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# POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

## FACILITATING TRADE BETWEEN SRI LANKA AND INDIA

The importance of the Indian market for Sri Lankan exporters cannot be overlooked. It is a large market with 1.3 billion people and a rising middle-class - those who earn between INR 20,000-INR 100,000 a month has gone up from 25 million in 1996 to over 160 million in 2013.<sup>1</sup> Plus, India is expected to outperform China in 2015 and 2016, with growth boosted by policy reforms, rising investments and lower oil prices. Furthermore, a half of India's population is under the age of 25 years, and with 12 million entering the labour force each year,<sup>2</sup> India is well positioned to reap the benefits of a demographic dividend.

Since 2000, in the year which the Indo-Lanka Free Trade Agreement (ILFTA) came into operation, Sri Lanka's exports to India have grown by about ten-fold and India is now Sri Lanka's largest trading partner. Currently Sri Lankan exporters have duty free access to the Indian market except for 429 items and products which receive specific concessions under the ILFTA. But does Sri Lanka really have easy and free access to the Indian market? Exporters at various forums have highlighted the practical difficulties of trading with India. A recent study by the Institute of Policy Studies of Sri Lanka (IPS) highlights some of these issues and suggests measures that can be undertaken to facilitate bilateral trade.

### Methodology

Key informant interviews were carried out in May 2015 among 20 stakeholders including 14 firms and representatives of 6 key institutions of the trading process. Exporters of fruits, rubber and furniture, and importers of cement and textiles, as well as representatives of 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 were interviewed.

### Trade facilitation related issues facing Sri Lankan exporters under the ILFTA



**Rejection of products entitled for ILFTA concessions** due to 'unawareness' of officials. Some officials in India are not fully aware of certain goods

and what category/HS code they should fall under, resulting in exporters having to pay additional duties. There can be a lot of paperwork and red tape in the clearance process which inevitably leads to delays and corruption.

*"Although Thick/Thin Pale Crepe (TPC) is a natural form of rubber, the customs officials [Indian] argue that it is a finished product and is not entitled for duty concessions. They do not accept TPC as a primary form of natural rubber even after the Rubber Research Institute has confirmed so."*  
- Exporter



**Non-acceptance of Sri Lankan standard certification** at the Indian end has led to delays and increased costs. The Sri Lanka Standards Institution (SLSI) has signed a MoU with the Export Inspection Council of India in 2003 whereby, Sri Lanka recognises 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 standards/products certification issued by Sri Lanka.



**Excessive time taken for product testing** was identified to be a critical issue facing exporters of perishable goods. With the introduction of new food safety

and sanitary regulations by the Food Safety and Security Authority of India (FSSAI), exporters such as that of strawberries have stopped exporting to India. The new regulations imposed by India in 2012 require sampling and testing of each and every food shipment to India. This can take up to 3-4 days and highly perishable food which have a shelf life of below seven days become unconsumable by the time the shipments are released.

*"It takes 5 days to report back on certain food products. The issue is if you take 5 or more days, then the authorities are obliged to provide the exporter with proper freezing facilities. This is sometimes not supplied"* - Official

### Key Issues facing Sri Lankan Exporters in India:

- Rejection of products entitled for ILFTA concessions
- Non-acceptance of Sri Lankan standard certification
- Excessive time taken for product testing
- Complexity and difficulties in obtaining information
- Stringent labeling requirements
- Lack of efficient border controls & coordination in India
- Absence of a formal body or help desk for ILFTA



### Complexity and difficulties in obtaining information

on new regulation (i.e., the recent food safety standard regulations) makes it difficult for traders, especially the small and medium enterprises, to comprehend and meet the requirements.

Some of the labeling requirements by India are very stringent and there is an information gap with regards to these requirements in Sri Lanka.



### Lack of efficient border controls and coordination among relevant authorities in India

, have led to considerable delays. Border control systems are not online, leading to limited information sharing and delays and complications (i.e., different ports demand different sets of documentation).



### Absence of a formal body or help desk

to address problems in trading under the Agreement is an impediment in using the ILFTA. When problems arise regarding a shipment, there is no formal body of authority that can take up complaints and address them quickly.

## Fixing the Problems

Challenges faced by Sri Lanka's exporters to India have not changed drastically over the years and remain more or less the same. Fixing these is far from simple, but the steps that should be undertaken to facilitate trade between the two countries are widely known among stakeholders. It is up to policy makers in both countries to address them in a diligent manner.

### Facilitating testing and certification process:

When exporting, products should conform to 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. Mutual Recognition Agreements (MRAs) between India and Sri Lanka can assist in reducing the necessity to carry additional checks at the point of import. Setting up an accredited testing facility from India in Sri Lanka may be an option.

Also, the delays that occur as a result of testing products 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. It would be even more beneficial if the goods can be checked by the authorised designated labs/bodies prior to shipment.

Furthermore, traders need to be better informed of services available to them regarding standards and other regulatory requirements. For example, the SLSI offers all stakeholders access to standards and regulatory information of any other country, technical enquiries on national, foreign and international standards, etc. However, these facilities are not fully utilized.

### Streamlining procedures and sharing information:

The need to streamline procedures and improve efficiency of the Indian customs was emphasised by many traders. The demand for different documentation and different interpretations of the Agreement at different ports in India has made exporting difficult and confusing. Some traders are not motivated to trade with India due mainly to these problems.

**Educating traders:** Some of the delays and complexities arise due to the laxity and ignorance of traders. For example, textiles shipments are sometimes sent with dangerous cargo. In such cases, containers with dangerous cargo are transferred to a separate warehouse, resulting in longer time to clear the textiles. This is more a responsibility of the loading party as importers have less control over such situations.

### Improving private sector consultation and engagement, prior to and during any further negotiations with India:

Traders highlight that in addition to technically competent government officials, inputs from the private sector are key to negotiations because the trading process is far more complex than that on paper. Stakeholder consultation of those involved in the trading process including logistics companies, banks, shippers, traders, chambers and border protection agencies will ensure that practical issues are captured.

### Highlighting businesses that have successfully penetrated the Indian market:

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 cases of the ILFTA. Often the most vocal are those that were not successful in making in-roads to the Indian market. It is important to bring out how the barriers could be overcome to improve trade with India in order to reap greater benefit from the Agreement.

### Establishing a Help/Information Desk:

There is a lack of knowledge of the ILFTA at various stages of the trading process. Establishing an enquiry point will not only address information gaps, but also provide traders additional confidence of knowing that there is a local authority with the necessary contacts to facilitate trade with India. However, those manning such a unit should be trained professionals if they are to effectively assist the trading community. Till such an enquiry point is set up, it is crucial that exporters bring to notice any complaints they have, in writing, to the Department of Commerce, Sri Lanka.

### Incorporating trade facilitation into the ILFTA:

Trade facilitation is covered in many of India's Comprehensive Economic Cooperation Agreements (CECAs) and CEPAs. Although it has been suggested that trade facilitation issues would be addressed in a possible CEPA between India and Sri Lanka, dealing with some of the pressing issues would be an important step, especially in building confidence among traders. It would also help change the negative perceptions attached to trading with India and assist in promoting trade between the two countries.

## Footnotes

1. The Times of India (2013), 'India's Middle Class Awakes', accessed on 10 July 2015, <[timesofindia.indiatimes.com/edit-page/Indias-middle-class-awakes/articleshow/26221440.cms](http://timesofindia.indiatimes.com/edit-page/Indias-middle-class-awakes/articleshow/26221440.cms)>.
2. Ernst & Young and FICCI (2013), 'Reaping India's Promised Demographic Dividend: Industry in Driving Seat', India.

This policy brief is based on findings from a study on 'India-Sri Lanka Free Trade Agreement and Trade Facilitation' carried out by IPS researchers Janaka Wijayasiri and Suwendrani Jayaratne. Contact us on [janaka@ips.lk](mailto:janaka@ips.lk) or [suwendrani@ips.lk](mailto:suwendrani@ips.lk) for more information.



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