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# FACILITATING TRADE BETWEEN INDIA AND SRI LANKA

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SUWENDRANI JAYARATNE AND JANAKA WIJAYASIRI



INSTITUTE OF POLICY STUDIES OF SRI LANKA

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# Table of Contents

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LIST OF FIGURES & TABLES	II
ACKNOWLEDGEMENT	III
ABSTRACT	IV
<hr/>	
1. Introduction	01
2. India-Sri Lanka Free Trade Agreement (ISFTA)	03
3. Trade and Investment between India and Sri Lanka	03
3.1 India-Sri Lanka Trade Prior to the ISFTA	04
3.2 India-Sri Lanka Trade Post-ISFTA	05
3.3 Investments between India and Sri Lanka	08
4. Methodology	09
5. Trade Facilitation in India and Sri Lanka and the ISFTA	09
5.1 Trade Logistics Performance of Sri Lanka and India	09
5.2 Recent Initiatives Undertaken by Sri Lanka to Facilitate Trade	12
6. Trade Facilitation in the ISFTA and other Agreements of India and Sri Lanka	13
7. Study Findings	14
7.1 Trade Facilitation Issues Faced at the Sri Lankan End in Exporting to India	14
7.2 Issues Faced at the Indian End when Exporting from Sri Lanka	15
8. Policy Recommendations	16
References	19
<hr/>	
Annex 1: Questionnaire for Semi-Structured Interviews: TF in the ISFTA	20
Annex 2: Trade Facilitation in India's Trade Agreements	23

## List of Figures

Figure 1: Steps of Completing an International Trade Transaction: Buy-Ship-Pay Model	02
Figure 2: Exports to India Prior to the ISFTA in 1999	05
Figure 3: Sri Lanka's Trade with India 2000-2014 (US\$ Mn)	05
Figure 4: Exports to India after the ISFTA: 2005	06
Figure 5: Exports to India after the ISFTA: 2011-2013	06

## List of Tables

Table 1: Trade Facilitation Benefits for Governments and Traders	02
Table 2: Exports and Imports under the ISFTA: 2000 - 2015	04
Table 3: Sri Lanka's Top 10 Exports to India: 2012-2014 (US\$ Thousand)	07
Table 4: Sri Lanka's Top 10 Imports from India: 2012-2014 (US\$ Thousand)	07
Table 5: Main Source of Investors in Sri Lanka	08
Table 6: FDI from India (2005-2015)	08
Table 7: Time, Cost and Documentation Needs to Trade: Sri Lanka & India, 2014	10
Table 8: Time and Cost Breakdown	10
Table 9: Enabling Trade Index 2014: South Asia	11
Table 10: Common Documentation Required for Exporting and Importing Under the ISFTA	12

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# Abstract

Sri Lanka and India have duty-free access to each other's markets through the India-Sri Lanka Free Trade Agreement, except for those items under the negative list and quota restrictions. Nevertheless, the utilization of the Agreement by both Sri Lankan and Indian traders has been limited in recent years. Given the significance of improving bilateral trade with India, this study examines the main trade facilitation related issues traders face when importing and exporting under the India-Sri Lanka Free Trade Agreement. This study aims at identifying these issues and potential means of improving the identified areas through key informant interviews carried out among 20 stakeholders including export and import companies and key trade related institutions in Sri Lanka. The study finds that the rejection of products entitled for concessions, non-acceptance of Sri Lankan standard certification, excessive time taken for product testing, complexity and difficulties in obtaining information, and lack of efficient border controls and coordination are some of the key barriers at the border in trading with India. Towards addressing these issues, the study recommends educating traders and customs officials of goods eligible for concessions, facilitating testing/certification, streamlining customs procedures, establishing a help/information desk and incorporating trade facilitation as a key component in a future negotiated agreement with India.

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## සාරාංශය

ඉන්දු - ශ්‍රී ලංකා නිදහස් වෙළෙඳ ගිවිසුම තුළින් තහනම් කරන ලැයිස්තුවේ සහ පංගු සීමා කිරීම් යටතේ අයිතම හැර ශ්‍රී ලංකාවට සහ ඉන්දියාවට එකිනෙකාගේ වෙළෙඳ පොලවල් කරා තිරුබදු රහිත ප්‍රවේශ සතුවේ. එසේවුවත්, ශ්‍රී ලංකාව සහ ඉන්දියාව යන රටවල් දෙකේ වෙළෙඳුන් විසින් ගිවිසුම භාවිතා කිරීම මත වර්ෂයන්හිදී සීමා වී තිබේ. ඉන්දියාව සමග ද්විපාර්ශ්වික වෙළෙඳාම වැඩි දියුණු කිරීම සඳහා, ඉන්දු - ශ්‍රී ලංකා නිදහස් වෙළෙඳ ගිවිසුම යටතේ ආනයනය සහ අපනයනය කිරීමේදී ව්‍යාපාරිකයන් විසින් මුහුණදෙන ප්‍රධාන පහසුකම් සැපයීමට ආදාළ ගැටළු සේවීම මෙම අධ්‍යයනයේ අරමුණ වේ. මෙම අධ්‍යයනයෙන් ශ්‍රී ලංකාවේ ආනයන සහ අපනයන සමාගම් සහ වෙළෙඳාම සම්බන්ධ ප්‍රධාන ආයතන ඇතුළුව පාර්ශ්වකරුවන් 20 දෙනෙක් අතර මූලික තොරතුරු ලබාගැනීමේ සාකච්ඡා තුළින් මෙම ගැටළු හඳුනාගැනීම සහ හඳුනාගත් ක්ෂේත්‍ර දියුණු කිරීමේ ක්‍රම හඳුනාගැනීම අරමුණු කරයි. සහන සඳහා ගිම්කම සහිත නිෂ්පාදන ප්‍රතික්ෂේප කිරීම, ශ්‍රී ලංකා ප්‍රමිති සහතික පිළිනොගැනීම, නිෂ්පාදන පරීක්ෂා කිරීම සඳහා ගනු ලබන දිගු කාලය, තොරතුරු ලබා ගැනීමේ සංකීර්ණතාව සහ දුෂ්කරතාව, සහ සීමා පාලනය සහ සම්බන්ධීකරණය තුළ අඩු කාර්යක්ෂමතාව ඉන්දියාව සමග වෙළෙඳාමේදී ප්‍රධාන බාධක සමහරක් බව මෙම අධ්‍යයනයෙන් සොයා ගෙන ඇත. මෙම ගැටලු ආමන්ත්‍රණය කිරීම සඳහා, සහන ලබන භාණ්ඩ පිළිබඳ දැනුවත් කිරීම, පරීක්ෂණ/සහතිකකිරීම සඳහා පහසුකම් ඇතිකිරීම, ථේගු ක්‍රියාවලිය විධිමත් කිරීම, තොරතුරු සහය පද්ධතියක් ස්ථාපිත කිරීම සහ ඉන්දියාව සමග අනාගත සාකච්ඡා ගිවිසුමක් තුළ ප්‍රධාන සංරචකයක් ලෙස වෙළෙඳ පහසුකම් සැපයීම සංස්ථාපනය කිරීම මෙම අධ්‍යයනය මගින් නිර්දේශ කෙරේ.



# பிரித்தெடுப்பு

கோட்டாக் கட்டுப்பாடு மற்றும் மறுதலிக்கப்பட்ட பட்டியலின் கீழ் உள்ள பொருட்கள் தவிர ஏனைய பொருட்கள் தொடர்பாக இலங்கை – இந்திய சுதந்திர வர்த்தக உடன்படிக்கையின் ஊடாக ஒவ்வொரு நாடும் ஏனைய நாட்டு சந்தையில் தீர்வையின்றி பிரவேசிக்கலாம். இருந்த போதும், இலங்கை மற்றும் இந்திய நாட்டு வர்த்தகர்களினால் இந்த உடன்படிக்கையினை பயன்படுத்தலானது அண்மைய ஆண்டுகளில் மட்டுப்படுத்தப்பட்டுள்ளன. இந்தியாவுடன் இருபக்க வர்த்தகத்தை மேம்படுத்துவதற்கு முக்கியம் கொடுத்து, இந்திய இலங்கை உடன்படிக்கையின் கீழ் ஏற்றுமதி மற்றும் இறக்குமதி வியாபாரத்தின் போது வர்த்தகர்கள் முகங்கொடுக்கின்ற பிரதான வசதியளிப்பு தொடர்பான பிரச்சினைகள் அடையாளம் கண்டு கொள்வதற்காக இந்த ஆய்வு மேற்கொள்ளப்படுகின்றது. இலங்கையின் பிரதான வர்த்தகத்துடன் தொடர்புடைய நிறுவனங்கள் மற்றும் ஏற்றுமதி மற்றும் இறக்குமதிக் கம்பனிகள் உள்ளடங்கலாக 20 மிக முக்கியமான அக்கறை காட்டுனர்கள் மத்தியில் முக்கிய தகவல் அறிதல் நேர்காணல்கள் ஊடாக அடையாளம் காணப்பட்ட துறைகள் எதிர்நோக்குகின்ற பிரச்சினைகளை இனங்கண்டு கொள்வதனையும் அவற்றுக்கான தீர்வுகளை மேம்படுத்துவதனையும் மையமாகக் கொண்டு இந்த ஆய்வு மேற்கொள்ளப்படுகின்றது. இந்தியாவுடன் வர்த்தகத்தில் ஈடுபடும் போது நாட்டு எல்லையில் காணப்படுகின்ற சில பிரதான தடைகளாக சலுகைகளுக்காக பட்டியற்படுத்தப்பட்ட உற்பத்திகள், இலங்கைத் தரச்சான்றிதழ் அனுமதி வழங்கப்பட முடியாத பொருட்கள், உற்பத்தியினை பரிசோதனை செய்வதற்கு மேலதிக நேரம் எடுத்தல், பொருட்களின் தகவல் விபரங்களைப் பெற்றுக் கொள்வதில் உள்ள சிக்கல் தன்மை மற்றும் கடினத்தன்மை, எல்லைக் கட்டுப்பாட்டில் காணப்படும் வினைத்திறன் மற்றும் ஒருங்கிணைப்பில் காணப்படும் குறைபாடுகள் போன்றவற்றின் காரணமாக மறுதலிக்கப்பட்ட பொருட்கள் இந்த ஆய்வில் கண்டுபிடிக்கப்படும். இந்தப் பிரச்சினைகளை குறிப்பிடும் முனைப்பில், இந்தியாவுடன் சமரசனம் செய்யப்பட்ட எதிர்கால உடன்படிக்கைகளின் பிரதான கூறுகளாக சலுகையளிப்புக்கள், பரிசோதனை / சான்றுப்படுத்தல் வசதியளிப்புக்கள், இந்தியாவுடன் சுயமான செயற்பாட்டு சுங்கத் திணைக்களச் செயற்பாடுகளை ஒழுங்குமுறைப்படுத்தல் தொடர்பாக வர்த்தகர்கள் மற்றும் சுங்க அலுவலர்களின் சிறந்த இயலுமைத் தன்மை தொடர்பாக அறிவூட்டுவதற்கு இந்த ஆய்வு சிபாரிசு செய்கின்றது.

# 1. Introduction

Trade between India and Sri Lanka changed significantly with the India-Sri Lanka Free Trade Agreement (ISFTA) coming into operation in March 2000. Total trade between the two countries has grown seven-fold during the past 14 years and India is now the largest trading partner and a main source of foreign direct investment for Sri Lanka. For India, Sri Lanka was the largest trading partner in SAARC as well as the largest export market in the South Asian region in 2014.<sup>1</sup>

While overall trade has increased post-ISFTA, it is often highlighted by the Sri Lankan side that the full potential of the Agreement has not been reaped. Sri Lanka's utilization of the ISFTA for its exports has been declining and now stands at 60 per cent. At the same time, a bulk of exports from India to Sri Lanka remains outside the ISFTA and the utilization rate of the ISFTA by Indian exporters remained as low as 14 per cent in 2014. In 2012, it was just above 4 per cent. Constraints to trade under the ISFTA and the inability of the countries to reap the full benefits of the agreement are due to non-tariff barriers; trade facilitation issues; lower prospects for vertical integration; quotas on major Sri Lankan exports; and stringent rules of origin criteria (Kelegama, 2014; Weerahewa, 2009).

Trade facilitation is increasingly being recognized as key to unlocking gains from international trade. As such in December 2013, WTO members concluded negotiations on a Trade Facilitation Agreement at the Bali Ministerial Conference with renewed interest on trade facilitation to unlock trade potential of countries. Trade facilitation refers to, "the simplification and harmonisation of international trade procedures including import and export procedures", where 'procedures' are largely attributed to the activities (practices and formalities) involved in collecting, presenting, communicating and processing the data required for movement of goods in international trade (European Commission, 2015). It emphasizes the need for coordination at the border and coordination between the entry and exit posts between border countries and includes all stages (buy-ship-pay stages) of the trading process (see Figure 1).

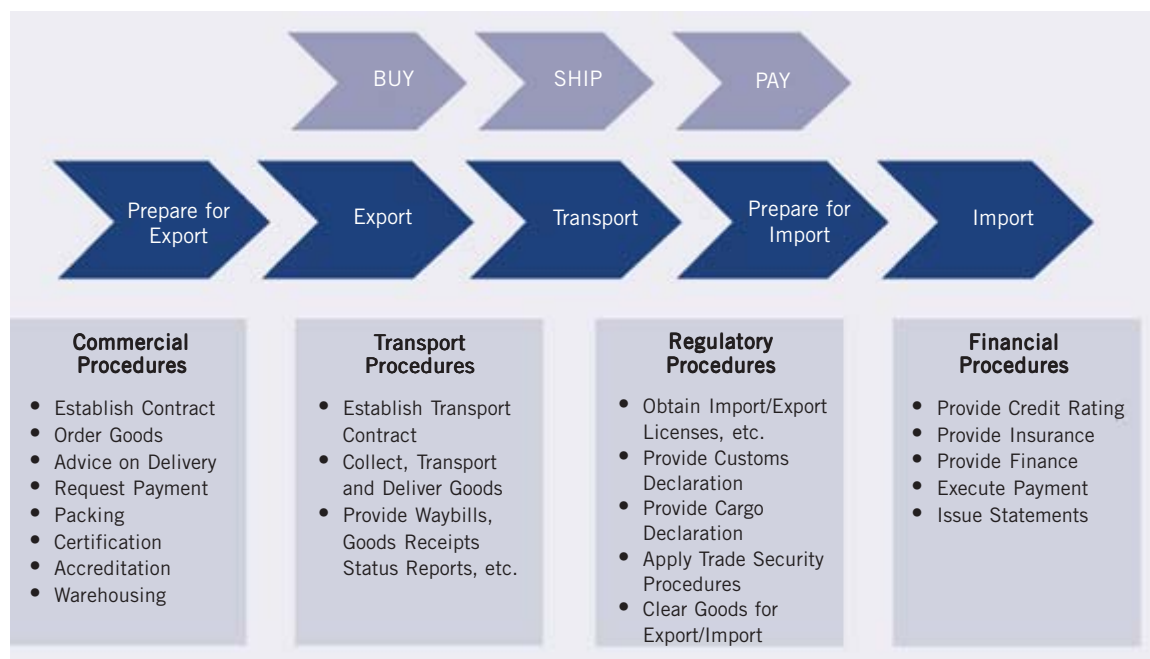
Benefits of trade facilitation are many and well documented (Wilson, Mann, & Otsuki, 2004; Duval, 2006; OECD, 2005). In the short-medium term, trade facilitation can improve trade competitiveness, foreign direct investment, increase participation of SMEs and improve growth prospects (ADB and the UNESCAP, 2013). Further, benefits can be accrued to both governments and traders (see

Table 1). Identifying the importance of trade facilitation in trade policy, the provisions on trade facilitation in recent trade agreements have also improved. However, trade facilitation is addressed to a bare minimum in the ISFTA.

In this background, this study looks at the trade facilitation issue facing traders in Sri Lanka when trading under the ISFTA. Given the significance of improving bilateral trade with India, this study aims at identifying these issues and potential means of improving the identified areas. As such, Section 1 of the study will give a brief introduction to the ISFTA, and Sections 2 and 3 will present an overview of trade and investment between India and Sri Lanka pre and post-ISFTA, respectively. Section 4 provides a brief description of the methodology, Section 5 examines the current status of trade facilitation in the two countries, and Section 6 provides an analysis of how trade facilitation is addressed in the ISFTA. This is followed by the findings of the survey which highlight trade facilitation issues faced at the Sri Lankan side as well as the Indian side when trading under the Agreement. The last Section provides policy recommendations based on the findings of the study.

<sup>1</sup> Based on calculations made using International Trade Center Database.

**Figure 1**  
**Steps of Completing an International Trade Transaction: Buy-Ship-Pay Model**



Source: ADB and the UNESCAP, 2013.

**Table 1**  
**Trade Facilitation Benefits for Governments and Traders**

Benefits to Governments	Benefits to Traders
<ul style="list-style-type: none"> <li>Increased effectiveness of control methods</li> <li>More efficient deployment of resources</li> <li>Correct revenue yields</li> <li>Improved trader compliance</li> <li>Encouragement of foreign investment</li> <li>Accelerated economic development</li> </ul>	<ul style="list-style-type: none"> <li>Lower costs and reduced delays</li> <li>Faster customs clearance and release through predictable official intervention</li> <li>Simpler commercial framework for doing both domestic and international trade</li> <li>Enhanced competitiveness</li> </ul>

Source: ADB and the UNESCAP, 2013.

## 2. India-Sri Lanka Free Trade Agreement

The India-Sri Lanka Free Trade Agreement which was signed on 28 December, 1998 entered into force with effect from 1 March, 2000. At the time of signing the ISFTA, it was the first bilateral free trading agreement signed by both parties and aimed at promoting economic links between India and Sri Lanka through the enhancement of bilateral trade and investment. The agreement covers trade in goods and requires the two countries to offer market access for each other's exports on a duty-free basis and concessionary tariffs (Asian Development Bank, 2013).

Learning that the positive approach adopted in the South Asian Preferential Trade Agreement (SAPTA) signed in 1995 failed to enhance trade within the region as expected, the ISFTA adopted a negative list approach to trade liberalization between the two

countries. All items that were deemed sensitive by each country were categorized under the negative list excluding them from the *tariff liberalization programme*. Apart from the product items that came under this list, all tariff lines were subjected to zero-duty at the end of implementation. Sri Lanka has 1180 items (reduced from 1220 items in 2000) on the negative list while India maintains 429 (at HS 6 digit level) items on the list. Apart from the list of items named by either country that would enjoy immediate duty-free concessions (319 items for Sri Lanka and 1351 items for India), under the *tariff liberalization programme* India and Sri Lanka were given 3 years and 8 years, respectively to completely enforce zero-duty, so as to give enough time for the domestic firms to adjust to shocks that would result from trade liberalization. Sri Lanka

was given additional years to open up in recognition of asymmetries between the two countries. Further, to ensure that products of third countries do not enter either Sri Lanka or India, both countries are required to produce proof of origin, or Rules of Origin (RoO). However, if there is a need of third country products to manufacture a certain product, this procedure requires substantial value addition to be done within the country prior to exporting it. The ISFTA uses Domestic Value Addition (DVA) and Change of Tariff Heading (CTH) to determine its origin. In the case of certain items in the negative list in one country that are of export interest to the other country, tariff rate quotas are allowed. This system allows a certain pre-agreed proportion of the products to pass through customs with zero-duty.

## 3. Trade and Investment between India and Sri Lanka

India, being one of the most dynamic and rapidly expanding economies with attractive market opportunities, has maintained strong relations with Sri Lanka due to its close proximity and historical links. Relations between Sri Lanka and India have no doubt matured and diversified over time, and now enjoy a vibrant and growing economic and commercial partnership. India is now Sri Lanka's

largest trading partner globally, while Sri Lanka in turn is India's largest trading partner in the SAARC region. India is Sri Lanka's largest source of imports, accounting for approximately 21 per cent of total imports in 2014 (Central Bank of Sri Lanka, 2015). India is also Sri Lanka's third largest export destination after the United States and the United Kingdom, accounting for 5.6 per cent of the total

export value. By the end of 2014, the total value of bilateral trade had increased from USD 656 million in 2000 to USD 4.6 billion (see Table 2). Examining trade data between India and Sri Lanka, it is evident that this rapid increase in economic interaction in the past decade followed the signing of the ISFTA.

**Table 2**  
**Exports and Imports under the ISFTA: 2000 - 2015**

Year	Exports (US\$ Mn.)			Imports (US\$ Mn.)			Total Value of Bilateral Trade
	Total Exports to India	ISFTA Exports	% under the ISFTA	Total Imports from India	ISFTA Imports	% under the ISFTA	
2000 Mar-Dec	55.6	8.6	16	600.0	53.9	9	655.6
2001	70.1	15.9	23	601.5	113.1	19	671.6
2002	168.8	114.2	68	834.7	81.7	10	1003.5
2003	241.1	238.8	99	1076.2	150.4	14	1317.3
2004	385.5	339.9	88	1342.0	394.7	29	1727.5
2005	559.2	543.0	97	1399.4	246.2	18	1958.6
2006	494.0	431.1	87	1822.1	459.3	25	2316.1
2007	516.4	398.2	77	2785.0	385.3	14	3301.4
2008	418.0	309.3	74	3006.9	541.4	18	3424.5
2009	324.8	218.5	67	1709.9	371.7	22	2034.7
2010	466.6	358.4	77	2546.2	573.7	23	3012.8
2011	521.5	391.5	75	4349.4	579.6	13	4870.9
2012	566.3	379.5	67	3517.2	156.4	4	4083.5
2013	543.4	368.8	65	3092.7	393.4	13	3636.1
2014	624.8	375.8	60	3977.8	540.1	14	4602.6
2015	598.6 (Jan-Nov)	406.3	-	3972.1 (Jan-Nov)	240.3	-	-

Source: Compiled using Sri Lanka Customs data.

### 3.1 India-Sri Lanka Trade Prior to the ISFTA

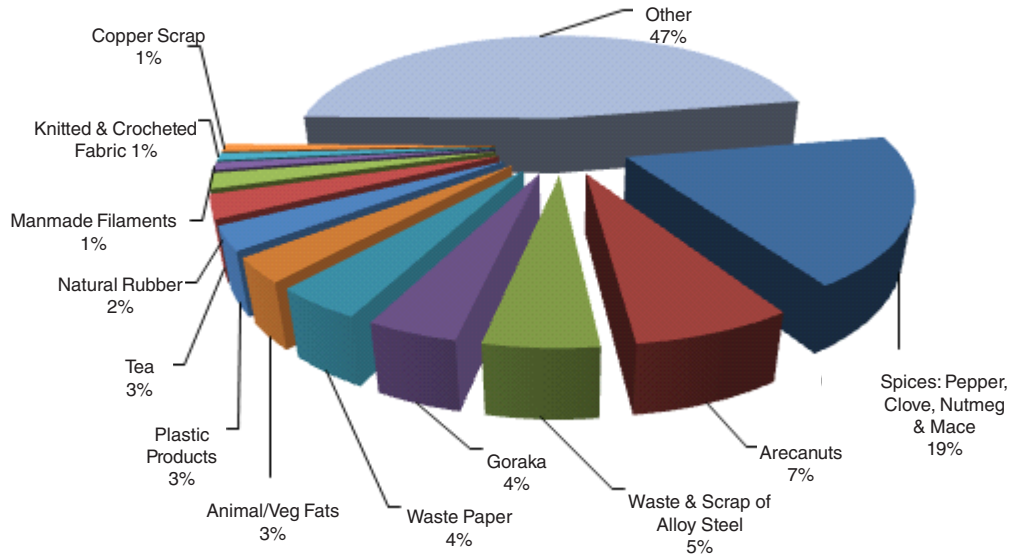
India was an important trading partner in the South Asian region for Sri Lanka even prior to the implementation of the ISFTA in 2000. India was the largest import source for Sri Lanka in the South Asian region accounting for 8.4 per cent of the total imports in 1999. The exports to India however were not as significant prior to the ISFTA. Although India was the second largest export destination in the South Asian region after the Maldives for Sri Lanka, it accounted for only about 1.05 per cent of Sri Lanka's total exports in 1999, with a total

value of a mere USD 47 Million and India ranked at 16<sup>th</sup> place among the top exporting markets.

As illustrated in Figure 2, prior to the ISFTA Sri Lankan exports to India mainly consisted of primary agricultural goods (Pepper, Cloves, Nutmeg & Mace; Goraka; Arecanuts) and unrefined metal (Scrap of alloy steel, copper scrap). The trade deficit between India and Sri Lanka was substantial too amounting to US\$ 463 million in 1999 with an import:export ratio of 10.5:1 (de Mel, 2008).

Foreign Direct Investment (FDI) from India to Sri Lanka also remained limited prior to the launch of the ISFTA, with a cumulative investment of only SLR 165 million as of 1999 accounting for 1.3 per cent of the total FDI. In 1999, Indian investment in Sri Lanka was limited to food, beverages, tobacco, chemical, petroleum, rubber, and plastic products. These figures show although trade between these two countries existed prior to the ISFTA, trade relations remained limited.

**Figure 2**  
**Exports to India Prior to the ISFTA in 1999**



Source: Sri Lanka Export Development Board (EDB), 2014.

## 3.2 India-Sri Lanka Trade Post-ISFTA

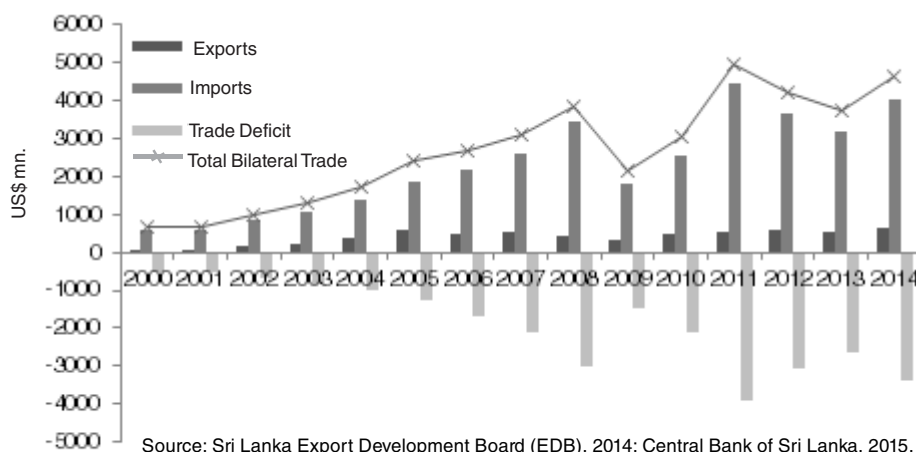
Since the implementation of the ISFTA, there has been a significant increase in trade between the two countries. Even after a significant drop in trade in 2009 due to the world economic downturn, trade between the two countries rapidly picked up hitting a peak in 2011 (see Figure 3).

With the implementation of the ISFTA, by 2005 there had been a significant diversification of exports to India from Sri Lanka, amounting to approximately USD 559.2 million in 2005 compared to USD 47 million in 1999. More importantly, by 2005 Sri Lanka shifted from exporting mainly

primary goods such as spices and unrefined metal to processed goods such as insulated wires and cables, vegetable oils and fats (Vanaspathi), refined copper ingots, articles of stone, plaster, cement, margarine, rubber and articles thereof. As illustrated in Figure 4, new products

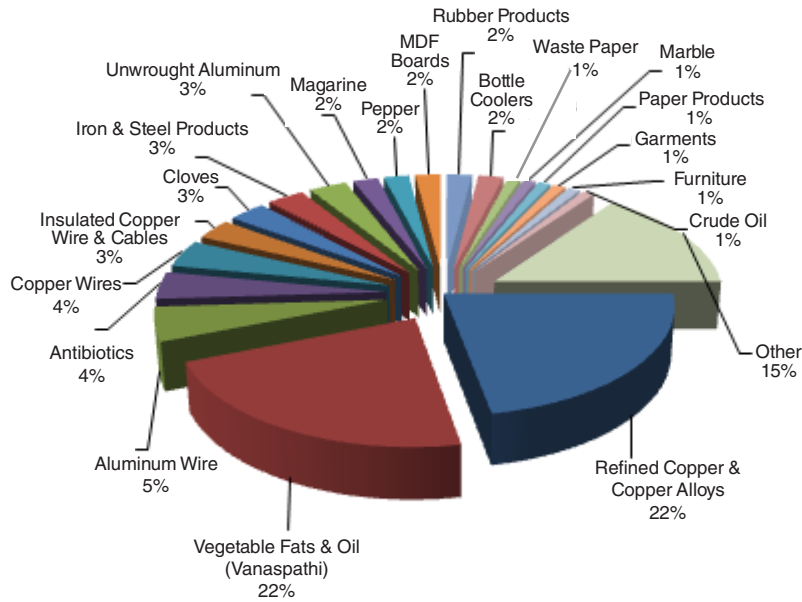
such as furniture, antibiotics and ceramic products were also successfully able to enter the Indian market (Export Development Board, 2014).

**Figure 3**  
**Sri Lanka's Trade with India 2000-2014 (US\$ Mn)**



Source: Sri Lanka Export Development Board (EDB), 2014; Central Bank of Sri Lanka, 2015.

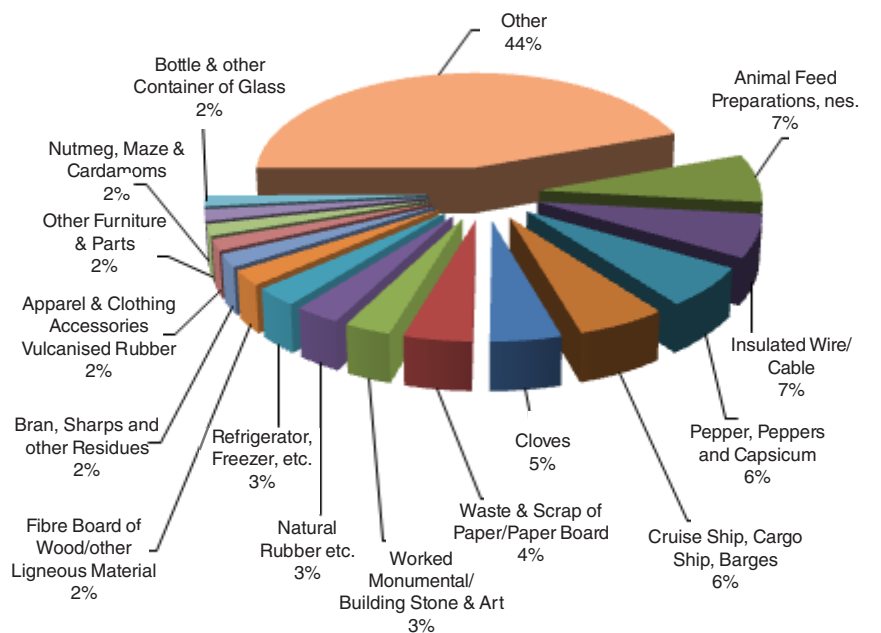
**Figure 4**  
**Exports to India after the ISFTA: 2005**



Source: Export Development Board, 2014.

Although these aggregate values reflected positively in terms of export growth in Sri Lanka to India, upon closer analysis one would observe that this might not necessarily be the case. Although seemingly there has been an increase in the total export value and diversification, almost 50 per cent of the exports were accounted for by only two product lines; namely vegetable fats & oil (Vanaspathi), and copper and copper related products. However, these products performed well not due to the comparative advantage Sri Lanka had but due to short-term tariff arbitrage. Later, with India reducing import taxes on food imports including palm oil and with the change in invoicing methods for copper exports, there was a drop in the total value of exports of these products after 2006 (Kelegama, 2014).

**Figure 5**  
**Exports to India after the ISFTA: 2011-2013**



Source: International Trade Center Database, 2015.

However, looking at Sri Lanka Customs data from 2011-2013 one would observe that Sri Lanka has managed to find other products that performed well in the Indian market

other than the products that were traditionally exported including, ships, boats and floating structures, animal feed, apparel, insulated wires, cables, paper & paper products, natural rubber & rubber products, furniture etc., fibre board of wood, copper & copper based products (see Figure 5). Table 3 shows the top 10 Sri Lankan export products to India in the 2012-2014 period.

**Table 3**  
**Sri Lanka's Top 10 Exports to India: 2012-2014 (US\$ Thousand)**

	Product Code HS 4 Digit	Product Label	Sri Lanka's Exports to India 2012-2014 - Total Value
1	'0904	Pepper, peppers and capsicum	125,849
2	'2309	Animal feed preparations, nes	107,740
3	'8901	Cruise ship, cargo ship, barges	93,134
4	'8544	Insulated wire/cable	84,141
5	'0802	Nuts nes	77,257
6	'4707	Waste and scrap of paper or paperboard	70,760
7	'2710	Petroleum oils, not crude	54,176
8	'0907	Cloves	50,646
9	'6802	Worked monumental/building stone & art; mosaic cube,granules	38,156
10	'6006	Fabrics, knitted or crocheted, of a width of > 30 cm (with exclusions)	29,982

Source: International Trade Center Database, 2015.

**Table 4**  
**Sri Lanka's Top 10 Imports from India: 2012-2014 (US\$ Thousand)**

	Product Code HS 4 Digit	Product Label	Sri Lanka's Imports from India - Total Value
	TOTAL	All products	10,620,489
1	'2710	Petroleum oils, not crude	1,611,778
2	'2523	Cements, portland, aluminous, slag, supersulfate & similar hydraulic	638,301
3	'3004	Medicament mixtures (not 3002, 3005, 3006), put in dosage	475,981
4	'8703	Cars (incl. station wagon)	442,124
5	'8711	Motorcycles, side-cars	432,293
6	'8704	Trucks, motor vehicles for the transport of goods	426,085
7	'1701	Cane or beet sugar and chemically pure sucrose, in solid form	359,113
8	'5209	Woven cotton fabrics, 85% or more cotton, weight over 200 g/m2	251,947
9	'1006	Rice	231,769
10	'6006	Fabrics, knitted or crocheted, of a width of > 30 cm (with exclusions)	229,191

Source: International Trade Center Database, 2015.

As shown in Figure 3 imports from India has increased by more than 6-fold by the end of 2014 compared to the inception of the ISFTA in 2000. Comparatively, total exports to India from Sri Lanka have grown at a slower rate, resulting in a widening trade deficit for Sri Lanka. Although the import to export ratio has narrowed since the implementation of

the ISFTA (6:1 in 2013 compared to 10:1 in 1999), the absolute trade deficit for Sri Lanka still remains fairly high. This may be due to the lack of productive export capacity in Sri Lanka to satisfy the requirements of the significantly larger Indian economy, the competitiveness of Indian products in the market and, competition from other emerging

economies to capture market share in the Indian market. Another factor that may have contributed to the limited export potential to India from Sri Lanka is that the Indian market is not a traditional export market of Sri Lanka. Sri Lanka's traditional export markets have always been the US and the EU, which are reasonably established markets with long



standing buyer-seller relationships and supply chains.

Another notable feature of trade between the two countries is the low utilization of the concessions offered under the ISFTA. While utilization of

the ISFTA by Sri Lankan exporters has reduced to 60 per cent, the share of exports from India to Sri Lanka that comes under the ISFTA has remained even lower, at 14 per cent. This indicates that while more than 50 per

cent of Sri Lanka's exports to India come within the parameters of the ISFTA, more than 50 per cent of India's exports to Sri Lanka are done out of the ISFTA.

### 3.3 Investments between India and Sri Lanka

Inbound investments from India to Sri Lanka grew strongly with the signing of the ISFTA. While in 1999, Indian investment in Sri Lanka was limited to food, beverages, tobacco, chemical, petroleum, rubber, and plastic products, a few years into the ISFTA investments from India in Sri Lanka expanded to include services, fabricated metal products, machinery and transport equipment, manufactured products, and non-metallic mineral products by 2005. During this period a significant proportion of all investments were accounted by the vegetable fats & oil (Vanaspatti) and copper metal sectors. This was mainly due to a number of Indian manufacturers investing heavily in Sri Lanka to take advantage of the low external tariffs on their principal inputs and the preferential entry into the Indian market from Sri Lanka. By 2013, these investment avenues further diversified to include investments in petroleum retail, hospitals, telecom, real estate development, telecommunication, hospitality and tourism, banking and financial services, IT and food processing sectors as well (Asian Development Bank, 2013). In 2014, India was the eighth largest overall investor in Sri Lanka with cumulative investments over USD 800 million since 2005 (Table 5 & Table 6).

Some of the notable Indian investments in Sri Lanka in the recent past include proposals to set up a sugar refining plant in Hambantota by Shree

**Table 5**  
**Main Source of Investors in Sri Lanka**

Rank	2010	2011	2012	2013	2014
1	India	Mauritius	Hong Kong	China	China
2	Malaysia	India	UAE	Malaysia	UK
3	UAE	Hong Kong	China	Hong Kong	US*
4	UK	Malaysia	India	Netherlands	Singapore
5	Singapore	British Virgin Island	Singapore	Singapore	Netherlands
6	Hong Kong	Singapore	Mauritius	UAE	Mauritius
7	Netherlands	UAE	Netherlands	UK	Hong Kong
8	Mauritius	UK	Malaysia	India	India
9	US	Netherlands	UK	Japan	Canada
10	Japan	Japan	Luxembourg	US	Australia

Note: \*Includes non-BOI project.  
Source: Compiled using Board of Investment information.

Renuka Sugar (USD 220 million), a fruit juice manufacturing plant by Dabur (USD 20 million), Altair Project by South City and Krrish Square Project by Krrish Group (USD 460 million). In contrast to wide ranging direct investment in Sri Lanka by India, Sri Lankan investments in India are very few reflecting the low volume of outbound FDI from Sri Lanka in general. Since 1990s, investment from Sri Lanka to India has risen though the flows are small in terms of value. Sri Lankan investments in India that have increased were in garments, confectioneries, hotels, furniture, freight servicing and logistics, with the participation from some of Sri Lanka's top blue chip companies. The main Sri Lankan investors in India include: Ceylon Biscuits, Carsons Cumberbatch, Brandix, MAS

Holdings, John Keels Holdings, Hayleys Group, DRH Logistics International and Aitken Spence (Asian Development Bank, 2013).

**Table 6**  
**FDI from India (2005-2015)**

Year	FDI (US\$ Mn.)
2005	17.9
2006	27.1
2007	42.9
2008	125.9
2009	77.7
2010	110.2
2011	146.8
2012	160.2
2013	50.5
2014	51.8
<b>Total</b>	<b>811.0</b>

Source: Compiled using Board of Investment information.

## 4. Methodology

In order to evaluate the current status of trade facilitation in the two countries and to find trade facilitation related issues affecting Indo-Lanka trade, the study used both secondary data/literature and primary information gathered through interviews. Key informant interviews were carried out in May 2015 among 20 stakeholders including 14 firms and representatives of 6 key institutions involved in the trading process. The firms interviewed were importers/exporters of the top products that are currently traded between the two countries including

exporters of fruits to capture any issue facing exporters of perishable goods. As such the sectors chosen for the study were fruits, rubber, furniture, cement and textiles. The firms were selected from lists of importers and exporters acquired from the Sri Lanka Customs and the Sri Lanka Export Development Board. Interviews were also carried out with representatives from the Sri Lanka Customs, Department of Commerce of Sri Lanka, Sri Lanka Standards Institute, SAARC Chamber of Commerce & Industry, National Chamber of Commerce and the Joint

Apparel Association Forum to triangulate the findings and improve the validity of the study.

While sixteen interviews were carried out face-to-face, the other four were carried out over the phone. The interviews were done based on a semi-structured questionnaire with the objective of finding out the experiences in trading with India; the key bottlenecks that arise in trading with India; and on measures that can be adopted to overcome these constraints (see Annex 1 for Questionnaire).

## 5. Trade Facilitation in India and Sri Lanka and the ISFTA

### 5.1 Trade Logistics Performance of Sri Lanka and India

Sri Lanka's trade logistics performance has been commendable over the years, with the country outperforming its South Asian neighbours in several logistics performance indicators. According to World Bank's Trading Across Borders (TAB), which capture the time and cost associated with exporting and importing a standardized cargo of goods by sea transport, Sri Lanka was ranked 69 in 2014 (out of 189 economies), and is the best performing country in the region. It ranked at 85 the previous year and is hence, a notable development. India on the other hand, ranks at 126, behind Sri Lanka and Pakistan (rank-108) in the South Asian region.

According to TAB figures, it now takes 16 days to export from Sri Lanka, compared to 17.1 days from India (South Asian average is 33.4); and 13 days to import in Sri Lanka compared to 21.1 days in India (South Asian average is 34.4). Cost of exporting out of India and importing into India is more than two times the cost in Sri Lanka but is lower than the average for South Asia (see Table 7).

The breakdown of time taken to complete the export procedures in both countries show that the cost of inland transport and handling, the cost of document preparation and port handling is relatively higher in India. On the other hand, customs

clearance costs of export products are higher in Sri Lanka. In importing too, customs clearance and inspections costs are higher in Sri Lanka. However, the import documentation cost in India is much higher than Sri Lanka - almost 3 times the cost in Sri Lanka, while ports and handling charges are also about 1.5 times more than that of Sri Lanka.

**Table 7**  
**Time, Cost and Documentation Needs to Trade:**  
**Sri Lanka & India, 2014**

Indicator	India	Sri Lanka
Export		
No. of Documents	7	7
Time to Export (days)	17.1	16
Cost to Export (US\$ per container)	1332	560
Import		
No. of Documents	10	7
Time to Import (days)	21.1	13
Cost to Import US\$ per container)	1462	690
<b>Rank</b>	<b>126</b>	<b>69</b>

Source: World Bank, 2014.

**Table 8**  
**Time and Cost Breakdown**

Nature of Export/Import Procedures	Export		Import	
	Duration (days)	Cost (US\$ per container)	Duration (days)	Cost (US\$ per container)
Sri Lanka				
Documents preparation	9	135	7	140
Customs clearance and inspections	2	160	2	285
Ports and terminal handling	3	150	2	150
Inland transportation and handling	2	115	2	115
<b>Total</b>	<b>16</b>	<b>560</b>	<b>13</b>	<b>690</b>
India				
Documents preparation	8	365	8	400
Customs clearance and inspections	2	130	4	200
Ports and terminal handling	3	225	5	250
Inland transportation and handling	3	400	3	400
<b>Total</b>	<b>16</b>	<b>1,120</b>	<b>20</b>	<b>1,250</b>

Source: World Bank, 2014.

Sri Lanka's score in the World Economic Forum's Enabling Trade Index suggests that the country is leading in South Asia in terms of the number of days and documents to import and export, and cost to export

(Table 9). However, it lags behind both India and Pakistan in terms of efficiency and transparency of border administration, and the availability and quality of transport services. Sri Lanka is also behind India in terms of

availability and quality of transport services, suggesting that there is much more room for improvement. India performs better in the quality of transport infrastructure.

**Table 9**  
**Enabling Trade Index 2014 : South Asia**

Enabling Trade Scores 2014	Sri Lanka	India	Pakistan	Bangladesh	Nepal
Efficiency & Transparency of Border Administration(1-7)	4.0	4.2	4.3	3.2	3.1
Customs services index (0-1)	0.23	0.56	0.64	0.35	0.36
Efficiency of Clearance Process (1-5)	2.6	2.7	2.8	2.1	2.3
No. of days to import	17	20	18	35	39
No. of documents to import	7	11	8	8	11
Cost to import (US\$ per container)	775	1,250	725	1,470	2,400
No. of days to export	20	16	21	25	42
No. of documents to export	5	9	8	6	11
Cost to export (US\$ per container)	595	1,270	660	1,075	2,295
Irregular payments in exports & imports (1-7)	2.4	2.7	2.6	2.0	2.3
Time predictability of import procedures (1-7)	3.8	3.4	3.5	3.1	3.3
Customs transparency index (0-1)	0.70	1	0.8	0.38	0.73
Availability and Quality of Transport Infrastructure (1-7)	3.6	4.3	3.4	2.3	2.3
Available int'l airline seat km/week, millions	271.4	1,820.7	321.3	198.8	83.8
Quality of Air transport infrastructure (1-7)	4.8	4.8	4.1	3.2	3.0
Quality of Railroad infrastructure(1-7)	3.6	4.8	2.5	2.4	1.1
Liner Shipping Connectivity Index (0-157.1)	43.0	44.4	27.7	8.0	n/a
Quality of Port infrastructure (1-7)	4.2	4.2	4.5	3.5	2.7
Paved Roads (% of total)	25.9	49.5	72.2	9.5	53.9
Quality of Roads (1-7)	4.7	3.6	4.0	2.8	2.7
Availability and Quality of Transport Services(1-7)	3.9	4.3	3.9	3.6	3.4
Enabling Trade Index 2014 Rank	84	96	114	115	116

Note: (a) 1-5 Best , (b) 0-100 Best , (c) 1-7 Best.

Source: World Economic Forum, 2014.

Based on the interviews of the study, the main documentation required for the two countries in the export/import process are 5-6 documents (see Table 10). However, there are product specific certification and documentation needs. Furthermore, in obtaining the Certificate of Origin,

an exporter in Sri Lanka has to produce (i) a Qualifying document (value addition criteria, product specific criteria like raw material sourcing criteria, production process, etc.), (ii) Affidavit given by the exporter (for wholly obtained product), (iii) A catch certificate (if the product

is fish), and an (iv) Approved cost statements (for value added products; valid for 6 months-1 year).

**Table 10**  
**Common Documentation Required for Exporting and Importing Under the ISFTA**

Exports	Imports
1. Customs Declaration (CUSDEC)	1. CUSDEC
2. Shipping Note/Airway Bill	2. The Commercial Invoice
3. Invoice	3. Delivery Order (DO)
4. Certificate of Origin	4. Bill of Lading (BL)
5. Packing List	5. Packing List
6. Product specific documents such as the Certificate of Analysis/SPS certification for rubber exports, labeling requirements (buyer dependent)	6. Certificate of Origin
	7. Product specific documents such as a Certificate of Analysis for pharmaceuticals

## 5.2 Recent Initiatives Undertaken by Sri Lanka to Facilitate Trade

### *Sri Lanka Customs Paperless Export Clearance Initiation*

Vital agencies in the import/export process in Sri Lanka such as the Sri Lanka Customs (SLC) and the Sri Lanka Ports Authority have undertaken measures to facilitate trade through the automation of procedures and pursuing for a paperless system. As a result, the trading process in Sri Lanka now involves less paper compared to a few years back. The SLC initiated the 'Sri Lanka Customs Paperless Export Clearance Initiation' in December 2013, which according to Customs has reduced the number of documents for exports from 12-16 documents to 4-5 documents. Under this programme, it is mandatory for exporters to submit the customs declaration (CUSDEC) electronically through Direct Trader Input (DTI). Other initiatives of this programme include, (i) e-warranting, where the warranting of the CUSDEC is carried out without the paper copy having to be submitted; (ii) one-time payment where once the CUSDEC is submitted, the system estimates all

the payments that need to be made and e-payments can be made via accounts held at 2 banks which are currently linked to the system; (iii) SMS updates at different points of the export process (when CUSDEC is submitted, payments are made and the Release Order is granted); (iv) electronic submission of the Cargo Dispatch Note (CDN) and Shipping Note; and (v) establishment of the Centralized Cargo Examination Facility.

Furthermore, with the calculation of all payments done at one point, it has eliminated the need for traders to make payments several times at different points of the export process, thereby reducing the time attached to trading. Traders also receive SMS alerts once registering with the customs, improving transparency and enabling traders to track albeit to an extent the stage of clearance process. The import process is partially automated but not to the extent of the export process. Importers have the option of submitting the CUSDEC online and the assessment note is generated through the automated system.

### *Export Facilitation Centre*

The export process has been improved to a great extent with the establishment of the Export Facilitation Centre. The centralized cargo processing facility is situated in close proximity to the Colombo Port and export cargo can now be processed 24 x 7 in this facility which has been in operation since July 2014. After documentation is complete, the exporters can bring their cargo to the Facility at which point, if the consignment is selected for panel examination the examination would be carried out at the Centre itself. Many exporters are of the view that this has reduced the costs entailed in carrying out panel examinations at the exporter's warehouses, such as overtime payments which have to be paid to workers when a panel examination is carried out after normal work hours, extra costs in terms of electricity, providing transport to customs officers, etc. According to the Shippers Council of Sri Lanka, the country has achieved about 80 per cent of the private sector's needs in terms of facilitating exports. The

number of times one has to physically visit the Customs regarding exports has drastically dropped.

Nevertheless, the selection for panel examinations are still carried out manually with the trading community highlighting the need for an automated system that can do the selection, depending on the country one exports, trading history and other relevant criteria.

### *Introduction of the Green Channel*

SLC also offers a fast track clearance system to low-risk consignees since September 2013. Currently, this is offered to 240 traders. The system has been introduced to facilitate the low-risk consignees and is available

only to the most trusted. While the Customs is looking at extending the 'Green-Channel' facility to a higher number of consignees, it is currently offered to mostly large scale publicly-quoted companies which have a proper recording system of information/data. It is expected to reduce the turn-around time by six to seven hours.

### *24-Hour Service from Customs*

24x7 operations of the Customs along with other complementary government agencies including Sri Lanka Ports Authority was launched in early 2015. The aim is to improve clearance of import and export cargo within a matter of hours whereby the

processing of imports, exports and trans-shipment will be carried out throughout the day. It is also aimed at enhancing trade facilitation while reducing traffic congestion in and around in the city of Colombo caused by movement of container carriers, vehicles and other cargo vehicles.

### *Developments at the Ports Authority*

Traders do not have to physically go to the Ports Authority to make payments as there are online payment gateways/methods set up by the Ports Authority now. According to traders, there is greater cooperation between individual terminals and customs.

## 6. Trade Facilitation in the ISFTA and other Agreements of India and Sri Lanka

Trade facilitation related provisions are limited in the Indo-Sri Lanka FTA. Provisions relating to consultation on rules of origin and institutional mechanisms for appeal procedures are included in the Agreement. India and Sri Lanka have also established an Arbitration Tribunal for binding decisions on origin. Apart from the above, provisions in other areas of trade facilitation under the ISFTA is more or less, non-existent. There are no chapters dedicated to trade facilitation. The Agreement does not make provisions on publication and availability of information: specifications are not made on publishing trade regulation, internet publication, notification of trade regulation, establishment of enquiry points/Single National Focal Points or other measures to enhance availability and exchange of

information. Furthermore, specifications on the time between publication of new regulations and the time it comes into force are also not stated. Apart from the Arbitration Tribunal, the agreement does not specify other measures that can be undertaken to enhance impartiality, non-discrimination and transparency.

ISFTA also does not have provisions on the fees and charges related to importing/exporting - there are no provisions or guidelines on the general discipline on fees and charges, reduction in the number and diversity of fees and charges, publication/notification of fees and charges, their periodic review or other related measures. Formalities/procedures and data/documentation requirements, the reduction of formalities and documentation, the

use of international/regional standards or provisions on commercially available information are also not included. It does not propose or state the role of automation in the process or on working towards a single window. Similarly, the trade facilitation measures on the release and clearance of goods which is key in trading, has not been included in the Agreement. Therefore, procedures on pre-arrival clearance, expedited procedures for express shipments, application of risk management techniques, and other measures related to the clearance of goods that remain are not outlined in the ISFTA. Exchange and handling of information, customs valuation and harmonization/standardization are also not addressed in the Agreement.

However, an analysis of India's other agreements shows that India addresses trade facilitation more comprehensively in their comprehensive economic cooperation agreements (CECA) and comprehensive economic partnership

agreements (CEPA). In fact, Chapter 5 of its CEPA with Korea is on 'Trade Facilitation and Customs Cooperation' and agreements with Singapore, Japan and Malaysia include chapters on customs procedures/customs cooperation, technical regulations/

barriers and standards which are of relevance to trade facilitation (see Annex 2). On the contrary, Sri Lanka's other bilateral agreement with Pakistan also does not address key areas of trade facilitation.

## 7. Study Findings

This section presents the findings of the study, including trade facilitation issues faced at both the Indian side and the Sri Lankan side, based on information collected from respondents.

### 7.1 Trade Facilitation Issues Faced at the Sri Lankan End in Exporting to India

- Apart from the Sri Lanka Customs, Ports and the BOI, other supporting and facilitating agencies that are involved in the trading process are not automated.** Exporters highlighted that none of the procedures at the Department of Commerce are automated, with certification and other documentation still carried out manually, i.e. issuance of the Certificate of Origin (CoO). The DOC is the only authority in Sri Lanka that can issue CoOs for all preferential schemes including the ISFTA, while the Chambers of Commerce can issue CoOs for non-preferential cargo. The DOC has a 'Green Channel' facility for the issuance of GSP certificates, where the issuing time is a minimum.<sup>2</sup> However, this is not available for other preferential schemes yet. For the Green Channel customers, the CoOs are issued within 1-2 hours whereas for general customers it takes

about 3-4 hours. According to the DOC, it plans to automate the process of issuing the CoO in near future.

Chambers (i.e. Ceylon Chamber of Commerce and the National Chamber of Commerce) which issue CoOs for non-preferential cargo on the other hand, have embraced technology/automation more extensively, allowing exporters to submit and obtain certificates and other documentation online.

- Documentation Delays.** Because of the close geographical proximity between the two countries, cargo shipped from India usually arrives in Sri Lanka within 24 - 48 hours. However, documentation from India takes longer to arrive in Sri Lanka, with delays sometimes attributed to bureaucracy and red tape barriers at the Indian end. As a result, importers in Sri Lanka cannot produce the original

documentation required by the SLC to clear the cargo and have to incur additional costs to get bank guarantees/shipping guarantees to clear the goods.

- When importing small consignments, delays take place due to capacity issues at the Colombo Port.** As a result, there is a delay in de-stuffing in Sri Lanka, sometimes taking up to 7 days to de-stuff a container.
- The standard and quality requirements for products that are being imported in to the country are set by different organisations that handle specific areas.** For example, food quality standards and regulations for imported food items are set by the Food Authority of Sri Lanka; cosmetics, pharmaceutical standards and regulations are set by the Health Ministry and Drug Regulatory Authority of Sri Lanka. As a result, importers have to visit different agencies to get relevant information and approvals.

<sup>2</sup> At the moment 87 companies have been given the Green Channel facility by the DOC. For the Green Channel customers, the COs are issued within 1-2 hours whereas, for general customers it takes about 3-4 hours. COs are issued within a day and usually about 500-600 COs are issued by the DOC within a day.

## 7.2 Issues Faced at the Indian End when Exporting from Sri Lanka

- Lack of border control mechanism and lack of transparency/information sharing** with the relevant authorities and persons in India have led to considerable delays in shipping, logistics, thereby reducing exports and export competitiveness. Not having border control systems online, limits information sharing and this has often led to delays and complications, i.e. different ports demand different sets of documentation. The Indian ports are hardly automated and are not linked. Hence, the need to get clearance from multiple controllers at sea as well as land borders was identified by some exporters to be one of the main hindrance to the free movement of goods under the ISFTA. Traders are of the view that the Sri Lanka Customs and Ports controls are comparatively much more streamlined.

- Unawareness of customs officials of products and product category which receive ISFTA concessions** was identified to be one of the main issues confronting some of the exporters. Some Indian customs officials are not fully aware of some of the goods and what HS code they should fall under, resulting in having to pay additional duties. There is a lot of paperwork and red tape in the customs which inevitably leads to delays and corruption and smuggling of products. As a Sri Lankan exporter of natural rubber and rubber products stated:

*Although Thick/Thin Pale Crepe (TPC) is a natural form of rubber, the Indian customs officials argue*

*that it is a finished product and therefore is not entitled for zero duty under the regulations. They do not accept TPC as a primary form of natural rubber even after the Rubber Research Institute has confirmed so. As a result, many potential Indian customers who require this grade of crepe rubber do not opt for Sri Lankan produced crepe as the price is too high with added duty.*

*Just because TPC is white in colour and is packaged differently (compared to other natural raw rubber products like sheet rubber) does not mean it is a finished good to be charged a higher duty.*

- Non-acceptance of Sri Lankan standard certification** at the Indian end has led to delays and increased costs. According to the Sri Lanka Standards Institute (SLSI), they are looking at ways the SLSI could intervene to resolve this issue. The SLSI has signed a MoU with the Export Inspection Council of India in 2003 whereby Sri Lanka recognizes Indian quality standard/product certification for over 80 identified items. However, there has been no reciprocal agreement signed to state that India would accept quality standard/product certification issued by Sri Lanka. In this regard, a garment exporter stated:

*We need to make sure that standard requirements are more regularized, where they accept local testing standards from an accredited laboratory. Some accept the local test report and the others don't. So its case-to-*

*case basis and these need to be regularized.*

- Excessive time taken for lab testing** was identified to be a main issue for especially exporters of perishables. With the introduction of new food safety and sanitary regulations issued by the Food Safety and Security Authority of India (FSSAI), some exporters of perishable items have stopped exporting to India (i.e. strawberries). The new food safety regulations imposed by India in 2012 require sampling and testing of every shipment of food items that comes in to India. This can take up to 3-4 days and highly perishable food items such as strawberries which have a shelf life of below 7 days become inconsumable by the time the shipments are released. According to exporters, Indian producers are not subjected to these food safety measures and standards.

*It takes 5 days to report back on tests [for strawberries]. But taking 5 days is, as per SPS regulations. The issue is if you take 5 or more days then they are obliged to provide the exporter with proper freezing facilities. This is sometimes not supplied. E.g. Chennai port has no such facilities.*

*Currently it is the general perception that food standard requirements in India are much more restrictive than that of the EU/Japan, (countries we think would have high standards) making it difficult to penetrate the Indian market. This has discouraged many exporters in Sri Lanka.*



- **Excessive testing.** Exporters complain of excessive testing by the Indian authorities. For instance, India requires samples for testing at the customs level for garment products. According to some exporters, if a consignment has a branded product with 100 pieces of garments, 5-7 pieces are taken for testing. It was felt that this was excessive and could be minimized.
- **Complexity and difficulties in obtaining information on new regulations.** Sometimes the complexity of the information provided with regard to new regulations makes it difficult for traders, especially the small and medium enterprises to read and comprehend the requirements, (i.e. the recent food safety standard regulation by India).
- **The need to pay informal payments result in higher trading costs with India.** Traders at times resort to informal payments which according to some respondents, "get the process moving along faster" but there is a substantial additional cost involved. Systems are bypassed because of this practice, which means that both governments may lose revenue, and more importantly, causing security breaches. Further, this is of concern to the private sector because for exporters such as that of garments, pricing and costs determine their competitiveness in the markets.
- **The absence of a fixed body or a help desk to address problems arising when trading under the agreement is an impediment in using the ILFTA.** When problems arise regarding a shipment (i.e. documentation), there is no formal body of authority that can take up the complaints and address them quickly. Quick response is essential due to high costs associated with delays. If the cost benefit under the FTA is negated then the traders will not be encouraged to export/importer further.

## 8. Policy Recommendations

- **Educate and raise awareness of customs officials on ISFTA concessions**  
 Educating and raising awareness of at least the main products exported/imported by the two countries; for example, in identifying the different forms of products and the relevant product categories can help reduce the complexities that arise at the point of clearance. Unawareness of customs officials of the products which get ISFTA concession were identified to be a main issue facing some industries (i.e. identification of the product, HS category). This results in having to pay additional duties thereby, negating the benefits of the Agreement and restricting their use of the Agreement.
- **Facilitating Testing and Certification**  
 When exporting goods out of a country, the goods should conform to the standards and regulations set by the importing country or the buyer. However, this becomes a barrier if the process is not facilitated and the testing requirements are not practical leading to high costs and delays. This has been an issue for traders between India and Sri Lanka and in this context, mutual recognition agreements between the two countries can assist in reducing the necessity to carry out additional checks. Furthermore, if the two governments can agree on testing/certifying or encourage an accredited testing facility from India to set up in Sri Lanka, then unnecessary delays and costs can be mitigated. Also, the delays that occur as a result of having to test them in locations far from the port can be avoided if the requisite checks can be carried out at the port of entry and within a specified period of time. This is an essential requirement for perishable items. However, if the goods could be checked by the authorized designated labs/bodies prior to the shipment in the exporting countries that would be even more beneficial. The India-Singapore Comprehensive Economic Cooperation Agreement (CECA) for example, provides a framework for concluding Mutual Recognition Agreements (MRAs) so as to prevent duplicate testing and certification of products. When the CECA came into place, two sectoral annexes were concluded under the framework chapter: for electrical and electronic products, and telecommunication

equipment. For products falling under these two categories, testing and certification to Indian standards could be carried out at the source destination; no further testing or certification is required when it arrives in the market.

Furthermore, there is a need to better inform exporters/trader of services available to them to get relevant information on standards and other regulatory requirements. For example, the Sri Lanka Standards Institute (SLSI) acts as the enquiry point for WTO Technical Barriers to Trade in Sri Lanka. The SLSI offers all stakeholders access to standards and regulatory information of any other country, technical enquiries on national, foreign and international standards, etc. Likewise, the Ministry of Health is the enquiry point of sanitary and phytosanitary matters in Sri Lanka. However, according to the SLSI they receive very few enquiries which may be due to unawareness of exporters/traders of this service.

There is also a need to improve laboratory facilities in Sri Lanka. Currently, there are about 15 other institutions in Sri Lanka that provide system certification, laboratory testing and product certification. However, the time taken to issue reports is high due to the limited laboratory facilities and lack of manpower/skills required for such testing. Hence, there is a need to expand lab facilities in the country to minimize delays as it translates into high demurrage costs at the port as well as opportunity cost for traders.

- **Mechanisms to ensure capability/capacity of exporters to meet importing country requirements**

There is a need to uplift the production capacity/supply capacity in Sri Lanka to ensure there is a proper mechanism in place to guarantee that the Sri Lankan traders are capable of meeting standards required for exporting products. While it is partly, developing the export sector of the country, dealing with established traders in India would also assist in understanding the requirements at that end, and to develop the capacity of the exporting companies.

- **Streamline procedures and automating systems for efficiency and better sharing of information**

The need to streamline procedures and efficiency of the Indian customs was emphasized by many respondents as a key to facilitating trade between the two countries. The demand for different documentation and different interpretations of the Agreement at the different ports of India has made exporting difficult and confusing. Comparatively, procedures and efficiency of the Sri Lanka customs was deemed to be much better.

Furthermore, according to some respondents, the lack of automation of border control systems in India has resulted in low information sharing between borders including land borders, thereby hindering the free movement of goods under the FTA. It was mentioned that some traders are not motivated to trade with India because of these

obstacles, resulting in opposition to any further developments of the Agreement. Automation of borders and better connectivity were highlighted as important to overcome these issues. In addition, automation would also reduce people-to-people interaction in the trading system; its absence has led to human errors, bureaucracy, delays and corruption.

- **Educating traders on how they can facilitate a smooth flow of goods**

Some of the delays and complexities arise due to the laxity and ignorance of exporters and importers which is beyond the immediate control of the authorities. For example, textiles shipments are sometimes sent with dangerous cargo such as chemicals. When this is the case, containers with dangerous cargo are transferred to a separate warehouse and as a result, it takes a much longer time to clear the textiles. This is more a responsibility of the loading party and they need to be more mindful as importers have less control over such situations.

- **Improve private sector consultation and engagement, prior to and during any further negotiations with India as it can help identify practical issues traders experience in doing business.**

Traders highlight that in addition to technically competent government officials, inputs from the private sector are key because the trading process is far more complex than that on paper. Consultation of those involved in every stage of the trading process including logistics companies,

ports authority, customs, banks, shippers, traders, chambers and border protection agencies will ensure that every step of the trading process is looked into and the flow of goods between the two countries is facilitated.

- **Highlighting the cases of businesses which have successfully penetrated the Indian/Sri Lankan markets**

While it is possible to identify both Indian and Sri Lankan companies that have successfully penetrated the Sri Lankan and Indian markets, it is important to highlight, draw and share their experiences with the wider trading community in a bid to illustrate successful case studies. Such positive awareness campaigns should be carried out through local chambers to illustrate measures the relevant businesses took to overcome

practical difficulties of trading/ investing in either country.

- **Establish Help/Information Desk that can address ISFTA related Issues**

It was highlighted that there is a lack of knowledge of the FTA at various stages of the trading process. Traders need to be guided and provided with information to make the trading process easier by reducing the need to visit multiple agencies and duplicating documentation. This will also provide traders additional confidence of knowing that there is a local authority with the necessary contacts to facilitate trade between India and Sri Lanka. However, those manning such a unit should be trained professionals who can also play a coordinating role if they are to effectively assist the

trading community including SMEs.

- **Incorporating trade facilitation into the Agreement**

Annex 1 highlights how India has addressed trade facilitation in their comprehensive economic cooperation agreements and comprehensive economic partnership agreements with countries like Korea and Malaysia. Although it has been suggested that trade facilitation issues would be addressed in a possible deeper agreement between the two countries, dealing with many of the existing issues under the ISFTA would be an important step especially to build confidence among traders. It would also help change the negative perceptions attached to the trading process with India and help the two countries to move towards a deeper agreement.

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# Annex 1

## Questionnaire for Semi-Structured Interviews: TF in the ISFTA

### Background Information

Date: \_\_\_\_\_

1. Respondent, Position & Name of Company:

\_\_\_\_\_  
\_\_\_\_\_

2. Contact Details: \_\_\_\_\_

\_\_\_\_\_

3. Area of Business: \_\_\_\_\_

4. Nature of Business: Export market only/ Both export & local ( \_\_\_\_% exported)

5. Size of Business: Small/Medium/Large                      No. of Employees: \_\_\_\_\_

6. Are you a BOI/non-BOI company? \_\_\_\_\_

7. Main export markets: \_\_\_\_\_

8. % (total exports) to India: \_\_\_\_\_                      How often do you export to India: \_\_\_\_\_

9. Who handles your export process? Your Company/Outsourced

### Utilization of ILFTA

10. When did the firm begin using the ILFTA? \_\_\_\_\_

11. Do you export all your exports to India under the ILFTA? Yes/No

12. If 'No' what are the reasons?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Trade Facilitation Related Questions

13. What is the basic trading process in importing/exporting through ILFTA? (Documentation needs, agencies to be visited, etc)

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14. What is the average time and cost taken for each of these steps? \_\_\_\_\_

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15. Area of Business: \_\_\_\_\_

16. If 'Yes' what are the challenges you face at this end in Sri Lanka (on documentation or any other area)?

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17. What are the challenges/difficulties you face in India? (i.e. documentation, in customs and other institutions, checks)

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18. Are there any obstacles in importing from India? Yes/No

19. If 'Yes' what are the challenges you face at this end in Sri Lanka (on documentation or any other area)?

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20. What are the challenges/difficulties you face in India? (i.e., documentation, in customs and other institutions, checks)

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21. What is the most cumbersome aspect in trading with India? \_\_\_\_\_

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22. Is exporting/importing from India easier/more difficult when compared to trading with other countries?  
Yes/ No

Reason \_\_\_\_\_

23. What aspects in trade facilitation do you think need to be developed in exporting/importing to/from India?

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24. What steps should be taken by the Governments of India and Sri Lanka in order to reduce the transactions costs associated with trade between the two countries under the ILFTA? And what steps need to be taken by trading firms at the firm level?

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## Annex 2: Trade Facilitation in Agreements between India and Other Countries

	IKCECPA	ISCECA	JICEPA	MCECA
<b>Name of Agreement</b>	Comprehensive Economic Partnership Agreement between the Republic of India and Republic of Korea	Comprehensive Economic Cooperation Agreement between the Republic of India and Republic of Singapore	Comprehensive Economic Partnership Agreement between the Republic of India and Japan	Comprehensive Economic Cooperation Agreement between the Government of Malaysia and the Government of the Republic of India
<b>Parties</b>	India, Korea	India, Singapore	India, Japan	India, Malaysia
<b>Specific Chapter for Trade Facilitation?</b>	Yes	No	No	Yes
<b>Transparency</b>	Article 5.6: Transparency	Article 4.2: Transparency	Article 44: Transparency	
<b>Information</b>				Article 4.4: Publication and Enquiry Points Article 4.10: Information Relating to Import and Export
<b>Release of Goods</b>	Article 5.2: Release of Goods		Article 45: Customs Clearance	Article 4.5: Clearance of Goods
<b>Automation</b>	Article 5.3: Automation	Article 4.4: Paperless Trading		Article 4.6: Information and Communications Technology
<b>Risk Management</b>	Article 5.4: Risk Management	Article 4.3: Risk Management		Article 4.7: Risk Management
<b>Customs Cooperation</b>	Article 5.9: Customs Cooperation	Article 4.8: Sharing of Best Practices	Article 48: Cooperation and Exchange of Information	Article 4.8: Cooperation and Capacity Building
<b>Temporary Admissions</b>			Article 46: Temporary Admission and Goods in Transit	Article 4.13: Temporary Admissions
<b>Review and Appeal</b>	Article 5.7: Review and Appeal			Article 4.11: Review and Appeal
<b>Advance Rulings</b>	Article 5.8: Advance Rulings	Article 4.7: Advance Rulings Article 3.13: Advance Rulings	Article 47: Advance Rulings	Article 4.12: Advance Rulings



Contd...../

	IKCECPA	ISCECA	JICEPA	MCECA
<b>Customs Committee</b>	Article 5.10: Customs Committee		Article 49: Sub-Committee on Customs Procedures	Article 4.15: Implementation
<b>Customs Contact Points</b>	Article 5.11: Customs Contact Points			Article 4.14 Customs Contact Points
<b>Mutual Recognition of Standards</b>		Article 5.5: Mutual Recognition of Conformity Assessment	Article 55: Mutual Recognition	
<b>Enquiry Points on Standards</b>			Article 52: Enquiry Points	
<b>Sub-Committee on Standards</b>		Article 5.8: Joint Committee on Mutual Recognition	Article 53: Sub-Committee on Technical Regulations, Standards and Conformity Assessment Procedures, and SPS Measures	
<b>Exchange of Information and Cooperation</b>		Article 5.9 : Exchange of Information and Cooperation		
<b>Certificate of Origin</b>		Article 3.15: Certificate of Origin		
<b>Verification of Certificates of Origin</b>		Article 4.6: Verification of Certificates of Origin		
<b>Sub Committee on Rules of Origin</b>			Article 41 Sub-Committee on Rules of Origin	
<b>Modifications to Rules</b>		Article 3.18: Consultation and Modifications		

Source : Compiled by Authors.

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