing lobby to us that these projects should have local partners. Most of projects are developed by foreign enterprises, funded by foreign money, with foreign consultants, so we also have quite good talents in Sri Lanka. Overseas technologies and talents are welcomed so it could be the area that offer opportunities for them."

Professor Linda Tjia: "Tissa, you mentioned about the potential of SEZ, do you have any advice about how Hong Kong elites can tap into those opportunities?"

Mr. Wickramasinghe: "What I want to highlight is the Hambantota Port, which is the only port in Sri Lanka as a free port, with an industrial zone of 300 hectares located inside the port. This provides tremendous opportunities for industries to be set up within the port with minimum requirements in logistics and other aspects. It is an area we have invested 300 million dollars for its construction and development in site factories. We are going to start production within next 18 to 24 months. This is one kind of investment that we expect. At the same time, the port has tremendous advantages. For investors who are looking at investment opportunities, the location is advantageous, and incentives are also provided. And we have necessary talents in Sri Lanka from skilled workforce. If you look at our two projects in Colombo as well as in Hambantota, all the skilled workers are Sri Lankans, which became a good base for development of industry. We are also part of the BRI. It will provide more connectivity and the government also plans to take some actions to get connected in this global-level network. For investment side, within the port, we therefore open the joint ventures with international partners, and establish collective partnership, reaching to agreements with more international players on the logistics side."

Professor Linda Tjia: "What would you respond in terms of Hong Kong's role given the long-term vision in mind?”

Mr. Lau: “Some small and middle enterprises, like Peter said, have run their business to promote trade exchanging. The professionals, especially the consultant companies and individuals could have some sort of opportunities. As shared by the speakers, Hong Kong has some shared value, and also some sort of base in similar with Sri Lanka, such as language and the law. Even my experience in Sri Lanka only refers to a few years, but my colleagues in mainland China may not be very strong in this area. This is also sort of social barrier, which makes it more difficult to run their projects. Then, my team from HK helped a lot. This is one part I think Hong Kong professionals can help. Secondly, I have a partner who is a professional in auditing and financial model and helped my company in related issues. Thus, I think Hong Kong community can also make a contribution in this financial model. The third is some sort of help to bridge up the mainland China company and local Sri Lanka company. Because for Hong Kong enterprises and even professionals, the similar political structure, the council, when dealing with Sri Lanka government officers, make it easier to understand each other.”

Mr. Nadarasa: “I think three speakers today come from heavy infrastructure area. In Sri Lanka, we are developing telecom infrastructure. Almost 100% of my network has been built by Chinese companies, like Huawei, ZTE, Alibaba. We have these major Chinese companies coming into Sri Lanka to help us to build telecom infrastructure. This is 6 months or one-year event. People from China (Hong Kong) come and spend a year in Sri Lanka, build the network for us, but then they go back. So, it is a short engagement rather than a permanent engagement for Sri Lanka. People deem infrastructure as the foundation of developing other businesses. Within an infrastructure company, there are might some limited opportunities for telecom system or subsistence, providing the service. What I suggest more is that, with other partners in Sri Lanka, we build a very strong digital infrastructure in Sri Lanka. It is the good foundation for Hong Kong professionals to conduct digital businesses in Sri Lanka. Today, many companies have 100% Sri Lanka staff. It means that we have the talents in Sri Lanka on the ground for investors. Some works are very complicated, but the related team are also constituted by Sri Lanka staff and engineers. Many services, technical skills, ICT, finance, marketing, are available in Sri Lanka on the ground. But I think the area of new e-commerce economy could offer opportunities for people coming Sri Lanka and develop start-ups. Digital service could be offered globally and help to access to the global market.”

Mr. Cheng: “I think my team has been engaged. I think we have to move, especially Hong Kong young people. Opportunities might cost, but you have to go out to know more people and build your own network.”

Participant Question:
“Sri Lanka’s tax revenue is based on imports rather than on company profits tax or export. Is this government policy or the result that the government cannot control?”

Ms. Abeysinghe: "It is definitely not the government policy. 80% of Sri Lanka government tax come from consumption-based tax. That is why you have import taxes. It is important to make a distinction between trade taxes and domestic taxes. Even the tax base is heavily import driven. It shared 20% to 25% entirely exclusively trade taxes. Sri Lanka has a narrow tax base, but multiple attempts have been conducted to address that problem, through IMF assessment as well. So, we have 80% new income from the consumption-based taxes, which includes trade taxes and VAT. Only 20% come from income taxes and profit-based taxes. It has been the long-term goal for the government to put forward related economic policies where we should have a share of 60% vs. 40%. 60% revenue should ideally come from consumption-based taxes, while 40% come from income-based taxes. That is somehow the transition that the country has struggled to achieve within a lot of political factors. The taxation policy is never a popular policy to pursue for any governments. Changing the situation is really a challenge. This is not the government policy, and many academic research has identified this problem. Lots of suggestions come from local or international experts. Unfortunately, it has not realized the expectation yet."

Participant Question:
"Since I work in the education sector, what are the opportunities for growing local talents with education and training in collaboration with the business investors in Colombo or other provinces?"

Ms. Abeysinghe: "I would like to say that is very high demand, but you also need to understand it is challenging to provide degree in foreign countries on your own. But there is indeed a very high demand for international courses and trainings in Sri Lanka. Sri Lankan people have preference for UK, Australian, Canadian, American degrees and qualifications. So, you may hear that Sri Lanka has the largest number of CIA qualified accountants outside UK. This is one of the reasons. So, in many countries, Sri Lanka accountants could easily get citizenship. That is just one indication. People would take correspondence courses and take exams in Sri Lanka. This is increasingly popular, which is outside the government education system but belongs to international education system. But even in technical education, for example, Japan and Germany may have more courses, such as vocational training programs and technical qualifications. Thus, it is challenging to convince Sri Lankan that other qualifications are more useful."

Participant Question:
"I think Sri Lanka is one of the best bases to develop education program and overseas courses as well. Australia has talents program to distinguish different talents. Government could consider for people who want to go overseas to stay Sri Lanka, not only for professionals. We have to figure out what kind of schools are eligible for what kind of program, including from secondary schools to universities. For the investments, we should identify what kind of skills

we are looking for. For us it is difficult to identify the value of SMEs."

Ms. Abeysinghe: "That is the preference of students and their parents. I also heard about there is a mismatch between economic courses and students' preference. This is the mismatch between supply and demand in Sri Lanka. There is a high demand in Sri Lanka for medicine, so many students go to China for medicine degrees. And there is also a very high preference in engineering and IT sectors. The development in economy, logistics and tourism triggered high demand in these courses. This is not included in our curriculums thus the skill is hard to be recognized, which is another challenge for education system."

Mr. Nadarasa: "Sri Lanka has been a center of learning. It is hungry for education. People in Sri Lanka are eager to learn and be educated. It represents the opportunity. People could come and start a career if the opportunity present. Sri Lanka has a very high potential for the development of education services. It is the area that could be further developed by Hong Kong professionals, like setting up education institutes or giving courses to people in Sri Lanka."

Participant Question:
"As academics we are facing challenges in acquiring foreign scholarships. How will it be solved?"

Mr. Nadarasa: "Formal university is run by the government. Scholarships for overseas learning maybe very limited. But I think the development of private sector in educational network gives opportunities for educational professionals to be engaged. Not in formal governmental institutions, but in international schools. Established private institutions will provide opportunities for professionals."

Participant Question:
"Several speakers mentioned multi-facet risks in investing into Sri Lanka. I am wondering which forum speakers from business sector choose to resolve commercial and investment disputes with the business partners or even government and their experience so far."

Mr. Lau: "Most disputes will be handled by negotiation with different parties. We may ask for help from local mediator such as quite famous organizations. They come and lobby to cross the gap between parties. Sometimes it is quite successful eventually. China Harbour never brings any disputes to the court in our business in Sri Lanka."

Mr. Nadarasa: "For major investments, we normally look for a neutral country arbitration like Singapore. Singapore is listed as the country of arbitration, and it is a neutral party. But that is applicable for large investments not for small investments."

Mr. Cheng: "In cooperation as I said, our partner can set up a company in Hong Kong. This is one way to get away from disputes.”

Appendix

Research Centre for Sustainable Hong Kong (CSHK),
City University of Hong Kong
"Professional Services Advancement Support Scheme" (PASS)

Advancing Professional Development
on Economic and Trade Cooperation Zones
Along Belt and Road

Project Brief

The Research Centre for Sustainable Hong Kong (CSHK) of City University of Hong Kong is funded by the 'Professional Services Advancement Support Scheme' (PASS) [4] of the Commerce and Economic Development Bureau, HKSAR Government to conduct a Project entitled 'Advancing Professional Development on Economic and Trade Cooperation Zones Along Belt and Road', with the objectives to enhance the understanding of Hong Kong professional services on Economic and Trade Cooperation Zones (ETCZs) along the Belt and Road countries, deepen the understanding of key stakeholders of ETCZs on the competitive edges of Hong Kong professional services and business sectors; and explore potential development opportunities via exchange of ideas and sharing of analyses.

From January 2021 to March 2022, the Project will organize 6 professional workshops and 2 symposia (opening and closing), inviting zone operators, local enterprises, professional service leaders, expert scholars and government officials as speakers to conduct comprehensive and in-depth sharing on opportunities, challenges and experiences of overseas development in 7 countries (Cambodia, Sri Lanka, Vietnam, Myanmar, Malaysia, Djibouti and Belarus) and their respective ETCZs. A tentative schedule is as follows:

Date	Programme
7 January 2021	Opening Symposium
8 February 2021	Professional Training Workshop 1 – Cambodia
27 April 2021	Professional Training Workshop 2 – Sri Lanka
11 June 2021	Professional Training Workshop 3 – Vietnam
19 August 2021	Professional Training Workshop 4 – Malaysia
October 2021	Professional Training Workshop 5 – Belarus & Djibouti
December 2021	Professional Training Workshop 6 – Myanmar
March 2022	Closing Forum

The activities are all free-of-charge, and they will mainly be conducted in English to project a global orientation and facilitate participation of overseas stakeholders. Each participant will get a training pack containing country information and analysis for each professional training workshop. Investment / enterprises representatives, representatives from professional service sector, scholars and students who are interested in understanding more about ETCZs are welcome to participate and interact to discover more opportunities for collaboration.

[4] Professional Services Advancement Support Scheme ("PASS") is set up to support Hong Kong's professional services sector to carry out worthwhile projects to spearhead pro-active outreaching promotion efforts and to improve service offerings. For more information about PASS, please refer to PASS website at: https://www.pass.gov.hk/en/home/index.html

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Prof Linda Chelan Li, Professor at Department of Public Policy and Director of CSHK, is Project Co-ordinator and Prof Phyllis Lai Lan Mo, Professor at Department of Accountancy, is Deputy Project Co-ordinator. Project team members include Dr Linda Yin-nor Tjia, Assistant Professor at Department of Asian and International Studies and Dr Wilson Chan, Adjunct Professor at College of Business.

Research Centre for Sustainable Hong Kong (CSHK)
Tel: 3442 8914
Website: www.cityu.edu.hk/cshk
Facebook: https://www.facebook.com/sushkresearchhub
WeChat Public Account: HK 持续发展研究中心 CSHK