

SRI LANKA & THE WORLD TODAY

THE TAO OF LIFE

MEDIA SERVICES PHOTOFILE (THUSITH WIJEDORU)

Legendary tycoon **S. P. Tao**, Chairman of the Shing Kwan Group, shares his vision for business, life and developing Sri Lanka – in an *exclusive interview* with **Rochelle Jansen**.



Q: You are one of the biggest foreign investors in Sri Lanka. Your landmark projects here, the World Trade Center and Havelock City, are considerable investments in a country ravaged by two decades of war. Despite this volatile environment, you keep returning to invest in Sri Lanka. What attracts you to do business in a climate of which many foreign investors are wary at present?

A: When Singapore encouraged businesses to expand into and explore the region, I chose to invest in Sri Lanka. I have now been dealing with this country for over five decades. I have visited many countries, but found that Sri Lanka possesses two very important ingredients: the rule of law applies here and there is the freedom to express oneself. This is the greatest sovereign value of Sri Lanka.

People thought I was crazy to put up these two building projects. I told my daughter that this is for her children's generation. I said that no matter what changes, the rule of law and freedom of expression will endure. Moreover, even if we encounter and face an adverse environment now, things will improve in the future.

Q: How would you assess Sri Lanka's country-risk profile?

A: I don't think that there is any risk. *But there is no return.* If you make an investment here, you receive poor returns at present.

Q: What would you perceive to be the strengths, weaknesses, opportunities and threats vis-à-vis the business climate in Sri Lanka?

A: All these factors revolve around one issue and I can sum it up in one word: *peace!* We must have peace of mind to do the job at hand. At the moment, we don't know if the conflict will aggravate or not. Peace of mind is an indispensable forerunner to planning or implementing anything.

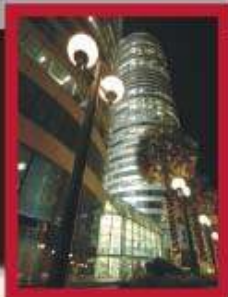
Q: How would you compare investing in Sri Lanka now as opposed to, say, 50 years ago?

A: As a businessman, I feel very disappointed because there has been little improvement. Take, for instance, the stretch of road and its surrounds from the airport to the Colombo Fort.

The first time I visited Sri Lanka was in the 1950s and there hasn't been much improvement since then. One still sees small shops and dilapidated buildings when one travels to the commercial capital from the airport. At the very least, there could have been some structural improvements. For instance, buildings could have been erected with shops on the ground floor and living space on the floors above. It is so primitive that

COVER SUPPLEMENT





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RULE OF LAW

“I have visited many countries, but found that Sri Lanka possesses two very important ingredients: the rule of law applies here and there is the freedom to express oneself. This is the greatest sovereign value of Sri Lanka...”

the impression one gets is depressing.

I often say that I am more Sri Lankan than the Sri Lankans themselves. Because I invest so much money here, *my mind and heart are always here*. Not for one moment do I think that I have done the wrong thing in investing here. Even in my old age, I still come over here.

Q: How about the bureaucracy and red tape in Sri Lanka? Has this been a constraint to you as an investor?

A: Bureaucracy in Sri Lanka is the heritage of its British colonialists. They left a legacy – some aspects were good, some bad. Singapore adopted all the good features; but unfortunately, Sri Lanka took most of the bad ones. There is no efficiency here.

In Singapore, if you are not efficient, you are nothing. I always feel that the British left you some things that you have had to work very hard to overcome.

Q: Do you see Sri Lanka's Board Of Investment (BOI) as an efficient gateway for investment in this country?

A: As a foreign investor, I have had no complaints regarding the BOI. They did a really good job. They understood investors. All their terms have been attractive. But the downside is that they are active only within the country. *They did little to promote investing in Sri Lanka outside the country.*

Q: India and China are fast-emerging economic powerhouses in Asia. How can we capitalise on having such successful neighbours?

A: Yes, the two most popular emerging markets in Asia are India and China. In just a few years, China has managed to build up reserves amounting to some US\$ 1 trillion. But I feel very sad and even anxious – what benefits has Sri Lanka cashed in on because of this boom? It's like closing your doors when your neighbours are prospering.

You are losing many opportunities. People say: “Oh, it will be all right in three months time.” But that's not good enough. You have to begin *today* – that's very most important. *Anything you say or do tomorrow does not exist today.*

Furthermore, India and China have very good relationships with Sri Lanka. Those in the upper echelons of these two giants may meet for discussions and so on. But you will see that the people at the middle and lower levels do not mix so easily. Sri Lanka is the best meeting place for those people – be they industrialists, traders or financiers.

Moreover, China is now compelling its industries to move inland from the coast to the

interior, because of rising costs. And Sri Lanka is the ideal place for China to move its industries to. You could have a few hundred industries here within a short period.

No matter what the politicians say, if people do not have employment, they will not feel happy. Everybody wants to work. I don't think Sri Lankan people are lazy. They've got no opportunities.

The way I see it, it is very important at the moment that Sri Lanka considers Singapore as a model. Concentrate on being labour-intensive. Get people to work. Then, develop your Information Technology (IT). This could provide a further impetus for China to bring its businesses here. India could also bring in IT teams to help you.

Sri Lanka is advantageously positioned. And as Hong Kong is to China and Singapore is to South-East Asia, Sri Lanka is the best place for South Asia. For instance, Bangladesh, India and Pakistan need an escape hatch for the steam they've been building up and Sri Lanka is an ideal place for them to invest in.

Work is the key issue here. If the manufacturing and services industries are developed, investors will flock here. Once these investors come in, they will expect the workforce to be provided locally – they won't come in with their own workers.

Q: What further lessons can Sri Lanka learn from Singapore's experience?

A: Introduce manufacturing industries. Provide employment. Ensure that people are trained and skilled at their professions. And at the same time, bring up the younger generation to be well versed in technology.

Once young people are sufficiently educated, bring in IT which will attract the financial institutions. Look at the way Singapore relaxed its banking sector and attracted the world's banking community to set up branches there. You, too, could expand your services industry just as Singapore did in the '70s.

Most importantly, if the country provides investors with peace of mind, more of them will come in to the country. Another stumbling block to Sri Lanka's progress has been adverse publicity. The country has not done a good job with its public relations.

Q: Bribery and corruption are rampant in Sri Lanka. How serious an impediment will this be to becoming a model nation?

A: The way I see it, I think this country has less corruption when compared with the rest of the world. I have been to many countries, but this is a true pearl of the Indian Ocean.

Q: What other challenges or obstacles have you encountered in doing business



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STEPPING BACK

“In just a few years, China has managed to build up reserves amounting to some US\$ 1 trillion. But I feel very sad and even anxious – what benefits has Sri Lanka cashed in on because of this boom? It's like closing your doors when your neighbours are prospering...”

in Sri Lanka?

A: I always take up challenges – even in my old age. I have always wanted to do things no one else has done before or ventured into. But I haven't encountered any particular challenges in Sri Lanka – primarily because not many investors come to Sri Lanka to do the things I do, such as the mixed-use building complex which is Havelock City.

Q: Your company is the developer/co-owner of Havelock City, a mixed-use development comprising eight apartment towers, a luxury hotel and a shopping mall. This is the first development of its kind in Sri Lanka. How significant is this project in regional terms?

A: I think the Havelock City project will be more successful than the landmark towers in Beijing. We wanted to build something very important – not only in this country, but also in the region. This will be significant for an entire community, not just for an individual. And it will eventually form the backbone of the company's asset base.

Q: Looking outwards... what would you say are Sri Lanka's opportunities and strengths for expansion into the region? What particular strengths could we leverage on?

A: Construction is the best sector to tap at the moment.

Q: How important is infrastructure to national development? In this respect, how significant is the construction industry?

A: Infrastructure development is the *blood vessel* of an economy. It is a *sine qua non* for a good economy. Look at China. GDP there is growing at 10 per cent. Half of it has gone into infrastructure development. If it wasn't for such infrastructure, they wouldn't enjoy all the facilities they currently have. How else could they accumulate so much foreign exchange?

People point to India's rapid emergence. This may be so vis-à-vis intellectual property, but in the sphere of infrastructure development, India is too democratic and every state is democratically elected. Therefore, it is very hard to connect one state to another. On the other hand, China's progress is wonderful. Even I am amazed at it and cannot believe the progress made – and I was born and brought up in China. The way China spends on infrastructure development is unbelievable. The significance of infrastructure for a country's economic growth cannot be overemphasised.

Q: You have considerable experience in property development and management,

to say nothing of 70 years experience as a businessman. What would you say is the future of the construction industry, globally?

A: The property market is the biggest business enterprise in any leading city in the world. The field of technology is constantly changing, with new hi-tech innovations. Even the manufacturing sector undergoes much change and is very competitive. But property is here to stay. As for *property development*, investors go only to upcoming or growing places, such as India and China – *and may be Sri Lanka*.

This market will continue to grow in Sri Lanka. There is a younger generation that has come of age. There is a need for housing, etc. Hence, the construction industry is essential in this environment. It is also very competitive, due to increasing expectations of quality and technology.

Q: What more must Sri Lanka do to bolster national development? What areas need to be specifically improved upon or further invested in?

A: *You have to mobilise people.* Give them employment and work, and a chance to *find work*. There is no other way. The government cannot direct people to work. Instead, they have to encourage it. Look at Singapore: we trained everyone – even drivers – to speak Chinese. You have to train people and create the demand.

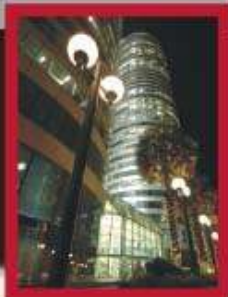
Q: We have been developing as a nation for over 50 years now. How best can we fast-track this process to successfully carve out a niche for 'Brand Sri Lanka' and become a model nation?

A: I think you are already in a good position. Now, what is paramount is to attract people to come in and invest. Because you are an island state, you cannot live by yourself. And again, we come back to that all-important issue of peace. *Peace is a primary requirement for development.*

How big is Singapore? How big is Sri Lanka? Singapore does not have any of the resources Sri Lanka has. But Singapore is today at the world's centre stage – not just South-East Asia. And it has only about 3.5 million people. *But its policies are right!*

Q: Although much of your life as a businessman has been spent in Singapore, you were born and brought up in China. So, do you have a vision for the land of your birth?

A: I was born in China and grew up there. That country is now an unsinkable vessel. It produces 24 million university students and six million graduates each year. They are hun-



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POLICY DIRECTION

“How big is Singapore? How big is Sri Lanka? Singapore does not have any of the resources Sri Lanka has. But Singapore is today at the world’s centre stage – not just South-East Asia. And it has only about 3.5 million people. *But its policies are right...!*”

gry, all in their 20s, willing to learn, want to work very hard and can endure very low pay levels. Nowhere else in the world will you get this combination! Five years from now, there will be 32 million young people in the workforce. *I am very optimistic about China.*

Q: What would you say is the future of SAARC and ASEAN?

A: It is very difficult for them now, because China and India have become so powerful. The countries in these groupings are not economically independent. *So, they have to be interdependent – even though they are all politically independent, they have to be economically integrated.*

Q: What is your vision for Sri Lanka?

A: We come back to the issue of peace. If there was peace, the country would become very attractive for investment and experience a solid build-up in 10 to 20 years.

Q: What role can business play in alleviating poverty and addressing critical national issues such as peace and unemployment? If business does not have a role here, how best can the issues of unemployment, poverty alleviation, etc., be addressed – locally and globally?

A: China’s success has proved beyond doubt that developing countries need to build up their economies before they can improve society or social life. If the economy develops and there is social improvement, *then* you can induce political change. Previously, people referred to China as a communist country; but now, China is more liberal than a democratic country.

Q: So, what next – what is your vision for your group?

A: I am advanced in years and it is now time for my family to take the business forward. The saying is that the patriarch’s business goes with him.

If I had controlled my business, it would go with me. The only way I can protect my family’s interests is to encourage and ensure good corporate governance. That is why we are trying very hard in this company to have an independent professional management, and very competent and respectable board members.

Investors and shareholders should not look upon the management as employers would look at employees. They are your working partners. They are there to work and make money for you. They should have a share of it. That’s what we are doing. And we hope that this company will stand up like that in a couple of years.

Q: How about you? What has been your mission in life? Have you achieved it?

A: My mission is very simple. As I have told my family and friends, I have got a new resolution now: if anything makes me worry, I don’t do it. If people make me unhappy, I don’t meet them. I am a simple man.

This is the first face-to-face interview I’ve done with anyone, because I am a very private person. I want to live happily, because life is very short.

Q: But after 70 years in business, it is admirable that you are still very much hands-on... why?

A: Well, working makes me happy. I can still use my mind. But I certainly won’t take any responsibility, as I will not be accountable due to my age. However, I will share all my knowledge and experience with those who run the business.

Q: What has been your inspiration?

A: My philosophy. I had a Confucian upbringing and a Catholic education, and this has enabled me to work with anyone.

Q: What would you say is the secret of your success?

A: It’s very simple. Firstly, I never quarrel with my partner. There is no use fighting. Fighting only hurts both parties. Secondly, I never blame my staff when they make a mistake. I tell them that if they make a mistake, they owe me a correction. *That works.*

Q: What is your greatest achievement?

A: Having a very close family and good friends.

Q: What has been your most memorable moment?

A: The arrival of my first grandson bearing my name (Tao), shortly after my 80th birthday. I have 10 grandchildren from my daughters, but this was the first Tao. Because of him, it gives me pleasure to work.

Q: The Shing Kwan Group – which you founded and of which you are the chairman – today consists of professionals who have, over the years, acquired considerable experience in property development and management across various countries and cultures. And yet, despite this strong team and despite being 90 years old, you are still the livewire of your business. What drives you – in life and business?

A: Happiness! You have to be happy to live longer. *This world is too interesting to say goodbye...*



CONSTRUCTION INDUSTRY PROFILES

TALE OF TWO CITIES

The twin towers of the World Trade Center in Colombo were constructed in 1995 and they signalled to the world that the island-nation's commercial capital had acquired a stamp of global respectability. The landmark erection on the city's skyline was, at one time, a symbol of the progress that the country had made. Long before that, Singapore's visionary leader Lee Kuan Yew – impressed by the then newly-independent Ceylon – wished his own city-state to be modelled along similar lines. Today, decades later, it's only too evident which country has forged ahead.

A comparison between Singapore's and Sri Lanka's respective construction industries mirrors that reality. Both countries embarked on economic reforms around the same time, about four decades ago; but Sri Lanka's construction industry remains plagued by low productivity, inefficient work processes and practices, and a lack of cooperation compounded by excessive bureaucracy.

In the case of Singapore, its government has been constantly examining and analysing methods by which to improve its construction industry. It launched the Construction and Rehabilitation (CORENET) initiative in 1995, to apply IT in restructuring, and streamlining its construction industry into a productive and efficient economic sector. Riding on broadband infrastructure, the Singaporean government approved a system for construction companies to migrate from two-dimensional (2D) traditional design to the digital building-information model-based approach.

Singapore's construction industry carries an added burden, as it relies heavily on foreign workers – which is not necessarily the case in Sri Lanka, unless private projects are established as joint ventures with international construction companies. Thus, Singapore's economic programme is based on systematically upgrading the level of technology in all sectors and adopting high-value-added activities while phasing out labour-intensive ones.

Singapore's construction industry played a key role in the city's socio-economic development, giving rise to infrastructure and facilities which mark the nation's march ahead of its regional competitors. Its construction industry has been able to absorb progressive concepts and technologies from all over the

world, extending the use of procurement practices such as project management and design-and-build.

The construction industry boomed in the late 1970s and labour shortages increased with other avenues such as education opening up. Therefore, labour costs skyrocketed. Lee, in 1982, made a speech announcing the government's intention of phasing out low-skilled foreign workers by 1991; but this was not to happen as the country's shipbuilding, construction and domestic arenas were all supplied by migrant workers.

Farther west, in Sri Lanka, ancient texts reveal the extent of the sophisticated knowledge that engineers possessed centuries ago. The remains of water tanks and complex irrigation systems stand as silent testimonials to their skills. But somewhere between its

glorious past and the present, Sri Lanka seems to have lost its way. An estimated one million-plus native workforce is an advantage, considering that Sri Lanka does not have to rely on foreign labour. But the lack of employment opportunities – especially, long-term projects – has caused a mass exodus of skilled labour to the Middle East, in search of greener pastures. And occasionally, foreign contractors are snapping up local projects, further aggravating the situation. Besides, the power crisis continues to push construction costs up.

President Mahinda Rajapaksa recently announced tax concessions to ease the burden on the building and construction sector – for example, increasing the depreciation allowance from 12.5 per cent to 25 per cent. The existing withholding tax on construction

MEDIA SERVICES PHOTOFILE (THUSHI WUEGORU)



Yamini Sequeira compares and contrasts the construction industries in Colombo and Singapore.

fees was reduced from five to one per cent recently. Moreover, the industry no longer needs to get import licences on used construction equipment. Profits earned from construction contractors overseas are exempt from income tax and cement imported for government projects is exempt from duty. Concessions such as these will go a long way in boosting the construction industry.

Yet, Sri Lanka does not have the required quantities of stones and sand needed for mass-scale construction activity. While its sand-mining policies speak volumes for its environmental consciousness, those in the construction industry are frustrated because no alternative sources are offered by the government and the individual home-builder is confronted with a hefty bill at the end of building that dream home...

The construction industry in Sri Lanka has been growing at a modest six to seven per cent and most of this growth stems from private construction. Large-scale infrastructure projects, for example, which should be commissioned by the government are still in abeyance. The government, for its part, claims that it is taking steps to encourage design, build and transfer projects such as townships and flyovers – but then, seeing is believing!

The government now plans to set up a guarantee fund for the construction industry to produce skilled craftsmen. Unfortunately, the economic reforms of the late 1970s consisted of promoting exports alone. Although this policy was successful, a simultaneous thrust on enhancing infrastructure would have given the economy a dual boost.

Between 1977 and 1980, the construction industry expanded at 20 per cent because of the largest construction project to date – the Accelerated Mahaweli Development Project – but it stagnated in the 1980s, as the number of new projects dwindled and previous ones were completed.

Post-tsunami, there has been an upsurge in construction activity and it was anticipated that large public-sector infrastructure development would give the industry a much-needed boost; but most related initiatives remained mired in controversy – to say nothing of red tape. The lack of availability of land and other bureaucratic snags shattered the idyllic image of a remodelled island that was envisioned in early 2005, soon after the worst natural disaster to wash over Sri Lanka's shores.

S. P. TAO

PROFILE OF A PROPERTY DEVELOPER

The Shing Kwan Group was founded by S. P. Tao, an entrepreneur from Nanjing, in China. Born on 25 December 1916, he received a Confucian upbringing and a Jesuit education. He graduated with a bachelor's degree in economics from the University of d'Aurora, in Shanghai. Although his early working life and energies were dedicated to commodity trading and shipping, he switched his focus to property development in the 1970s.

Tao's first foray into property development dates back to 1944, when he bought a piece of land in the busiest commercial street in the Kunming, in China. His brother-in-law – the architect Liu Guang Hua – designed a four-storey building and, in no time, entered into a long-term lease with the United States Information Services, recovering all of his investment and more.

In 1973, Tao developed Shing Kwan House in Singapore, which was the precursor of much commercial development on Shenton Way. He also developed the Marina Centre Complex in downtown Singapore and co-founded PT Jakarta Land – the developer of the World Trade Center, in Jakarta, Indonesia – and served on its board from 1980 to 2005. Between 1972 and 1996, Tao was the Chairman of Singapore Land, spearheading its growth into the largest property company to be listed on the Singapore Stock Exchange.

In Sri Lanka, Tao developed the World Trade Center, in Colombo and is now into his second project: to develop the 19-acre former Wellawatte Spinning Mills site into Havelock City – a mixed development comprising 1,080 apartments, a retail block, a hotel and a serviced-apartment block. The first phase of the project, due to be completed by 2008, will cost US\$ 25 million.