



China-Sri Lanka FTA: Opportunities and Challenges

Janaka Wijayasiri

Vision and Actions on Jointly Building Silk Road Economic Belt & 21st Century Maritime Silk Road

‘We should strive to improve investment and trade facilitation, and remove investment and trade barriers for the creation of a sound business environment within the region and in all related countries. We will discuss with countries and regions along the Belt and Road on opening free trade areas so as to unleash the potential for expanded cooperation’



Outline

- Sri Lanka's trade policy
- Existing trade agreement of Sri Lanka
- Sri Lanka's existing trade with China
- Sri Lanka's potential trade with China
- Challenges in negotiating an agreement with China

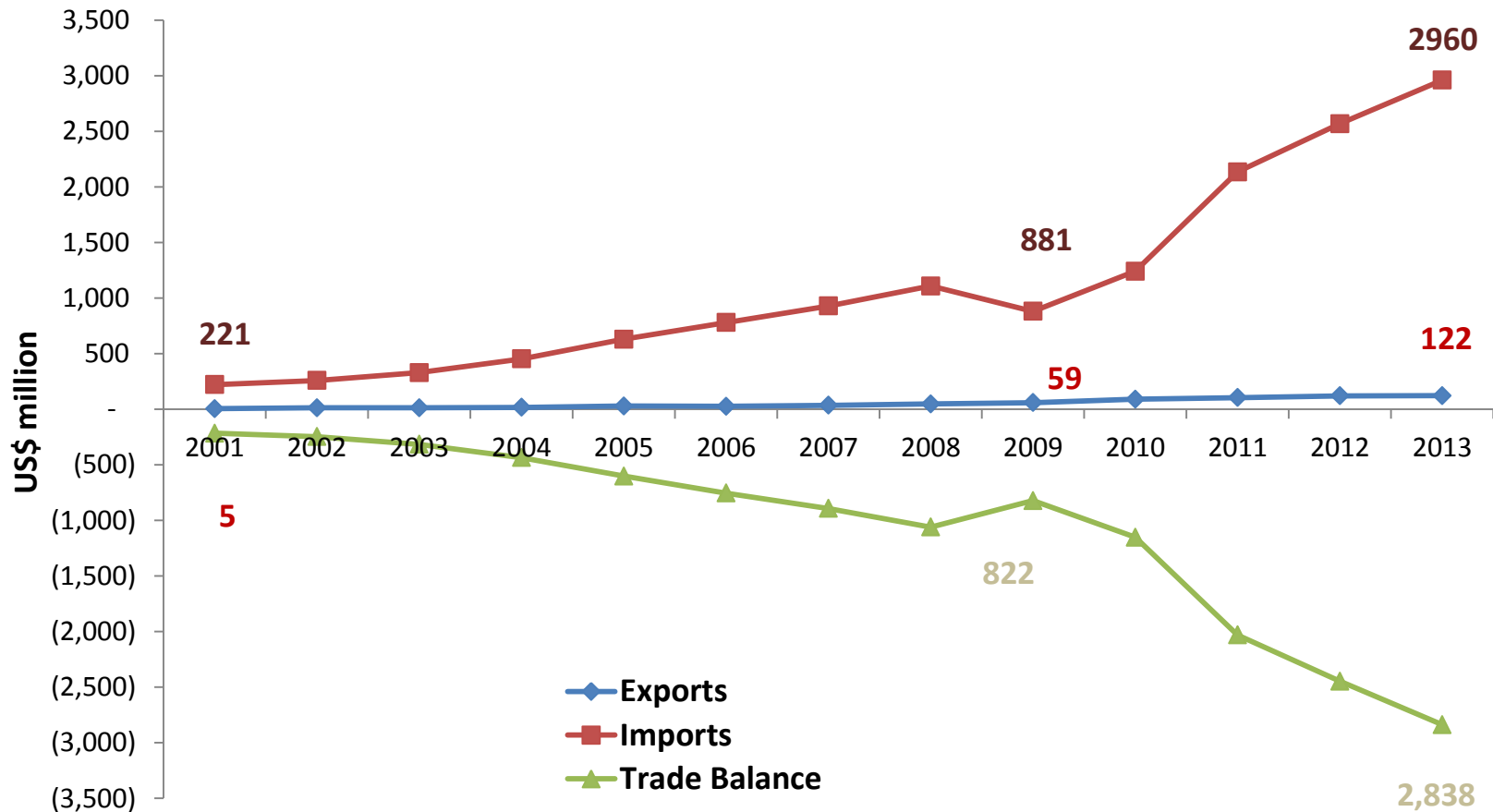
Sri Lanka's Trade Policy

- Sri Lanka's unilateral trade liberalization process was initiated in 1977
- Trade policy reforms were broadened and extended over the next two decades
- Pace of trade reforms proceeded at a 'mixed pace'
- SL's trade policy aims to achieve greater integration into the world economy

Trade Agreements of Sri Lanka

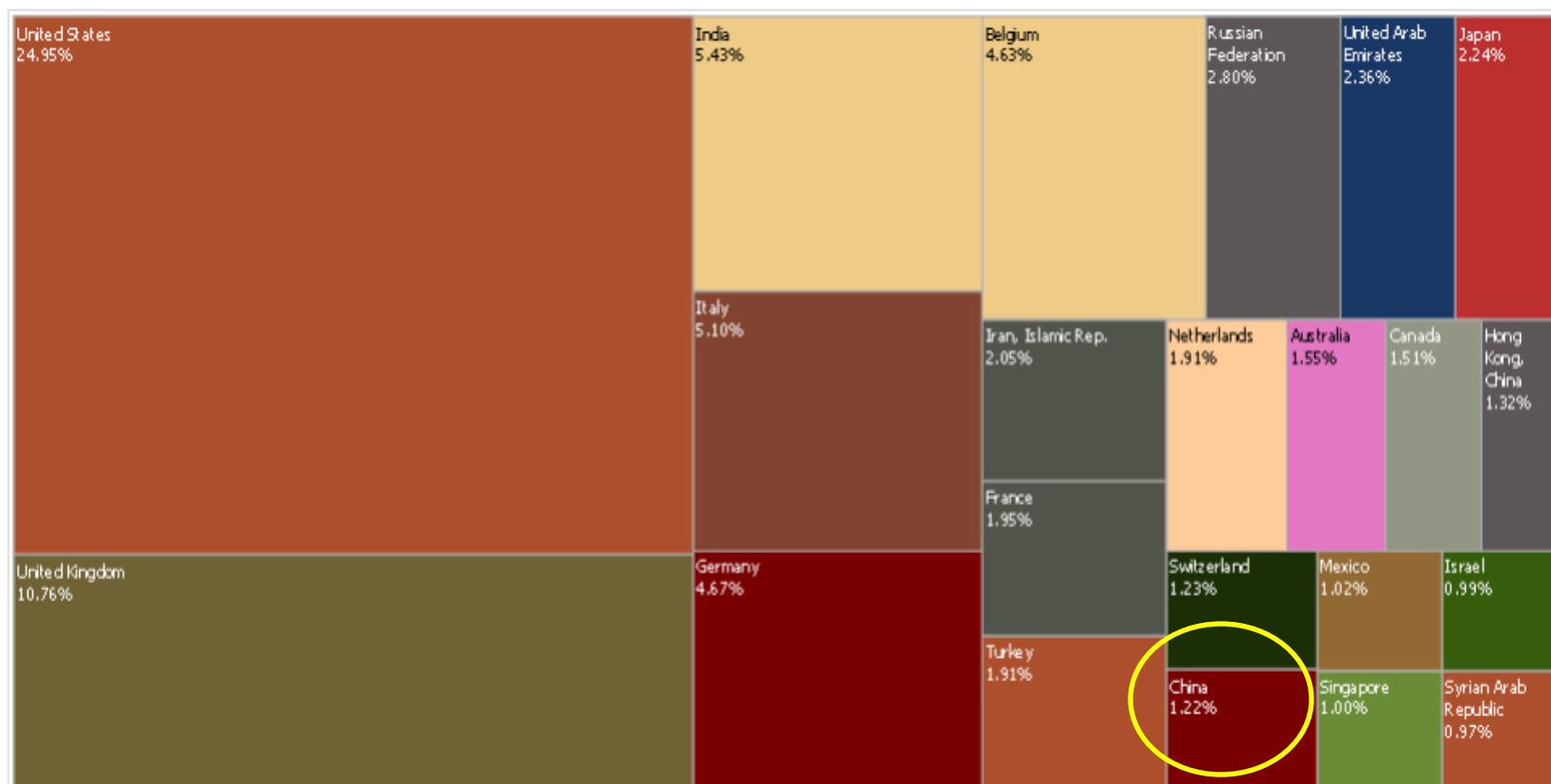
- Regional
 - Asia-Pacific Trade Agreement (APTA)
 - Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)
 - South Asia Free Trade Area (SAFTA)
- Bilateral
 - India-Sri Lanka Free Trade Agreement (ISFTA)
 - Pakistan-Sri Lanka Free Trade Agreement (PSFTA)
 - Proposed China- Sri Lanka Free Trade Agreement (CSFTA)

Sri Lanka's Trade with China



Sri Lanka's exports to China, 2013

- 16th largest exports market: 1.2% of SL's total export



Source: WITS World Bank <http://wits.worldbank.org>

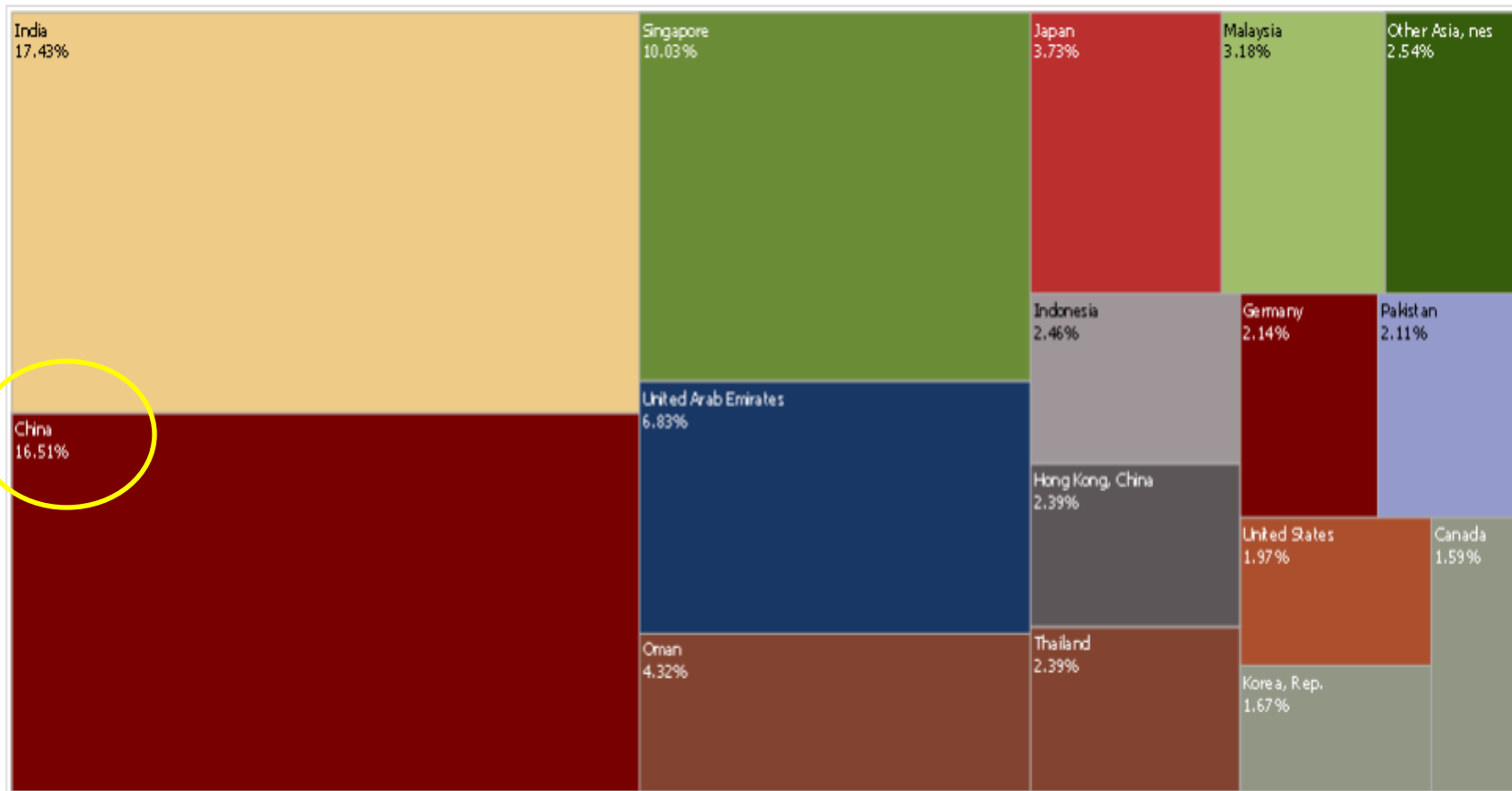
Sri Lanka's composition of exports to China, 2013

- In 2013, SL exported USD 122mn of goods to China

Textiles and Clothing China 39.86%	Vegetable China 20.88%	Plastic or Rubber China 14.81%	Minerals China 4.19%	Footwear China 3.02%	
			Stone and Glass China 2.03%	Mach and Elec China 1.65%	Wood China 1.20%
		Food Products China 6.25%	Animal China 1.81%		

Sri Lanka's imports from China, 2013

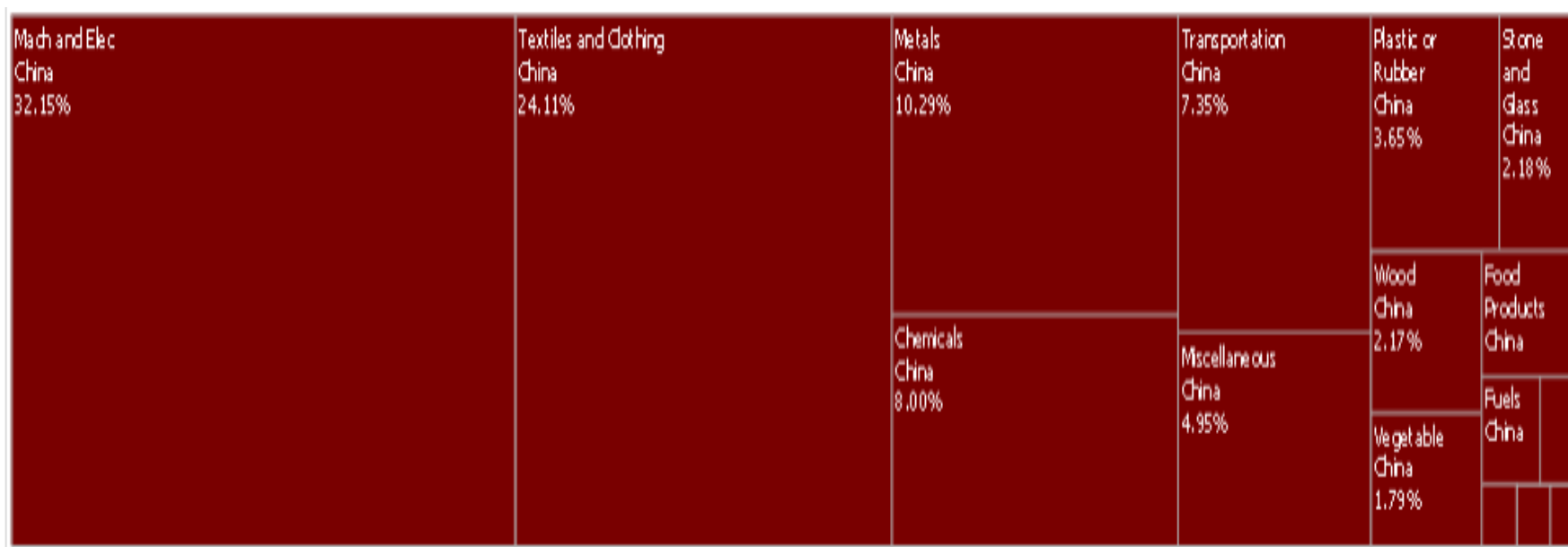
- 2nd largest import partner after India: 16.5% of SL's total imports



Source: WITS World Bank <http://wits.worldbank.org>

Sri Lanka's composition of imports from China, 2013

- In 2013, Sri Lanka imported USD3bn worth of goods from China



Source: WITS - UNSD COMTRADE <http://wits.worldbank.org> Nomenclature: HS 1988/92

Sri Lanka's Export Sectors with Comparative Advantage to World and China

Product Category	No. of products to the World (HS 6-digit level)	No. of <u>existing</u> exports to China (HS 6-digit level)	No. of <u>potential</u> products to China (HS 6-digit level)
01-05 Animal & Animal Products	27	13	24
06-15 Vegetable Products	65	16	63
16-24 Foodstuff	28	9	28
25-27 Mineral Products	12	7	9
28-38 Chemicals & Allied Industries	17	5	17
39-40 Plastics/Rubber	30	11	30
41-43 Raw Hides, Skins, Leather & Furs	6	1	6
44-49 Wood & Wood Products	32	5	28
50-63 Textiles	247	140	240
64-67 Footwear/Headgear	14	3	14
68-71 Stone/Glass	18	9	18
72-83 Metals	18	4	18
84-85 Machinery/Electrical	24	9	21
86-89 Transportation	7	3	7
90-97 Miscellaneous	20	7	18
98-99 Services	0	-	
Total	565	243	541

Source: Calculated and compiled using WITS database.

Sri Lanka's Indicative Trade Potential with China, 2012

Product Category	Indicative Potential Trade (US\$ 000)	% of Total Indicative Potential
01-05 Animal & Animal Products	53,870	1.4
06-15 Vegetable Products	164,910	4.1
16-24 Foodstuffs	213,183	5.4
25-27 Mineral Products	26,179	0.7
28-38 Chemicals & Allied Industries	91,891	2.3
39-40 Plastics / Rubbers	458,366	11.5
41-43 Raw Hides, Skins, Leather, & Furs	15,799	0.4
44-49 Wood & Wood Products	100,723	2.5
50-63 Textiles	1,936,464	48.6
64-67 Footwear / Headgear	21,976	0.6
68-71 Stone / Glass	453,908	11.4
72-83 Metals	41,261	1.0
84-85 Machinery / Electrical	204,058	5.1
86-89 Transportation	130,476	3.3
90-97 Miscellaneous	69,059	1.7
98-99 Service	-	1.4
Total	3,982,123	4.1

Source: ITC Trademap database

Effects of liberalisation of imports by China

	SLs exports to CH (\$ mn.)	CH average tariff rate	% increase in SLs exports
1. Tea	22	7.5%	57
2. Rubber	18	11.17%	120
3. Fish	4	8.6%	47
4. Textiles	31	9.3%	112
5. Coconut	33	6.09%	30
Gems	2.14	10.75%	42
Fruits/veg.	...		
Machinery	15mn	7.8%	29

Source: Joint Feasibility Study (2014)

Challenges of negotiating a FTA with China

- [Coverage of trade](#)
- Speed of liberalisation
- Asymmetry/Reciprocity
- Comprehensive Agreement
- Non-tariff measures (NTMs)



Institute of Policy Studies of Sri Lanka

100/2 Independence Avenue,
Colombo 7, Sri Lanka

T: +94 11 2143100

www.ips.lk

 www.ips.lk/talkingeconomics

 [/instituteofpolicystudies](https://www.facebook.com/instituteofpolicystudies)

 [@TalkEconomicsSL](https://twitter.com/TalkEconomicsSL)



INSTITUTE OF POLICY STUDIES OF SRI LANKA



Coverage of Trade

FTA	China's Tariff Elimination Commitment	Coverage of Imports from Partner Country to China	Partner Country's Tariff Elimination Commitment
China-Chile	97.2%	99.1%	98.1%
China-New Zealand	97.1%	88%	100%
China-Pakistan	35.4%	44.4%	36.7%
China-Peru	94.6%	99.1%	91.9%
China-Costa Rica	99.6%	100%	91%
China-Singapore	94.6%	97%	100%

Source: WTO Secretariat calculations