Sri Lanka: Best Destinations to Visit in 2022

Sri Lanka’s vaccination drive achievement remarkable
Why Invest in Sri Lanka?

Sri Lanka has always enjoyed the benefit of its strategic location, being at the crossroads of major global shipping lanes and today’s fastest growing economies. The investment rationale for companies setting up in Sri Lanka today is very similar to how many global corporations leveraged Hong Kong and Singapore as more nimble, business friendly launch pads to access China during its hyper growth phase in the 90s and 2000s. That same rationale holds true for Sri Lanka as a gateway to India, and more specifically to South India, which is the world’s fastest growing economic bloc at scale (population of 300mn; clocking annual GDP growth of 8%). This theme is already in play, evidenced by the fact that Sri Lanka currently handles nearly 50% of India’s international cargo volume. Put very simply, Sri Lanka is at the epicenter of a substantial portion of the next 20 years’ of global economic growth.

Annual passenger capacity to be expanded to 20 million passengers by 2025 at the Katunayake Airport

Best-in-region Infrastructure

While the opportunities in itself are well documented, Sri Lanka has put in place high-quality infrastructure to facilitate investment in the areas of specific investor interest. Connectivity continues to ramp up via a well thought out rapid expansion of highway networks, while state-of-the-art deep water ports of Colombo and Hambantota (ability to cater to ‘Triple E Class’ larger ships) continue to ramp up capacity for sea cargo.

Moreover, specific investment zones, in the form of a mega industrial zone linked to the Hambantota port, the Colombo International Financial City (660 acres of reclaimed land, adjacent to the Colombo port), and specific new industrial parks targeting agricultural, manufacturing and IT exports represent the necessary backbone infrastructure for high-return generating investment projects. On soft infrastructure, Sri Lanka continues to build out a quality talent pool and a skilled workforce. Sri Lanka is ranked #1 in South Asia in the ‘Human Capital – Skills’ criteria in the Global Competitiveness Index, 2019. There are 100,000+ Technical Vocational Education Commission trained students per year, and 30,000+ graduates being produced annually.

Investment Promotion Department - BOI
Foreign companies with operations in Sri Lanka

1,200+

Graduates being produced annually

30K+

International Investors are also encouraged by the near unprecedented political stability that Sri Lanka enjoys today, which paves the path to an environment of policy consistency over the medium to long term. The IR Act No. 10 of 2018 provides meaningful tax concessions and incentives to foreign investors across sectors and investment sizes, while also emphasizing a commitment to simplify regulations and improve investor protections.

Consistent Government Policies

Sri Lanka continues to develop more FTAs with large global economic blocs to provide investors with large market access – notably, Sri Lanka is the ONLY country in the world to have FTAs with both India and Pakistan.

Sri Lanka has signed free trade agreements (FTAs) with India, Pakistan, and Singapore

SL is committed to open trade, which provides global investors with large market access through their operations in the country. There has been significant momentum on this front, with the FTA with Singapore in 2018 opening up the broader ASEAN market of 650mn. SL also has in place the EU GSP (450mn market), and notably is the only country to have FTAs with both India and Pakistan (duty free access to 1.6bn consumers). The unique and combined market opportunity available for businesses via these trade agreements are unmatched anywhere in South Asia.

These positive signals have yielded solid results, with Sri Lanka securing a near $2bn FDI pipeline in 2020, despite an overall weak global FDI landscape due to COVID-19. The 2020 pipeline and early progress in 2021 FDI commitments suggest strength and investor interest from across the globe (India, China, East Asia and the Western world) and span multiple investment sectors (Real Estate and Construction, IT/Knowledge Services, Agri exports, etc.).

Notably, Sri Lanka’s quality talent pool hits the sweet spot of talent at a significant cost arbitrage, both in the IT and Knowledge industries and the manufacturing space. This is evidenced by Sri Lanka being acknowledged for cost competitive salaries for IT workers globally, while monthly manufacturing sector labor cost per worker of $130 (in 2019) is the 2nd lowest in Asia (only behind Bangladesh at $104).

Free Trade Agreements

India

4,232

1,380 Mn

Pakistan

4,686

220 Mn

Singapore

All Items

650 Mn

US GSP

3,500

330 Mn

EU GSP+

6,400

450 Mn

1Includes ASEAN region

2Ongoing discussions for extensions

Sri Lanka is an investor friendly environment with strong democratic institution and stable social environment

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Investment Promotion Department - BOI
**Incentives and Concessions**

### Corporate Income Tax (CIT)
- **Tax Exemptions for Select Sectors**
  - Agro Farming
  - IT
  - Services offered outside Sri Lanka
  - Vocational Education Programs
  - Export of Gold, Gems or Jewelry
  - Laboratory & Standard Certification Services
  - Sale of Recycled Construction Material – 10 years
  - Manufacturing and Supply of Boats/Ships – 7 Years
  - Renewable Energy of 100MW Solar/Wind – 7 Years
  - Construction and Installation Of Communication Towers – 7 Years
  - Bonded & offshore business warehouses

- **Enhanced Capital Allowance (ECA)**
  - For investments over US$ 3 Mn on depreciable assets permitting to deduct losses for a period of 10-25 years (25 years: > $1 Bn)

### Dividend Tax Exemptions
- A member who is a non-resident person
- A Company Engaged in Commercial Hub Activities

### Customs Duty Exemptions
- Exempted for Capital Goods
- Exempted for Raw Materials for export oriented companies

### VAT Exemptions
- Exempted/Deferred for Capital Goods
- Exempted for Raw Materials for export oriented companies

### PAL Exemptions
- Capital Goods - Investment over US$ 50 Mn
- Raw Materials for Export Oriented
- Pharmaceutical Machinery and Equipment

### CESS Exemptions
- Capital Goods - Investment over US$ 50 Mn
- Raw Materials for Export Oriented
- Tourism Projects
- Health Protection Equipment

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**Recent Marquee Investments**

- **Haohua Tire**
  - USD 300 Mn
- **Axiata Group**
  - USD 1,350 Mn
- **Shangri-La Group**
  - USD 725 Mn
- **Adani Group**
  - USD 650 Mn
- **HCL Technologies**
  - USD 10 Mn

**Priority Sectors**

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>ICT</th>
<th>Hospitality and Tourism</th>
<th>Agriculture and Food processing</th>
<th>Construction and Infrastructure</th>
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<tbody>
<tr>
<td>Pharmaceutical • High value add Apparel • Electronics and Electricals</td>
<td>• Knowledge Services • Software Development • IT training Institutes • Emerging Technology</td>
<td>• Agro/Eco Tourism • Adventure/Thrill tourism • Luxury Hotels • MICE tourism</td>
<td>• Rubber • Agri/processed food • Fisheries</td>
<td>• Supporting Infrastructure (Monorails/LRTs/SkyTrains) • Port/Airport development</td>
</tr>
</tbody>
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