



## Asia-Pacific Trade Briefs

### Sri Lanka

**Merchandise Trade:** The trade structure of Sri Lanka is dominated by merchandise trade, which in 2015 accounted for 70.7% of total trade. Merchandise exports – which accounted for 62.1% of total exports – grew by 5% on average during 2010-2015. However, merchandise exports contracted by 7.3% in 2015 which was in line with the Asia-Pacific average exports decline of 9.7% in 2015. The main export base of Sri Lanka is dominated by tea (the country is the world's third-largest tea exporter), rubber, and a relatively diverse range of ready-made garments. Falling export volumes of tea and rubber were due to continued lower world commodity prices which was exacerbated by a gradual strengthening of the United States dollar, and lower demand from major tea export markets, such as the Russian Federation and Turkey. This contributed the most to the overall export contraction, despite higher export volumes and earnings recorded by the textile and garment sectors. Likewise, while merchandise imports grew substantially by 9%, on average, during 2010-2015, in 2015 imports fell modestly by 1.9% compared with the Asia-Pacific region's average import decline of 15%. The import base of Sri Lanka was dominated by aircraft, petroleum oils and motor vehicles. The import contraction was largely driven by lower import bills due to the decline in fuel prices as well as a recent tax hike on imports of motor vehicles for personal use and investment purposes.

**Services trade:** Sri Lanka's services trade share of total trade in 2015 increased to 29.3%, up from 28.5% in 2014 and remaining slightly above the South and South-West Asia subregion's average of 23.9%. Services exports – which accounted for 37.8% of total exports – grew substantially in 2015 by 14.2% compared with the Asia-Pacific region's average decline of 4.8%, continuing a trend of strong services export growth of 21%, on average, during 2010-2015. Likewise, services imports in 2015 grew solidly by 5.3%, continuing the trend of import growth of 13.9%, on average, during 2010-2015. Growing services trade in 2015 was largely driven by rising travel services exports and imports – largely boosted by the recent unilateral visa liberalization for Indian tourists as well as a growing number of tourist arrivals from China.

**Intraregional trade:** In 2015, 25.9% of goods exports were taken by countries in the Asia-Pacific region. Sri Lanka's largest export markets are the United States (29.9%) and the United Kingdom (10.7%), while India (8.4%) is the largest intraregional export market. In terms of goods imports in 2015, 77.7% of imports were sourced from Asia-Pacific countries, with India (30.1%) and China (23.6%) as the largest intraregional import partners.

**Foreign direct investment (FDI):** While FDI inflows growth into Sri Lanka rose robustly by 7.4%, on average, during 2010-2015 (a result of rapid economic growth of more than 7% following the end of civil war). The majority of foreign investment in 2015 was in the electricity, textiles and telecommunications sectors. Growing competition between China (in the energy sector) and India (in telecommunications) is taking shape and is currently benefiting the Sri Lankan economy. China became Sri Lanka's largest investor in 2013, followed by Hong Kong, China, and Singapore. Australia, Germany, India and Japan are also leading investors in the country. In 2015, despite the improvement in the political atmosphere and foreign relations, Sri Lanka recorded a 23.8% decrease in FDI inflow, mainly due to a slowdown in investment from China.

**Tariffs:** Average MFN applied and effective tariffs at 8.1% and 7.8%, respectively, were higher than the Asia-Pacific region's averages of 6.9% and 5.9%. Average WTO bound duty, at 28.6%, remained higher than the Asia-Pacific region's average of 20%. Despite being a WTO member, tariffs continue to contribute substantially to trade costs for Sri Lanka whose binding coverage of 37.9% of its tariff lines is considerably lower than the Asia-Pacific region's average of 84.9%.

**Trade costs:** Intraregional trade costs recorded by Sri Lanka remained considerably higher than the costs of most efficient major traders in Asia and the Pacific, declining only slightly during 2009-2013. Trade costs incurred by Sri Lanka are, on average, more than twice as high as those of East Asia-3 and around 87.8% higher than those of the European Union-3 in reaching major trading economies of Asia and the Pacific (China, India, Indonesia and the Russian Federation).

**Trade agreement:** Sri Lanka has five preferential trade agreements (PTAs) in force, which is less than the Asia-Pacific average of 7.6 agreements. Of total exports, 10.3% were to PTA partners, compared with 33.3% in the Asia-Pacific region. Of total imports, 52.1% were from PTA partners, compared with 44% for the Asia-Pacific region.

Figure 1. Key trade and investment indicators

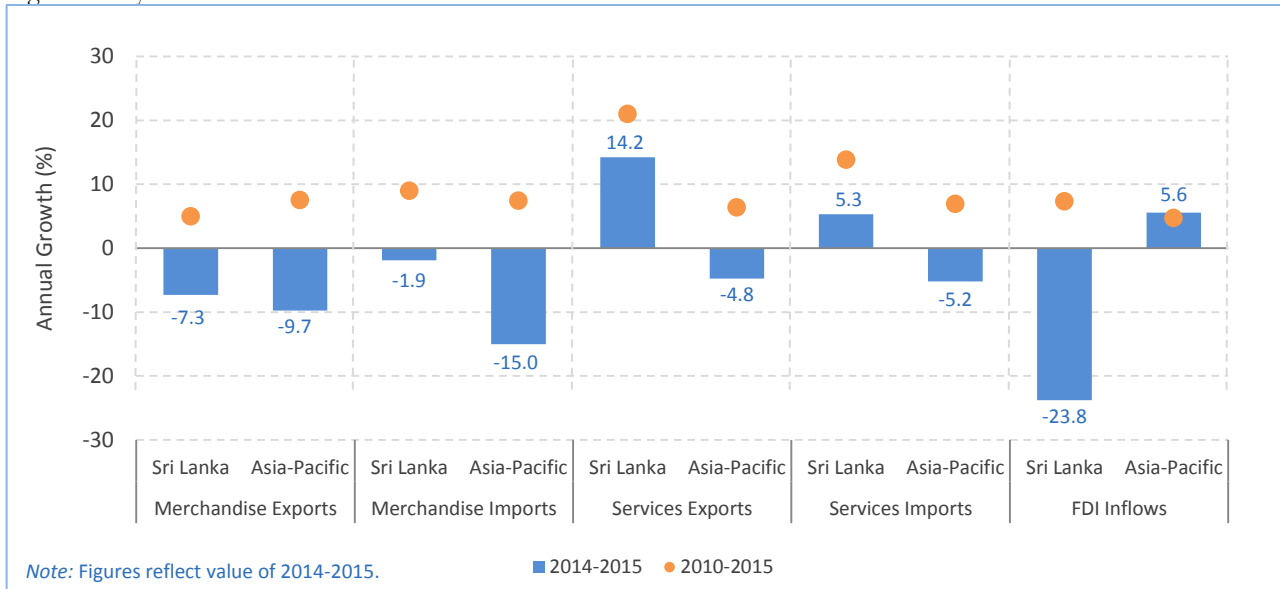


Figure 2. Top merchandise markets

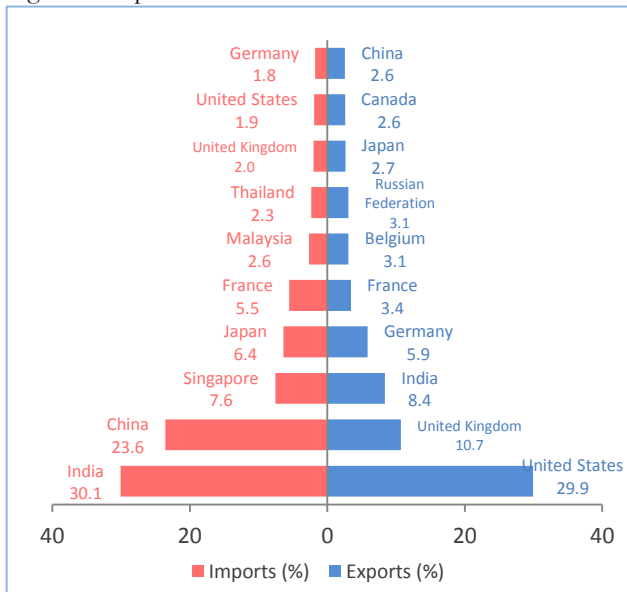


Figure 3. Top merchandise products

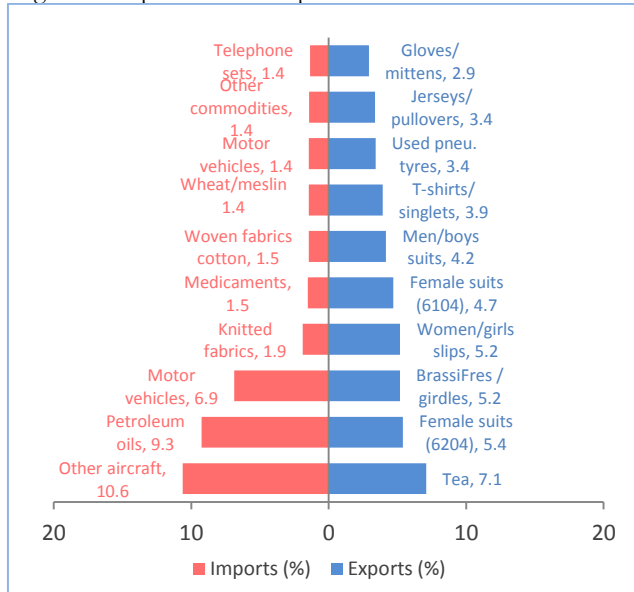


Figure 4. Trade within the region and rest of the world

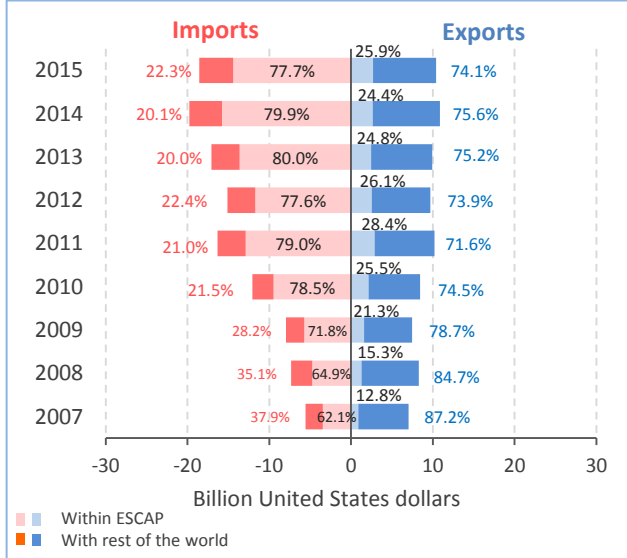


Figure 5. Foreign direct investment

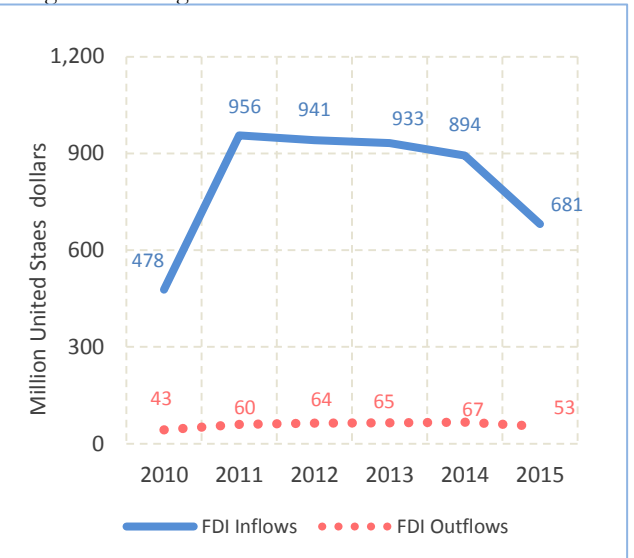


Figure 6. Tariffs (as of 2014)

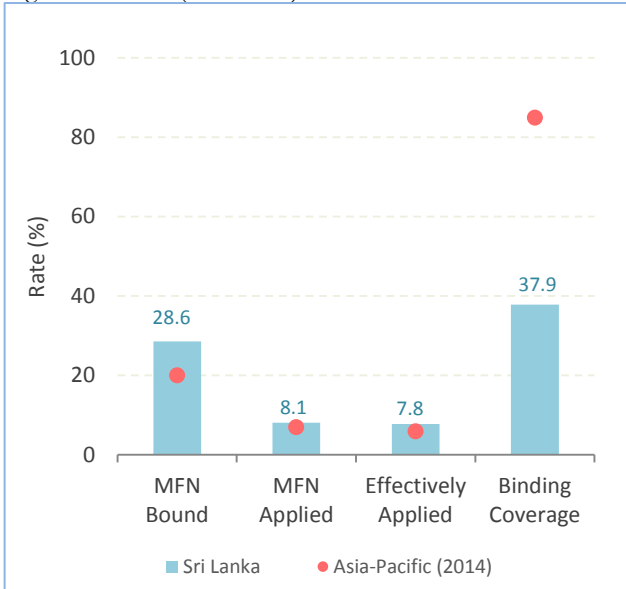
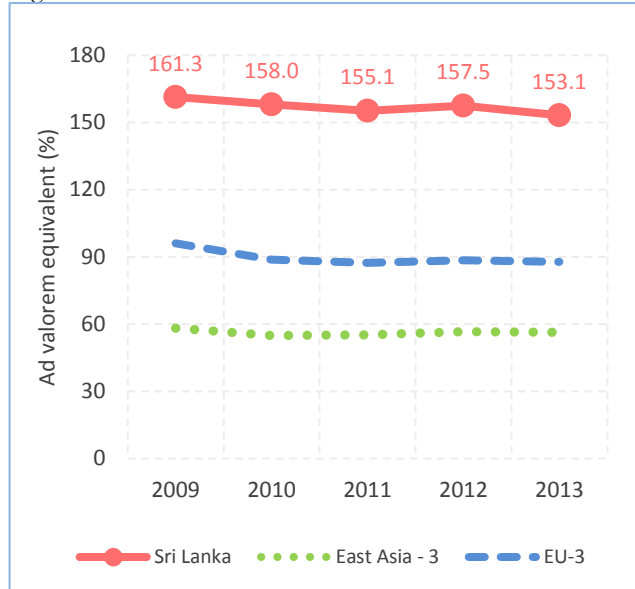


Figure 7. Trade costs



Sources: Trade and tariff data were accessed through WITS. FDI data were accessed through UNCTAD stat. Trade costs data were based on the ESCAP-World Bank trade cost database.

Note: Data are based only on countries for which they are available. Merchandise trade data follow the HS2007 classification. Mirror data are used. Products are defined at the 4-digit level. Tariffs are simple average. Trade costs shown are tariff equivalents, calculated as trade-weighted average trade costs of countries with the four developing economies (China, India, Indonesia and Russian Federation). Trade costs for East Asia-3 comprise China, Japan and the Republic of Korea; trade costs for the European Union-3 comprise Germany, France and the United Kingdom.

Definitions: MFN bound tariff is the maximum most-favoured nation (MFN) tariff permitted under WTO obligations. MFN applied tariff is the tariff applied to imports among WTO members. The effectively applied rate is the ratio of collected import tariff revenue and value of imports. Binding coverage refers to the share of bound tariff lines in the total number of tariff lines. For more details see [escap-tiid@un.org](mailto:escap-tiid@un.org).