

Expert panel diagnoses why SL misses FDI

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- Aditya Birla Group's \$ 50 b investment portfolio manager Sarath Sathkumara says recent analysis shows only five of top 25 companies consistently made returns above cost of capital
- Says private sector needs to be more attractive because tax incentives not a differentiator for FDI
- Deloitte Sri Lanka and Maldives Head of Financial Advisory Ruvini Fernando says Sri Lanka needs entire ecosystem, not just tax incentives, for FDI
- Ceylon Chamber of Commerce Chief Economic Policy Adviser Shiran Fernando flags lack of instructional, professional capacity to negotiate FTAs
- QZ&WD (Jiangxi) Partner Mengni Romanee Luo says China's evolving investment strategy could create opportunities for Sri Lanka, Chinese companies have high regard for Sri Lanka
- Amundsen Davis (USA) Partner Ngosong Fonkem says smaller economies with stable legal systems and competitive labour markets can create opportunities to become intermediate production hubs
- Event by Sudath Perera Associates brings together legal, economic and finance experts from India, China and US to discuss global trade risks and opportunities



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Sri Lanka's weak foreign direct

investment (FDI) performance reflects not only policy shortcomings but also the failure of parts of the private sector to generate competitive returns, according to Aditya Birla Sun Life AMC Ltd., Chief Investment Officer – International Sarath Sathkumara, who oversees a \$ 50 billion investment portfolio.

Speaking at a symposium titled “Trade in turbulent times: Geopolitical challenges and opportunities from Sri Lanka’s perspective,” organised in Colombo on Tuesday by law firm Sudath Perera Associates, Sathkumara said Sri Lanka’s corporate sector must accept part of the responsibility for the country’s limited success in attracting sustained international investment.

“After reviewing the top 25 companies, we found that only about five Sri Lankan firms were consistently generating returns above their cost of capital,” he said. “In fact, only those few companies were truly attractive from an investment standpoint. Many other companies have not delivered meaningful returns to shareholders for nearly two decades.”

Unless businesses generate returns above their cost of capital, international investors will deploy funds elsewhere, he said.

“One thing I often hear when people discuss Sri Lanka’s economic future is the need for tax breaks. But tax incentives are not a differentiator. Every country offers them. They do not make an economy competitive,” he said. “What really matters is responsibility, discipline, and performance. In that respect, Sri Lanka’s private sector must also accept part of the responsibility for where the country is today.”

Despite economic stabilisation efforts following the 2022 sovereign default, Sri Lanka continues to attract modest levels of foreign investment. Annual inflows remain just over \$ 1 billion, roughly 1% of GDP. This is significantly below the 3% to 4% of GDP commonly seen in competing emerging economies.

The combination of post-default credit ratings, structural policy weaknesses, and weak corporate returns has prevented Sri Lanka from converting its strategic location and skilled workforce into sustained capital inflows.

Drawing comparisons with India's 1991 balance-of-payments crisis, Sathkumara said structural reforms can eventually transform an economy but require sustained discipline from both policymakers and businesses.

He noted that smaller economies now face greater competition for investment because large markets such as India benefit from scale advantages in labour, energy, and technology. Sri Lanka should therefore focus on sectors where it has clear comparative advantages.

Tourism represents one such opportunity, particularly given the scale of India's outbound travel market.

"India has a population of 1.4 billion people. If even a small percentage travels abroad, the potential market is enormous. Sri Lanka should actively attract visitors from India's major cities," Sathkumara said.

Manufacturing partnerships linked to India's industrial hubs, particularly around Chennai, could also allow Sri Lankan companies to integrate into regional supply chains. Technology services represent another area of potential growth given Sri Lanka's skilled workforce and proximity to India's expanding IT sector.

However, Sathkumara said stronger connectivity will be essential if Sri Lanka is to capture these opportunities.

"One major weakness is the airline sector. What the country needs is a strong and financially healthy airline capable of connecting Sri Lanka with multiple cities across India," he said.

Deloitte Sri Lanka and Maldives Head of Financial Advisory Ruvini Fernando said Sri Lanka's modest FDI performance also reflects deeper structural constraints.

FDI inflows reached just over \$ 1 billion in 2025. While that represents an improvement compared with earlier years, it remains modest relative to competing economies.

“In many emerging markets, FDI amounts to around 3% to 4% of GDP. In Sri Lanka, the figure remains closer to 1%,” she said.

For a small economy, she noted, investment aimed primarily at serving the domestic market is unlikely to generate sustained growth. “Investors must come to Sri Lanka not simply to sell into the local market but to produce and export.”

While Sri Lanka has introduced incentives across sectors such as agriculture, manufacturing, and services, Fernando said incentives alone rarely determine investment decisions. “Tax incentives by themselves are not enough. A whole ecosystem must function effectively.”

Among the factors most frequently cited by investors are the availability of skilled labour, access to industrial land, efficient logistics, and streamlined trade procedures.

Export-oriented industries also depend heavily on imported inputs, making trade policy and free trade agreements (FTAs) central to investment decisions.

“FTAs allow firms not only to sell to export markets but also to import raw materials and intermediate goods at competitive costs,” Fernando said.

The Ceylon Chamber of Commerce Chief Economic Policy Adviser Shiran Fernando said Sri Lanka must also strengthen its trade policy framework if it is to respond effectively to a changing global environment.

After emerging from the economic crisis, the country has faced additional external shocks, including tariff changes and geopolitical tensions affecting global trade. “These shocks highlight how exposed smaller economies are to global disruptions,” he said.

Sri Lanka’s export base remains concentrated in a limited number of markets, leaving exporters vulnerable when policy changes occur in major economies. Diversifying export markets and strengthening trade partnerships will therefore be critical.

Although Sri Lanka entered trade agreements earlier than some Southeast Asian economies, countries such as Thailand and Vietnam expanded their networks significantly over the past two decades while Sri Lanka’s progress slowed.

Fernando also emphasised the need to build stronger institutional capacity to negotiate

and manage trade agreements.

“Successful trade negotiations are conducted by specialised teams supported by technical expertise and research,” he said. “In Sri Lanka, trade agreements have often been handled in a less structured way.”

Global trade tensions are also reshaping supply chains, creating potential opportunities for smaller economies.

Amundsen Davis LLC Partner Ngosong Fonkem said tariffs and geopolitical disputes between major economies have forced multinational firms to restructure production networks.

Companies are increasingly relocating parts of their manufacturing operations to alternative countries in order to reduce exposure to trade restrictions.

“For smaller economies with stable legal systems and competitive labour markets, these shifts can create opportunities to become intermediate production hubs,” he said.

QZ&WD (Jiangxi) Law Firm Partner Mengni Romanee Luo said China’s evolving investment strategy could also create opportunities for Sri Lanka.

China’s outbound investment reached approximately \$ 174 billion in 2025, reflecting continued engagement with global markets despite geopolitical uncertainty.

China is diversifying trade partnerships, expanding regional agreements, and further opening its manufacturing sector to foreign investment.

Although Sri Lanka is not part of the Regional Comprehensive Economic Partnership, Luo said regional supply chains linked to Chinese companies could still generate opportunities through partnerships with Sri Lankan firms. “Companies I’ve spoken to in China say they would love to do business with Sri Lanka,” she said, stressing the country’s reputation for professionalism and trustworthiness was favourable with corporate China.

Sri Lanka’s strategic location along major maritime trade routes also positions the country as a potential hub for logistics, manufacturing, and services connected to regional trade flows.

Opening the event, Sudath Perera Associates Founding Partner Sudath Perera said the discussion was taking place at a time when the global economy is undergoing rapid change.

“We are meeting at a time of considerable turbulence in the global economy,” he said. “The international landscape is shifting quickly, rules are evolving and risks are increasingly interconnected. Decisions taken in Colombo today are influenced more than ever by developments across global markets.”

However, he said such periods of uncertainty can also create opportunities.

“This evening is not only about uncertainty. It is also about perspective and possibility,” Perera said.

Countries and businesses that are credible, adaptable, and forward-looking can benefit from global shifts in trade and investment patterns, he added.

For Sri Lanka to do so, he said, the country must present itself as a reliable and competitive destination for international business through consistent policies, strong institutions, and deeper engagement with global markets.

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