



## Asia-Pacific Trade Briefs

### Sri Lanka

**Merchandise trade:** Sri Lanka's merchandise exports grew rapidly in 2014 by 10.6% – the second fastest growth rate in South and South-West Asia. This followed a period of already high export growth between 2010 and 2014 averaging 7.0% a year. This growth in exports is partly due to improved macro-financial conditions in the United States and European Union (EU). Together, the United States, the United Kingdom and Germany account for close to half of Sri Lanka's merchandise exports (45.2%). Sri Lanka has not been as adversely affected by the economic slowdown of China as have other economies in the region, because China accounts for just 2.5% of Sri Lanka's exports. Sri Lanka's export sector is highly diversified across 3,007 products and 120 markets, higher than the Asia-Pacific average of 2,107 products and 95 partners. Exports are dominated by tea, garments and textiles. In 2014, merchandise imports decelerated to 7.9% from an average of 9.5% between 2010 and 2014. More than half of the country's imports (52.9%) are sourced from China and India. Like many developing economies, Sri Lanka's main import is petroleum oil, which makes up 11.8% of imports.

**Services trade:** Sri Lanka's services exports grew by 19.7% in 2014 – markedly higher than the Asia-Pacific total growth of 4.8%. This was led by higher levels of tourism – the largest sector – as well as higher exports of transport and telecommunications services. Services imports grew by 6.8% in 2014 – marginally higher than the regional total of 6.1%. This was led by higher imports of transport and travel services.

**Global value chains (GVCs):** The share of intermediate goods in trade – a proxy for participation in GVCs – is higher in Sri Lanka (28%) than in the Asia-Pacific region (22%) for imports, and much lower in Sri Lanka (11%) than in the region (18%) for exports. Sri Lanka is involved in textile value chains at the processing stage, which is reflected by the fact that the top import products are dominated by fabrics, while the top exports products are dominated by garments and textiles.

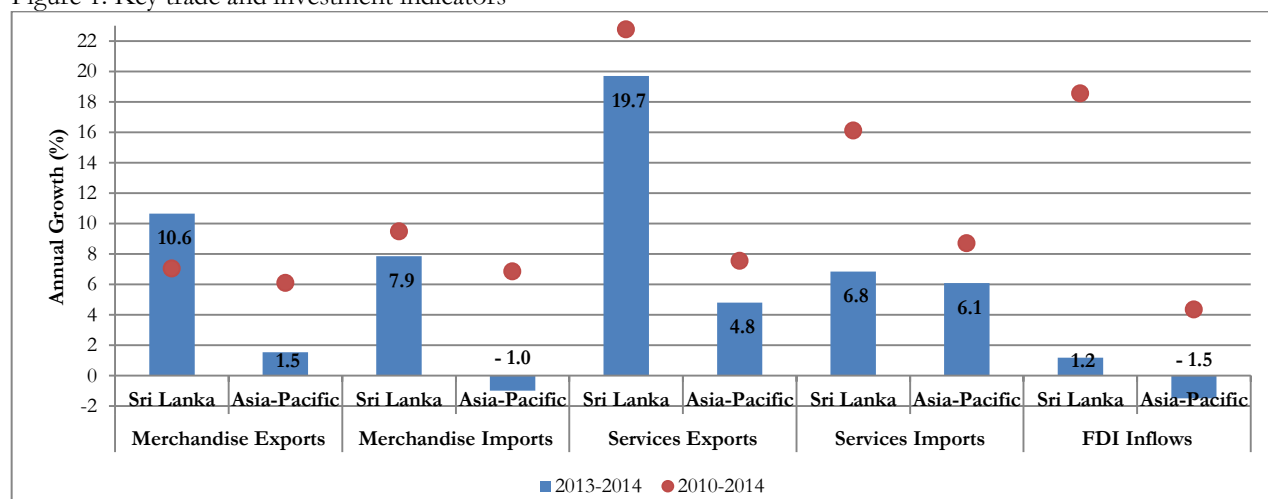
**Foreign direct investment (FDI):** Sri Lanka's FDI inflows grew slightly, by 1.2%, to \$944 million in 2014 – less than half of the Government's target of \$2 billion. Inflows have remained relatively steady, at around \$900 million per year since 2011. The Government unexpectedly revoked licences for some casinos and imposed a new tax on their profits in 2014. These sudden changes in policy may have contributed to low FDI growth, as they introduced greater uncertainty in the tax regime.

**Tariffs:** MFN applied and effective tariffs at 9.0% and 8.9% are slightly higher than Asia-Pacific averages of 7.4% and 7.4%. Average WTO bound duty, at 28.2%, is slightly higher than the Asia-Pacific average of 21.7%.

**Trade costs:** Intraregional trade costs with Sri Lanka have fallen marginally since 2009. It is costlier for Asia-Pacific economies to trade with Sri Lanka than with East Asia-3 (China, Japan and the Republic of Korea) – the intraregional benchmark – and with EU-3 (France, Germany and United Kingdom) – the extraregional benchmark. Based on the UNRC Survey 2015,\* Sri Lanka's trade facilitation and paperless trade implementation score is 47.3%, compared with 46.5% for the Asia-Pacific.

**Trade Agreements:** Sri Lanka has five trade agreements in force, which is lower than the Asia-Pacific average of seven agreements. Eleven per cent of the total exports are to PTA partners, compared with 35% for Asia-Pacific, while 51% of total imports are from PTA partners, compared with 45% for Asia-Pacific.

Figure 1. Key trade and investment indicators



\*Country notes summarising results of the UNRC Survey 2015 are available at: <http://unnext.unescap.org/UNTRFSurvey2015.asp>

Figure 2. Top merchandise markets

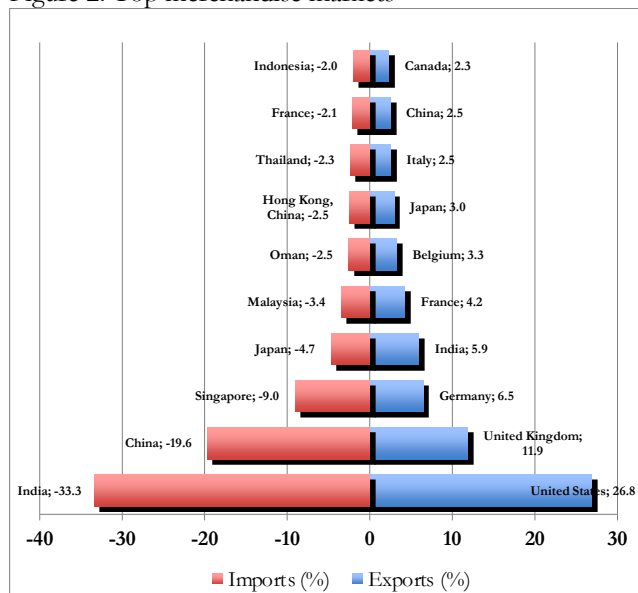


Figure 3. Top merchandise products

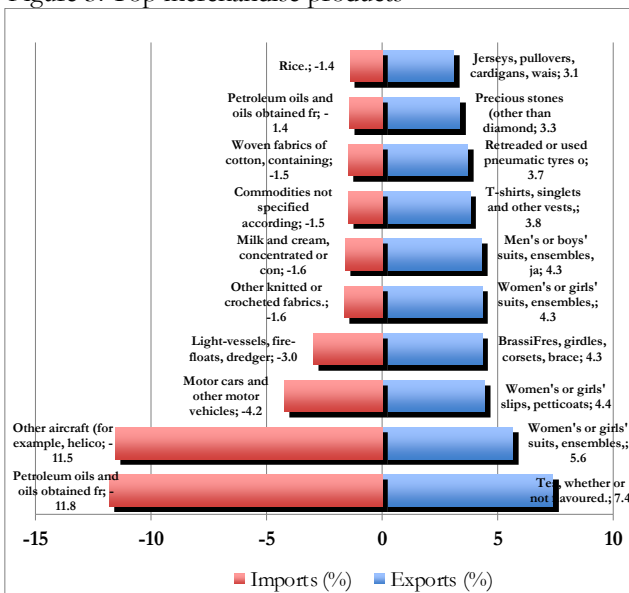


Figure 4. Trade in goods by their use

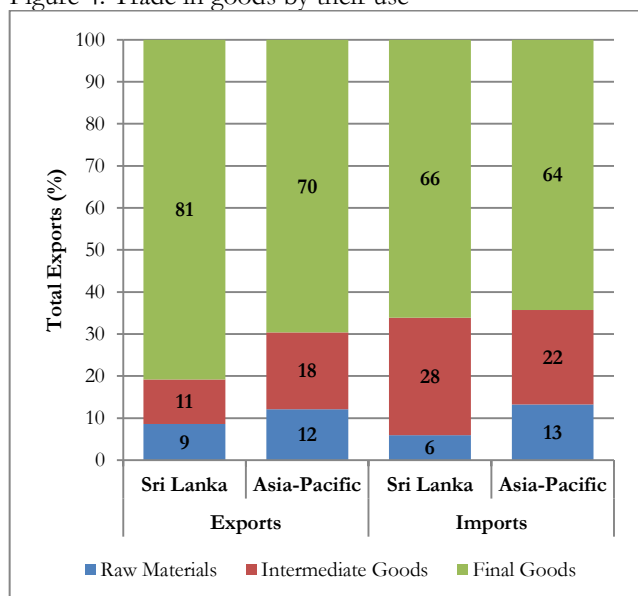


Figure 5. Foreign direct investment

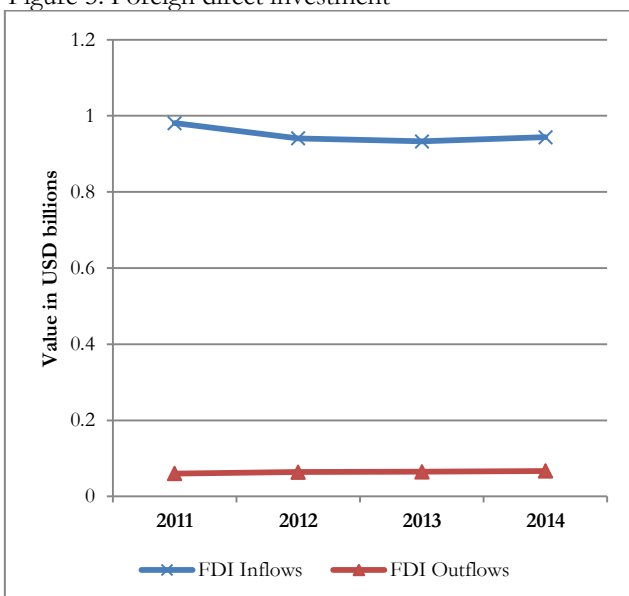


Figure 6. Tariffs

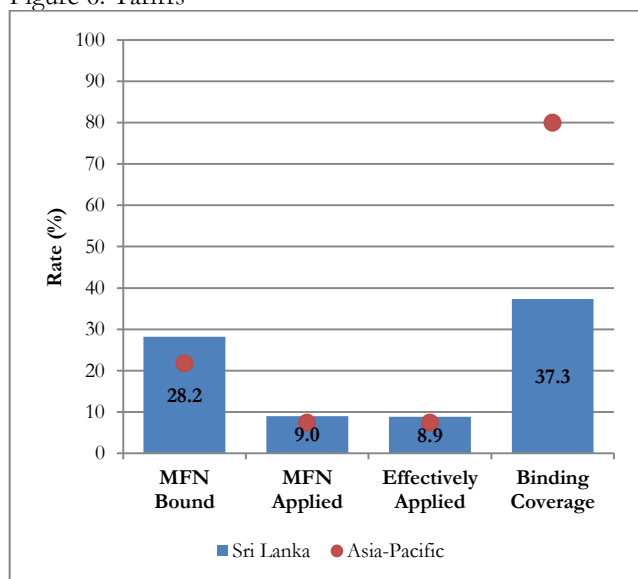
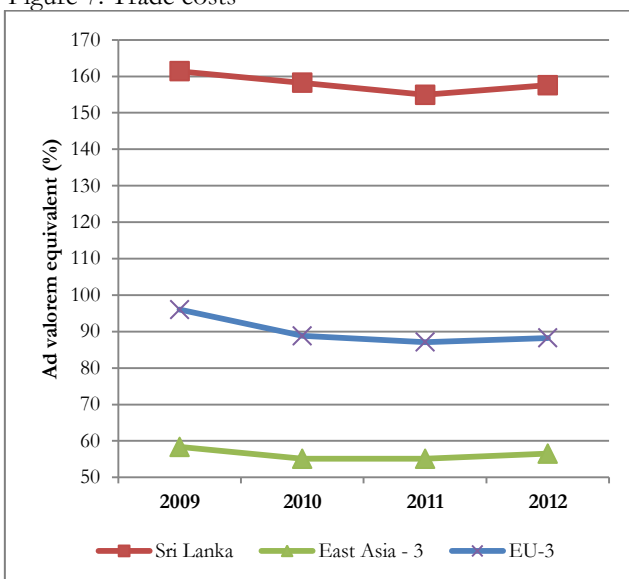


Figure 7. Trade costs



Sources: Trade and tariff data were accessed through WITS. FDI data was accessed through UNCTADstat.

Notes: Trade data follows the HS2007 classification. Mirror data is used. Products are defined at the 6-digit level.

Definitions: Primary, intermediate, consumer, and capital goods are defined using UNCTAD System of Accounts. Final goods are defined as the sum of consumer and capital goods. Bound tariff is the maximum most favoured nation (MFN) tariff permitted under WTO obligations. MFN applied tariff is the tariff applied on imports among WTO members. Effectively applied rate is the lowest tariff available, i.e. preferential rates where available.

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