

DEPARTMENT OF COMMERCE

**2011**

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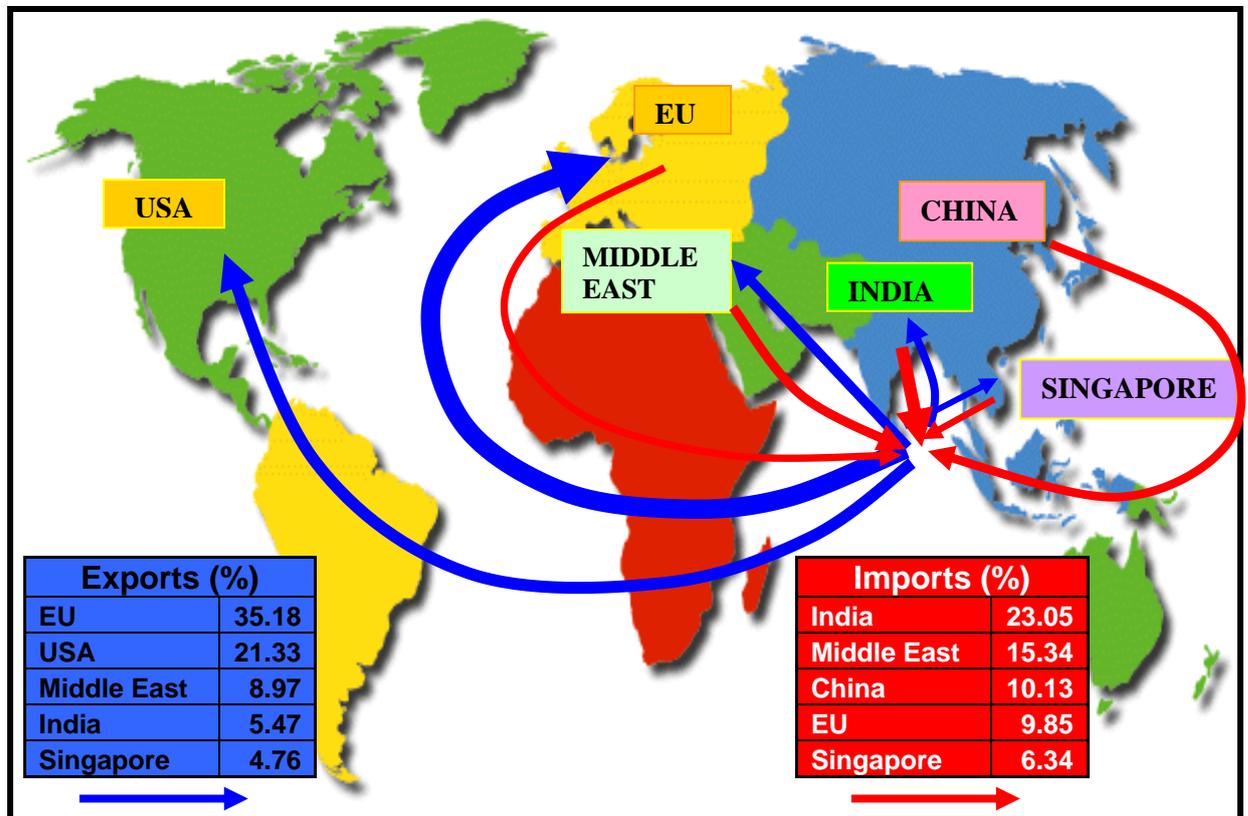
**EXPORT ACHIEVEMENTS**

## **1.1 GLIMPSE OF EXPORT ACHIEVEMENTS IN 2011**

The export earnings during the first 7 months of 2011 increased to US\$ 5708.95 Mn from US \$ 4535.66 Mn in the first 7 months of 2010 indicating a growth rate of 26%. During the period under review, export earnings from agricultural products and industrial products recorded a growth rate of 14% and 31% respectively. Earning from agricultural exports was mainly contributed by the export of US \$ 832.33 million worth tea registering a 4 % growth over the last year. Export earnings from rubber, which increased from US \$ 92.72 million to US \$ 129.34 million registered a growth rate of 39 % during the period under reference. Exports of industrial products, which were at US \$ 3237.73 million, indicated a modest growth of nearly 31 % in the first 7 months of 2011. Textile and Garments are the major industrial exports having a contribution of nearly 57%. Earnings from rubber & rubber based products and food, beverages & tobacco is the second and third largest contributors to the industrial exports respectively. Earnings from machinery & mechanical products and leather, rubber, pepper & wood have grown by a significant rate of 51 % and 50 % respectively in the year 2011, compared to the corresponding period of year 2010. Apparel exports have recorded an increase from US \$ 1865.82 million in 2010 to US \$ 2404.97 million in 2011, recording a growth of 29%.

As forecasted by the Central Bank in 2010, Sri Lanka has been able to achieve an economic growth rate of 8% backed by a 17.3% export growth rate during first 7 month of 2011 as the goals set under 'Mahinda Chintana Idhiri Dakma'.

## 1.2 DIRECTION OF EXTERNAL TRADE



## 2 TRADE PROMOTION

- During the period concerned, the Department of Commerce, with the assistance of the Trade Officers based in Sri Lankan Missions abroad and other Business Supporting Organizations in Sri Lanka, carried out an array of activities to expand and diversify the international market for Sri Lankan products. While providing the main focus for the leading exporters to expand their market share in the international market through introduction of new export destinations and creating more conducive environment in existing markets, the Department continued to assist the Small and Medium scale exporters to gain international market access for their products.

Followings are among the activities which were carried out by the Department of Commerce during the first half of the year 2011.

- Organizing the Visit of Trade / Investment delegation from the USA in March 2011.

The main purpose of the visit was to promote of trade and investment with special emphasis on post conflict development of the country. About 10 USA companies were included in the delegation. They held discussions with a number of key policy makers in the government and the senior officials. Some of the companies are already pursuing funding for initiation of infrastructure projects.

- The visit of the Hon. Prime Minister and the Hon. Minister of Industry and Commerce to Kunming China to attend at the South Asian Countries Trade Fair and Business Forum held in June 2011

Hon. Prime Minister was the chief Guest of the event under the Lead Country status of South Asian Fair and the Hon. Minister of Industry and Commerce chaired the China – South Asia business forum.

- Visit of Malaysian trade and investment delegation to Sri Lanka June 2011.

The Department coordinated the visit of Malaysian trade and investment delegation organized by the Commercial Officer in Malaysia. Promotion of trade and investment between Malaysia and Sri Lanka was the main purpose of the visit. Meetings with the officials of DOC, BOI, EDB and business Chambers were arranged for the visiting delegation.

- Visit of Business / Investment delegation from Entrepreneurs Organization (EO) of Chennai July 2011

The department coordinated the visit of Entrepreneurs Organization (EO) of Chennai, which was organized by the Commercial Officer in Chennai. The purpose of the visit was to promote trade, Investment and tourism between India and Sri Lanka. Department's officials and the officials of BOI Sri Lanka had meetings with the delegation. The EO of Chennai has decided to hold their 2011 AGM at Heritance Hotel, Ahungalla in October 2011.

- Visit of Singapore investment delegation from 15 – 19 August 2011

On a proposal received from the High Commission in Singapore, The Department of Commerce organized a programme for a business and investment delegation visited Sri Lanka in August 2011 from Singapore on business and investment promotion Mission.

- The Department participated at “ Dayata Kirula 2011” national development exhibition which was held in Buttala. Exhibitions stall to educate the public, school children and exporters about the activities and the services provided by the Department was organized during the period.

### **3 MULTILATERAL TRADE RELATIONS**

#### **3.1 WORLD TRADE ORGANIZATION (WTO)**

During the year 2011, Sri Lanka continued to engage in the Doha Round trade negotiations of the WTO. Sri Lanka actively participated in a number of key areas of negotiations with a view to protecting and promoting Sri Lanka’s trade and economic interests, particularly in the areas of Agriculture, Non-Agricultural Market Access (NAMA), Trade Related aspect of Intellectual Property Rights (TRIPs), Trade Facilitation, Rules, services and Aid for Trade. These negotiations were based on the modalities proposed in the WTO Draft Texts under Doha Development Agenda, issued in December 2008.

In agriculture, Sri Lanka continued to work with like-minded Members of the WTO to ensure flexibilities which would protect the country’s domestic agriculture, particularly subsistence agriculture, rural livelihood and income against the adverse impacts of import surges and to ensure food security. The proposed modalities which are currently under negotiations, would allow for Developing Countries to introduced measures on import surges, special safeguard measures (SSM) triggered by excessive volume of imports, or by drop in domestic prices. These measures would be applied by Sri Lanka to protect its domestic agriculture.

With regard to tariff reductions of Agricultural Commodities under DDA negotiations Sri Lanka will have two options as per the current status of the negotiations.

1. As a Small and Vulnerable Economy (SVE), Sri Lanka would have several options with respect to its tariff reduction commitments, which provide more flexibility for its agricultural tariff policy than for other developing countries. Sri Lanka may choose a tiered reduction formula set out for developing countries, which is further moderated by 10 percentage points for SVEs, together with the entitlement to designate a certain percentage of tariff lines as Special Products.

2. Sri Lanka could undertake only an average tariff cut of 24% by designating as many products as it wishes as Special Products, without resorting to the formula tariff cut and without needing to justify its selection of Special Products through demarcated indicators.

Both these options would provide Sri Lanka with sufficient policy space to develop its domestic agriculture, particularly subsistence agriculture and rural development, while at the same time addressing its needs as a Net Food Importing Developing Country (NFIDC).

In non-agricultural market access (NAMA), Sri Lanka's status as a country with low binding coverage, and therefore, subject to less reduction commitments, remained as part of the latest modalities of the negotiations. As Sri Lanka had bound less than 30% of its tariff lines at the last Uruguay Round of negotiations, and consistently applied low tariffs, Sri Lanka had been accepted as a country who would have to undertake disproportionate commitments if subject to the general tariff reduction formula. Sri Lanka, therefore, is exempt from making tariff reductions through the formula, instead only needing to commit to bind 80% of its Non agricultural tariff lines at an average of 30%.

This provides space for 20% of tariff lines which may be deemed sensitive to remain unbound, while allowing Sri Lanka the flexibility to determine its bound commitments on the basis of sensitivity over the remaining 80%, provided it maintains an average of 30%.

With respect to market access for Sri Lanka's export products, Sri Lanka will benefit overall from the tariff reduction commitments undertaken by its export markets, which will in general bring down high tariffs and peak tariffs to levels well below 5-10%, as the formula tariff reduction is designed to reduce high level of tariffs with deeper cuts.

In the case of its main apparel exports to the EU and US, Sri Lanka has been affected by a proposal to delay tariff reductions on certain products, including apparel, in these markets to address the concerns of preference-receiving countries who anticipate losing their competitive advantage because of deep cuts in general tariffs. As a result, Sri Lanka, together with Pakistan, Bangladesh, Nepal and Cambodia, have been recognized as "disproportionately affected countries" (DAC) for which a separate solution has been provided. Out of a number of products slated for delayed tariff reductions, DACs will receive tariff reduction on five products in the US and EU each over the normal five year period, as opposed to the ten years which other countries would have to wait. While these modalities do offer some relief, the negotiations on this issue are still ongoing, and Sri Lanka continues to engage to obtain a solution which would more adequately address its concerns.

In negotiations under the Agreement on Trade in Intellectual Property Rights (TRIPS), Sri Lanka engaged in with other like-minded Members on two key areas of discussions. In the area of geographical indications, (which are signs used on goods that have a specific geographical origin and possess qualities, reputation or characteristics that are essentially attributable to that place of origin, like Ceylon Tea, Sri Lankan sapphire, Sri Lankan cinnamon), Sri Lanka participated in discussions with respect to the level of protection Member states are required to afford all GIs. At present, all GIs are required to be protected in order to avoid misleading the public and to prevent unfair competition. A higher level of protection is currently granted for GIs in the product sectors of wines and spirits, where these are to be protected even if misuse would not cause the public to be misled. The present negotiations initiated by those countries who have interest in protecting other GI products are aimed at delivering this higher level of protection for products other than wines and spirits.

In addition, Sri Lanka also engaged with like minded countries in negotiations aimed at aligning the TRIPs Agreement with the Convention on Biological Diversity, with respect to how the latter addresses IP issues in the use of natural resources. Sri Lanka's participation in these negotiations stems from the is based on issues of biopiracy related to Sri Lanka's rich biodiversity

Sri Lanka also actively engaged in the texts- based negotiations on the proposed AFT. A draft text has been produced following intense negotiations over five years on different proposals relating to three areas of harmonization and regulation in trade facilitation: freedom of transit, fees and formalities connected with importation and exportation, and publication and administration of trade regulations. Negotiations on the provisions of Special and Differential Treatment (S&DT) on which will contribute to meet the special needs of developing countries in implementing the proposed ATF were also taken place in parallel to the above text- based negotiations. These S&DT negotiations focused on the issues such as scheduling of timelines of commitments and categorization of commitments based on whether a country can implement immediately or would require technical assistance to do so.

In the area of rules, negotiations continued on clarifying and improving the disciplines under the Agreements on Anti-dumping and on Subsidies and Countervailing Measures, particularly fisheries subsidies, and on Regional Trade Agreements. In the area of anti-dumping, discussions were undertaken on a number of issues regarding the procedures relating to imposition of anti-dumping duties remained outstanding for political as well as technical consideration, while discussions under the SCM Agreement also continued on key issues. Discussions were also undertaken to harmonize the provisions of the two agreements vis-à-vis the investigation procedures and injury determination. In the area of fisheries subsidies, discussions continued on special and differential treatment, general disciplines, fisheries management, transparency, dispute settlement, implementation and transition

rules. With respect to RTAs, negotiations continued on transparency of RTAs, coverage of RTAs and other issues.

In the area of services, WTO Members continued negotiations on disciplines on domestic regulation, financial services and specific commitments, as well as bilateral negotiations on improvement of existing services commitments.

In November 2010, Sri Lanka participated in its Third Trade Policy Review in the WTO. Members examined the developments in Sri Lanka's trade policy regime since the last review in 2004, including Sri Lanka's tariff regime, agricultural policies, and trade facilitation measures. During the review, Members appreciated Sri Lanka's strong growth over the past six years, in spite of a number of challenges, including the internal conflict, the tsunami and the global financial crises.

### **3.2 THE UNITED NATIONS' CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)**

The UNCTAD represents the main forum on the linkages between trade and development, and its focus is on the development-friendly integration of developing countries into the world economy. UNCTAD has progressively evolved into an authoritative knowledge-based institution whose work aims to help shape current policy debates and defining a new paradigm of on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development. Its three pillars of work are:

- 1). Forum for intergovernmental deliberations
- 2). Research, policy analysis and data collection and,
- 3). Technical assistance

Sri Lanka continued to engage actively in UNCTAD, working with the larger group of developing countries to ensure its interests with respect to UNCTAD's programmes and technical assistance activities, as well as represented in the Trade and Development Board, the body which oversees UNCTAD's work upto and after each UNCTAD Ministerial meeting. Sri Lanka also participated in negotiations in UNCTAD at the Commissions on Investment and on Trade and Development, as well as at various expert meetings.

### **3.3 GLOBAL SYSTEM OF TRADE PREFERENCES (GSTP)**

Global System of Trade Preferences is a tariff preferential scheme negotiated under the aegis of the United Nations Conference on Trade and Development (UNCTAD) with a view to increasing South –

South Trade and Economic Cooperation. The third round of negotiations has started in 2004 and still ongoing. Out of 43 member countries, only 22 members have shown interest in participating at ongoing negotiations so far.

Sri Lanka exported approximately US\$ 6.23 Million worth of goods during the first six months of 2011 under the GSTP scheme to Chile, Mexico and Peru.

### **3.4 EU GENERALIZED SYSTEM OF PREFERENCE (GSP)**

Amendments to the GSP Regulation 2454/93 have been adopted by the European Commission on 18.11.2010 and came into effect from 01.01.2011.

Under the new ROO, a Cross Regional Cumulation between the Countries of Group I (ASEAN) and Group III (SAARC) may be granted by the Commission upon request of a beneficiary country, provided that the countries involved in the cumulation have undertaken, inter alia, to provide the necessary administrative co-operation both with regard to the European Union and also between themselves and that the undertaking has been notified to the Commission by the beneficiary country concerned.

Under this provision Sri Lanka will be able to cumulate with ASEAN Countries to import raw materials from these countries, process and export from Sri Lanka.

The new ROO has also relaxed qualifying operations for some of the products that use imported raw materials enabling Sri Lanka to gain maximum benefits from the GSP scheme.

### **3.5 US GSP PROGRAMME**

All GSP eligible products entering the United States from non- AGOA countries, face MFN tariffs after 1<sup>st</sup> January 2011.

## **4 BILATERAL AFFAIRS**

### **4.1 INDO-SRI LANKA FREE TRADE AGREEMENT (ISFTA)**

The Indo-Sri Lanka Free Trade Agreement (ISFTA), which was signed on 28<sup>th</sup> December 1998 and entered into force with effect from 1<sup>st</sup> March 2000, provides duty free concessions to a wide range of products traded between the two countries. Sri Lanka's final tariff liberalization commitment under ISFTA came into effect since November 2008 and with this completion of the commitment, the ISFTA which came into effect from March 2000 has been fully implemented. However, Sri Lanka has already got a fully duty free access to the vast Indian market under the ISFTA since the end of March 2003. Thus, the entrepreneurs based in Sri Lanka can now export more than 4000 product lines to the Indian market on duty free basis.

Sri Lanka's export to India increased from US \$ 173 million during January to May in 2010 to US \$ 219 million during the corresponding period of 2011 registering a 26.6% growth. This increase was mainly due to a significant increase in exports such as insulated wiring sets and cables, bottle coolers, petroleum products, cocoa products, technically specified natural rubber, marble, furniture, MDF boards, apparel & clothing accessories, glass products, rubber gloves, nutmeg, mace etc. during January to May in 2011 when compare to the same period in 2010. However, exports of certain products such as cloves, pepper, natural rubber in form of smoked sheets, copper wires, animal feed, refined copper, new pneumatic tyres etc. have recorded decrease during January to May in 2011 compared to the same period in 2010. It is important to note that most of the products have been exported to India on duty free basis under the ISFTA during January to May in 2011. The Department of Commerce has issued 4,371 Certificates of Origin under the ISFTA during January to May 2011 when compared to 4,112 Certificates of Origin under the ISFTA issued during the same period in 2010.

An informal discussion with the India officials on the ISFTA implementation issues were held in New Delhi in November 2010 and subsequently in Colombo in December 2010. During the discussions, both sides emphasized the importance of commencing bilateral discussions between the two countries on the ISFTA implementation issues after a lapse of two years. Both sides expressed the importance of giving utmost attention to solve ISFTA implementation issues put forward by both sides, at the earliest.

#### **4.2 MORE COMPREHENSIVE ECONOMIC COOPERATION ARRANGEMENTS WITH INDIA**

Sri Lanka is in the process of negotiating more comprehensive economic cooperation arrangement with India in order to strengthen the present bilateral economic relations. While the present Free Trade Agreement between the two countries deals with trade in goods, the proposed arrangement will

encompass trade in Services, Investment and Economic cooperation. The formal discussions on the proposed arrangement have not taken place since the conclusion of third round of Trade Negotiating Committee meeting held in July 2008. The two sides have had three rounds of negotiations at Commerce Secretary Level and thirteen rounds of Technical Level Negotiations since negotiations on the proposed comprehensive arrangement with India were launched in 2005. Both parties were able to reach a reasonable understanding through these negotiations on the level of market access commitments in the area of trade in goods, trade in services, investment and economic cooperation.

However, the process of negotiations for proposed Agreement was suspended in 2008 due to the concerns expressed by some parties on the possible adverse effects. Later in 2010, an extensive consultation process was started with all the stakeholders in order to address those concerns. In this regard, the first consultative meeting, chaired by the Hon. Minister of Industry and Commerce was held on 27<sup>th</sup> July 2010 to assess the perspectives of the chamber representatives followed by a series of such meetings. During bilateral consultations between Sri Lanka and India held during the latter part of 2010, both sides agreed to re-start formal negotiations based on a new draft prepared by Sri Lankan side. Accordingly, in February 2011, an Inter-Agency-Committee was established with the approval of the Cabinet to look into the matters pertaining to the proposed Agreement with India and prepare a draft text. Presently, the IAC is in the process of preparing a draft to be presented to the Indian side for future negotiations.

#### **4.3 PAKISTAN SRI LANKA FREE TRADE AGREEMENT (PSFTA)**

A substantial improvement in trade has been recorded since the Pakistan Sri Lanka Free Trade Agreement (PSFTA) came into force on 12<sup>th</sup> June 2005 and Sri Lanka has duty free market access for more than 4500 products under the Agreement.

The value of total trade between the two countries, which stood at US \$ 147.15 million in 2004, has increased to US \$ 342.14 million in 2010. Sri Lanka's exports which were at US \$ 55.46 million in 2009 have risen to US \$ 60.38 million in 2010 recording a 8.87% growth. Now Pakistan is the second largest trading partner of Sri Lanka in the SAARC region after India.

Sri Lanka's main exports to Pakistan include natural rubber and rubber articles, tea, fruits and vegetables, betel leaves, vegetable plaiting materials spices. A range of new products have also penetrated into the Pakistan market after the implementation of the PSFTA and these new products include items such as fresh pineapple, sports goods, tamarind with seeds, edible oil, porcelain tableware & kitchenware, ceramic tiles, furniture, electrical switches and sockets, herbal cosmetic

products and plastic articles, paints, glass paintings, leather products, frozen fish, prawns, lobsters, crabs, cut flowers and foliage, gems & Jewellery and aquarium fish. In return, Pakistan's major export items to Sri Lanka were cement, cotton textile fibers, yarns and fabrics, pharmaceutical products, dry fish, potatoes, rice, big onions, electrical machines and apparels etc.

#### **4.4 THE FOURTH REVIEW MEETING UNDER THE PSFTA**

The fourth review meeting under the PSFTA was held during 17-18 August, 2011 in Colombo. Both sides were able to reach satisfactory solutions with regard to the implementation issues which were raised during the 10<sup>th</sup> Session of the Joint Economic Commission. The two sides also discussed the modalities and appropriate institutional mechanisms for further expanding the existing commercial and economic cooperation between the two countries, with special emphasis on investment, services, customs cooperation, dispute settlement and further deepening of the FTA.

#### **4.5 THE 10<sup>TH</sup> SESSION OF THE JOINT ECONOMIC COMMISSION BETWEEN PAKISTAN AND SRI LANKA**

The 10<sup>th</sup> Session of the Joint Economic Commission between Pakistan and Sri Lanka was held during 4-5 July, 2011 in Islamabad. During meeting, both sides discussed the implementation issues under the PSFTA in order to ensure smooth flow of trade between the two countries. In addition, the two countries agreed to cooperate in diverse areas which includes bilateral trade, investment, joint venture possibilities, banking and finance, human resource development, technical assistance and capacity building, health, Agriculture, credit facilities, ports and shipping and cooperation in the field of science and technology and specific industrial sectors including Gem and Jewellery.

## **5 REGIONAL AFFAIRS**

### **5.1 SOUTH ASIAN FREE TRADE AREA (SAFTA)**

The Agreement on South Asian Free Trade Area (SAFTA) was signed in January 2004 during the 12<sup>th</sup> SAARC Summit held in Islamabad, Pakistan and entered into force on 1<sup>st</sup> of January 2006.

Currently the Negative Lists of products, Rules of Origin and Technical Assistance are among the issues agreed upon on this agreement.

Under the Trade Liberalization Programme of SAFTA, scheduled for completion in ten years by 2016, the customs duties on products from the region will be progressively reduced. However, Sri Lanka has to bring down its customs duties to 0 – 5% in six equal installments by 2014 for the products from other Member States. Least Developed Contracting States (LDCs: Afghanistan, Bangladesh, Bhutan, Maldives and Nepal) are to bring down to 0 – 5% in 8 equal installments by 2016. India and Pakistan to bring down their tariff 0 – 5% in 5 equal installments by 2013. Sri Lanka, though a non Least Develop State given the size and vulnerability of its economy was able to achieve more concessions and more enforcement time period for the graduation of tariff in all the negotiations of SAFTA.

Position of Sri Lanka's trade with other SAARC member countries in 2010 is as follows.

<b>Country</b>	<b>Exports under SAFTA in US\$</b>	<b>Total trade under SAFTA in US\$</b>	<b>Exports out side SAARC in US\$</b>	<b>Trade out side SAARC in US\$</b>
Afghanistan	-	-	340,000.00	1,450,000.00
Bangladesh	-	-	35,540,000.00	48,140,000.00
Bhutan	-	-	40,000.00	40,000.00
India	505,557.48	1,430,765.93	466.40	3012.83
Maldives	-	14,001.15	38,450,000.00	50,640,000.00
Nepal	-	-	690,000.00	830,000.00
Pakistan	681,249.72	816,796.89	60,380,000.00	342,140,000.00

According to the total trade among the SAARC Member States during the period of July 2006 to December 2010, total vale of exports under SAFTA is only US\$ 1,251,041,842.84. Sri Lanka's exports to the SAARC member States during the same period are US\$ 1,186,807.20. Sri Lanka's imports from the other SAARC Member States during the period are US\$ 1,471,784.47.

According to the above statistics it is clearly understood that intra-SAARC trade is in a very low level. The main reason for the above situation is that all Member States maintaining large size of sensitive lists. As of now most of the tradable items are in the negative list of respective Member States. Even the concessions granted under SAPTA for tradable items have been brought under the negative lists in SAFTA, though the SAFTA concessions were expected to supersede the concessions granted under SAPTA.

We could clearly understand this situation if we compare the trade within SAARC and out side SAARC.

In view of the above, the reduction of negative list by 20% by each Member State by request and offer basis is also being negotiated at the moment to give an impetus to the call of the last few successive SAARC Summits to implement the SAFTA agreement in a meaningful way in letter and spirit. At the moment the Member States have circulated their request lists to their respective countries for the 20% reduction of the existing negative lists of each Member. The Second Meeting on Working Group on Reduction in the Sensitive Lists under SAFTA from 28<sup>th</sup> – 29<sup>th</sup> March 2011 commenced the negotiations for a sensible reduction in the negative lists of each Member State.

Sri Lanka has a modest trade within SAFTA and accounted only for 1.18 Mn. US\$ during July 2006 to December 2010. The total SAFTA intra-regional trade stood at 823.62 Mn. US\$ during the same period. Under the SAFTA, Sri Lanka has exported natural rubber, cloves & mace, black tea, coco peat, broom sticks, knitted fabric and tyres.

However, it is to be observed that Sri Lanka has a substantial trade with SAARC countries outside SAFTA. Most of it is under bilateral agreements such as Indo – Sri Lanka Free Trade Agreement and Pakistan Sri Lanka Free Trade Agreement. This is one of the reasons for Sri Lanka's modest exports within SAFTA. The rest of Sri Lanka's substantial exports to SAARC countries fall outside the SAFTA preferences which are being focused by Sri Lanka in phasing out modalities of the negative list negotiations. This could bring Sri Lanka realizing the full trading potentials under SAFTA.

During the 5<sup>th</sup> Meeting of the SAFTA Ministerial Council held on June 2011, SAARC Commerce Ministers agreed to accelerate the proposal of the reduction of negative list by 20% by each Member States.

## **5.2 SAARC AGREEMENT ON TRADE IN SERVICES (SATIS)**

Leaders of the Member States/governments during the last 16th SAARC Summit in April 2010 in Bhutan signed the SAARC Framework Agreement on Trade in Services and expressed that this will open up new vistas of trade cooperation and further deepen the integration of the regional economies. Up to now Bangladesh, India, Pakistan and Sri Lanka have ratified this agreement. The negotiations on the Schedules of Commitment under SAARC Agreement on Trade in Services (SATIS) commenced at the Sixth Meeting of the Expert Group on Trade in Services from 30<sup>th</sup> – 31<sup>st</sup> March 2011.

According to the decision taken at the above meeting, Sri Lanka forwarded the initial offer based on the initial offers tabled at the Doha Round. Currently Sri Lanka is in the process of preparing the request lists to be sent to the other member states.

### **5.3 SAARC PREFERENTIAL TRADING ARRANGEMENT (SAPTA)**

SAPTA was signed on 11 April 1993 and entered into force on 7 December 1995. The Agreement reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

Four rounds of trade negotiations have been concluded under SAPTA covering over 5000 tariff lines. Each Round contributed to an incremental trend in the product coverage and the deepening of tariff concessions than previous Rounds.

How ever, SAPTA was envisaged primarily as the first step towards the transition to a South Asian Free Trade Area (SAFTA) leading subsequently towards a Customs Union. Hence SAPTA is scheduled to gradually replace by South Asian Free Trade Area (SAFTA) in the future. Thus the usage of tariff preference under the SAPTA is reducing gradually. During the first half of 2011, Sri Lanka has exported approximately US\$ 1.14Mn. worth of goods to India and Pakistan under SAPTA.

### **5.4 BAY OF BENGAL INITIATIVE FOR MULTI-SECTORAL TECHNICAL AND ECONOMIC COOPERATION (BIMSTEC)**

The 19<sup>th</sup> meeting of the BIMSTEC Trade Negotiating Committee (BIMSTEC TNC) and the 6<sup>th</sup> meeting of the BIMSTEC Business and Economic Forum were held in Bangkok, Thailand from 21-24 February 2011.

Sri Lanka's major concern at this 19<sup>th</sup> TNC was the present modalities of tariff reductions which are not favorable to Sri Lanka particularly with a negative list of 19%.

As Sri Lanka has already entered into more than one free/preferential Trade Agreements with some of the members of the BIMSTEC group, the main objective of Sri Lanka, in the BIMSTEC FTA negotiations' was to obtain enhanced market access to the ASEAN markets, through Thailand. However, the manner in which negotiations have evolved over the last few years would only provide limited market access in to Thailand. The cost benefit analysis undertaken by the Department of Commerce in 2008, based on 2007 data, revealed that there would be at least US\$ 1.59 Million revenue loss on the imports only from Thailand if Sri Lanka agrees on the present modalities having nearly 19% of total tariff lines in the negative list.

After hard and difficult deliberations with Thailand and difficult and complex negotiations in the plenary, it was finally agreed to increase the negative list to 23%. All the other members of the BIMSTEC agreed on the decision and thanked Sri Lanka for conducting negotiations with Thailand in a way that benefit all the members.

The 19<sup>th</sup> TNC agreed the following modalities of tariff reduction and elimination.

<b>Modalities</b>	<b>% of HS. 2007 at 6 digit level</b>
i. Fast Track Elimination	10%
ii. Normal Track Elimination	48%
iii. Normal Track Reduction	19%
iv. Exclusion (Negative List)	23%

The new modalities would provide the necessary coverage for Sri Lanka to avoid the adverse impact due to revenue loss over US\$ 1.5 million ass all imports from Thailand could be covered by the negative list. However, the benefits form this agreement for Sri Lanka would be less than its administrative cost.

## **5.5 ASIA PACIFIC TRADE AGREEMENT (APTA)**

The APTA is the only regional trade agreement which links East, South-East, and South Asia. It is one of the Asia's oldest regional preferential trading agreements comprising of six participating states namely, Bangladesh, China, India, Laos, Republic of Korea and Sri Lanka.

Although the 04<sup>th</sup> Round of negotiations under APTA was concluded in December 2009, the tariff negotiations which were to be finalized in March 2010 continued. At the end of the 03<sup>rd</sup> Round, a

consolidated concession list consists of 4,270 products, plus 587 products offered exclusively to Least Developed Countries (LDCs), by the participating states. The 04<sup>th</sup> Round of negotiations is expected to widen the product coverage and deepen the tariff cuts already given in the 03<sup>rd</sup> Round.

In addition, APTA has adopted modalities for extending negotiations into other areas such as non-tariff measures and entering into Framework Agreements on Trade Facilitation, Trade in Services and Investment. Sri Lanka has ratified the Framework Agreements on Trade Facilitation and Investment, and Members are currently engaged in following up on the implementation of these Agreements.

APTA is the only trading arrangement that Sri Lanka part with China and Korea. APTA has facilitated Sri Lanka to enhance a market access particularly to these two major markets. The following table illustrates Sri Lanka's recent exports growth to China and Korea.

Sri Lanka's major export items under APTA includes, coir products, rubber tyres, gloves, tea, apparel, activated carbon, porcelain ware, floor tiles and fish products, etc.

<b>Year</b>	<b>India</b>	<b>Bangladesh</b>	<b>China</b>	<b>South Korea</b>	<b>Total exports</b>
2007	13.17	0.5	9.03	4.4	27.14
2008	10.4	0.7	19	5.2	35.3
2009	13.1	1.3	28.98	6.1	49.48
2010	21.6	0.2	41.4	6.5	69.7
% change in exports 2009/2010	64.8854962	-84.6154	42.85714	6.557377	40.86
% change in exports 2007/2010	64.0091116	-60	358.4718	47.72727	156.82