

# Bangladesh-Sri Lanka trade and investment ties make major strides

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THE last four years has seen a dramatic change in economic ties between Bangladesh and Sri Lanka. The bilateral trade between the two countries exceeded US\$ 100 million for the first time in 2013 compared to a level of US\$ 47 million in 2010. This dramatic rise was due to Sri Lankan exports to Bangladesh more than doubling from US\$ 34 million in 2010 to US\$ 82 million in 2013 and Bangladeshi exports to Sri Lanka doubling from US\$ 13 million to US\$ 26 million for the same period.

This rapid growth in trade has been accompanied by a change in the composition of export products. If the disaggregated data for year 2000 is compared with 2012, the following picture emerges. In 2000, Sri Lankan exports to Bangladesh amounted to US\$ 8.6 million with coconut related products (24%) and natural rubber (13%) dominating the exports while Bangladeshi exports to Sri Lanka amounted to US\$ 3.6 million with sacks and bags (15%) and woven fabrics of jute (8%) dominating. Overall trade was thus only US\$ 12.2 million. By 2012, however, Sri Lanka's exports to Bangladesh had increased to US\$ 57 million with woven fabrics (47%), enzymes (11%) and petroleum products (7%) dominating while Bangladeshi exports to Sri Lanka amounted to US\$ 25 million with apparel accessories (30%), pharmaceuticals (21%) and cotton (11%) dominating.

The investment flows between the two countries have also increased during the last four years. There are 45 Sri Lankan companies in Bangladesh with investment (FDI) close to US\$ 300 million while there are 6 Bangladeshi companies in Sri Lanka with investment of US\$ 20 million. Most of the Sri Lankan FDI in Bangladesh is in the ready-made garment sector while the largest Bangladeshi FDI in Sri Lanka is in the pharmaceutical sector. Many ready-made garment exporters in Sri Lanka invested in Bangladesh when the cost of production was going up in Sri Lanka in order to utilize the extra preferences for market access in developed countries due to the LDC status of Bangladesh. It is reported that there are close to 15,000 Sri Lankans employed in these export companies and other institutions in Bangladesh.

Several contributory factors to these trends could be identified. Both Sri Lanka and Bangladesh have been members of the old Bangkok Agreement (now renamed as the Asia Pacific Trade Agreement) since 1975 and being recipients of preferential tariffs for some products traded between them. During 1995-2005, both countries were beneficiaries of SAPTA preferential trading and after 2006 under SAFTA's lower tariffs. Air connectivity between the two countries increased after 2010 with the commencement of direct flights between Colombo and Dhaka with Mihin Lanka. The flights started in 2011 with three flights per week and have now been increased to 5 flights per week. Consequently, the Bangladesh tourist inflow to Sri Lanka increased from 1,864 in 2010 to 10,037 in 2013. The people-to-people contacts have improved due to this connectivity and this in turn, has contributed to more trade and investment between the two countries.

In September 2011, the Sri Lanka-Bangladesh Business Cooperation Council was formed and in November 2013 under its patronage and that of Bangladesh High Commission in Sri Lanka, a Memorandum of Understanding was signed between the National Chamber of Commerce of Sri Lanka and the Dhaka Chamber of Commerce and Industry to promote more business interaction between the two countries. In April 2013, the Bangladeshi Foreign Secretary on a visit to Sri Lanka mooted the idea of establishing a Joint Working Group which was mutually agreed and in its first meeting in May 2014, both countries signed a Coastal Shipping Agreement to improve shipping connectivity and thereby give a boost to trade and investment flows between the two countries. Many Bangladeshi shipping vessels use the Port of Colombo on their way to the US and EU. Under the agreement, Sri Lanka will offer priority berthing, special rebate for port handling charges, and other preferential facilities for Bangladeshi vessels.

With the improvement of connectivity and the institutional framework (governing trade and investment) there will be stronger economic ties between the two countries in the coming years. There are already positive signs

to this effect. Sri Lanka is looking at Bangladesh as a supplier of pharmaceutical and medical devices and for this purpose a Memorandum of Understanding was signed in June 2014. Bangladesh meanwhile, is seeking technical assistance from Sri Lanka for assessing fisheries resources in deep sea areas.

It was argued at one time that Bangladesh and Sri Lanka are trade competitors with ready-made garments exports being the major export of both countries and that there are limited trading opportunities according to the comparative advantage of both countries. Recent trading trends however, show that with production networks, supply chains, and changing production patterns in the world, that this need not be the case.

Although in terms of numbers trade between the two countries appear to be still small, the increasing trade does indicate that smaller South Asian countries are now prepared to engage in more trade and investment among themselves irrespective of regional politics.

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