

## Outcomes of Ten Years of the ILFTA: Sri Lankan Perspectives

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### Outline

- Background – Economic relations prior to the FTA
- Outcomes in Trade
  - i) Exports
  - ii) Imports
  - iii) Trade balance
- Outcomes in Investment
- Outcomes in Services
- Broader implications – directions of trade, institutional framework

## Background

- Prior to the FTA SL's trade with India was relatively low
- Dominated by imports from India
- Between 1995-1999 SL imported US\$ 509 million from India each year
- India was SL's second largest source of imports by 2000
- Exports to India were very low – US\$ 39 million average annual exports between 1995 and 1999
- India was SL's 14<sup>th</sup> largest export destination – SL exported more to the Maldives than to India
- Investment by Indians in Sri Lanka was also very low leading up to the FTA
- Between 1978 and 1995, world FDI in SL was US\$ 426.6 million, but of this only US\$ 5.2 million was from India (1.2%)
- During this period Indian investment was largely in sectors such as beverages and tobacco (30%), other manufactured products (14%)

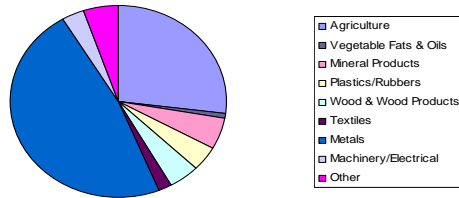
## Impact of the FTA on Trade - Exports

- Impact of the ILFTA on bilateral trade could be split into two distinct phases 2000-2005 and 2005-2009
- In 2000-2005 exports from SL grew rapidly, peaking in 2005 at US\$ 566 Million – a ten fold growth since the year 2000.
- During this period the number of products exported to India grew from 505 in 1999 to 1062 in 2005.
- Greater degree of value added exports – tyres, ceramics, rubber gloves, pharmaceutical products and furniture

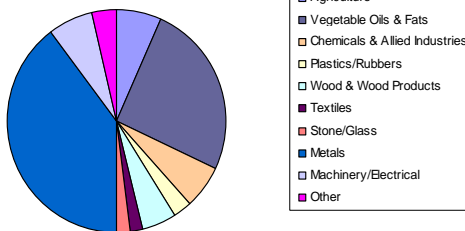


## Composition of Exports 2002-2005

Composition of Indian Exports 2002



Composition of Indian Exports 2005

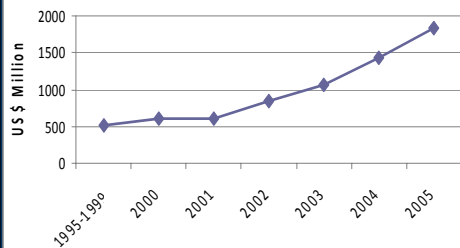


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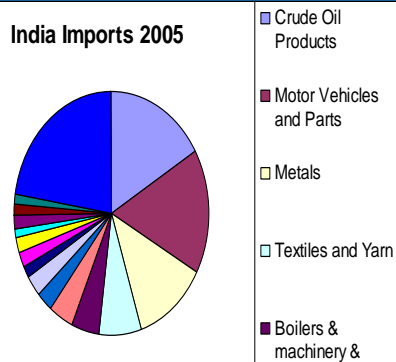
## Impact of the FTA on Trade - Imports

- Imports during this period also grew at a rapid rate, increasing by three fold since 2000 to US\$ 1835 Mn from US\$ 600 Mn
- The major imports during this period were crude oil products, cotton, iron/steel and motor vehicles and parts

SL Imports from India



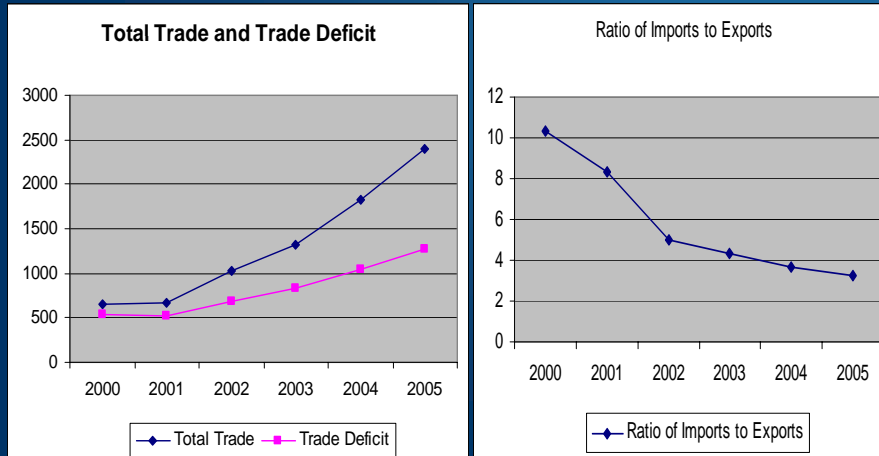
India Imports 2005



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## Trade Deficit

- Exports grew faster than imports and the import:export ratio narrowed despite the absolute trade deficit increasing



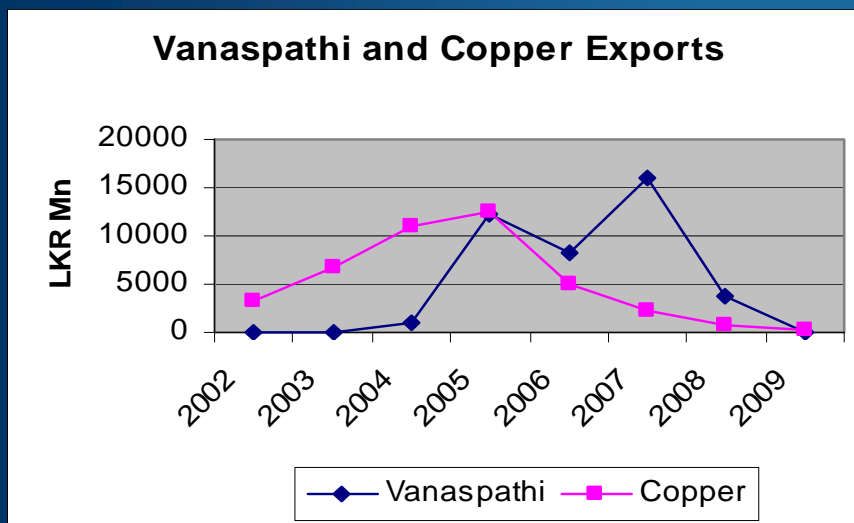
## Narrow Export Base

- Exports grew 10 fold but were concentrated in a few products
- In 2005 vanaspathi and copper accounted for 50% of SL export value to India
- Excluding these items, Sri Lanka's exports to India have increased only from US \$ 58 million in 2000 to US \$ 278 million by 2006
- Vulnerability due to reliance on MFN tariff differentials between India and SL
- Nonetheless, some new products entered the Indian market
- Furniture (exports of which increased from US\$ 1.7 Million in 2002 to US\$ 6.4 Million in 2006)
- Antibiotics (no exports until 2004 and reaching US\$ 22 Million in 2005)
- Ceramic products (US\$ 0.8 Million in 2002 increased to US\$ 22.7 Million in 2006)
- 75% of Sri Lankan exports to India received preferential treatment in 2006 compared to 22% in 2001

## Trade Outcomes – 2005-2009

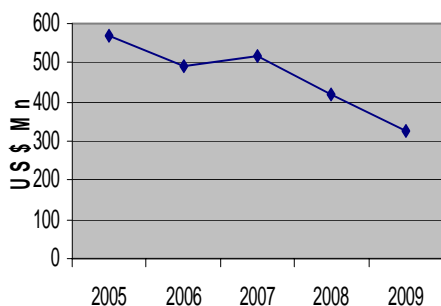
- In the last 4 years trade between India and Sri Lanka has declined substantially.
- One factor is the collapse of vanaspathi and copper exports from Sri Lanka
- With the Global Economic crisis, commodity prices crashed and India slashed MFN tariffs on palm oil imports, making the vanaspathi industry in SL unviable.
- By 2009 vanaspathi exports made up just 0.1% of total exports
- Export of Copper also declined following new requirements on invoicing based on London Metal Exchange prices
- Imports from India also crashed in 2009 as the global economic crisis resulted in a fall in prices of crude oil products and metals.
- The demand for motor vehicles fell in Sri Lanka along with demand for textiles as garments exports declined.

## Vanaspathi and Copper

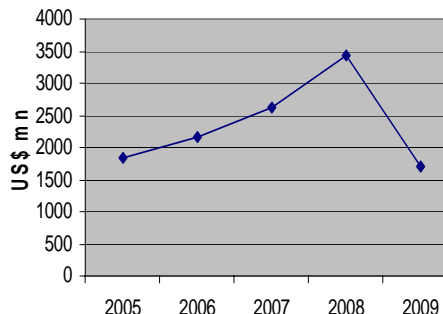


## Trade Outcomes – 2005-2009

### SL Exports 2005-2009



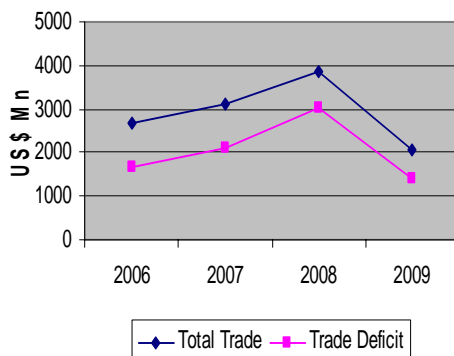
### SL Imports 2005-2009



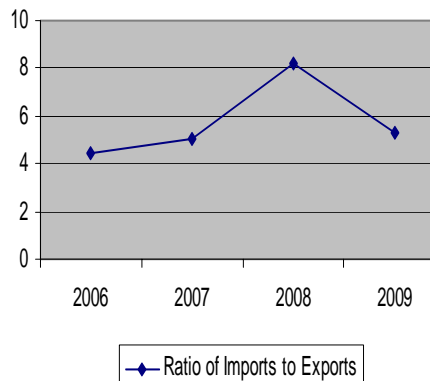
## Trade Deficit 2006-2009

- The Trade deficit ballooned in 2008 as commodity prices increased but then reduced dramatically in 2009

### Total Trade and Trade Deficit 2006-2009

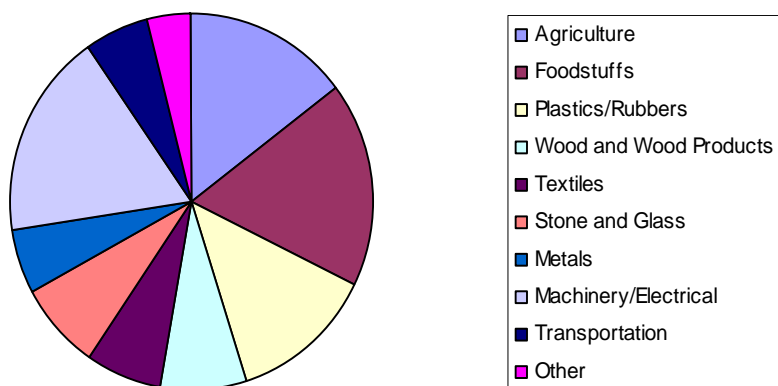


### Ratio of Imports to Exports 2006-2009



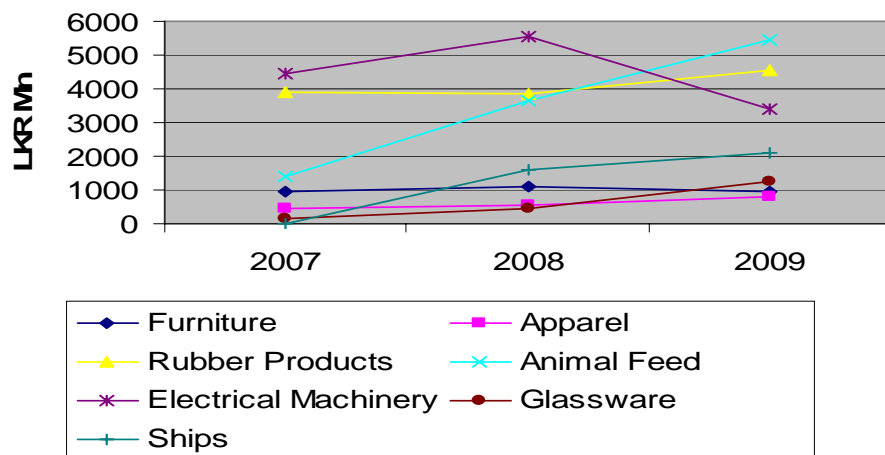
## Composition of Exports to India 2009

### Composition of Indian Exports 2009



## Selected Exports to India

### Selected Exports



## Top Exports to India Using ISFTA 2007

Total Value US\$	HS CODE NO	DESCRIPTION
137,716,529.89	1516.20	VEGETABLE OIL
23,524,939.73	1517.90	SPECIALITY FATS
21,017,371.76	8544.19	WOODEN PALLETS
14,034,821.26	6802.21	MARBLE
12,944,329.34	4411.99	MDF BOARDS
11,063,899.89	8544.11	COPPER WIRE
10,109,780.60	7403.19	COPPER INGOTS
9,576,660.00	2309.90	POULTRY FEED
8,196,632.90	7403.12	COPPER WIRE BARS
7,825,046.18	0907.00	CLOVES STEM
7,423,289.71	4707.10	WASTE PAPER
7,086,570.58	4011.20	TYRES



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## Cont.

6,730,123.05	1511.10	CRUDE OIL
5,886,005.27	7801.99	LEAD INGOTS
5,445,613.50	4707.90	WASTE PAPER
4,588,243.35	9401.61	SOFA SET
3,979,375.58	8544.60	CABLES
3,926,312.45	4015.19	RUBBER GLOVES
3,740,381.44	2302.20	RICE BRANE
3,448,445.70	8418.50	COOLER
3,420,210.00	8716.39	TRAILER
2,880,498.00	8537.10	PANNEL BOARDS
2,816,266.41	3823.19	PALM FATTY ACID
2,619,325.00	2824.10	LEAD OXIDE
2,246,183.14	4911.99	THERMAL PAPER
2,206,310.37	8507.10	BATTERIES



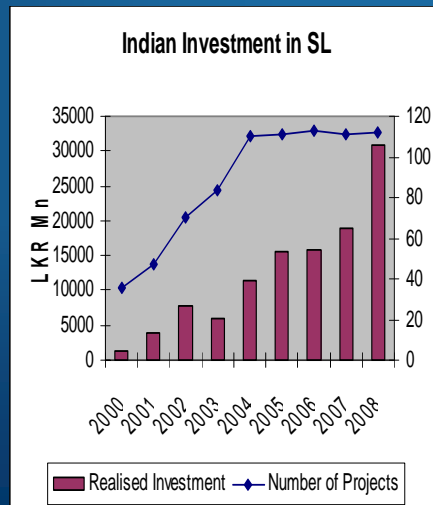
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## ISFTA Preferences for Top Imports

HS Code	Product	Status
27	Petroleum	Negative List
87	Vehicles and Parts	Negative List
17019901	Sugar	Negative List
52	Cotton	MFN Duty Free
72	Iron and Steel	Negative List
30	Pharmaceutical Products	MFN (0 - 2.5) duty
48	Paper and paper board	Negative List
740811	Copper wire	ILFTA duty free
230400	Oilcake and other solid residues	ILFTA residual list (70% duty waiver) until 7 <sup>th</sup> November 2008, since then duty free.

## Investment

- Indian investment in SL was low until 2000
- Just 36 firms, LKR 1.3 Bn investment
- Number of firms increased exponentially since then
- By 2008 112 firms and LKR 31 Bn in realised investment
- As of 2008 67% of Indian investment was in the services sector
- In 2000 only 30% of Indian investment was in services
- In the early stages investment was dominated by vanaspathi and copper



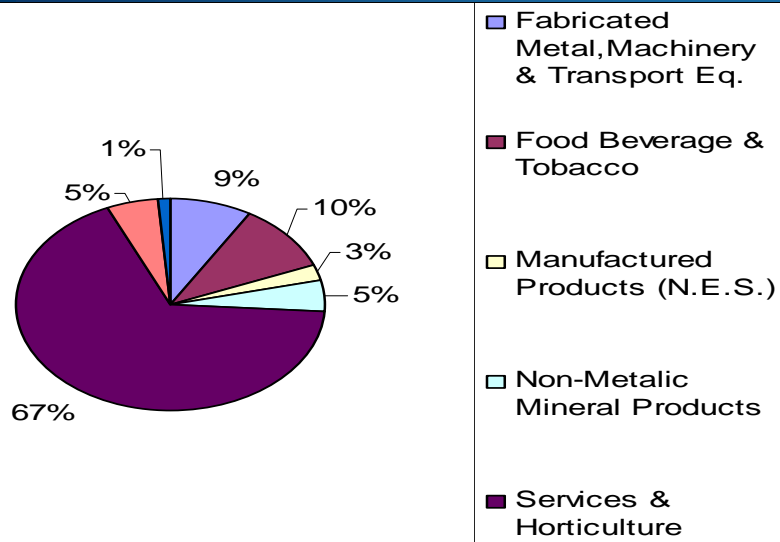
## Manufacturing Investment

### : Indian Manufacturing Projects in Sri Lanka Related to the ISFTA

Products	Country	No. in Operation
Copper and copper based products	India/UAE	10
Vanaspathi (vegetable oil)	Singapore/Malaysia/Sri Lanka	9
Electrical and electronic products	India/USA	7
Lead and lead based products	India	2
Zinc oxide	India	1
Other chemicals and chemical based products	India/USA/Sri Lanka	3
Marble products	India	3
Pine resins	India	2
Rubber based sports goods	India	1
Ghee from milk cream	India	1
Diamond cutting tips	India	1
<b>Total</b>		<b>40</b>

Source: Kelegama and Mukherji (2007).

## Composition of Indian Investment 2008



## Services

- Several Sri Lankan students and patients travel to India to purchase education and health services each year
- Approximately 70% of the Colombo port's income is from transshipment earnings from the Indian subcontinent
- In early 2000s approximately 40% of Sri Lankan airlines' revenue was from the Indian market while Indian airliners Jetwing and Kingfisher have operations in Sri Lanka
- Sri Lankan IT firms have provided technical solutions to Indian companies (Interblocks sold internet banking solution to Indian banks and Microimage sold Tamil SMS adaptation to Bharti Airtel)
- Sri Lankan tourist sector firms such as Aitken Spence and Jetwing have also ventured into the Indian market.
- Several Indian firms have invested in Sri Lanka to supply services, major examples including Apollo Hospital, ICICI Bank, Bharti Airtel, Taj Hotels and Indian Oil Company.
- India has become the largest source of tourists to Sri Lanka accounting for 19.4% of the market share in 2008.



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## Broader Implications

- Importance of diversification of exports – at its peak in 2005, India was Sri Lanka's 3<sup>rd</sup> largest export destination and accounted for 9% of SL's world exports
- India remains the 3<sup>rd</sup> highest export destination in 2009 but accounted for 4.5% of SL's exports to the world as exports declined. In 2000 exports to India made up 1% of SL exports to the world.
- Importance of long term penetration of the Indian market given limited medium term growth prospects in traditional markets
- Despite the trade deficit widening until 2009, given limited preferences for key Indian imports, the ISFTA gave the opportunity for SL export growth in an environment where Indian imports were growing regardless

	2005	2008	2009
Exports to China	29	47	56
Imports from China	631	1114	1029
Trade Deficit	602	1067	973



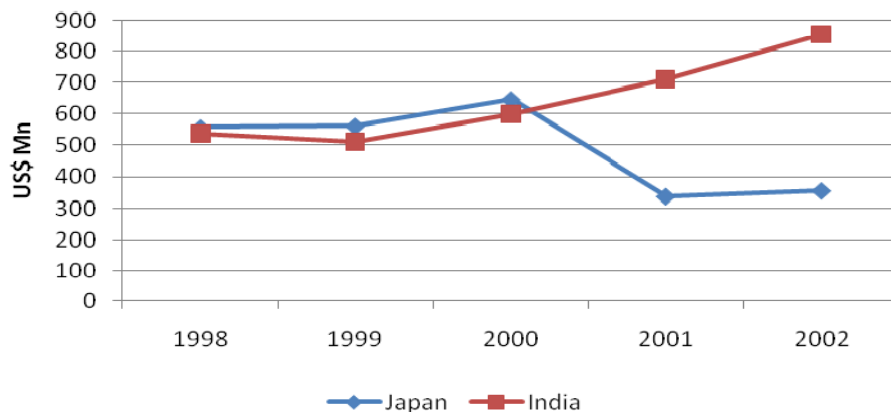
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## Broader Implications Cont.

- ISFTA played a role in signaling to exporters market potential and enables a foothold in India and signaled market potential in SL to Indian investors
- Eg. MAS Amante was able to bypass 9-12% tariffs to get a foothold in India – around 100% annual growth since 2007
- ISFTA and CEPA negotiations provided an institutional framework for addressing trade disputes and problems – eg. Reduced sourcing requirements for garments, port restrictions
- Increasingly important given diminishing role of tariffs and greater relevance of NTBs and other regulatory modalities
- Benefits for consumers despite NLs

## Benefits to Consumers Despite NLs

### SL Imports Japan and India



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