

Sri Lanka – China Economic Relations: Exploring Potential for Cooperation for Mutual Benefit

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Outline of Presentation

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- Investment
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Historical Context

- Historical relationship between the two countries dates back over 20 centuries based on shared religious and cultural values.
- Visit of Chinese monk Fa Hsien in the early 5th Century AD being a prominent event in Sri Lanka's history
- More recently economic and political ties have been cemented – culminating in the establishment of formal diplomatic relations in 1957
- 1952 – Sino-Lanka rubber-rice pact
- 1981 – Sri Lanka-China Society
- 1982 – Sino-Lanka joint trade committee and in 1984 Sino-Lanka economic and trade cooperation committee were signed. These were amalgamated in 1991 to form the Sino-Lanka Joint Commission for Economic and Trade Cooperation
- 1994 – Sri Lanka-China Business Cooperation Council formed

Trade Relations with China

Year	Exports to China (US\$ Mn)	Imports from China (US\$ Mn)	Trade Balance (US\$ Mn)
2003	16.25	328.98	- 312.73
2004	20.86	454.03	- 433.17
2005	29.40	630.55	- 601.15
2006	25.40	779.75	- 754.35

Trade relations cont.

- Total trade between the two countries has more than doubled between 2003 (US\$ 345.23) and 2006 (US\$ 805.15).
- Whilst Sri Lankan exports to China have grown over the last 4 years, imports from China have grown at a faster rate – resulting in an expanding trade deficit (US\$ 754.35)
- These numbers are further enlarged when Sri Lanka's trade with Hong Kong is also considered
- The total trade between Sri Lanka and China + Hong Kong is US\$ 1536.13 Mn
- When China and HK are considered together, it provides SL's second largest source of imports (Rs. 149579 Mn) behind India's (Rs. 225895 Mn).
- China and HK make up SL's 12th largest destination for exports (Rs. 10118 Mn)

Trade relations with China (including HK)

Year	Exports to China + HK (US\$ Mn)	Imports from China + HK (US\$ Mn)	Trade Balance (US\$ Mn)
2003	93.52	888.44	- 794.92
2004	89.67	1073.42	- 983.75
2005	93.57	1278.74	- 1185.17
2006	97.32	1438.81	- 1341.49

Major traded items

- Sri Lanka's major exports to China include raw coconut coir, metal ores including zirconium and titanium, tea, electronic transformers, natural rubber and apparel items.
- Sri Lanka's major imports from China include boilers, cotton, textile fibres and fabrics, transmission apparatus, metals and articles thereof such as iron, steel and aluminum, apparel and inorganic chemicals.
- Hong Kong is one Sri Lanka's major sources of textiles which serve as inputs for garment production, thus being a key trading partner.

Sri Lanka's Top ten exports to China (2004-2006)

Description	Value (M. US\$)		
	2004	2005	2006
Raw coconut coir	3.094	2.13	5.612
Zirconium ores and concentrates	4.839	12.623	3.458
Tea, whether or not flavored	1.166	1.611	1.877
Electrical transformers, static converters	1.027	2	1.494
Other natural rubber	0.375	0.658	1.471
Other retreated or used tyres	0.47	0.706	1.317
Titanium ores and concentrates:	0.398	2.23	1.064
Other (dressings)	0.326	0.385	0.754
Articles of apparel and clothing accessories	0.113	0.852	0.571
Activated carbon	0.255	0.36	0.453

Sri Lanka's Top ten imports from China (2004-2006)

Description	Value (M. US\$)		
	2004	2005	2006
Boilers & machinery & parts	40.356	55.596	78.971
Cotton	58.248	69.33	74.439
Man made staple fibres	41.729	58.447	61.937
Iron or steel & its articles	29.973	46.738	61.855
Knitted or crocheted fabrics	31.904	66.126	55.380
Transmission apparatus for radio-telephony etc	4.249	10.637	52.788
Aluminium & articles thereof	1.967	8.162	22.249
Articles of apparel & clothing accessories	10.746	13.566	16.459
Coated, covered or laminated textile fabrics	10.512	19.893	15.478
Inorganic chemicals, inorganic or organic compounds	7.537	11.388	14.369

Implications of China's emergence in the world economy

- Sri Lankan exporters should focus on increasing the export of value added products to China. At present, most of the major exports occur in their raw form.
- China's growing middle class (projected to reach 400Mn by 2010) provides a major market opportunity that should be grabbed by Sri Lankan exporters (eg. Niche markets in Apparel that are not focused in the US and EU)
- China is a potential source of tourists - Tourist arrivals from China have risen from 2,208 in 2000 to 16,274 in 2006 – a growth of 637%
- Improved air connectivity can further enhance this

Implications Cont.

- Concern about competition for Sri Lankan exporters. However in the wake of the expiry of MFA there were similar concerns, but through the pursuit of niche markets, the garment industry in particular has prevailed.
- Fear that investment will be diverted from countries like Sri Lanka into China. But at the same time China itself is becoming a major foreign investor and Sri Lanka is likely to benefit.
- Possibility of cheaper Chinese imports flooding domestic markets. However the import of Chinese goods has provided lower cost, high quality alternatives for consumers in SL. It has also contributed to lower cost raw materials for production.

Role of APTA in expanding trade relations

- SL and China are both members of APTA (formerly Bangkok Agreement), a preferential trade agreement where members give one another a margin of preference over the general (MFN) tariff level.
- This is a potential avenue by which trade between the two countries can be significantly expanded – but has thus far been under-utilised
- Sri Lankan exports to China receiving APTA preferences make up only 4.83% of the total value of Sri Lankan exports to China.
- Major export items including Zirconium ores and concentrates' (Rs. 1269mn), Titanium ores and concentrates' (Rs.195mn), Retreaded or used pneumatic tyres (other) – automobiles' (Rs.71mn) – receive no preferences in APTA.
- Important exports such as tea and raw coconut fibres receive MoPs of 50% and 20% respectively, but the reduction in duty for the latter is from 5% to 4%, which is marginal.
- It is important to take steps to ensure deeper and wider coverage of APTA concessions

Investment

- China has become a major investor in Sri Lanka.
- Realised investment by China in Sri Lanka as at end 2006 was Rs. 1239 Mn
- When investment by Hong Kong is also taken into account, total FDI into Sri Lanka is Rs. 25.7 Bn
- China + Hong Kong provided the 3rd largest source of FDI into Sri Lanka in 2006 (US\$ 50.86 Mn)
- Major sectors into which FDI was received include the apparel sector, textiles, services, transport equipment and food products.
- These sectors all have significant importance in Sri Lanka's economy; as export items and as having a role in overall economic performance (eg. Services)
- As China continues to grow it is likely to increase FDI into SL



FDI by Country, 2006

COUNTRY	FDI (US\$ MN.)
Malaysia	164.672
Luxembourg	54.045
China + Hong Kong	50.864
Sweden	49.851
UK	40.387



Investment

- Entrepreneurs from China will be provided with an exclusive EPZ at Mirigama, and depending on the progress, additional space will be provided at Godagama, Matara, and Eastern Province
- All Chinese entrepreneurs who invest a minimum of US \$ 25 million will be provided with a Sri Lankan passport on the basis of a "second home" passport.
- SLCBCC has played a major role in facilitating Chinese investment in Sri Lanka:
 - Organizing high powered business delegations to China and receiving business delegates from China
 - Organized seminars on "How to do business in China?" for local business persons
 - Organizing/Assisting Trade Fairs and Exhibitions for Chinese business organizations
 - Establishing a 'Chinese Products and Service Information Desk' at the National Chamber of Commerce of Sri Lanka



Aid and Economic Cooperation

- Strong economic cooperation between China and SL ever since the 1952 Rubber-Rice agreement.
- China has been an important donor in Sri Lanka over several years, contributing to several major projects including:
 - BMICH
 - Nilabe hydropower station
 - Central mail and telegram complex
 - Supreme Court complex
 - Gin Ganga Flood Protection Project
 - Udawalewe Freshwater Fish Breeding and Experimental Station
 - Polonnaruwa Water Supply project
 - Veyangoda & Pugoda Textile Mills
 - Restoration of Abayagiriya Dagaba



Aid and economic cooperation cont.

- New projects include;
 - Norachchalai power plant (US\$ 300 Mn soft loan)
 - Hambantota Port construction
 - National Performance Arts theatre
 - Renovate/Upgrade the BMICH
 - Flyover at Nugegoda junction
 - Signalized intersection at Welikada junction
- These projects are an essential part of Sri Lanka's drive to upgrade infrastructure to boost economic growth



Aid and Economic Cooperation contd.

- China provided significant assistance following the tsunami in Sri Lanka. US\$ 1.5 Mn was provided in monetary support and relief goods
- China also undertook reconstruction projects in tsunami affected areas (China-SL Friendship village, China-SL Red Cross Village, restoration work in 3 fisheries harbours)
- Increased assistance of late which is valuable as Sri Lanka has less access to concessional finance from multilateral donors
- 100 advanced rail carriages – 25 of them have already arrived
- China has contributed where some of Sri Lanka's major donors have not been forthcoming with assistance – eg. Energy projects



Conclusion

- The close cultural and historic links enjoyed between the two countries have been built upon in enhancing economic relations over the last five decades
- China provides a significant export market, a source of FDI into Sri Lanka and a source of high quality affordable imports
- It is encouraging to note that China has enhanced economic assistance to Sri Lanka in areas such as energy which are critical to the national economy
- Sri Lanka has ear-marked a key area in the Gulf of Mannar for oil exploration by China in the near future
- As China continues to prosper in the world economy, many countries have felt China to be a threat, however Sri Lanka should see this as an opportunity more than a threat

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