

**SPEECH OF  
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BEFORE THE  
AMERICAN CHAMBER OF COMMERCE, SRI LANKA  
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***Making Sri Lanka Competitive to Maximize  
Her Trade and Investment Potential***

Thank you, President Akingbade (**A-king-ba-de**), for your kind introduction.

I'd also like to thank the AmCham Executive Director Chullante Jayasuriya (CHU-lante JAI-YA-sur-i-ya) and the Amcham board for inviting me to address you today.

Since 1992, AmCham Sri Lanka has been a strong voice for enhancing and deepening ties between our two nations. I came to Sri Lanka just over two months ago planning to build on the long-standing friendship between our two countries. There have been some obstacles, but with your help and that of AmCham we will make progress.

This afternoon I would like to address an issue that is on everyone's mind: namely, how can Sri Lanka realize its enormous economic potential. There is no question that Sri Lanka has an historic opportunity to dramatically improve the lives of its people. The question is whether they will get there. The Government of Sri Lanka is making some good moves, such as investing in infrastructure projects to make Sri Lanka more internationally competitive. The Board of Investment is also working hard to bring foreign direct investment to Sri Lanka, and we encourage their efforts to deepen our bilateral economic relationship.

In general the government is doing a good job on the hardware of economic development, building roads and ports, but they need to work on what I call the software, to make an economy run efficiently. In this reference, "software" issues are things such as transparency, government efficiency, protection of intellectual property rights, and openness to trade. I bring these issues to your attention because, quite frankly, the Amcham and the companies represented here have an important role to play. We all want Sri Lanka to get reach her potential. I hope that the AmCham will join us in encouraging Sri Lanka to adopt the reforms necessary to reach its goals.

As I mentioned, Sri Lanka today is a land of great potential. With the conflict over, roughly a third of the country is again open to investment and economic development. Sri Lanka achieved a good deal economically despite an ongoing war and with a third of the country off-limits. With the end of hostilities, Sri Lankans have high expectations that development can finally really take off.

There are a large number of areas where Sri Lanka can prosper. The most obvious is tourism, where there is little doubt that Sri Lanka is poised to capitalize on its many attractions, rich cultural history, and eco tourism. Many people have also told me that Sri Lanka can increase its agricultural production, take advantage of the fisheries in the North, increase its market niche in garments, and build a strong construction industry. Sri Lanka also has great potential to expand its emerging its Information Technology and Business Processing Operations sectors.

Moving forward, Sri Lanka can capitalize on many tangible advantages. Sri Lanka is blessed with an intelligent work force, many of whom speak English – which can be helpful in today’s global economy, as well as in the IT and tourism sectors. I commend the government for making 2009 the year of English and high technology. That kind of forward thinking can help Sri Lanka compete globally for the businesses of tomorrow. Sri Lanka is also in a geographically strategic location, right in the hub of Asia. Today’s low inflation rate, and foreign portfolio investments indicate that a post-conflict Sri Lanka is ready to become the South Asian economic powerhouse it has long aspired to be.

The Government of Sri Lanka is working to address what I have called the “hardware” issues of economic development, such as roads, ports, airports and power. I’ve been in Sri Lanka only for a couple of months. But I’ve been doing a fair amount of travelling on the roads here, and it’s clear that investment in the transportation sector is badly needed. If you can’t get your goods to market quickly and easily, that costs you money.

And for the agricultural sector, it’s even more important, because if your products are spoiled when they get to market, that’s going to cut severely into your bottom line. I’ve been told that agricultural losses due to post harvest issues are in the region of \$90 million annually, a cost Sri Lanka can ill afford. Sri Lanka is addressing this issue by emphasizing road construction throughout the country. I think that we all agree that Sri Lanka will be more competitive, and her people better served, by an improved road system.

We are pleased that the government has released a large number of internally displaced persons from the closed camps in the North. We encourage the government to continue this progress. The government understands the importance of rebuilding the North and East, and making sure that the people in those areas have the opportunity to improve their lives and the lives of their children. The people of the North and East have already benefited from peace and economic integration. Now that the roads are open, people in the North can buy cheaper vegetables from Colombo, for example, which benefits them and the country. The government has an ambitious plan to rebuild the North and East. If this is done well, it will make the entire country stronger and defuse some of the causes of the conflict.

The next big thing is to ensure lasting political reconciliation. The government has the right idea to focus investment in the North and East – and we support that effort. But only by solving the political situation in the long term can we be certain that investments in these regions will be secure, so U.S. investors are also eager to see a political solution which empowers all Sri Lankans.

Yes, Sri Lanka has made strides in building the right hardware for the country. But what about the software, the internal policies that push the private sector to become productive and world class? This is where work still needs to be done. I have no doubt that foreign investors will come to Sri Lanka to kick the tires of the car. That doesn't mean that they will invest unless the conditions are right.

In my opinion, the most important of issue is transparency. Speaking with you today, I know that I am in the right place to talk about transparency, because all of the AmCham companies are committed to following the highest standards in business transactions. People know that when they work with an AmCham business, it's strictly business – with no funny business going on. This should be your calling card.

I have served around the world in places where corruption is a big problem, and I can say this with certainty: corruption is bad for business, and it is bad for the country. It slows economic growth, hinders development, repels investment, damages societies, and eats into the GDP. It is estimated that corruption costs up to 2 percent of GDP, and this issue needs to be urgently addressed if Sri Lanka's growth potential is to be realized. The lack of transparency and accountability in government procurement is depriving the country of choosing the best technology, products and services, all of which would boost growth and encourage investment

Right now, folks from all over the world are taking a closer look at Sri Lanka. Perception is important for international investors, and especially American investors. And when Transparency International rates Sri Lanka in the bottom half of all countries on corruption issues, and Reporters without Borders can only find 10 countries in the world where press freedom is more stifled, it signifies a deep-rooted problem which has serious consequences. In a democracy, there is no room for repression of the press – just no room at all. Freedom of the press is essential for democracy, and the press plays the key role in preventing corruption. The country's law and order situation needs to improve and this is a significant factor in investment decisions.

To maximize international investment and economic development, it's time for a call for a "war on corruption." This has to be top-down, and bottom-up. Laws need to be strengthened. And people need to expect and demand their public servants and private companies to uphold those laws. It is time for public money to stop lining the pockets of the rich and powerful in both government and private sector, for this public money to be used to develop the country's agriculture, roads, education, nutrition and other important areas so that all Sri Lankans, especially rural marginalized communities, will be able obtain the benefits of economic development.

I would like to see AmCham play a major part in encouraging ethical business practices among the business community in Sri Lanka. As you know, American companies are governed by the foreign corrupt practices act. I hope you will encourage similar safeguards in Sri Lanka to ensure a free and open trade and investment environment in the country. I'd like to see Sri Lanka's Transparency rating vastly improve during my time here in country.

Another important issue is intellectual property rights. I know that the AmCham has worked hard to strengthen IPR here in Sri Lanka with its "Get Real" Campaign. I can assure you that you have a steadfast ally in the U.S. Embassy. We will continue to work with you, the Business Software Alliance, and the Sri Lankan government to tackle the piracy of intellectual property.

Sri Lanka already has a vibrant IT sector, and other legitimate industries recognize that protecting intellectual property is important to economic growth. Foreign companies are less likely to invest here if they worry that their technology might be ripped off, or that people will pirate it. Reports estimate that up to 90% of the software used in Sri Lanka is pirated – the highest level in South Asia. When I heard this statistic all I could say was: 'Wow! Something has got to be done.'

Sri Lanka already has laws on the books protecting intellectual property. But we all know that a great deal needs to be done to ensure implementation. And the first place to start is with the government itself – having a government-wide procurement policy and ensuring that all of the government’s software is legally registered. After that – and we’re willing to help out here – we need to build capacity in the courts, among law enforcement, and customs officials.

Another key to economic growth is openness to trade. International trade brings great benefits to consumers, who have better and more inexpensive choices; to workers, who have access to better paying jobs and the chance to move up; and to companies, who acquire technology and practice lean management methods to compete globally. Although Sri Lanka has developed some world class companies, Sri Lanka’s openness to trade falls short in the areas of import tariffs and agriculture. If one looks to Singapore, Hong Kong and South Korea, it is easy to see the advantages of opening your economy and strengthening local companies through international competition, rather than looking inward.

Economists can tell you that high import tariffs and an economically-damaging tax system hurt not only individual companies, but economic growth in general. If a company here needs to import the latest technology to remain competitive in the global market, but the import tariff is 100% or more, a company may not be able to afford the equipment. What does this mean for Sri Lanka? Well, as an investor, it means I might just look elsewhere to do my business. As a business owner, it makes my product less competitive on the cut-throat global market.

In this case, the government understands the problem, and they have been reviewing the tax and tariff system since August. Clearly the system, like many tax and tariff systems worldwide, should be simplified and created with an eye toward economic openness. The Heritage Foundation’s Economic Freedom Index puts Sri Lanka at 111<sup>th</sup> out of 179 reviewed countries. If the government’s committee does its job right, I’d expect to see Sri Lanka dramatically improve.

Another stumbling block is making sure that contracts must be honored in total. I won’t go into names, but there are several cases where U.S. companies are working to ensure full compliance with valid contracts. I would like to emphasize that parties must abide by agreements with foreign companies who invest in Sri Lanka. Sri Lanka cannot expect to attract new foreign direct investment, unless the foreign companies already here are dealt with fairly.

Another big trade issue is agriculture. I understand that Sri Lanka has great potential in agriculture, but that doesn't mean that all food has to be grown locally. Japan imports much of its food, and its economic development is just fine.

We all know that the world has experienced significant food inflation over the past two years. Sri Lanka can help protect domestic markets from high prices by encouraging imports and offering as many choices to consumers as possible, as well as encouraging domestic production. Today, the average Sri Lankan consumer and local farmer are deprived of a range of nutritious food and better yielding plants that countries such as the United States has been using for decades, due to excessive and unscientific regulations on food imports.

Although there is no acute hunger in Sri Lanka, malnourishment is widely prevalent. According to recent reports, around 29% of children are malnourished. This is mainly due to lack of access to nutritious food at affordable prices. The application of biotechnology in a safe and sustainable manner will significantly improve the domestic agriculture sector and help improve nutrition levels of the people.

Food Security is recognized as a key issue in Sri Lanka and is being tackled at the highest levels of government. The question is whether to tackle this issue by closing off markets or by openness to trade. The people of Sri Lanka, especially the urban poor, pay the price for excessive tariffs on agricultural imports. For example, while Sri Lanka's tariffs on most agricultural imports are bound at 50%, applied rates often reach and exceed 100%. Sri Lanka needs to carefully evaluate its agriculture tariff policy to encourage local producers to be 'lean and mean' to compete with imports and to export overseas. Sri Lanka should not deprive consumers of high quality products at affordable prices. More harm than good is done by overly protecting local industries: such protections can make companies inefficient and sluggish, resulting in substandard products.

As you can see, there is a lot of work left to do for Sri Lanka to maximize its potential. I know that these changes will be difficult and will take time. I am also humble enough to know that all countries, including the United States, have things to work on. We need to remember, though, that Sri Lanka has an historic opportunity to transform itself and improve the lives of its people. We need to seize the day.

Of course, the next question is: that sounds great, but what is the United States Government doing to help Sri Lanka? We are helping Sri Lanka in many ways,

but perhaps the best example is the recent Trade and Investment Framework Agreement (TIFA) talks.

Just a few weeks ago over forty U.S. companies – representing many aspects of American business – joined me at a Private/Public Partnership Conference. This conference focused on how the business community can help foster national reconciliation through economic development and job creation. I was impressed with the number and caliber of companies that came such a long way to participate, and I was struck that the window is wide open to reinvigorate the U.S.-Sri Lankan trade and investment partnership. And I was also pleased to see AmCham's involvement in this important conference.

The business relationships that were developed during the conference will help expand future trade and investment between our two countries. I'm confident that we'll see an increase in the tourism, apparel, agricultural, and government procurement sectors in the coming years, and I believe the United States and the AmCham have positive roles to play in Sri Lanka's economic revitalization and national reconciliation.

During those meeting we heard a great deal from the Sri Lankan government about how this country should be the Next Business Stop for investors on the trade and investment circuit. We will continue to work with the Sri Lankan government to bring this promise to fruition.

Finally, I want to challenge the AmCham to become an agent of change on these issues. This is a strong group of companies, both American and non-American, and you stand for business excellence and doing things the right way. I know that you have allies in the Government of Sri Lanka and in the other business associations who want to move to make business more transparent, to reduce excessive taxes and import limits, and to continue the trade liberalization. After all, Sri Lanka was a leader in trade liberalization when it opened its economy in 1977, and that opening still fuels growth and opportunity to this day.

The way to fully maximize Sri Lanka's economic potential is not to look inward but to meet and exceed global competitors. AmCham can advance these goals through quiet advocacy or public statements, whichever you think is best, but we need to work together to advance these goals.

What we want, and what AmCham wants, is to be able to tell our investors and our traders in the United States that Sri Lanka is a good place to do business – and we

must be able to say so with confidence. Things are looking better now economically than they have in a long time. With the war over and the global economic recession slowly subsiding, now is the time to ensure everything is in the right place to ensure the country can take maximum advantage of this opportunity. Let's work together to continue the momentum from the conflict's end and TIFA, to get the government of Sri Lanka to recommit to these remaining issues to ensure the country's future growth across the entire country – in the North, East, South, and West.

Thank you very much for your attention, and for inviting me to address you all today. I'd be happy to take your questions.