Verité insights
August 2014
Vol. 2, No. 13

Verité Research
Strategic Analysis for Asia

Verité Research provides strategic analysis and advice to governments and the private sector in Asia.

Subhashini Abeysinghe
Research

Nishan de Mel
Series Editor

10.6
BILLION USD
Exports revenue in **2011**

20
BILLION USD
Exports target for **2020**

18
PERCENT
Exports share of GDP in **2011**

13
PERCENT
Expected exports share of GDP in **2020**

Image courtesy of *AlgoSec*

USD 20 billion export target by 2020: Aiming to be mediocre

Sri Lanka hopes to increase export revenue to USD 20 bn by 2020. This target is perceived as ambitious; but, compared to the country's growth targets and the performance of regional peers, it is mediocre.This *Insight* explains that to be confident of setting and achieving ambitious export targets, Sri Lanka must go beyond symptomatic remedies and address the root causes of underlying problems with its export strategy.

The government has a target to increase exports to USD 20 billion by 2020 (a doubling from 2011). This target is presented as ambitious. This *Insight* argues the opposite. The 2020 target is rather mediocre, and is aiming too low. Yet, even with such a low bar, it may still be out of Sri Lanka's reach.

AIMING TO GET WORSE

There are two main reasons for the target's mediocrity. First, the target means that Sri Lanka is planning for the exports share of GDP to fall. The consequence of the 2020 target is that the exports share of GDP will fall to 13 percent, 5 percent lower than the 18 percent low in 2011 (from 33 percent in 2000). This is because the government's projected GDP per capita in 2020 is USD 7,000. That is a total GDP of 154 Billion (population growth assumed to be only 1 percent).

Second, the target means that Sri Lanka is not aiming at increasing its share of global exports. Sri Lanka's share of world exports declined by 25 percent between 2000 and 2011, from 0.08 to 0.06 percent. The current target envisions a further decline. Assuming the world increases its total exports at eight percent a year, a conservative estimate, then to increase its own share of world exports Sri Lanka will need to grow exports at over eight percent. At the projected target this will not happen and Sri Lanka's share of world exports will fall below its 2011 position.

AIMING TO UNDERPERFORM

Government officials defend the target, claiming that exports share of GDP naturally declines when GDP is growing rapidly. Despite seeming sensible, this is not an informed argument. In fact, the experience of other Asian economies similar to Sri Lanka that have moved up the income ladder is quite the opposite. For many of Sri Lanka's neighbours in Asia, the exports share of GDP and GDP itself grew simultaneously. The GDP of these countries grew by 7 to 10 percent over the last 10 years, but so did the exports share of GDP. This is because exports grew even faster than the GDP of these countries, and became the engine of GDP growth.

For example, between 1968 and 1977 South Korea's GDP expanded rapidly, by 9.2 percent per year; the exports share of GDP also increased, tripling from 8 percent to 25 percent. Vietnam, another frontier economy like Sri Lanka, had 7 percent annual growth from 2003 – 2012; its export share of GDP rose rapidly from 47 percent to 74 percent in that period. During the same period, Bangladesh's GDP grew at 6 percent per year and its export share of GDP rose from 14 to 25 percent. During the periods referred to, South Korea's share of world exports increased 4.5 fold from 0.2 percent to 0.9 percent, Vietnam's world export share doubled from 0.3 percent to 0.6 percent and Bangladesh's world market share increased from 0.09 percent to 0.14 percent.

By aiming for the opposite (reducing export share to GDP), Sri Lanka is not only aiming to underperform in relation to the experience of its peers, but is also, indirectly, aiming to fail on fulfilling GDP targets. If GDP is to grow rapidly, it will need to be driven by a faster growth in exports.

DOUBLING SLOWER THAN PEERS: Sri Lanka's export target for 2020 aims to double export values from 10.6 billion in 2011. But, this is a weak aim, because Asian peers and the world as a whole have doubled exports in much shorter periods (see Exhibit 1).

MODEST, YET STILL OUT OF REACH?

Sri Lanka's export targets compared to its own growth targets, and the performance of regional peers, are quite clearly modest. Yet, the government and much of the media refer to the target as being ambitious.

There are reasons to perceive such modest targets as ambitious. Two of these reasons arise from significant internal challenges facing the country.

One is the declining comparative advantage of the country's leading exports. For instance, Sri Lanka no longer has a comparative advantage in terms of labour compared to countries like Bangladesh, despite being heavily dependent on labour intensive industries such as apparel.

The second is the lack of diversification in export products, which in turn has made it difficult to reach new export markets (see *Verité Insight* – Solving the dilemma of export diversification).

Quite apart from the short term issues of governance and investor confidence, these problems are connected to a long term lack of development in education, and in the lack of professionalism in state and regulatory institutions. These underlying factors make it difficult for Sri Lanka to transition from what economists call a 'resource based economy' to an 'efficiency driven economy'.

There are some positive signs. For example, Sri Lanka is now attempting to develop a new export strategy. In this, the country will be assisted by the International Trade Centre in Geneva. But there will be no silver bullets. Sri Lanka needs to solve its underlying problems – addressing the causes, not just the symptoms. Until then, the country's export targets will remain low, and its ability to meet even those targets will remain in doubt.■

Related *Verité Insights*:

- Solving the dilemma of export diversification
- Export economics beyond the "white underwear"
- Sri Lanka's trade liberalisation: What you see is NOT what you get

Exhibit 1: Time Taken to Double Exports – World Exports and Exports of Selected Asian Countries

World	Time taken	8 yrs	10 yrs	7 yrs
	Value (USD)	2 – 4 tn	5 – 10 tn	9 – 18 tn
Bangladesh	Time taken	6 yrs	6 yrs	5 yrs
	Value (USD)	3 – 6 bn	6 – 12 bn	12 – 24 bn
India	Time taken	9 yrs	3 yrs	4 yrs
	Value (USD)	25 – 50 bn	75 – 150 bn	150 – 300 bn
Malaysia	Time taken	5 yrs	9 yrs	5 yrs
	Value (USD)	25 – 50 bn	50 – 100 bn	100 – 200 bn
Thailand	Time taken	5 yrs	10 yrs	6 yrs
	Value (USD)	25 – 50 bn	50 – 100 bn	100 – 200 bn
Vietnam	Time taken	4 yrs	3 yrs	4 yrs
	Value (USD)	15 – 30 bn	30 – 60 bn	50 – 100 bn

Source: Calculated using export statistics published by the World Trade Organization (accessed March 13, 2014), http://stat.wto.org/

ISSN: 2386-1762