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Barriers beyond tariffs: Sri Lanka's exports to China

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By Janaka Wijayasiri and Nipuni Perera

Sri Lanka is stepping up its game in trade by going full steam ahead on negotiating free trade agreements (FTAs) with three of its major trading partners - India, China and Singapore.



Sri Lanka's recent enthusiasm for FTAs with major trading partners, dubbed in the media as "FTA Mania", is not without good reason.

measures (NTMs) can reduce the utilization of FTAs if they are not effectively dealt with. As experienced under the Indo-Lanka Free Trade Agreement (ILFTA), many Sri Lankan exporters have faced a multitude of difficulties in entering the Indian market due to the prevalence of NTMs - such as state taxes, standards, and administrative procedures, quotas, etc. - which were outside the scope of the Agreement.

Game changer?

Sri Lanka's forthcoming FTA with China is of importance given that it has the potential of being the biggest bilateral trade deal in view of China's population and status as the world's second largest economy after the USA.

China is currently Sri Lanka's second largest trading partner, while also being Sri Lanka's second most significant source of imports, accounting for 20% of Sri Lanka's total imports in 2015.

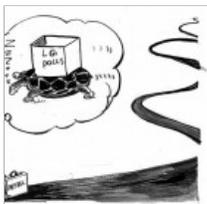
A joint feasibility study on the China-Sri Lanka FTA identified that the proposed FTA would facilitate an increase of bilateral trade, particularly in certain product sectors of interest to Sri Lanka including, but not limited to, tea, rubber products, fish and fisheries products, textile and clothing, coconut products, gems and jewellery, fruits and vegetables, machinery and electronics.

An independent study by IPS identified a total of 541 products in which Sri Lanka has a comparative advantage vis-à-vis the world, including China. Of the 541 potential exports to China, Sri Lanka already exports 244 products.

NTMs are "policy measures other than tariffs that can impact trade flows" and include technical and non-technical measures. If NTMs are imposed by countries excessively beyond the specified measures to restrict imports from other countries, then they can be considered a Non-Tariff Barrier (NTB).

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The prevalence of NTMs has been a major concern for China's trading partners. The WTO in its fourth Review of China's Trade Policy called on China to address NTMs as countries have voiced concerns regarding their prevalence; these include anti-dumping duties, technical trade barriers, sanitary and phytosanitary issues, operations of state-owned enterprises, customs process, export restrictions, and the protection of intellectual property rights.

A study conducted by IPS, based on interviews with several major exporters to China and related trade associations, finds that both tariff and non-tariff measures are encountered by Sri Lankan companies exporting to the Chinese market. Generally speaking, non-tariff measures seem to be more challenging than tariff barriers for agricultural exports, while the opposite is true for industrial exports.

Agricultural exports

Agricultural exports covered in the study (tea, fish and fisheries and fruits and vegetables) are mostly burdened by NTMs, compared to tariffs. With regard to NTMs, the commonly cited problems faced by agricultural exporters to China revolves around high sanitary and phytosanitary (SPS) requirements compared to other export markets, and the lack of mutual recognition of standards and certificates. For example, tea exports to China are subject to rare-earth content testing, which is unique to China and not a requirement in other markets. Moreover, the exact particulars of this standard are not clear. It is also revealed that testing for rare-earth content is problematic as the available testing facilities in Sri Lanka are insufficient – the current facilities can only specify if rare-earth content is present or not in tea, but the levels of rare-earth cannot be determined as per se Chinese requirements. Moreover, China does not recognize testing and certificates provided by Sri Lanka, while testing in China is considered to be time-consuming and complex.

Issues relating to quarantine and testing/certification are reported across other agricultural export categories as major impediments, as well as lack of transparency with regard to the food safety regulations. The frequency of test reports and the levels/limits required in China are considered to be greater than in any other markets. The lack of necessary testing facilities in Sri Lanka to meet testing and certification requirements applicable to China is also highlighted as a major concern. For example, fisheries exporters state that other markets require exporters of shrimp to obtain an antibiotic test report for one pond in a shrimp farm, while for China, antibiotic reports have to be provided for each and every pond in a farm. Meanwhile, obtaining quarantine requirements for fruits and vegetables are stated to be extremely cumbersome and time-consuming, involving a lengthy approval process. For example, it takes Sri Lanka nearly three years to obtain quarantine certification to export bananas to a few ports in China.

This blog is based on the IPS study 'Exporter's Perspective on Accessing Chinese Market under China-Sri Lanka FTA'. Nipuni Perera is a Research Officer and Dr. Janaka Wijayasiri is a Research Fellow at the Institute of Policy Studies of Sri Lanka (IPS). To view the article online and comment, visit the IPS blog 'Talking Economics' – www.ips.lk/talkingeconomics

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