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DailyMirror
FINANCIAL TIMES

Tapping the Markets in the Region: India-Sri Lanka Free Trade Agreement (ISFTA)

Sri Lankan businesses stand to benefit from the India-Sri Lanka FTA. Read about how your company can benefit?

Sri Lanka has been increasingly pursuing bilateral trade agreements with its key trading partners since the late 1990s. Of these, special mention has to be made of the Indo-Sri Lanka Free Trade Agreement (ISFTA), which came into effect in 2000. The signing and operation of ISFTA has been a significant landmark in the economic and political ties between the two countries.

Under the FTA, India agreed to remove tariffs on 1351 products immediately upon the coming into force of the agreement and phase out prevailing tariffs on the balance items over a span of three years by 2003. Therefore, at present, Sri Lanka enjoys duty free access to the Indian market for a large

number of products offering numerous opportunities for domestic exporters to enter into the Indian market. The major trade preferences offered by the two countries are summarized in the following table.

ture, multi-wall paper sacks etc. Besides, India has also increased its demand for imports from Sri Lanka which are currently being produced in the Indian domestic market. For instance, Indian demand for imported tyres and tubes from Sri Lanka has been increasing in recent years as the domestic production in India has failed to cater to the rapid expansion of the Indian automobile industry.

Apart from the handful of exports concentrated in copper, vegetable oil and aluminum where the commercial links with India have already been established, Sri Lanka still has a vast potential to export more than 4000 products, which have duty free access to the Indian market since 2003. The country has not fully utilized the duty concessions to penetrate the Indian market for a number of products including sausages and similar products, vegetable fats and oils, wheat and meslin, cane or beet sugar and chemically pure sucrose in solid form, coffee,

brand names and uncompetitive prices have also hindered export potential of Sri Lanka to India. Lack of awareness among the private sector on the concessions available under the ISFTA and lack of information on Indian markets, prices and buyers are some of the other major reasons for not utilizing the potential already in place. Nonetheless, it is encouraging to note here that some products, which were usually exported by Sri Lanka to other countries but not to India, are now slowly entering the Indian market (ie) cinnamon, tyres and ceramics, wooden furniture, woven fabrics of cotton, apparel and clothing accessories etc. These are the new and emerging opportunities available for Sri Lankan exporters to tap the vast Indian market in the future. It may be initially difficult for Sri Lankan exporters to meet the increasing and rapidly changing demands of a growing Indian market; but diversification of markets within India might be a right strategy for potential exporters given that India is not a single market but comprises several 'mini' markets.

Despite the fact that the ISFTA was confined to trade in goods, increase in trade links has been further triggered by large investment flows as well. The ISFTA has created opportunities for Indian investment mostly in the form of joint ventures. Indian FDI in the manufacturing sector in Sri Lanka have been visible in sectors such as steel, cement, rubber products, textiles and clothing, food products, automobile components, electrical equipment, chemicals, fabricated metals and printing whereas in the services sector, the principal areas of activity are to be found in tourism, computer software, advertising, financial and non financial services, etc. The sectors that have been identified as priority sectors for Indian investment in Sri Lanka include textiles, electronics, automobiles, rubber products, chemicals, tourism, power, educational training, health, IT, telecommunication, housing and construction, finance and agro-processing etc. Local business sectors should utilize opportunities available for them under the agreement to form joint ventures with Indian companies in these identified sectors in order to benefit from technological transfers and managerial and marketing spillovers, etc.

Even though the outbound investment from Sri Lanka is limited, the presence of Sri Lankan investment in India are found in areas such as tourism, freight forwarding, apparel, furniture and biscuits while some companies expect to begin their commercial operations in India in the areas of ceramics, coir and rubber products. In view of the existing potential to raise



bilateral trade in services, efforts are underway to incorporate preferential treatment under the Comprehensive Economic Partnership agreement (CEPA) framework.

The overall picture that emerges from the above discussion is that even though the signing of the ISFTA was a forward step taken by Sri Lanka in fast-tracking economic integration with India, the country has not fully exploited the benefits of improved market access under the agreement. The Indian market is still relatively

new and untapped for a large number of our exporters even after the sixth year of implementation of the FTA.

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Article provided by:
INSTITUTE OF POLICY STUDIES OF SRI LANKA
www.ips.lk

Major Duty Concessions of the ISFTA

| Duty Concessions | India's Commitments | Sri Lanka's Commitments |
|--|---------------------------------------|---|
| Immediate Zero Duty Concessions (No of Products) | 1351 | 319 |
| Tariff Rate Quotas (No of Products) | | |
| 50 % Garment quota | 233 | - |
| 50 % Tea Quota | 5 | - |
| 25 % Textile Items | 528 | - |
| Tariff Liberalization Programme | 50%, 75%, 100% reduction over 3 years | 70%, 90%, 100% reduction on 889 items over 3 years; 35%, 70%, 100% reduction on the rest over 8 years |

number of products offering numerous opportunities for domestic exporters to enter into the Indian market. The major trade preferences offered by the two countries are summarized in the following table.

Sri Lanka's total exports to India have shown a remarkable upward trend since 2002 and accelerated sharply from 2003 with the provision of duty free access to the Indian market under the agreement, as shown in the chart. The growth was mostly visible in product categories of base metal, animal or vegetable fats and oils, machinery and mechanical goods and chemical products etc. Most of these products have never been exported by Sri Lanka before implementation of the ISFTA. Other new products that have become commercially viable consequent to the implementation of FTA include marble slabs, ceramic ware, jewellery, furni-

motorcycles (including mopeds) and cycles fitted with an auxiliary motor, food preparations, rice, coconut (copra), palm kernel or babassu oil and their fractions, cut flowers and buds, onions, shallots, garlic, leeks and other alliaceous vegetables, milk and cream, butter and other fats and oils derived from milk, dextrin and other modified starches, sugar confectionary not containing cocoa etc. Furthermore Sri Lanka has also not been able to tap into the Indian market for items such as garments and tea despite the fact that Sri Lanka is well known internationally for the export of these products.

Underutilization of the preferences of the ISFTA can be attributed to several reasons. One major reason behind underutilization of quotas of apparel and tea offered by India is the stringent rules of origin. Besides, lack of marketing efforts, pre-occupation with traditional markets, absence of

Total Exports to India, 2000-2006

