



Briefing Note

Sri Lanka's Trade Agreements

SRI LANKA is a member of two bilateral trade agreements (with India and Pakistan) and three regional trade agreements: South Asian Free Trade Agreement (SAFTA), Asia Pacific Trade Agreement (APTA) and Global System of Tariff Preferences (GSTP). Sri Lanka's current trade agreements only cover trade in goods.

The country is in the process of negotiating a Free Trade Agreement (FTA) with China and a services agreement with the countries of the South Asian Association for Regional Cooperation (SAARC).

Sri Lanka proposes to enter into comprehensive economic partnership agreements with India and Pakistan, expanding the scope of the current agreements to include services and investment. In addition, in the Budget Speech of 2016, the government set out plans to explore the possibility of entering into FTAs with countries such as the United States (U.S.), South Korea, Singapore, Australia, South Africa and Japan.



Image source: thedailynews.lk

Image source: <https://en.wikipedia.org/wiki/Colombo>



Trade Agreements in Effect

INDO-SRI LANKA FTA (ISFTA)



Image source: http://www.123rf.com/profile_vicspacewalker'>vicspacewalker / 123RF Stock Photo

This agreement between India and Sri Lanka came into effect in 2000. The agreement is important for Sri Lanka since it provides duty free access to the large Indian market of 1.2 billion people and US\$ 2049 billion GDP. India imports US\$ 391 billion worth of goods a year from the world, and imports have been growing at 13% a year during the last ten years. Moreover, the low cost and time taken to transport goods from Sri Lanka to India due to close geographical proximity and the excellent sea and air connectivity is an added advantage.

▪ Value of trade

The value of exports to India increased from US\$ 55 million to US\$ 643 million during 2000-2015. India is Sri Lanka's third largest export destination and accounted for 6% of the country's total exports in 2015. Out of the total exports to India, 68% benefitted from duty free access provided by the FTA in 2015 .

The value of imports from India increased from US\$ 54 million to US\$ 4268 million during 2000-2015. India is the largest source of imports into Sri Lanka and accounted for 22.5% of total imports in 2015. Compared to Sri Lanka, the level of utilisation of FTA concessions by India remains low. Only 6% of imports from India benefitted from duty free access provided by the FTA in 2015.¹



▪ Key products

Top 10 exports to India - 2015			Top 10 imports from India - 2015		
HS code	Product	% of exports	HS code	Product	% of imports
090411	Pepper	13	271019	Gas, diesel, kerosene	10
080280	Areca nuts	11	870321	Vehicles, engine capacity less than 1000 cc	8
890190	Other vessels for the transport of both persons and goods	8	871120	Motorcycles (50 cc to 250 cc)	5
230990	Animal feed	8	300490	Medicaments	4
090710	Cloves	3	252329	Portland cement	4
854430	Wiring Sets, for Vehicles,	3	252310	Cement clinkers	3
470790	Unsorted waste and scrap of paper	3	271012	Petrol	3
090240	Black tea	3	870421	Vehicles for transport of goods (GVW less than 5MT)	3
271019	Petroleum Oil preparations	2	100630	Semi or wholly milled rice	2
680221	Marble, travertine and alabaster,	2	170199	Other Cane or Beet Sugar	2
	Total	55		Total	46

Source: Sri Lanka Customs, Trade Statistics 2015

▪ Concessions available under the FTA

Trade Concessions under the FTA

Imports from India to Sri Lanka

Duty free access to all products other than the 1180 products (at HS06) in the negative list

Exports from Sri Lanka to India

Duty free or preferential access to all products other than the 196 products (at HS06) in the negative list

Margin of preference (MOP) of 25% from applied import duty for textiles

Tariff rate quotas (TRQ) – Sri Lanka can export products duty free to India, per year, up to the quota limit specified below for the following items :

- Apparel - 8 million pieces
- Tea - 15,000 MT
- Pepper – 250,000 MT
- Desiccated coconut – 500 MT
- Vanaspathi oil (refined palm oil), Margarine & Bakery shortenings – 250,000 MT

▪ Rules of Origin (ROO)

The wholly obtained products (defined in Annex I) are eligible for concessions under the FTA. Products that are not wholly obtained (defined in Annex I) require:

- Domestic Value Addition (DVA) in the exporting country to be a minimum 35% from the free on board (FOB)/export value of the product
- Change of tariff heading criteria at the HS4-digit level (i.e. the HS code [defined in Annex I] at 4 digits of imported raw materials and final product exported cannot be the same)

Bilateral cumulation – The DVA in the exporting country can go down to 25% provided that the raw materials obtained from the other contracting state accounts for at least 10% of the FOB value of the finished product.

▪ For more information

- Department of Commerce of Sri Lanka: www.doc.gov.lk
- Department of Commerce of India: http://commerce.nic.in/trade/international_ta.asp?id=2&trade=i



PAKISTAN- SRI LANKA FTA (PSFTA)



Image source: <https://www.pexels.com/search/vegetables/>

This agreement between Pakistan and Sri Lanka came into effect in 2006. Pakistan is the second largest economy in South Asia, with 180 million people and US\$ 243.6 billion GDP in 2015. Pakistan imports US\$ 46 billion of goods from the world and imports recorded an annual growth of 9% during the last ten years.

▪ Value of trade

In comparison to India, trade between Pakistan and Sri Lanka is low. The export value increased from US\$ 55

million to US\$ 73 million during 2006-2015. As a percentage of total exports, Pakistan accounted for 0.7% in 2015. Out of the current exports to Pakistan 80% benefitted from concessions under the FTA in 2015. The import value increased from US\$ 147 million to US\$ 297 million during 2006-2015. Pakistan accounted for 1.6% of total imports of Sri Lanka in 2015. Utilisation of FTA concessions by imports remains low - it was only 14% in 2015.²

▪ Key products

<i>Exports to Pakistan - 2015</i>			<i>Imports to Pakistan - 2015</i>		
HS code	Product	% of exports	HS code	Product	% of imports
090240	Black tea	16	252329	Portland cement	19
140490	Vegetable products	14	300490	Medicaments	9
090411	Pepper	11	520939	Woven Fabrics of Cotton	6
080111	Desiccated coconut	7	070190	Potatoes	5
441114	Fibre board (thickness exceeding 9mm)	6	730630	Tubes, Pipes, Hollow Profiles of iron/steel	5
080112	Coconut in the inner shell	6	520932	Twill Woven Fabrics of Cotton - Dyed	5
580790	Labels, Badges of Textile Materials	4	220710	Ethyl Alcohol	4
441112	Fiber board (thickness less than 5mm)	4	100630	Semi or wholly milled rice	4
401511	Surgical gloves	2	100590	Maize	3
540120	Sewing thread	2	520912	Twill Woven Fabrics of Cotton - unbleached	3
	Total	71		Total	63

Source: Sri Lanka Customs, Trade Statistics 2015



▪ **Concessions available under the FTA**

<i>Exports from Sri Lanka to Pakistan</i>	<i>Imports from Pakistan to Sri Lanka</i>
Duty free or preferential access to all products other than the 540 products (HS 06) in the negative list	Duty free or preferential access to all products other than the 697 products (HS 06) in the negative list
Margin of preference (MOP) from applied tariff - Ceramic products 20% - Betel leaves 80% - Selected cosmetic products (SL national brands) 50% - Selected apparel products 35% (up to quota limit)	No MOPs listed
Tariff Rate Quota (TRQ) – can export duty free or at preferential duty up to the quota limit - Tea 10,000 MT - Selected apparel products: total of three million pieces per annum with a ceiling of 200,000 pieces from each tariff line (HS 06)	TRQ – duty free up to quota limit - Long grain Pakistani Rice (Basmati): 6000 MT per year - Potatoes – 1000 MT per year (2/3rd during June-July, 1/3rd during Oct – Nov)

▪ **Rules of Origin (ROO)**

Wholly obtained products (defined in Annex I) are eligible for concessions under the FTA. Products that are not wholly obtained (defined in Annex I) require:

- DVA in the exporting country to be a minimum 35% from FOB/export value of the product
- Change of tariff heading criteria at the HS6-digit level (i.e. the HS code [defined in Annex I] at 6 digits of imported raw materials and final product exported cannot be the same)

Bilateral cumulation – The DVA in the exporting country can go down to 25% provided that the raw materials obtained from the other contracting state accounts for at least 10% of the FOB value of the finished product.

▪ **For more information**

- Department of Commerce Sri Lanka: <http://www.doc.gov.lk/web/index.php?lang=en>
- Ministry of Commerce, Pakistan: http://www.commerce.gov.pk/?page_id=215

SOUTH ASIAN FREE TRADE AREA (SAFTA)

SAFTA came into effect in 2006. The member countries of SAFTA are India, Pakistan, Bangladesh, Nepal, Bhutan, Maldives, Afghanistan and Sri Lanka. Since Sri Lanka has bilateral agreements with India and Pakistan, SAFTA is important mainly to access other markets - Bangladesh and Maldives in particular remain two important markets for Sri Lanka in South Asia.

▪ **Value of trade**

Sri Lanka’s total exports to SAFTA member countries in 2015 was US\$ 891 million. India accounted for 72% and Pakistan accounted for 8% of the total trade with SAARC, with most of the trade occurring under the two bilateral agreements with these countries, and not under SAFTA. Out of total trade with India only 3% was accounted for by SAFTA in 2015, while 1% of trade with Pakistan took place using SAFTA concessions.

In 2015, total imports from SAFTA member countries amounted to US\$ 4626 million. Out of this, 92% of imports came from India and 6% from Pakistan. The imports from India and Pakistan that occur under SAFTA concessions are negligible.

Bangladesh is an important market in South Asia, with a population of 157 million and GDP of USD 150 billion. It imports US\$ 41 billion worth of goods from the world and annual growth in imports has been 14% during the last ten years. Exports to Bangladesh increased from US\$ 19 million in 2006 to US\$ 93 million in 2015, while exports to Bangladesh as a percentage of total exports accounted for 0.9% in 2015. During 2014 and 2015, exports to Bangladesh exceeded exports to Pakistan for the first time. Imports from Bangladesh increased from US\$ 8million in 2006 to US\$ 38 million in 2015 and accounted for 0.2% of total imports. Although trade between the two countries has expanded, this trade occurs outside SAFTA. The utilisation of concessions by exporters as well as by importers remains negligent.



Maldives imports from Maldives increased from US\$ 17 million to US\$ 23 million during 2006-2015. Imports accounted for 0.1% of total imports of the country in 2015. Exports increased from US\$ 30 million to US\$ 77 million during the same period. Exports

accounted for 0.7% of total exports. The trade that occurs under SAFTA is negligent.

Trade between Sri Lanka and other three South Asian countries- Nepal, Bhutan and Afghanistan - is insignificant at present.

▪ Key products

<i>Top 10 exports to Bangladesh - 2015</i>			<i>Top 10 imports from Bangladesh - 2015</i>		
HS code	Product	% of exports	HS code	Product	% of imports
520939	Woven Fabrics of Cotton	15	300490	Medicaments	30
550490	Artificial Staple Fibre of Viscose Rayon	10	100630	Semi or wholly milled rice	29
600622	Knitted or crocheted fabrics of cotton	9	850710	Lead-acid Accumulators	6
392620	Apparel and Clothing Accessories of Plastics	8	070190	Potatoes	4
340290	Surface-active washing, cleaning preparations	6	520939	Woven Fabrics of Cotton	3
520932	Twil Woven Fabrics of Cotton	5	530720	Yarn of Jute - multiple	2
271019	Lubricants	4	721049	Flat-rolled Products Electrolytically Plated or Coated with Zinc	2
520942	Denim	4	284700	Hydrogen Peroxide	1
350790	Enzymes	3	530710	Yarn of Jute - single yarn	1
482110	Printed paper/paperboard	2	611090	Sweaters, Pullovers, Sweatshirts	1
	Total	67		Total	81

Source: Sri Lanka Customs, Trade Statistics 2015

<i>Top 10 exports to the Maldives - 2015</i>			<i>Top 10 imports from the Maldives - 2015</i>		
HS code	Product	% of exports	HS code	Product	% of imports
854449	Electric conductors	9	030559	Fish, salted but not dried or smoked	58
110100	Wheat Flour	8	030232	Yellowfin tunas	11
070999	Vegetables	6	271019	Gas oil/Diesel	7
271019	Other medium oils and preparations	5	848060	Moulds for Mineral Materials	5
210690	Food preparations	5	230120	Flours, Meals, Pellets of Fish	5
081090	Cocoa nuts	3	880330	parts of airplanes	3
190531	Sweet biscuits	2	030239	Bluefin	2
070959	Mushrooms and truffles	2	030119	Ornamental fish	1
090230	Black tea	2	030381	Dogfish and other sharks	1
853710	Bases for electric control/distribution	2	854449	Electric Conductors	1
	Total	43		Total	93

Source: Sri Lanka Customs, Trade Statistics 2015



▪ Concessions available under the FTA

	<i>Non-Least Developed States (NLDS) – India, Pakistan, Sri Lanka</i>	<i>Least Developed Countries (LDC) – Bangladesh, Nepal, Bhutan, Maldives</i>
Phase I	Reduce tariffs from existing levels to 20% in annual equal proportions during July 1, 2006 to July 1, 2008	Reduce existing tariff rates to 30% within 2 years after the agreement comes into force on Jan 1, 2006
Completed	If tariffs are already less than 20% by July 1, 2006, reduce the actual tariff by 10% per annum during the two years between July 1, 2006 and Jan 1, 2008.	If the rates are already below 30% by July 1, 2006, there will be an annual reduction of 5% for each of the two years up to July 1, 2008
Phase II	With the exception of Sri Lanka, reduce tariffs from 20% or below to 0- 5% within five years by Jan 1, 2013, Sri Lanka gets an additional year until July 1, 2014.	Reduce tariffs from 30% or below to 0- 5% in 8 years, by July 1, 2016.
NLDC Completed LDC Ongoing		

▪ Rules of Origin (ROO)

Wholly obtained products (defined in Annex I) are eligible for concessions under the FTA. To qualify for concessions, products that are not wholly obtained (defined in Annex I) need to have:

- DVA in the exporting country of a minimum of 40% for NLDS and 30% for LDCs
- Change of tariff heading criteria at HS4-digit level (i.e. the HS code [defined in Annex I] at 4 digits of imported raw materials and final product exported cannot be the same)

Cumulative ROO – the finished products using inputs from another participating country, satisfying the requirements above, will be considered as products originating from the country provided that:

- Aggregate content originating from the territory is at least 50% of FOB value
- DVA is at least 20% of FOB value
- Change in classification at the 4-digit level for products under general rules and change in classification at the 6-digit level for products under product specific rules.

Product specific ROO - 191 tariff lines are provided with more flexible ROO criteria to accommodate the interest of LDCs given their limited base for natural resources and undiversified industrial structures.

▪ For more information

- SAARC website: http://saarc-sec.org/areaofcooperation/detail.php?activity_id=5

ASIA PACIFIC TRADE AGREEMENT (APTA)

APTA, formerly called the Bangkok Agreement, was signed in 1975. The current members are Bangladesh,

China, India, Lao PDR, Republic of Korea and Sri Lanka, and Mongolia is likely to become a full member of APTA in the near future. The agreement is a preferential agreement and a positive list agreement. The agreement only provides a margin of reduction from the applied tariff rate. China became a member of APTA in 2001, which enhanced the importance of APTA to all member countries, including Sri Lanka.

▪ Value of trade

China and South Korea remain the key markets of interest to Sri Lanka under APTA. The agreement is insignificant in relation to trade with India and Bangladesh, with the level of utilisation of concessions remaining very low (less than 1%).

CHINA: Exports from Sri Lanka increased from US\$ 25 million to US\$308 million during 2006-2015. As a percentage of total exports, China accounted for 2.9% in 2015. Out of total exports to China, 29% benefited from duty concessions offered under APTA. Imports from China increased from US\$ 780 million to US\$ 3712 million during 2006-2015. China is the second largest source of imports to Sri Lanka after India and accounted for 19.6% of the country's total imports in 2015. Imports from China that benefitted from APTA concessions are negligible.

SOUTH KOREA: Exports from Sri Lanka increased from US\$ 25 million to US\$ 64 million during 2006-2015. South Korea accounts for 0.6% of Sri Lanka's total exports. Out of the total exports in 2015, 44% benefited from APTA concessions. Imports from South Korea increased from US\$ 186 million to US\$ 296 million during 2006-2015. Imports from South Korea have stagnated during the last five years. Imports accounted for 1.6% of the country's total imports in 2015. Imports that utilise APTA concessions are negligible.



▪ Key products

<i>Top 10 exports to China - 2015</i>			<i>Top 10 imports from China - 2015</i>		
HS code	Product	% of exports	HS code	Product	% of imports
890510	Dredgers	40	720711	Semi-finished iron/steel	4
090240	Black tea	10	310210	Urea	4
640610	Footwear parts	7	851712	Wireless telephones	3
530500	Coir	7	551219	Woven synthetic fabrics	3
621210	Brassieres	3	600690	Knitted/crocheted fabrics (other)	2
610990	T-shirts, singlets, and Other Vests	3	271019	Gas, diesel, kerosene	2
261590	Niobium, Tantalum, Vanadium Ores	3	160415	Mackerel	2
090230	Black tea	2	600622	Knitted/crocheted fabrics (dyed)	2
620342	Men's or Boys' Trousers	1	851762	Communication devices	2
380210	Activated Carbon	1	847130	Portable computers	1
	Total	76		Total	25

Source: Sri Lanka Customs, Trade Statistics 2015

<i>Top 10 exports to South Korea - 2015</i>			<i>Top 10 imports from South Korea - 2015</i>		
HS code	Product	% of exports	HS code	Product	% of imports
530500	Coir	13	551219	Woven synthetic fabrics	7
401519	Rubber Gloves	8	400219	Styrene butadiene rubber	5
621210	Brassieres	4	271019	Gas, diesel, kerosene	5
380210	Activated Carbon	3	600690	Knitted/crocheted fabrics (other)	5
610990	T-shirts, singlets and other vests	3	740811	Copper wire (refined)	3
151319	Copra oil (refined)	3	870332	Vehicles (cylinder capacity 1500cc-2500cc)	3
620453	Skirts (synthetic fibre)	3	721061	Iron & Steel (aluminium zinc plating)	2
620342	Men's and Boy's Trousers	3	520521	Cotton Yarn	2
610469	Women's and Girl's Trousers	2	480100	Newsprint, in rolls and sheets	2
151311	Copra oil (crude)	2	400220	Butadiene rubber (BR)	2
	Total	44		Total	34

▪ Duty concessions available under APTA

Each country gives a list of products for which it will reduce the tariff by a given percentage (margin of preference) for products from member countries. The

LDC members (e.g. Bangladesh) are given concessions on a higher number of products, and the margin of preference given is also higher compared to Non-LDCs like Sri Lanka.

Country	No of products (HS 06/08) covered by APTA	Country	No of products (HS 06/08) covered by APTA
Bangladesh	209	Sri Lanka	427 (general) Additional 72 for LDCs
China	1697 (general) Additional 161 for LDCs	South Korea	1367 (general) Additional 306 for LDCs
India	570 (general) Additional 48 for LDCs	Lao PDR	None

Source: Department of Commerce, Sri Lanka

▪ Rules of Origin (ROO)

The ROO criterion has a minimum local value content requirement of 45% of FOB price (35% of FOB for LDCs) (defined in Annex I).

Cumulative ROO – finished products using inputs from another participating country, satisfying the

requirements above, will be considered as products originating from the country provided that the aggregate content originating from the territory is at least 60% of FOB value.

▪ For more information

– UNESCAP website: <http://www.unescap.org/apta>



Trade Agreements under negotiation

CHINA – SRI LANKA FREE TRADE AGREEMENT



Image source: https://en.wikipedia.org/wiki/Spice_trade

Sri Lanka and China initiated a joint feasibility study to assess the benefits of an FTA between the two countries in August, 2013. The study was completed by March 2014. The heads of the two countries officially launched FTA negotiations in September 2014.³ As at the time of writing, the two countries have completed three rounds of negotiations.⁴ According to the joint feasibility study, the agreement is expected to cover both trade in goods and services.

▪ Benefits expected

The agreement is an important milestone for Sri Lanka due to the growing economic significance of China in the world and in Sri Lanka.

China is the second largest economy in the world, with a GDP of US\$ 10 trillion and accounts for 18% of the world population. It is the largest exporter in the world accounting for 12% of total world exports (US\$ 2342 billion), and the second largest importer in the world after the U.S. accounting for 10% of total world imports (US\$ 1959 billion) in 2014.

China is the second largest source of imports into Sri Lanka after India accounting for nearly 20% of the

country's total imports. China is a key source of foreign investments into Sri Lanka and is likely to surpass India to become the number one source of tourists into the country in the near future.

Help diversify export markets

Sri Lanka depends heavily on the U.S and the European Union (EU) for its export revenue, with over 50% of the country's total exports destined to these two markets. The economic slowdown in these two markets is adversely affecting Sri Lanka's export growth. The need to diversify export markets has been highlighted as an important measure to be taken to revive the export sector. In this context, the FTA with China is important. At present, exports from Sri Lanka to China are low and account for less than 2% of the country's total exports. As such, the FTA is expected to help increase exports to China.

China is a fast growing market for premium apparel brands

Apparel is Sri Lanka's largest export, accounting for over 40% of the country's total exports. Sri Lanka is positioning itself as a niche market producer of premi-



um global apparel brands. The demand in China for high end apparel is growing fast. Although, as an importer of apparel, China's share in the world market is very small, import growth has been impressive, During 2010-2014, imports have increased at an annual average growth of 24%. At present, countries that compete with Sri Lanka, such as Vietnam, Cambodia, and Myanmar, have duty free access to the Chinese market for many apparel products under the China – ASEAN FTA. Sri Lanka, therefore, is at a competitive disadvantage when exporting apparel to China. The FTA can help address this problem and ensure that Sri Lankan exporters face fair competition in the Chinese market.

China is a fast growing market for premium Ceylon tea²

Tea is Sri Lanka's second largest export, accounting for 15% of the country's total exports. China is the largest tea producer and consumer of green tea in the world. However, according to the Sri Lanka Tea Board as well as tea exporters, there is premium demand for Sri Lankan black tea in China. At present, East Asian countries have duty free access for tea exported to China. As such, the FTA is expected to extend duty free access to Sri Lanka, and create a level playing field in the Chinese market.

Make Sri Lanka an attractive destination for foreign investors

Having duty free access to two of the largest markets in Asia, India and China, will make Sri Lanka an attractive destination for export oriented foreign investments.

The full text of the joint feasibility study is available at: http://fta.mofcom.gov.cn/enarticle/ensri/ensri-news/201407/17317_1.html

SAARC AGREEMENT ON TRADE IN SERVICES (SATIS)

This is Sri Lanka's first agreement that incorporates the liberalisation of services. The SATIS framework agreement was signed in April 2010. The objective of the agreement is to promote and enhance trade in services between the member countries. The member countries are Sri Lanka, India, Pakistan, Bangladesh, Nepal, Bhutan, Maldives and Afghanistan. The schedules of the specific commitments of each country are yet to be finalised. At present, there are no statistics to evaluate the value and potential for trade in services between the SAARC member countries.

The full text of the framework agreement is available at: [http://saarc-sec.org/uploads/document/SAARC%20Agreement%20on%20Trade%20in%20Services%20\(signed\)_20121011091030.pdf](http://saarc-sec.org/uploads/document/SAARC%20Agreement%20on%20Trade%20in%20Services%20(signed)_20121011091030.pdf)



Image source: https://en.wikipedia.org/wiki/South_Asian_Association_for_Regional_Cooperation



Trade Agreements Proposed

ECONOMIC AND TECHNOLOGY COOPERATION AGREEMENT BETWEEN INDIA AND SRI LANKA (ETCA)



The Prime Minister of Sri Lanka and the Prime Minister of India, during their meeting in 2002, came to an agreement on the need to widen the ambit of the FTA to go beyond trade in goods to include services and to facilitate greater investment flow between the two countries. A Joint Study Group (JSG) was appointed by the two countries in April 2003 to provide recommendations on how to take the two economies beyond trade and towards greater integration. The JSG report was published in October 2003. The proposed comprehensive agreement was expected to expand the existing FTA, and cover trade in services, measures to promote investment and economic cooperation. The negotiations on a comprehensive economic partnership agreement (CEPA) commenced in 2005 and the two countries were expected to sign the agreement in 2008. However, due to opposition to the agreement from a segment of businesses in Sri Lanka, the agreement was not signed as scheduled.

In December 2015, the Prime Minister of Sri Lanka stated in Parliament that the government plans to enter into an Economic and Technology Cooperation Agreement (ETCA) with India which differs from the CEPA proposed earlier. The proposed agreement is currently being widely debated and discussed in the policy space.

The timelines proposed were to sign a framework agreement by mid-2016 and a final agreement by end-2016.

The objectives of the proposed ETCA as per the draft framework agreement (dated Jan, 2016) are to:

- i. further strengthen and advance economic, trade and investment cooperation;
- ii. promote further liberalisation of trade in goods and services by enhancing the economic partnership and investments taking into account the principle of non-reciprocity and special and differential treatment to address the asymmetry in the economies;
- iii. develop and strengthen scientific and technology cooperation and training; and,
- iv. establish proper cooperation mechanisms for implementation

▪ **Benefits expected**

Help diversify export markets

The FTA has helped increase exports and India has emerged as Sri Lanka's third largest export destination. Heavy dependence on a few markets for most of the



export revenue is a significant problem faced by the country. Therefore, further liberalising trade with India is expected to help diversify Sri Lanka's exports towards Asia.

Help address factors that impede growth in trade in goods

Lack of provisions to address non-tariff barriers (NTBs) in the current FTA with India, existence of tariff rate quotas (TRQs), potential exports being in the negative list, stringent ROO etc. are factors that hamper growth in trade between the two countries. The proposed agreement is expected to have provisions to address these issues.

Unleash potential to trade in services

India is the eighth largest commercial services exporter and eighth largest commercial services importer in the world. The value of export of commercial services in 2014 was US\$ 155.62 billion and imports US\$ 146.93 billion. This makes India an attractive source of services imports as well as an attractive destination for services exports.

Sri Lanka is ranked 73rd in the world in commercial services exports and 75th in commercial services imports. The value of commercial services exports in 2014 was US\$ 5.57 billion and value of imports was US\$ 5.59 billion. Services exports growth has been more robust in Sri Lanka compared to growth in export of goods.

The lack of statistics on bilateral services trade between the two countries however, makes it difficult to do a quantitative analysis of the potential benefits ensuing from trade in services.

Unleash potential for export oriented foreign direct investment (FDI)

Further improved access to the Indian market will enhance Sri Lanka's attractiveness to export oriented foreign investors. As mentioned in Section 2.1, Sri Lanka will have access to a large Indian market of 1.3 billion people and US\$ 2049 GDP. Additionally, the close proximity and air connectivity will provide additional advantages to potential Indian investors.



Image source: <https://www.flickr.com/photos/asiadevelopmentbank/15927526085>



Sources of information

This note was prepared using the following sources of information and data:

- WTO Country Trade Profiles available at: <http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E>
- Text of the India - Sri Lanka Free Trade Agreement
- Text of the Pakistan - Sri Lanka Free Trade Agreement
- Text of the Asia Pacific Trade Agreement (APTA)
- Text of the South Asian Free Trade Area (SAFTA)
- Text of SAARC Framework Agreement on Trade in Services (SATIS)
- Sri Lanka Customs, Trade Statistics for 2015
- Central Bank of Sri Lanka Annual Reports, available at: http://www.cbsl.gov.lk/htm/english/10_pub/p_1.html
- Trade Map, International Trade Centre, available at: <http://www.trademap.org/Index.aspx?AspxAutoDetectCookieSupport=1>
- World Bank Data
- Bangladesh Central Bank Annual Report, various years
- Pakistan Central Bank Annual Report, various years



Image source: https://commons.wikimedia.org/wiki/File:Seatrade_Falcon_Bay_2.JPG



Endnotes

¹ Rohantha N.A. Athukorala, 'Is the India FTA working?', Daily FT, (17 May 2016), available at: <http://www.ft.lk/article/542378/Is-the-Indian-FTA-really-working?>, [accessed on: May 2016].

² Ibid.

³ China FTA Network, 'China Sri Lanka Officially Launch FTA Negotiations', (19 September 2014), available at: http://fta.mofcom.gov.cn/enarticle/ensri/enchinasrnews/201410/18776_1.html, [accessed on: May 2016].

⁴ The Business Time, 'China FTA round three next month', (05 May 2016), available at: <http://businesstimes.lk/category/newsdetails/1/720/china-fta-round-three-next-month>, [accessed on: May 2016].

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Annex

TECHNICAL TERMS

▪ Harmonised System of Classification (HS Code)

The Harmonised Commodity Description and Coding System (HS) of tariff nomenclature is an internationally standardised system of names and numbers for classifying traded products developed and maintained by the World Customs Organisation (WCO). The HS system comprises of 5000 separate groups of goods identified by a 6 digit code (HS Code).

The HS comprises of 97 chapters arranged in 21 sections. The pattern of arrangement of the nomenclature is by the increasing degree of manufacture: raw materials, un-worked products, semi-finished products, and finished products. The pattern of arrangement of the HS system is explained by Table I.

TABLE 1: POSITION HS CODES

HS Code levels	Reference
First 2-digits (HS2-digit level)	Chapter
First 4-digits (HS4-digit level)	Chapter -Heading
First 6-digits (HD6-digit level)	Chapter-Heading-Sub-heading

Source: World Customs Organisation

▪ Rules of Origin (ROO) Criterion in Trade Agreements

The ROO Criterion is used to define where a product is made. The ROO ensures that only products produced benefit from trade agreement concessions. There are two types of products that are used in determining ROO: “wholly obtained” products and “not wholly obtained” products.

A “wholly obtained” product is solely acquired or completely produced within one country. This includes:

- Raw or mineral products extracted from soil, water or sea beds;
- Agricultural products harvested;
- Animals born and raised in a single country.

A “not wholly obtained product” is a product that has undergone a last substantial transformation in a partner country though the inputs may come from more than

one country. The last substantial transformation is determined through three general rules:

- Change in tariff classification (at HS 4-digit or HS 6-digit level);
- Significant Domestic value addition (DVA);
- Processing or other criteria.

Trade agreements usually include a list of operations and processes which are insufficient to meet the ROO criterion.

▪ Margin of Preference (MOP)

MOP is the percentage of reduction in tariff from the applied rate that is granted as a concession for imports from a FTA partner country. For example, for an applied rate of 30% that is given MOP of 50%, the preferential rate will be 15%.

▪ Tariff Rate Quota (TRQ)

TRQ is a legally mandated amount allowed to enter a FTA partner country duty free or at a lower duty. Once the quota is full, the remaining exports have to enter the export destination after paying the normal tariff duty.

▪ Negative list

Negative list contains entities or products

that are not eligible for preferences. It is also referred to as no-concession list or the list of sensitive items in agreements.

▪ Positive List

Positive list contains entities or products to which the agreement will apply, with no commitment to apply the agreement to anything else.

▪ Free on Board (FOB)

“Free on Board” means that the seller delivers when the goods pass the ship’s rail at the named port of shipment and the buyer has to bear all the costs and risk of loss or damage to the goods from this point. The f.o.b. term requires the seller to clear the goods for export. This term can be used for sea or inland waterway transport.

