
Sri Lanka May Become 'Hong Kong of India' After War (Update1)

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By Cherian Thomas June 18 (Bloomberg) -- Sri Lanka's economy can bounce back from its weakest growth in six years and become the 'Hong Kong of India' as the end of almost three decades of civil war boosts business opportunities, HSBC Private Bank said.

Decades of fighting on the Indian Ocean island shackled its \$32 billion economy, which according to figures released yesterday expanded 1.5 percent last quarter from a year earlier as the global recession intensified the slowdown. Ports, retailers, apparel and tea exporters could lead a recovery after the Tamil Tiger rebels were defeated last month. 'The rebound will be spectacular,' said Arjuna Mahendran, the Singapore-based chief investment strategist for Asia at HSBC Private Bank, which oversees \$494 billion in assets. 'To start with, Sri Lanka's location gives its port a natural advantage.' Sri Lanka could benefit from its proximity to India, just as Hong Kong profits from being a trade hub to China. Sri Lanka lies just 31 kilometers (19 miles) south east of India, the world's second-fastest-growing major economy. Seventy percent of the volume handled by the Colombo port is trans-shipment of goods imported by India and this could be increased because Indian ports don't have adequate depth, Mahendran said. Sri Lanka has embarked upon a plan to quadruple capacity at the Colombo port in three years. The Liberation Tigers of Tamil Eelam were defeated on May 16, ending their 26-year struggle for a separate homeland in Sri Lanka. The Tigers, who controlled a third of the country at one point, fell swiftly since January as the Sri Lankan military launched an unprecedented offensive to wipe them out. 'Lot of Potential' 'It's something you never expected to happen when you have lived most of your life under the specter of war,' said Otara Gunewardene, who runs Odel, Sri Lanka's biggest department store. 'It's unbelievable. I see things differently now and see a lot of potential for growth.' Odel plans to sell a stake in the company to overseas investors and spend \$20 million to add another 70,000 square feet to its flagship store in Colombo and open new outlets in other cities in the country. 'We fought terrorism and now the economic war has to be fought,' said Malik Fernando, whose family owns Dilmah Tea Co., among the best-known Ceylon tea brands in the world. 'For manufacturers, the cost of doing business is very high because infrastructure, like roads and power, was neglected because of the war.' Small Economy Dilmah, for example, operates a bus service in Colombo to pick up their workers from home because 'we know that if they use the public transport, they are going to be late, fagged out and stressed,' Fernando said. Still, Sri Lanka can be turned around quickly as it is a small economy and Dilmah is exploring options to expand in the hotels and tourism business, Fernando added. John Keells Holdings Ltd., the island's biggest diversified company, said it sees opportunities to grow in all its businesses from property development to banking and insurance. Tea exporters could also benefit from a 30 percent surge in prices this year while the worldwide recession hasn't sapped demand for the high-end lingerie and apparels the nation sells overseas, HSBC's Mahendran said. Sri Lanka, which receives about 500,000 tourists each year, aims to increase that number by at least 20 percent annually through a global campaign entitled 'Small Miracle,' said Dileep Mudadeniya, managing director of the Sri Lanka Tourism Promotion Bureau. More Tourists The war discouraged travelers from the U.S. and Europe for years from visiting the teardrop-shaped tropical island. Occupancy rates have been 40 percent in the past two years in Colombo's five-star hotels, which have a combined capacity of 2,000 rooms, said Jerome Auvity, general manager at Hilton Colombo. As a result, the average room tariff is about \$62 a night, he said. 'There is no immediate reaction suggesting business is rising,' Auvity said. 'Give it another six months to see whether confidence returns to Sri Lanka's leisure market. There is still this dark cloud, this debate and issue regarding the displaced people.' The final battles have left about 300,000 people displaced and living in more than 40 camps across the northern part of the country. President Mahinda Rajapaksa said last month he intends to resettle them in the region within 180 days. Still, the Board of Investment of Sri Lanka expects foreign direct investments to quadruple to \$4 billion by 2012, led by investments in ports, tourism, telecommunication and textiles. Foreign Investment 'We have been getting encouraging responses from foreign investors,' said Dhammika Perera, chairman of the Board. 'We expect three leading hotel chains to sign an investment agreement with us in about three months.' Sri Lanka's economic growth can accelerate almost four times the current pace to 6 percent by 2010, says Prakriti Sofat, an economist at HSBC Holdings Plc. in Singapore. Citigroup Inc. economist Anushka Shah expects growth at 5.7 percent next year. The nation's benchmark stock index, the Colombo All-Share Index, has climbed 20 percent since the Tamil Tigers were defeated, taking its gains this year to 50 percent as local investors snapped up shares. The Securities and Exchange Commission is now keen for the likes of George Soros, Mark Mobius and other top fund managers to invest in the country and help the Colombo Stock Exchange double its capitalization to \$14 billion in a year. 'It will take a while for people to realize that a 30-year war has ended and the dividends it can bring,' said Channa de Silva, director general of the Commission. 'Sri Lanka is a country waiting to unfold and we are confident there will be a lot of interest internationally.' 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