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Sri Lanka's service trade and RCEP accession

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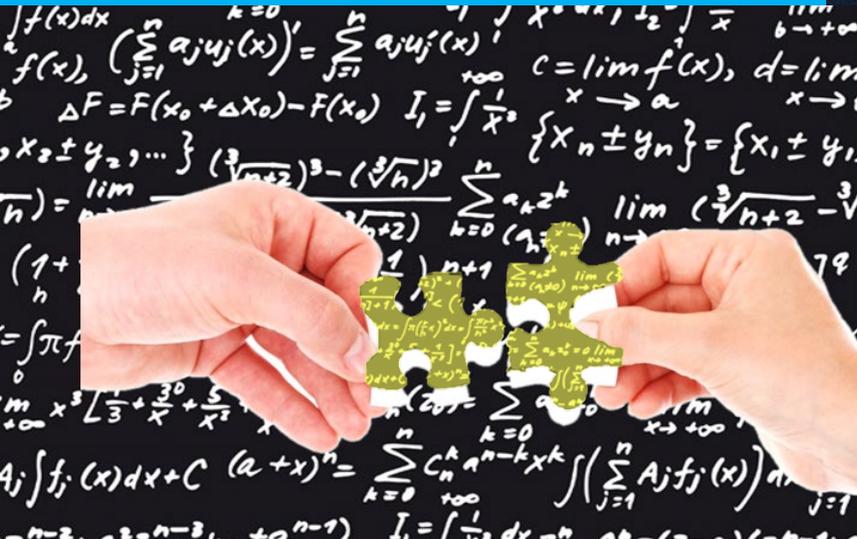
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ESCAP
Economic and Social Commission
for Asia and the Pacific

Sri Lanka's Service Trade and RCEP Accession



Tao Qi

Rupa Chanda

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

WORKING PAPER

Sri Lanka's Service Trade and RCEP Accession

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Abstract

This paper evaluates Sri Lanka's readiness to join the Regional Comprehensive Economic Partnership (RCEP), with a focus on services trade. Services exports have grown moderately since 2015, led by travel, transport, and business process outsourcing, while imports have contracted, resulting in a services trade surplus by 2023. Revealed comparative advantage analysis shows clear strengths in travel, transport, construction, and other business services, but persistent weaknesses in ICT, financial, and intellectual property services. Sri Lanka's service economy shows areas of strength that are well aligned with regional demand. However, a range of regulatory, infrastructural, and institutional barriers currently limit trade and investment flows. RCEP offers a framework for addressing these constraints, unlocking access to major Asian markets, and attracting the capital and expertise needed to elevate Sri Lanka's service sectors. Realizing these benefits will require deliberate policy reform, sustained investment in trade readiness, and careful negotiation of liberalization commitments.

Keywords: Services Trade, RCEP, Accession, Trade, Policy, Commitments

JEL classification: L81, F13, F15, F23

Table of Contents

Abstract.....	1
List of Tables	i
Acknowledgement	iii
1. Introduction	4
2. Sri Lanka Services Trade.....	6
3. Barriers and Liberalization	40
4. RCEP Commitments and Gaps.....	59
5. Foreign Direct Investment	65
6. Summary.....	68
References	72

List of Tables

Table 1: Sri Lanka's Service Exports to the World, 2015-2023 (US \$ millions).....	8
Table 2: Sri Lanka's Service Import from the World, 2015-2023 (US \$ millions)	9
Table 3: Sri Lanka's Service Exports, 2015-2023 (US \$ millions).....	12
Table 4: Sri Lanka's Services Exports to RCEP Countries, 2023 (US \$ millions).....	14
Table 5: Sri Lanka's Service Imports, 2015-2023 (US \$ millions).....	18
Table 6: Sri Lanka's Services Imports from RCEP countries, 2023 (US \$ millions).....	20
Table 7: Sri Lanka's Merchandise Exports to RCEP Counties, 2015-2024 (US \$ millions)	24
Table 8: Sri Lanka's Merchandise Imports from RCEP Counties, 2015-2024 (US \$ millions).....	26
Table 9: Value and Share of Selected Countries' Services Exports to the World (millions of US \$ and %), 2023.....	28
Table 10: Value and Share of Selected Countries' Services Imports from the World (millions of US \$ and %), 2023.....	30
Table 11: Revealed Comparative Advantage in Overall and Individual Services for Sri Lanka and RCEP countries	35
Table 12: Sri Lanka's BRCA with partners and trade flows.....	37
Table 13: Sri Lanka's BRCA with EU partners and trade flows.....	38
Table 14: Top 10 Tourists Markets Comparison 2018-2023.....	43
Table 15: Transport Services Export in Jan-Aug 2023 and 2024, US\$ million.....	46
Table 16: Other Business Services Exports in Jan-Aug 2023 and 2024, US\$ million...	48
Table 17: ICT Services Exports in Jan-Aug 2023 and 2024, US\$ million	51

Table 18: Construction Services Inflows in Jan-Aug 2023 and 2024	53
Table 19: Service Trade Barriers from selected RCEP Countries in Selected Sectors.	54
Table 20: Sri Lanka’s Schedule of Commitments on Mode 4	62
Table 21: Sri Lanka’s Readiness in Service Sectors	62
Table 22: Comparison of Sri Lanka’s FDI Policy and RCEP Benchmark.....	67

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1. Introduction

Sri Lanka is an island country located in South Asia, to the south of India. As of 2023, it has a population of 22 million (World Bank, [2023](#)). The economy is heavily reliant on international trade. In recent years, Sri Lanka has encountered significant economic challenges, including high public debt levels, a balance of payment crisis, and the economic impacts of COVID-19 pandemic. Sri Lanka faces a pressing need to revitalize its economy and sees integration with the dynamic Asia-Pacific region as a path to recovery. Driven by both immediate economic needs and longer-term strategic goals, Sri Lanka has formally expressed interest in joining the Regional Comprehensive Economic Partnership (RCEP) (UNCTAD, [2023](#)).

Signed on November 15, 2020, and entered into force on January 1, 2022, RCEP is a mega free trade agreement (FTA) encompassing 15 Asia-Pacific economies – the 10 ASEAN nations plus Australia, China, Japan, New Zealand, and South Korea. As of 2023, RCEP countries collectively account for a regional Gross Domestic Product (GDP) of USD 29.5 trillion (28 per cent of global GDP), a population of 2.3 billion (29 per cent of the global population), and USD 15.5 trillion in trade in goods and services (25 per cent of global trade) (World Bank, [2023](#)). By reducing trade costs, RCEP has significantly unlocked the region's trade growth potential. According to UNCTAD's World Investment Report 2023, while global foreign direct investment (FDI) inflows declined by 12 per cent in 2022 to USD 1.3 trillion, the RCEP region attracted USD 527.5 billion in FDI inflows which is an increase of 14 per cent from USD 462.6 billion in 2021 (UNCTAD, [2023](#)).

Sri Lanka's interest in being an early new member reflects Colombo's commitment to pivot economically toward Asia. This pivot aligns with global and regional shifts: East Asia's role in driving global demand has grown markedly, with China now surpassing the US and EU as the largest source of final demand for Asian exports (Brookings, [2023](#)). Another key motivation is the importance of services trade for Sri Lanka's economy. In 2023, Sri Lanka's total external trade (merchandise and services exports and imports) was USD 40.7 billion, with service trade flows making up 25 per cent of this value (USD 10.2 billion) (OECD, [2025](#)). Services trade, especially tourism,

transport, and IT-enabled services constitute a significant share of Sri Lanka's export earnings and employment. Strengthening ties with RCEP members could boost these service industries through greater market access and investment. For instance, RCEP's provisions on reducing barriers in travel, transport, and professional services could help Sri Lanka attract more Asian tourists and service outsourcing contracts. Additionally, RCEP membership may encourage technology transfer and skill development in service sectors. Sri Lanka hopes to leverage the advanced services markets of East Asia, such as Japan's and Singapore's to upgrade its own capabilities.

Sri Lanka needs to expand and diversify its exports and trading partners to strengthen its economic resilience against external shocks and ensure sustainable growth. The country's export structure remains heavily concentrated in a few sectors particularly garments, tea, and rubber, and depends on a limited number of markets such as the United States and the European Union. This narrow base makes Sri Lanka vulnerable to global demand fluctuations, commodity price volatility, and the loss of preferential trade access. For instance, the World Bank highlights that over 50 per cent of Sri Lanka's exports come from just 10 products, compared to a more diversified portfolio in countries like Vietnam or Thailand (World Bank, [2023](#)). Moreover, Sri Lanka's ongoing economic recovery from the 2022 crisis underscores the urgency of diversifying exports to improve foreign exchange earnings and reduce debt distress. Strengthening high-potential sectors like ICT services, processed food, and logistics, while expanding trade with emerging Asian and African markets, is key to building long-term resilience.

By joining RCEP, Sri Lanka seeks to tap into these trends, diversify its import and export markets, and embed itself in Asian supply chains that are increasingly central to world trade. Sri Lanka's interest in RCEP is driven by a mix of economic necessity and strategic reorientation integrating with Asia's booming trade networks and leveraging its competitive service sectors to foster sustainable growth.

2. Sri Lanka Services Trade

2.1 The Broader Context of Sri Lanka's Services Trade

To contextualize Sri Lanka's position, we first examine its overall services trade with the world. Table 1 shows that Sri Lanka's services exports grew modestly over 2015–2023, with a compound annual growth rate (CAGR) of 2.5 per cent. Total service exports reached USD 6.12 billion in 2023, up from USD 5.02 billion in 2015. The growth was not steady since exports expanded strongly pre-pandemic with average -4.7 per cent annually during 2015–2020 as COVID-19 strongly hit the travel industry. By 2023, services export value had just surpassed the 2019 level.

Sri Lanka's services exports are dominated by Travel services, Transport services, and Other business services. From 2019 to 2020, travel exports dropped from USD 1.93 billion (32 per cent of total service exports) to USD 0.56 billion. By 2023, travel receipts recovered to USD 1.88 billion. Transport services contributed 23 per cent of export earnings in 2023. The fastest growth has been Other business services category that is a broad segment including professional, technical, and support services. It reached USD 2.02 billion in 2023, constituting the largest share at 33 per cent. This reflects the rising importance of business process outsourcing, IT services, and other knowledge services. Smaller sectors like construction services also saw high growth with CAGR of 21 per cent, though from a low base (under 4 per cent of exports). Overall, Sri Lanka's export basket has become more services-oriented (services constituted 33.7 per cent of total exports in 2023 when including goods), relying particularly on tourism and outsourcing-related services.

Sri Lanka's services imports tell a somewhat different story. In Table 2, total service imports in 2023 were USD 4.16 billion, which is lower than in 2015, reflecting a contraction with –0.3 per cent CAGR over the eight-year span. Total service imports recovered after 2020 with an average annual growth rate (AAGR) 7.3 per cent.

From 2019 to 2020, travel imports decreased from 29 per cent to 14.7 per cent of service imports. By 2023, such share increased to 19.6 per cent. Transport accounted

for 43.5 per cent of service imports in 2023. Other business services also form a significant portion of imports and even grew in value since 2015, suggesting Sri Lankan firms continue to procure expertise and business services from abroad. Meanwhile, financial and insurance services imports stayed modest (each 1–2 per cent of imports) but did not exhibit major growth, and ICT service imports were around 6 per cent of the total in 2023.

An important observation is that Sri Lanka's overall services trade balance moved into surplus by 2023 with exports (USD 6.12 billion) exceeding imports (USD 4.16 billion) due to sharp drop in imports. This stands in contrast to Sri Lanka's merchandise trade, which runs a chronic deficit. It highlights how the contraction of discretionary imports (like travel) improved the services balance, albeit for undesirable reasons.

Sri Lanka's recent services trade performance shows moderate export growth with a shifting composition, and a compression of imports after 2020. Travel and transport services remain central to exports, though other business services have surged to the forefront. The pandemic's impact is evident in both exports and imports. These trends set the stage for examining Sri Lanka's service trade specifically with RCEP countries, to see how integration with RCEP might influence or build on these patterns.

Table 1: Sri Lanka's Service Exports to the World, 2015-2023 (US \$ millions)

Service Sector	CAGR (2015-2023, %)	AAGR (2020-2023, %)	AAGR (2015-2020, %)	2023		2020		2015	
				Value	Share (%)	Value	Share (%)	Value	Share (%)
Manufacturing services	8.5	32.0	-0.3	23.9	0.4	11.0	0.3	12.4	0.2
Maintenance services	9.0	47.1	-0.6	30.8	0.5	11.5	0.3	15.5	0.3
Transport	1.4	15.4	-3.5	1417.7	23.2	971.6	28.2	1264.0	25.2
Travel	1.3	58.1	-11.4	1882.0	30.8	556.1	16.1	1700.8	33.9
Construction	20.9	328.3	-11.9	196.6	3.2	12.0	0.3	43.1	0.9
Insurance	-2.7	21.7	-11.4	12.6	0.2	7.6	0.2	15.7	0.3
Financial services	-4.5	0.5	-3.6	46.6	0.8	50.2	1.5	67.4	1.3
Intellectual property charges	0.8	14.7	7.5	4.2	0.1	2.8	0.1	4.0	0.1
ICT	5.3	9.1	6.0	426.1	7.0	370.6	10.8	282.9	5.6
Other business services	3.5	15.9	-0.4	2021.8	33.1	1376.7	40.0	1529.5	30.5
Cultural services	9.0	23.7	7.7	24.4	0.4	15.5	0.5	12.2	0.2
Government goods services	-10.2	-20.8	-1.3	29.4	0.5	60.1	1.7	69.4	1.4
Total	2.5	22.0	-4.7	6116.0	100.0	3445.9	100.0	5017.0	100.0

Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

Table 2: Sri Lanka's Service Import from the World, 2015-2023 (US \$ millions)

Subsector	CAGR (2015-2023, %)	AAGR (2020-2023, %)	AAGR (2015-2020, %)	2023		2020		2015	
				Value	Share (%)	Value	Share (%)	Value	Share (%)
Manufacturing services	7.7	26.8	2.8	179.5	4.3	109.9	3.22	99.1	2.3
Maintenance services	2.0	4.9	4.1	52.6	1.3	48.3	1.42	44.9	1.1
Transport	1.2	5.7	-0.7	1810.9	43.5	1538.2	45.1	1646.4	38.6
Travel	-5.8	23.6	-10.9	814.7	19.6	502.0	14.7	1316.4	30.9
Construction	18.5	199.4	-7.2	78.4	1.9	10.2	0.3	20.2	0.5
Insurance	3.1	8.4	1.5	20.8	0.5	16.3	0.5	16.3	0.4
Financial services	-10.0	-21.5	-0.7	74.1	1.8	156.0	4.6	172.3	4.0
Intellectual property charges	-1.0	1.4	0.0	137.3	3.3	142.7	4.2	149.3	3.5
ICT	1.1	9.6	-0.9	265.3	6.4	221.0	6.5	243.7	5.7
Other business services	5.0	6.4	5.1	630.2	15.1	536.8	15.7	426.1	10.0
Cultural services	1.8	0.9	3.9	35.8	0.9	36.2	1.1	30.9	0.7
Government goods services	-5.5	-11.1	-0.6	61.8	1.5	93.0	2.7	97.7	2.3
Total	-0.3	7.3	-2.9	4161.4	100.0	3410.4	100.0	4263.1	100.0

Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html (accessed April 24, 2025)

2.2 Services Trade: Trends and Key Features

2.2.1 Export trends

Table 3 presents data on Sri Lanka's service exports to RCEP member countries and other major trading partners. Between 2015 and 2023, the United Kingdom and the United States consistently remained Sri Lanka's two largest service export destinations. Notably, the United Kingdom's share of Sri Lanka's total service exports increased steadily, rising from 11.0 per cent in 2015 to 13.2 per cent in 2020, and reaching 18.8 per cent in 2023. In contrast, the United States experienced a gradual decline in its share over the same period, falling from 15.9 per cent in 2015 to 14.2 per cent in 2020, and further to 14.0 per cent in 2023. Germany and India are two other important destination markets for Sri Lanka's service exports.

In 2015, Sri Lanka exported about USD 932.8 million in services to RCEP and decreased to USD 702.3 billion by 2020, then increased to USD 1.13 billion in 2023. The drop post-2019 corresponds largely to the loss of Asian tourism during COVID. RCEP's share in Sri Lanka's service exports hovered around 18–20 per cent throughout the decade. In other words, roughly one-fifth of Sri Lanka's service export earnings come from RCEP markets, a proportion that did not markedly increase recently. This suggests that while exports to RCEP grew in absolute terms, they kept pace with Sri Lanka's overall services exports rather than outstripping other markets.

Looking at which service Sri Lanka exports to RCEP, the composition mirrors the global pattern with some nuances. From Table 4, in 2023, about one-third of Sri Lanka's service exports to RCEP were Travel services. This amounted to USD 387 million, slightly more than Sri Lanka's Transport services (USD 277 million) or Other business services exports (USD 349 million) to RCEP. Smaller but notable categories include ICT services and Construction services. ICT exports to RCEP were USD 63 million in 2023 which was 5–6 per cent of the RCEP total, indicating that Sri Lanka's growing ICT sector is still primarily

oriented to non-RCEP clients (US and EU). Overall, the dominant partners and sectors are travel, transport, and business services to major RCEP economies.

According to Table 3 and Table 4, China and Japan are the two largest single-country buyers of Sri Lankan services in RCEP. In 2023 Sri Lanka exported USD 264.2 million to China and USD 274.8 million to Japan, each representing about 4–5 per cent of Sri Lanka’s global service exports. Singapore and Australia are the next significant partners, with around USD 190 million and USD 138 million respectively in 2023 exports. Singapore likely imports Sri Lankan professional services and transport services, while Australia generates tourism receipts and transport exports. Other RCEP countries account for smaller shares. In aggregate, ASEAN as a region took USD 360 million of Sri Lanka’s services exports in 2023, half of which comes from Singapore’s imports. This indicates Sri Lanka’s service export linkages within Southeast Asia remain limited, concentrated instead on a few key Asia-Pacific economies.

Table 3: Sri Lanka's Service Exports, 2015-2023 (US \$ millions)

Countries /Regions	CAGR (2015-2023, %)	AAGR (2020-2023, %)	AAGR (2015-2020, %)	2023		2020		2015	
				Value	Share (%)	Value	Share (%)	Value	Share (%)
Australia	3.0	36.4	-7.4	138.2	2.3	59.6	1.7	108.9	2.2
Brunei Darussalam	-3.3	25.2	-9.3	4.6	0.1	2.8	0.1	6.1	0.1
Cambodia	-3.8	13.7	-8.0	2.1	0.0	1.6	0.1	2.8	0.1
China	1.2	16.7	-4.4	264.2	4.3	173.1	5.0	240.6	4.8
Indonesia	2.0	28.3	-7.0	36.8	0.6	17.7	0.5	31.4	0.6
Japan	4.9	32.3	-3.8	274.8	4.5	138.1	4.0	186.7	3.7
Korea	2.6	16.9	-3.1	76.9	1.3	49.1	1.4	62.7	1.2
Laos	7.3	33.5	222.7	0.2	0.0	0.1	0.0	0.1	0.0
Malaysia	-2.7	18.2	-11.3	33.4	0.5	21.3	0.6	41.8	0.8
Myanmar	1.8	5.3	11.1	2.3	0.0	2.4	0.1	2.0	0.0
New Zealand	2.3	28.5	-5.0	19.0	0.3	10.1	0.3	15.8	0.3
Philippines	-1.1	19.1	-7.1	14.9	0.2	9.1	0.3	16.3	0.3
Singapore	3.2	6.0	6.0	189.5	3.1	168.1	4.9	147.7	2.9
Thailand	2.4	15.0	-0.4	52.5	0.9	34.8	1.0	43.4	0.9
Viet Nam	-1.4	18.8	-7.3	23.7	0.4	14.6	0.4	26.5	0.5
World	2.5	22.0	-4.7	6116.0	100.0	3445.9	100.0	5017.0	100.0
ASEAN	1.6	10.5	-0.1	360.1	5.9	272.4	8.0	318.1	6.3

RCEP	2.5	18.2	-3.1	1133.2	18.5	702.3	20.4	932.8	18.6
Germany	3.9	18.1	-1.8	343.8	5.6	211.8	6.2	254.0	5.1
India	3.1	18.0	-2.5	263.0	4.3	160.2	4.7	206.1	4.1
Italy	3.8	35.0	-1.3	128.3	2.1	79.7	2.3	95.0	1.9
United Kingdom	9.6	36.8	-1.9	1148.0	18.8	453.0	13.2	553.2	11.0
United States	0.9	22.1	-6.4	857.9	14.0	489.5	14.2	800.2	15.9

Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

Table 4: Sri Lanka's Services Exports to RCEP Countries, 2023 (US \$ millions)

Countries/Regions	Other Business Services	Travel Services	Transport Services	ICT	Construction	Finance and insurance	Goods related services	Total
Australia	19.0	69.1	30.6	10.6	6.6	1.2	0.4	138.2
Brunei Darussalam	1.5	2.4	0.4	0.1	0.1	0.0	0.1	4.6
Cambodia	0.2	1.2	0.5	0.1	0.2	0.0	0.0	2.1
China	44.9	137.7	66.1	9.9	3.2	0.9	0.9	264.2
Indonesia	11.6	12.8	7.2	1.9	2.9	0.3	0.1	36.8
Japan	134.2	54.2	58.3	17.5	2.2	2.7	4.6	274.8
Korea	28.4	24.4	18.7	2.7	0.6	0.4	1.4	76.9
Laos	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.2
Malaysia	12.1	9.5	6.4	1.5	3.3	0.1	0.4	33.4
Myanmar	0.9	0.7	0.4	0.1	0.0	0.0	0.2	2.3
New Zealand	0.1	15.7	1.9	0.6	0.5	0.1	0.0	19.0
Philippines	5.1	5.1	2.9	0.8	1.0	0.1	0.0	14.9
Singapore	70.1	27.7	64.3	15.2	4.5	1.5	5.9	189.5
Thailand	18.7	15.0	11.8	1.4	4.9	0.3	0.2	52.5
Viet Nam	2.2	11.7	7.5	0.8	1.4	0.0	0.1	23.7
World	2022	1882	1418	426	197	59	55	6116
ASEAN	122	86	101	22	18	2	7	360
RCEP	349	387	277	63	31	7	14	1133

SL's export to RCEP as a share of its services exports to world (%)	17.3	20.6	19.5	14.8	16.0	12.6	26.2	18.5
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Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

2.2.2 Import trends

As shown in Table 5, between 2015 and 2023, India, the United States, and the United Kingdom were Sri Lanka's primary sources of service imports. India emerged as the largest single service exporter to Sri Lanka, accounting for 10.9 per cent of total service imports in 2023, valued at USD 455.2 million which is an increase from 9.6 per cent (USD 410.9 million) in 2015. The United States held a 10.0 per cent share of Sri Lanka's service imports in 2020; however, this figure declined slightly to 9.8 per cent by 2023.

Sri Lanka's service imports from RCEP show a declining trend in recent years, in line with the overall import contraction. In 2015, Sri Lanka imported USD 1.29 billion in services from RCEP, declining to USD 1.06 billion in 2020 and then rising to USD 1.14 billion by 2023. Note that the RCEP share dipped to 27 per cent in 2023 from 31.1 per cent in 2020 due to especially large import declines from some RCEP sources, but RCEP continues to account for roughly one-quarter to one-third of Sri Lanka's service import bill. This means RCEP is a comparatively more important source for Sri Lanka's service imports (27 per cent share) than market for its exports (18 per cent share), though the gap has narrowed.

In absolute terms, Singapore and China are the top RCEP sources of Sri Lanka's service imports. From Table 6, Sri Lanka imported about USD 312 million in services from Singapore in 2023, constituting 7.5 percent of its total service imports, and about USD 288 million from China that is 6.9 percent of total imports. These two countries alone made up over half of Sri Lanka's imports from RCEP. Singapore is a global shipping hub, so a large portion of Sri Lanka's transport payments go to Singaporean carriers or agents. Indeed, transport services dominate RCEP-sourced imports, and Singapore is prominent in that category. Additionally, Sri Lanka obtains high-end business and financial services from Singapore, reflected in Singapore being a major partner in Other business services imports. From China, a significant portion of service imports relate to transport, goods related services, as well as other business services. In recent years Chinese firms have been involved in infrastructure projects in Sri Lanka. Beyond Singapore and China, Japan

is another notable source. Sri Lanka imported around USD 158 million in services from Japan in 2023, mainly for transport and other business services.

Table 5: Sri Lanka's Service Imports, 2015-2023 (US \$ millions)

Countries /Regions	CAGR (2015-2023, %)	AAGR (2019-2023, %)	AAGR (2015-2019, %)	2023		2020		2015	
				Value	Share (%)	Amount	Share (%)	Amount	Share (%)
Australia	-1.2	14.8	-5.7	80.8	1.9	61.9	1.8	88.8	2.1
Brunei Darussalam	-7.1	2.7	-8.0	0.5	0.0	0.5	0.0	1.0	0.0
Cambodia	7.5	37.4	17.4	1.7	0.0	0.9	0.0	1.0	0.0
China	-0.4	4.7	-2.0	287.8	6.9	255.8	7.5	296.8	7.0
Indonesia	-1.8	14.7	-5.6	33.4	0.8	24.1	0.7	38.6	0.9
Japan	-3.8	24.1	-9.4	157.7	3.8	117.7	4.5	215.8	5.1
Korea	-2.7	7.4	-6.7	53.3	1.3	44.0	1.3	66.5	1.6
Laos	1.6	43.4	30.6	0.4	0.0	0.2	0.0	0.4	0.0
Malaysia	0.0	35.0	-9.1	60.8	1.5	27.8	0.8	60.8	1.4
Myanmar	-7.7	-10.6	11.2	1.9	0.0	3.2	0.1	3.5	0.1
New Zealand	4.5	19.5	6.7	50.5	1.2	46.7	1.4	35.6	0.8
Philippines	2.1	9.8	1.6	22.0	0.5	19.0	0.6	18.6	0.4
Singapore	-1.5	-6.2	6.8	311.8	7.5	394.2	11.6	351.6	8.3
Thailand	-4.9	10.8	-7.5	58.8	1.4	48.6	1.4	88.2	2.1
Viet Nam	-0.5	14.1	-4.2	19.8	0.5	14.2	0.4	20.7	0.5
World	-0.3	7.3	-2.9	4161.4	100.0	3410.4	100.0	4263.1	100.0
ASEAN	-1.7	-1.2	1.3	511.1	12.3	532.9	15.6	584.3	13.7

RCEP	-1.5	2.9	-2.0	1141.3	27.4	1059.1	31.1	1287.7	30.2
Germany	1.2	8.6	-1.7	112.1	2.7	87.7	2.6	101.7	2.4
India	1.3	12.0	-3.4	455.2	10.9	325.4	9.5	410.9	9.6
Italy	-1.7	19.1	-7.9	53.1	1.3	33.2	1.0	61.0	1.4
United Kingdom	0.9	12.2	-3.1	347.5	8.4	261.2	7.7	322.7	7.6
United States	-1.2	8.3	-3.6	406.6	9.8	341.4	10.0	448.1	10.5

Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

Table 6: Sri Lanka's Services Imports from RCEP countries, 2023 (US \$ millions)

Countries/Regions	Other Business	Travel	Transport	ICT	Construction	Finance and insurance	Goods related service	Total Service Import
Australia	3.0	38.0	32.3	2.9	0.6	1.1	0.8	80.8
Brunei Darussalam	0.0	0.1	0.4	0.0	0.0	0.0	0.0	0.5
Cambodia	0.0	1.1	0.5	0.0	0.0	0.0	0.0	1.7
China	51.4	15.2	151.9	12.6	7.5	1.6	40.4	287.8
Indonesia	2.9	14.0	10.9	0.6	2.2	0.3	2.2	33.4
Japan	19.9	40.9	72.1	2.1	1.1	3.2	2.7	157.7
Korea	7.2	7.2	30.5	1.5	1.1	0.5	2.7	53.3
Laos	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.4
Malaysia	5.0	14.2	20.4	1.6	2.2	0.3	16.5	60.8
Myanmar	0.1	0.2	1.5	0.0	0.0	0.0	0.0	1.9
New Zealand	0.3	31.4	15.2	0.4	0.7	0.3	0.6	50.5
Philippines	4.3	6.1	6.3	1.7	0.6	0.1	2.8	22.0
Singapore	52.8	22.9	192.0	10.9	2.9	6.6	13.4	311.8
Thailand	4.4	27.2	18.3	0.4	2.4	0.3	5.5	58.8
Viet Nam	0.6	6.7	4.4	0.4	0.8	0.0	6.7	19.8
World	630	815	1811	265	78	95	232	4161.4
ASEAN	70	93	255	16	11	8	47	511
RCEP	152	225	557	35	22	14	94	1141

SL's import from RCEP as a share of its services imports from world (%)	24.1	27.7	30.8	13.3	28.2	15.0	40.6	27.4
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Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

2.2.3 Service trade and merchandise trade

It is illuminating to compare merchandise trade patterns alongside services. Sri Lanka's goods trade with RCEP is characterized by a massive deficit. In 2024, Sri Lanka exported only USD 1.18 billion in goods to RCEP versus importing about USD 8.12 billion from RCEP (Table 7 and 8). RCEP thus accounted for 45 per cent of Sri Lanka's goods imports but under 10 per cent of its goods exports. By contrast, in services trade Sri Lanka is nearly balanced with RCEP as in 2023 exports USD 1.13 billion vs imports USD 1.14 billion. And RCEP accounts for a more moderate share of both exports (19 per cent) and imports (27 per cent). This suggests that Sri Lanka's engagement with RCEP in services is more even and potentially mutually beneficial, whereas in goods it is presently one-sided.

Sri Lanka runs huge merchandise trade deficits with China and India, but in services Sri Lanka actually earns significant travel revenue from Chinese tourists, partially offsetting what it pays China for goods. Similarly, Sri Lanka earns transport and IT service income from Japan and Australia, balancing out some merchandise gaps. This complementarity between goods and services trade could be an important motivation for Sri Lanka. Joining RCEP might help boost services exports to Asia where Sri Lanka has more competitive edge to counteract the heavy import bill. The data also highlight that RCEP integration for Sri Lanka is not just about goods market access, but also about services market access which can leverage Sri Lanka's strengths.

In sum, Sri Lanka's services trade with RCEP shows selective strengths. Exports to RCEP grew until 2019 but have plateaued. They remain concentrated in a few countries (China, Japan, Singapore, Australia) and sectors (tourism, transport, business support services). Imports from RCEP, dominated by transport, travel and other business services from Singapore, China, and Japan, have actually declined recently, making the services trade nearly balanced. This balanced exchange contrasts with Sri Lanka's skewed goods trade with RCEP. It underscores that deeper integration with RCEP could allow Sri Lanka to expand exports where it is competitive, e.g. travel, ICT, other business services, while managing imports in sectors where it lacks capacity. Next, we analyze competitiveness

indicators to pinpoint those service sub-sectors of comparative strength or weakness for Sri Lanka vis-à-vis RCEP partners.

Table 7: Sri Lanka's Merchandise Exports to RCEP Counties, 2015-2024 (US \$ millions)

Counties/Regions	CAGR (2015-2024, %)	AAGR (2019-2024, %)	AAGR (2015-2019, %)	2024		2023		2019		2015	
				Value	Share (%)						
Australia	4.9	6.1	8.1	246.5	2.0	229.5	1.9	201.1	1.7	159.8	1.5
Brunei Darussalam	-	-	-	0.3	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Cambodia	-5.8	0.0	-9.9	4.2	0.0	3.9	0.0	5.1	0.0	7.1	0.1
China	-1.7	0.9	10.0	261.1	2.2	268.6	2.2	256.6	2.1	304.5	2.9
Indonesia	4.4	7.2	6.2	52.6	0.4	56.1	0.5	41.4	0.3	35.6	0.3
Japan	-2.2	-7.2	10.6	178.6	1.5	192.7	1.6	283.1	2.4	217.3	2.1
Korea	1.7	-1.2	8.8	76.9	0.6	77.0	0.6	83.0	0.7	65.8	0.6
Laos	-	-	-	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Malaysia	10.0	11.3	15.2	90.9	0.8	66.7	0.6	58.1	0.5	38.6	0.4
Myanmar	13.7	10.2	87.1	5.5	0.0	2.8	0.0	8.0	0.1	1.7	0.0
New Zealand	2.5	3.1	4.6	29.4	0.2	26.6	0.2	26.6	0.2	23.5	0.2
Philippines	-0.8	0.8	26.8	16.6	0.1	14.9	0.1	18.0	0.2	17.8	0.2
Singapore	5.4	2.8	32.0	136.3	1.1	151.5	1.3	134.2	1.1	84.8	0.8
Thailand	1.7	-7.3	42.4	43.9	0.4	50.2	0.4	98.5	0.8	37.8	0.4
Viet Nam	-6.0	-5.1	4.8	42.5	0.4	38.6	0.3	80.4	0.7	74.4	0.7
World	1.7	1.0	4.8	12109.6	100.0	12052.5	100.0	11974.2	100.0	10439.7	100.0

ASEAN	3.1	-0.5	17.8	392.7	3.2	384.8	3.2	444.1	3.7	297.9	2.9
RCEP	1.2	-0.6	8.9	1185.1	9.8	1179.1	9.8	1294.4	10.8	1068.9	10.2

Source: Based on UNCTAD Comtrade Database

<https://comtradeplus.un.org/TradeFlow?Frequency=A&Flows=X&CommodityCodes=TOTAL&Partners=0&Reporters=144&period=2024&AggregateBy=none&BreakdownMode=plus>

(accessed April 24, 2025)

Table 8: Sri Lanka's Merchandise Imports from RCEP Counties, 2015-2024 (US \$ millions)

Counties/Regions	CAGR (2015-2024,)	AAGR (2019-2024,)	AAGR (2015-2019,)	2024		2023		2019		2015	
				Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Australia	-3.6	20.3	-13.1	192.1	1.0	185.5	1.1	152.6	0.8	268.2	1.4
Brunei Darussalam	-	-	-	0.0	0.0	5.8	0.0	3.9	0.0	0.0	0.0
Cambodia	14.6	78.3	182.9	3.5	0.0	13.8	0.1	1.5	0.0	1.0	0.0
China	1.6	5.3	3.0	4281.1	23.3	3103.0	18.9	4032.8	20.7	3727.4	19.7
Indonesia	0.1	4.4	0.2	439.8	2.4	373.5	2.3	428.2	2.2	434.1	2.3
Japan	-17.3	-18.4	-12.6	250.9	1.4	190.2	1.2	875.3	4.5	1387.7	7.3
Korea	-4.8	-0.1	-5.2	198.4	1.1	210.1	1.3	253.3	1.3	308.0	1.6
Laos	20.0	446.7	502.1	2.2	0.0	4.0	0.0	0.0	0.0	0.4	0.0
Malaysia	3.6	-2.4	21.6	705.6	3.8	741.5	4.5	893.8	4.6	511.4	2.7
Myanmar	-14.0	-28.3	54.6	5.5	0.0	4.2	0.0	51.3	0.3	21.4	0.1
New Zealand	1.6	-0.6	16.1	213.6	1.2	252.7	1.5	275.5	1.4	185.3	1.0
Philippines	8.0	28.4	8.9	56.0	0.3	23.2	0.1	35.7	0.2	28.0	0.1
Singapore	3.3	12.3	-1.2	1240.5	6.7	873.2	5.3	766.6	3.9	922.8	4.9
Thailand	-5.5	-5.6	-3.8	298.3	1.6	254.1	1.6	437.9	2.2	497.2	2.6
Viet Nam	-0.4	2.4	7.4	236.3	1.3	189.1	1.2	302.1	1.6	244.3	1.3
World	-0.3	1.0	1.2	18391.6	100.0	16386.2	100.0	19474.3	100.0	18967.2	100.0

ASEAN	1.3	2.5	3.6	2987.6	16.2	2482.4	15.1	2921.0	15.0	2660.6	14.0
RCEP	-0.6	2.0	0.1	8123.7	44.2	6424.1	39.2	8510.6	43.7	8537.1	45.0

Source: Based on UNCTAD Comtrade Database

<https://comtradeplus.un.org/TradeFlow?Frequency=A&Flows=X&CommodityCodes=TOTAL&Partners=0&Reporters=144&period=2024&AggregateBy=none&BreakdownMode=plus>

(accessed April 24, 2025)

Table 9: Value and Share of Selected Countries' Services Exports to the World (millions of US \$ and %), 2023

Countries/Regions	Total Service Export		Travel Services		Transport		ICT Services		Other Business Services	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Australia	79091.4	1.03	38357.5	2.56	10973.5	0.75	4906.9	0.61	12812.8	0.68
Brunei Darussalam	687.3	0.01	300.0	0.02	242.6	0.02	36.1	0.00	42.6	0.00
Cambodia	3037.2	0.04	2442.0	0.16	217.1	0.01	96.3	0.01	124.3	0.01
China	314661.6	4.11	27030.2	1.80	88684.2	6.08	35245.5	4.37	85734.1	4.52
Indonesia	29375.8	0.38	14615.7	0.98	4374.8	0.30	1355.1	0.17	5002.7	0.26
Japan	194535.2	2.54	35763.9	2.39	43445.6	2.98	6811.0	0.84	37673.7	1.99
Korea	106762.3	1.40	15085.5	1.01	34484.1	2.37	7567.7	0.94	22343.6	1.18
Laos	1311.7	0.02	728.8	0.05	377.1	0.03	90.6	0.01	70.1	0.00
Malaysia	38286.5	0.50	10852.9	0.72	7116.7	0.49	3318.6	0.41	7880.1	0.42
Myanmar	2440.8	0.03	703.9	0.05	773.7	0.05	3.6	0.00	561.3	0.03
New Zealand	17296.9	0.23	9243.8	0.62	3670.8	0.25	786.4	0.10	1870.9	0.10
Philippines	40473.3	0.53	10414.3	0.70	4475.6	0.31	5937.3	0.74	14480.4	0.76
Singapore	269190.5	3.52	19907.4	1.33	83409.7	5.72	20547.5	2.55	83157.4	4.39
Thailand	48792.7	0.64	27318.4	1.82	7688.8	0.53	846.2	0.10	8463.5	0.45
Viet Nam	22873.4	0.30	11940.0	0.80	3840.3	0.26	1709.7	0.21	2279.3	0.12
World	7648520.5	100.00	1498370.7	100.00	1457773.3	100.00	806050.9	100.00	1895458.8	100.00
ASEAN	456469.1	5.97	99223.3	6.62	112516.5	7.72	33940.9	4.21	122061.7	6.44

EU-27	2778558.9	36.33	496238.5	33.12	559368.4	38.37	387342.9	48.05	688130.8	36.30
India	220146.7	2.88	24549.7	1.64	22493.6	1.54	68023.5	8.44	86951.4	4.59
Russia	40356.0	0.53	7264.6	0.48	16157.1	1.11	2105.7	0.26	6575.3	0.35
United Kingdom	552639.0	7.23	71021.5	4.74	55085.4	3.78	50194.6	6.23	190764.5	10.06
United States	1169410.6	15.29	183295.8	12.23	123440.2	8.47	87170.5	10.81	327216.8	17.26
Sri Lanka	6116.0	0.08	1882.0	0.13	1417.7	0.10	426.1	0.05	2021.8	0.11

Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

Table 10: Value and Share of Selected Countries' Services Imports from the World (millions of US \$ and %), 2023

Countries/Regions	Total Service Import		Travel Services		Transport		ICT Services		Other Business Services	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Australia	120621.5	1.58	35029.3	2.34	23718.8	1.62	15012.0	1.87	22275.8	1.18
Brunei Darussalam	3909.7	0.05	1531.0	0.10	396.4	0.03	261.8	0.03	966.8	0.05
Cambodia	2713.7	0.04	1259.3	0.08	682.8	0.05	194.2	0.02	122.2	0.01
China	432368.2	5.67	152748.9	10.21	112305.8	7.68	31247.6	3.90	53204.3	2.82
Indonesia	45184.8	0.59	10900.9	0.73	9753.8	0.67	4446.1	0.55	9685.6	0.51
Japan	215650.9	2.83	18892.8	1.26	37304.8	2.55	29264.7	3.65	62486.7	3.31
Korea	128069.6	1.68	27397.9	1.83	29457.5	2.02	7884.6	0.98	29074.8	1.54
Laos	840.6	0.01	339.2	0.02	195.5	0.01	33.3	0.00	109.4	0.01
Malaysia	48531.8	0.64	9326.2	0.62	11315.9	0.77	4544.4	0.57	11718.1	0.62
Myanmar	2973.4	0.04	421.9	0.03	663.5	0.05	226.1	0.03	727.9	0.04
New Zealand	20936.6	0.27	5469.3	0.37	4885.7	0.33	2485.7	0.31	2619.7	0.14
Philippines	28646.6	0.38	7994.6	0.53	5947.0	0.41	2576.4	0.32	6532.4	0.35
Singapore	248231.1	3.26	20595.7	1.38	58871.3	4.03	26955.1	3.36	90794.0	4.81
Thailand	56683.7	0.74	11310.5	0.76	13619.5	0.93	2635.1	0.33	13396.0	0.71
Viet Nam	36057.1	0.47	11527.2	0.77	9812.6	0.67	3320.8	0.41	3234.8	0.17
World	7620784.9	100.00	1496100.0	100.00	1461507.5	100.00	802116.4	100.00	1887326.8	100.00
ASEAN	473772.4	6.22	75206.4	5.03	111258.2	7.61	45193.2	5.63	137287.4	7.27

EU-27	2661720.0	34.93	415716.4	27.79	484813.6	33.17	307968.1	38.39	774983.2	41.06
India	177569.9	2.33	59562.4	3.98	40071.4	2.74	18582.4	2.32	26782.8	1.42
Russia	65932.1	0.87	22892.3	1.53	14230.3	0.97	6973.8	0.87	8903.3	0.47
United Kingdom	485884.6	6.38	106369.6	7.11	57113.3	3.91	48528.9	6.05	141858.2	7.52
United States	937216.4	12.30	163246.0	10.91	154483.3	10.57	100269.8	12.50	231162.2	12.25
Sri Lanka	4161.4	0.05	814.7	0.05	1810.9	0.12	265.3	0.03	630.2	0.03

Source: Based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

2.3 Competitiveness analysis: Sri Lanka vs RCEP in Services

To gauge Sri Lanka's competitive position in services trade, we turn to revealed comparative advantage (RCA) indices from Table 11, and bilateral RCA data from Tables 12–13. The RCA of a country in a given service sector is the ratio of that sector's share in the country's exports to its share in world exports³. Values above 1 indicate the country is more specialized or comparatively advantaged in that service than the world average.

Sri Lanka exhibits comparative advantages in several service categories. From Table 11, travel services is a strong area. Sri Lanka's RCA for travel is 1.57, meaning tourism makes up 1.57 times a larger share of Sri Lanka's exports than it does globally. This is expected given Sri Lanka's renowned tourism industry. Transport services also show an RCA above 1, reflecting the relative importance of shipping and aviation services due to Sri Lanka's strategic location. Another clear strength is construction services with an RCA of 2.08, indicating that construction-related services (such as labor or contracting abroad) are a significant niche for Sri Lanka. Additionally, Other business services has an RCA of 1.33 for Sri Lanka. This suggests Sri Lanka is somewhat specialized in exporting business and professional services. In aggregate, Sri Lanka's overall services RCA is 1.33, indicating that services as a whole form a larger part of Sri Lanka's export mix than the world average, underscoring the country's tilt toward being a service exporter in contrast to goods.

³ Revealed Comparative Advantage (RCA) is a measure of a country's export performance in a specific product relative to the world average. It is defined as:

$$RCA_{Ai} = \frac{X_{Ai} / \sum_{j \in P} X_{Aj}}{X_{Wi} / \sum_{j \in P} X_{Wj}}$$

Where

P is the set of all products (with $i \in P$),

X_{Ai} is the country A 's exports of product i ,

X_{Wi} is the world's exports of product i ,

$\sum_{j \in P} X_{Aj}$ is the country A 's total exports (of all products j in P), and

$\sum_{j \in P} X_{Wj}$ is the world's total exports (of all products j in P).

On the other hand, Sri Lanka is comparatively weak in high-skill and financial services. Table 11 shows very low RCAs for insurance (0.06), financial services (0.10), and Intellectual property charges (0.01), personal, cultural, and recreational services (0.23). It is noted that ICT services has an RCA of 0.66, suggesting that while Sri Lanka has been actively participated in the IT sector, their competitiveness is not yet on par with the global average. In summary, Sri Lanka's competitive edge lies in traditional services (tourism, transport) and certain niche services (construction, some business services), whereas it lags in financial, tech, and IP-related services where many advanced RCEP economies excel.

Comparing Sri Lanka's RCAs with those of RCEP countries reveals interesting dynamics. Several RCEP members are also specialized in the same areas as Sri Lanka. For example, Thailand and Cambodia have very high RCAs in travel services. Thailand's travel RCA is 2.86 and Cambodia's is 4.10 according to Table 11. This means Sri Lanka faces competition from ASEAN destinations when trying to attract tourists. In transport services, some RCEP countries like Singapore also have RCAs above 1, whereas others like Australia are below 1. Sri Lanka's RCA of 1.22 in transport suggests a moderate advantage in the field. Other business services is an area where many RCEP economies, such as Malaysia and the Philippines, are competitive with large BPO sectors. Sri Lanka's RCA of 1.3 is notable but still modest compared to Philippines. In financial services, Sri Lanka's RCA (0.1) is dwarfed by Singapore and even Malaysia, reflecting Sri Lanka is relatively less competitive in banking/finance exports. This implies Sri Lanka will remain a net importer of financial services. For ICT services, India is the giant in South Asia, but within RCEP, the Philippines and Vietnam are emerging ICT exporters. This suggests that Sri Lanka's bigger opportunity lies in attracting outsourcing demand from major third-country markets (e.g., North America, Europe, and Middle East), where most BPO and ICT contracts originate.

Sri Lanka's strengths can complement demands in RCEP markets. Sri Lanka's high RCA in travel means it can offer tourism services to the large outbound tourist populations of RCEP (e.g. China, Australia, Japan). Table 12 shows that Sri Lanka has very high

bilateral RCAs in travel with some RCEP countries. New Zealand, Cambodia, and Vietnam are listed as the top three countries where Sri Lanka's travel services have the greatest comparative advantage. While these are somewhat niche (New Zealanders and Vietnamese traveling to Sri Lanka in relatively large proportions), it underscores that Sri Lanka is an attractive destination for diverse markets. Meanwhile, major RCEP economies like China are among Sri Lanka's top actual travel export partners, confirming that tapping RCEP's tourist flow is key. In construction services, Sri Lanka's high RCA (2.08) aligns with partners in ASEAN. Table 12 lists Malaysia, Vietnam, Thailand as countries where Sri Lanka has strong bilateral RCA in construction services (e.g., 4.38 with Malaysia). It points to the possibility of expanding Sri Lankan construction and engineering consultancy in Southeast Asia under RCEP's freer movement of services.

In summary, the competitiveness analysis indicates that Sri Lanka's service trade profile has both opportunities and challenges within RCEP. The country's comparative advantages in travel and transport services align well with RCEP markets that have growing tourist outflows and shipping needs. Its strength in construction and certain business services can also be leveraged in fast-growing ASEAN economies. However, Sri Lanka will be competing in a field where several RCEP countries also excel in tourism and outsourcing. Moreover, Sri Lanka's weaknesses in finance, insurance, and intellectual property services mean it will depend on RCEP partners for these high-value services, possibly leading to continued imports unless domestic capacity improves.

Table 11: Revealed Comparative Advantage in Overall and Individual Services for Sri Lanka and RCEP countries

Countries	All services	Travel services	Transport services	ICT	Cultural services	Other business services	Manufacturing services	Maintenance services	Insurance services	Government services	Financial services	Construction services	Intellectual property charges
Australia	0.70	2.48	0.73	0.59	1.51	0.65	0.08	0.65	0.78	0.61	0.63	0.37	0.39
Brunei Darussalam	0.27	0.08	1.01	0.19	7.39	0.77	0.00	0.00	0.31	20.77	0.08	5.76	0.48
Cambodia	0.48	4.10	0.37	0.30	0.04	0.17	0.00	0.00	0.05	0.94	0.01	0.24	0.45
China	0.34	0.44	1.48	1.06	0.49	1.10	3.16	1.48	0.57	0.79	0.41	4.52	0.27
Indonesia	0.40	2.54	0.78	0.44	0.49	0.69	0.88	0.55	0.29	0.58	0.51	2.61	0.07
Japan	0.84	0.94	1.17	0.33	0.73	0.78	0.37	0.50	0.63	1.40	0.75	1.48	3.12
Korea	0.57	0.72	1.69	0.67	1.46	0.84	1.12	0.59	0.45	1.80	0.47	3.10	1.05
Laos	0.70	2.84	1.51	0.66	0.00	0.22	0.00	0.03	0.56	0.84	0.01	0.05	0.01
Malaysia	0.43	1.45	0.98	0.82	0.81	0.83	5.42	1.00	0.49	0.12	0.24	3.32	0.09
Myanmar	0.56	1.47	1.66	0.01	0.01	0.93	4.78	0.04	0.30	2.42	0.01	0.70	0.04
New Zealand	1.15	2.73	1.11	0.43	0.41	0.44	0.21	0.70	0.43	0.64	0.33	0.38	0.34
Philippines	1.41	1.31	0.58	1.39	0.39	1.44	3.59	0.25	0.11	0.22	0.14	1.03	0.10
Singapore	1.43	0.38	1.63	0.72	0.58	1.25	0.43	1.30	0.74	0.15	1.56	0.47	0.63
Sri Lanka	1.33	1.57	1.22	0.66	0.23	1.33	0.18	0.33	0.06	0.32	0.10	2.08	0.01
Thailand	0.58	2.86	0.83	0.16	0.41	0.70	1.02	0.24	0.26	0.63	0.21	1.30	0.08
Viet Nam	0.24	2.66	0.88	0.71	0.47	0.40	3.51	0.12	0.11	0.50	0.12	1.94	0.01
ASEAN	0.79	1.11	1.29	0.70	0.56	1.08	1.39	0.94	0.54	0.31	1.01	1.07	0.41

Source 1: Service data in 2023 based on OECD Balanced Trade in Services (BaTIS)

https://www.oecd.org/en/publications/the-oecd-wto-balanced-trade-in-services-database-batis_c321a7a7-en.html

(accessed April 24, 2025)

Source 2: Merchandise data in 2023 based on UNCTAD Comtrade Database

<https://comtradeplus.un.org/TradeFlow?Frequency=A&Flows=X&CommodityCodes=TOTAL&Partners=0&Reporters=144&period=2024&AggregateBy=none&BreakdownMode=plus>

(accessed April 24, 2025)

Table 12: Sri Lanka's BRCA with partners and trade flows

Services Subsector	Top 3 Sri Lanka's BRCA's			Top 3 Sri Lanka's Export Partners		
Transport	Myanmar (2.08)	Canada (2.07)	Singapore (1.25)	EU (0.97)	US (0.88)	China (0.93)
Travel	New Zealand (3.92)	Cambodia (3.18)	Vietnam (2.57)	EU (0.88)	China (1.92)	US (0.76)
Maintenance and repair	Brunei Darussalam (5.55)	Japan (2.28)	Myanmar (1.68)	EU (1.56)	US (1.32)	Japan (2.28)
Financial Service	Switzerland (1.87)	UK (1.67)	US (1.21)	EU (1.09)	US (1.21)	UK (1.67)
Insurance and pension	UAE (3.37)	Australia (1.43)	UK (1.43)	US (1.31)	EU (0.63)	UK (1.43)
ICT	UAE (2.52)	US (1.30)	Australia (1.28)	EU (0.89)	US (1.30)	UK (1.02)
Construction	Malaysia (4.38)	Vietnam (2.79)	Thailand (2.74)	EU (0.32)	UK (0.53)	US (0.28)
Chargers for use of intellectual property	US (2.31)	Japan (2.16)	Switzerland (1.60)	US (2.31)	EU (0.65)	Japan (2.16)
Other business services	Switzerland (1.67)	UK (1.36)	Japan (1.32)	EU (1.11)	US (1.07)	UK (1.36)
Personal, cultural and recreation services	UK (3.17)	US (2.48)	Australia (1.35)	US (2.48)	UK (3.17)	EU (0.69)

Source: Based on [OECD.Stat Balanced International Trade in Services](#), accessed on July 1st, 2024.

Table 13: Sri Lanka's BRCA with EU partners and trade flows

Services Subsector	Top 3 Sri Lanka's BRCA's with EU Country			Top 3 Sri Lanka's Export Partners		
Transport	Greece (1.04)	Denmark (1.97)	Lithuania (1.53)	Denmark (0.82)	Germany (0.70)	Italy (0.92)
Travel	Romania (2.29)	Bulgaria (2.25)	Croatia (2.13)	Germany (0.81)	Denmark (0.40)	Italy (0.47)
Financial Service	Luxembourg (15.36)	Cyprus (4.65)	Malta (2.52)	Germany (28.35)	Luxembourg (1.99)	Denmark (2.08)
Insurance and pension	Bulgaria (3.07)	Netherlands (1.75)	Latvia (1.72)	Germany (1.21)	Italy (1.54)	Netherlands (170.56)
ICT	Malta (1.75)	Bulgaria (1.72)	Ireland (1.68)	Germany (1.90)	Denmark (1.64)	Ireland (1.84)
Construction	Bulgaria (2.61)	Malta (0.84)	Croatia (0.76)	Germany (0.22)	Denmark (0.29)	France (0.36)
Chargers for use of intellectual property	Luxembourg (2.68)	Ireland (2.49)	Netherlands (1.68)	Germany (1.04)	Netherlands (1.16)	Ireland (14.01)
Other business services	Ireland (1.61)	Finland (1.46)	Netherlands (1.45)	Germany (1.99)	France (2.01)	Italy (2.49)
Personal, cultural and recreation services	Luxembourg (1.25)	Germany (1.23)	Hungary (0.96)	Germany (1.56)	Denmark (1.26)	France (0.74)

Source: Based on [OECD.Stat Balanced International Trade in Services](https://data.oecd.org/balanced-international-trade-in-services/), accessed on July 1st, 2024.

2.4 Section summary

Sri Lanka's services exports to RCEP grew from 2015 to 2019 but stalled afterward, totaling about USD 1.13 billion in 2023 which is roughly 18–19 per cent of its global services exports. Services imports from RCEP were about USD 1.14 billion in 2023, which is 27 per cent of Sri Lanka's global services imports. Thus, Sri Lanka's services trade with RCEP is nearly balanced in value, unlike its goods trade which is heavily unbalanced. RCEP is a significant but not dominant destination for Sri Lanka's services, indicating room to deepen engagement.

The key service sectors driving Sri Lanka–RCEP trade are travel, transport, and other business services. Together these account for the bulk of exports to RCEP and a large share of imports. Sri Lanka earns from mostly from US, China and EU tourists, freight services, and outsourcing contracts, while it pays partners for shipping, construction/engineering services, and financial/business expertise. Lower contributions come from ICT services and construction exports. The pandemic hit travel trade especially hard, causing a dip in recent years.

With RCEP countries, a few account for most of the services trade. China, Japan, Singapore, and Australia are Sri Lanka's top service export markets in RCEP, collectively providing well over half of Sri Lanka's RCEP service export revenue. These countries are sources of tourists and business service demand for Sri Lanka. On the import side, Singapore and China alone make up about half of Sri Lanka's service imports from RCEP, due to their roles in transport, travel, other business services and goods related services. Japan, Australia, and Malaysia are secondary partners. In contrast, Sri Lanka's service trade with smaller ASEAN members (Cambodia, Laos, Brunei, etc.) is minimal. This pattern suggests Sri Lanka's service linkages in RCEP are currently concentrated on a few key economies, and part of the accession motivation is to broaden and deepen service trade across more Asian partners.

Sri Lanka holds a comparative advantage in travel and transport services regionally, which aligns with exporting tourism and logistics to RCEP members. It is also relatively competitive in construction services and some business services, giving it a basis to supply labor and expertise to Asian projects. However, Sri Lanka is less competitive in ICT, finance, and insurance services. Several RCEP countries excel in Sri Lanka's strong sectors, for example, Thailand in tourism and Singapore in transport, meaning Sri Lanka must improve quality and niche marketing to carve out market share. Conversely, RCEP membership could help Sri Lanka access advanced service sectors via investments and partnerships.

Overall, Sri Lanka's services trade profile with RCEP is complementary in many respects. Sri Lanka can offer tourism, port services, and cost-effective business services to RCEP, while importing high-end services and technology. Compared to the large goods deficit, the near balance in services trade value with RCEP is an encouraging sign that deeper integration may yield mutual benefits. By joining RCEP and leveraging its service-sector strengths, Sri Lanka aims to boost service exports (especially tourism and ICT/business services) and attract service-sector FDI, thereby offsetting some merchandise trade pressures and fostering a more diversified, resilient trade portfolio. The analysis of trends and RCAs confirms that services will be a crucial component of Sri Lanka's strategy within RCEP, both to capitalize on its comparative advantages and to address gaps through cooperation with partner countries.

3. Barriers and Liberalization

Sri Lanka's services sector has significant growth potential, but various barriers impede its performance and integration with regional partners. These obstacles range from restrictive policies and regulatory hurdles to infrastructure and skill gaps, affecting key service industries. Below, we examine the barriers in major service trade sectors with a focus on their impact on trade with RCEP countries, as well as other important partners like India, the US, and the EU. Each section also outlines recommendations to address

these barriers, enhancing Sri Lanka's prospects for deeper integration with RCEP and global markets.

3.1 Barriers from Sri Lanka

3.1.1 Travel services

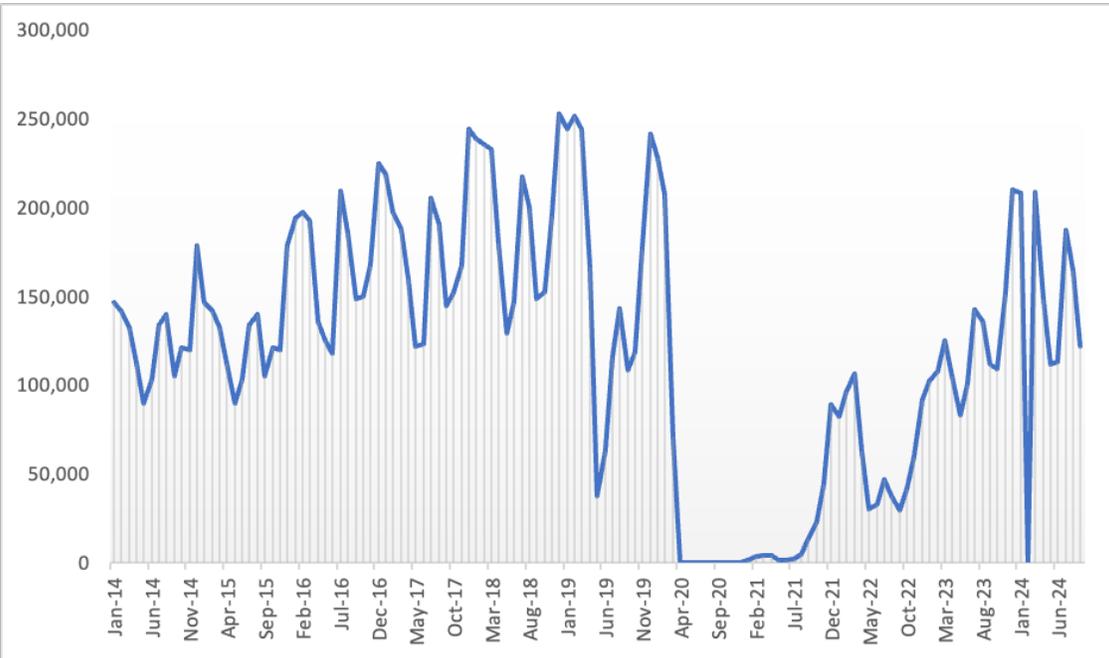
The tourism industry is crucial for Sri Lanka, traditionally its largest service export. After years of setbacks, the sector is rebounding strongly. Figure 1 and Table 14 shows tourist arrivals more than doubled in 2023 to around 1.5 million, indicating recovering demand. India remains the largest source of tourists (about 20 per cent in 2023), with important markets also including Russia and the UK, while China and Australia are re-emerging as significant. This upswing underscores tourism's potential but realizing further growth especially with RCEP markets requires overcoming persistent barriers.

Despite its natural and cultural appeal, Sri Lanka's travel sector faces structural and policy-related challenges. A major issue is restrictive investment and ownership rules. Foreign participation in tourism businesses is limited by regulations. For example, foreign ownership of travel agencies and tour operators is restricted, and licensing requirements make it difficult for new foreign. Furthermore, land ownership laws have been a deterrent to foreign investment in tourism infrastructure. A ban on the sale of land to foreigners means investors can only access land through leases, complicating new hotel and resort projects.

Another barrier lies in cumbersome visa and entry procedures. Sri Lanka's visa regulations and bureaucratic processes, while improved with an online system, can still be cumbersome for international visitors. Unlike some competing destinations, Sri Lanka requires most travelers to obtain visas, with few visa-waiver agreements. This administrative hurdle may deter potential tourists or encourage them to choose easier-to-enter destinations.

Additionally, infrastructure constraints pose challenges: congested airports, limited regional air connectivity, and patchy transport links to tourist sites can diminish the travel experience. For instance, flight connectivity with East Asian markets is limited, and airport capacity in Colombo is nearing its limits, risking bottlenecks as arrivals grow. Insufficient investment during the economic crisis exacerbated these issues. In 2022, approved tourism projects plummeted by nearly 49 per cent, recovering in 2023 but still far below 2019 levels.

Figure 1: Sri Lanka Monthly Tourist Arrivals



Source: Annual Statistical Report 2023, Sri Lanka Tourism Development Authority (SLTDA)

https://www.slt-da.gov.lk/storage/common_media/Annual_Statistical_Report_2023.pdf

(accessed April 24, 2025)

Table 14: Top 10 Tourists Markets Comparison 2018-2023

Rank	Origin Country	Tourist Arrivals	Share (%)	% Change 2018-2023
1	India	302,844	20.4	-28.7
2	Russia	197,498	13.3	206.2
3	United Kingdom	130,088	8.7	-48.8
4	Germany	102,539	6.9	-34.6
5	China	68,789	4.6	-35.4
6	Australia	67,436	4.5	-39.2
7	France	56,251	3.8	6.8
8	United States	46,344	3.1	-38.5
9	Canada	43,944	3	-42.3
10	Maldives	37,328	2.5	83.2
11	Others	434,242	29.1	
	Total	1,487,303	100	

Source: Annual Statistical Report 2023, Sri Lanka Tourism Development Authority (SLTDA)

https://www.slt-da.gov.lk/storage/common_media/Annual_Statistical_Report_2023.pdf

(accessed April 24, 2025)

To unlock the full potential of the travel sector and integrate with regional markets, Sri Lanka should pursue a multi-pronged strategy. Easing or removing caps on foreign ownership in tourism businesses would attract global hotel chains, tour operators, and investors. Simplifying the visa process and expanding visa-on-arrival or visa-free entry for key markets would make Sri Lanka a more accessible destination. Investing in transport infrastructure is critical too. By implementing these measures, Sri Lanka's travel sector can become more competitive and better integrated into regional tourism networks.

3.1.2 Transport services

Transport services encompassing maritime shipping, aviation, and related logistics form the second-largest component of Sri Lanka's service exports. The country's strategic location along major Indian Ocean shipping routes has given it a comparative advantage in maritime transport, reflected by a consistently strong RCA index.

Sri Lanka's transport services face infrastructure, cost, and policy challenges that could hinder future growth. A primary concern is capacity and infrastructure constraints. Colombo Port, while one of South Asia's busiest, is approaching its capacity limits; delays in expanding port infrastructure have created bottlenecks. New terminals (such as the East Container Terminal (ECT) and West Container Terminal (WCT)) have been slow to come online due to political and financing hurdles, risking congestion as regional trade grows. Similarly, in aviation, Bandaranaike International Airport has long required expansion and modernization. Table 15 shows that limited infrastructure or capacity to meet growing demand was evident when, in Jan–Aug 2024, seaport freight exports jumped 57 per cent year-on-year, but the aviation sector saw a sharp 46 per cent drop in freight revenue, partly attributable to logistical bottlenecks and competition from better-equipped hubs.

Another barrier is high operational costs and competitive pressure in the aviation sector. Sri Lanka's national carrier and other airlines face elevated fuel prices and currency risks, which increase freight and ticket costs. At the same time, regional aviation hubs like Singapore, Dubai, and Doha offer superior connectivity and economies of scale. Within the RCEP region, hubs such as Kuala Lumpur and Bangkok also attract traffic that might otherwise route via Colombo. The relative decline of Colombo as an air transit hub is partly due to limited flight frequencies and fewer airlines operating.

In the maritime domain, competition from regional ports and internal inefficiencies pose barriers. Ports in neighboring India and established hubs (Singapore and Malaysia) are direct competitors. Any inefficiency or higher handling charge in Colombo can prompt

shipping lines to reroute. Factors such as occasionally militant port labor unions and bureaucratic port governance have, in the past, delayed the adoption of modern practices. To strengthen transport services and become a true regional logistics hub, especially in the RCEP context, Sri Lanka should undertake comprehensive reforms and investments. Accelerating the expansion of Colombo Port is essential. Foreign investments could be positioned in RCEP negotiations as opportunities for member countries to invest, aligning Sri Lanka's needs with regional cooperation frameworks.

Sri Lanka should pursue more liberal air service agreements, especially with RCEP countries. Embracing an open-skies policy with key partners can boost Colombo's connectivity. While protecting the national airline has been a past priority, the focus should shift to overall connectivity and cost-competitive service. Encouraging low-cost carriers from ASEAN, or additional flights from Chinese and Australian airlines, for example, would stimulate both tourism and cargo.

As part of its RCEP accession strategy, Sri Lanka should highlight its strategic location and commit to becoming a gateway for trade. This can involve proposing logistics cooperation agreements. By integrating into regional supply chains, Sri Lanka can add value beyond just moving goods.

Table 15: Transport Services Export in Jan-Aug 2023 and 2024, US\$ million

Transport Export	Jan-Aug 2023	Jan-Aug 2024	Change (%)
Total Transport Services	1,020.8	1,140.4	11.7
Sea transport	512.2	708.2	38.3
Passenger	0.1	1.9	
Freight	271.7	427.6	57.4
Other	240.4	278.7	16.0
Air transport	508.4	431.6	-15.1
Passenger	209.3	181.4	-13.3
Freight	60.5	32.2	-46.7
Other	238.6	217.9	-8.7
Postal services	0.2	0.6	

Source: Central Bank of Sri Lanka

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20240930_external_sector_performance_august_2024_e.pdf

(accessed April 24, 2025)

3.1.3 Other Business Services

Other business services is a broad category that includes professional services, technical services, and trade-related services. In Sri Lanka, this category has grown in importance and, as of 2023, formed the largest share of service exports at 33.1 per cent. Sri Lanka has maintained a stable comparative advantage in these services, with an RCA consistently above 1.3. Sri Lankan companies have strengths in areas like accounting outsourcing and in IT-enabled services. To expand these diverse services, Sri Lanka must confront a series of barriers.

Other Business Services is a field where competition from large regional players is intense. India, in particular, has a massive presence in IT, BPO, consulting, and R&D services. Sri Lanka's providers, being much smaller, struggle to compete on cost with, say, Indian firms that operate at enormous scale, or on brand recognition with Singaporean firms that clients already trust. Sri Lankan service providers, especially smaller firms, may have limited access to cutting-edge technology or slow adoption of digital tools, hampering productivity. Without embracing new technologies, firms struggle to move up the value chain and offer innovative solutions, confining them to lower-value tasks.

While Sri Lanka has many educated professionals, there is a shortage of highly specialized experts in fields crucial to other business services. For example, there are limited numbers of experts in biotechnology research, international legal practice, or specialized branches of engineering and design. Training at advanced levels (PhDs, specialized certifications) is not widespread locally, and top talent often migrates for better opportunities. The talent gap issue is compounded by restrictions on foreign professionals.

Providing many business services across borders involves dealing with complex regulations, both domestic and international. Domestically, Sri Lanka's regulatory environment can be cumbersome. Professional services may require multiple licenses or memberships, and certain sectors remain closed to foreign participation by tradition or policy. For instance, foreign law firms cannot operate independently in Sri Lanka, and foreign accountants cannot easily practice, which insulates the local market but also can limit exchange of best practices. Internationally, compliance with foreign regulations is a challenge. Meeting international standards is essential but can be costly for smaller firms.

Barriers in other business services mean Sri Lanka might be underutilizing a sector where it actually has comparative strength. For RCEP countries, this sector encompasses many professional services that are typically covered in trade agreements via commitments on market access and national treatment. Sri Lanka's current restrictions could be a sticking

point. RCEP accession might require opening these areas gradually. If Sri Lanka is not prepared to do so, its accession could be complicated.

To expand other business services and overcome the above barriers, Sri Lanka should focus on enhancing competitiveness and building trust in this sector. The government and industry bodies should help firms acquire and utilize modern technology. This can include subsidies or tax write-offs for software tools, laboratory equipment, or enterprise solutions that improve service delivery. Professional associations in Sri Lanka can partner with counterparts in advanced countries to run certification programs locally.

Given the tough competition, Sri Lanka should identify niches within other business services where it can excel. One clear niche is finance and accounting outsourcing. Sri Lanka's large pool of English-speaking accountants is an asset. Sri Lanka can build on this by marketing itself as a hub for financial analytics, accounting, and even fintech support services. Another potential niche is legal process outsourcing. By focusing on and marketing a few such niches, Sri Lanka can develop a reputation in those areas.

Table 16: Other Business Services Exports in Jan-Aug 2023 and 2024, US\$ million

	Jan-Aug 2023	Jan-Aug 2024	Changes (%)
Other business services	193.3	321.2	66.2
Research and development services	12.8	30.7	139
Professional and management consulting services	74.5	126.4	69.7
Technical, trade-related, other business services	105.9	164.1	54.9

Source: Central Bank of Sri Lanka

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20240930_external_sector_performance_august_2024_e.pdf

(accessed April 24, 2025)

3.1.4 ICT Services

ICT services have become a dynamic segment of Sri Lanka's economy. Export revenues from ICT services have grown rapidly, from just USD 283 million in 2015 to USD 426 million in 2023, and continued to increase through 2024. This growth pushed Sri Lanka's RCA in ICT services above 1.0 for the first time by 2021, though dropped to 0.7 in 2023. Major markets for Sri Lanka's ICT exports include the EU, US, and UK. Sri Lanka is also recognized for its cost competitiveness. In 2019, it was listed among the top 25 global outsourcing destinations by A.T. Kearney, thanks to low labor costs and a skilled English-speaking workforce. Despite these strengths and its potential to tap into RCEP's large digital economy, the ICT sector faces several barriers that constrain its growth.

The barriers in Sri Lanka's ICT and digital services sector are largely related to the business environment, talent, and infrastructure. Sri Lanka's ICT firms have to overcome credibility barriers to enter new markets as the country is less known than India for outsourcing. Convincing large foreign clients of their capabilities can be challenging without strong international endorsements or partnerships.

A consistent complaint from industry is the presence of bureaucratic hurdles and inconsistent policies that hinder businesses and deter investors. Companies face frequent changes in tax policy or export incentives, creating uncertainty. Until recently, Sri Lanka did not have a robust data protection law, which is crucial for BPO work involving EU customer data. Similarly, intellectual property protection, while legally in place, is not always strongly enforced, which can be a concern for foreign firms offshoring high-value R&D or software development.

While Sri Lanka has a talented base of ICT professionals, the supply is not keeping up with demand. Educational output in computer science and engineering is limited, and curricula may lag behind industry needs. Companies now often face difficulty hiring for advanced skillsets, which in turn limits the types of services they can offer. For example, scaling up in emerging areas like data science, AI, or fintech is hard if the workforce is

depleted of senior talent. This brain drain is a formidable barrier, as human capital is the lifeblood of ICT services. Additionally, Sri Lanka's financial system offers limited risk capital. ICT startups and smaller IT service providers struggle to obtain financing for growth, as local banks often lack expertise in valuing tech businesses and venture capital markets are nascent⁴.

The government must provide a stable, enabling policy environment for ICT. This includes consistent tax incentives for ICT exporters, fast-tracking the implementation of data protection regulations to meet EU/GDPR standards, and strengthening IP laws enforcement to protect software and content creation. In RCEP negotiations, Sri Lanka can commit to high standards of openness in ICT services in exchange for capacity-building support. To address the talent gap, educational and workforce initiatives are crucial. Expanding IT and engineering programs in universities, and improving their quality in collaboration with industry, will grow the talent base.

Continuing to upgrade digital infrastructure will directly benefit ICT services. Completing the national broadband network and ensuring affordable high-speed internet across the country will enable firms to operate from any location, not just city centers. Investing in reliable power supply is equally important, given the power disruptions experienced during the economic crisis.

⁴ See ICTA and PwC Sri Lanka. Towards A Startup Friendly Government. June 2021.

Table 17: ICT Services Exports in Jan-Aug 2023 and 2024, US\$ million

ICT Exports	Jan-Aug 2023	Jan-Aug 2024	Changes (%)
Total	609.3	653.8	7.3
Telecommunications services	91	88.9	-2.26
Computer and IT/BPO related services	518.3	564.9	9
Computer services	512.8	559.1	9
Information services	5.6	5.8	4

Source: Central Bank of Sri Lanka

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20240930_external_sector_performance_august_2024_e.pdf

(accessed April 24, 2025)

3.1.5 Construction

Construction services export revenue has increased significantly from USD 43 million in 2015 to 197 USD million, with a CAGR of 21 per cent. However, it still represents a smaller share of Sri Lanka’s service exports. Several interrelated barriers hold back its construction services.

Sri Lanka’s construction industry suffers from lower productivity and higher costs compared to major international players. Contributing factors include less mechanization, outdated construction techniques, and management inefficiencies. The cost of construction inputs can also be high due to import costs or smaller economies of scale. These issues make it difficult for Sri Lankan firms to bid competitively on foreign projects where they are up against Chinese or Indian companies that can operate faster and cheaper. The lack of specialization is another aspect. Sri Lankan firms are typically general contractors for buildings or roads, but not specialized in niches like marine engineering, large-scale power plants, or high-rise construction. This limits the scope of projects they can pursue abroad.

On the labor side, construction relies on skilled engineers, project managers, architects, surveyors, and various tradespeople. Sri Lanka faces skill gaps in many of these areas. Training systems haven't fully met industry needs, leading to a deficit of competencies. Regionally, giants like India and China dominate construction and infrastructure services. Chinese construction firms, in particular, have become ubiquitous across Asia and Africa, often backed by state financing (e.g., under the Belt and Road Initiative). For a small developing country like Sri Lanka, the opportunity lies in becoming part of larger contracts as subcontractors or suppliers of specialized services. While foreign involvement brings investment and expertise, local firms can gain experience and technology transfer within the construction value chain.

Another barrier is that government procurement and policies have historically been inconsistent in fostering local industry. Additionally, Sri Lankan construction firms venturing abroad have little government support. Without state-supported finance or guarantees, they find it hard to compete in international markets.

Revitalizing the construction services sector and improving its competitiveness is a long-term endeavor. The construction industry must modernize to raise productivity. This involves adopting new construction technologies and methods. A concerted push on human capital development in construction is essential. Encouraging foreign experts in construction to conduct workshops or short-term courses in Sri Lanka can transfer valuable knowledge. The industry and government might also collaborate on retaining talent. Ultimately, having a larger pool of skilled managers and workers will increase the capacity of Sri Lankan firms to handle projects at home and abroad.

When negotiating trade agreements or joining RCEP, Sri Lanka can seek technical assistance to help its domestic industry meet these international benchmarks. This could be in the form of training by experts from advanced RCEP members on project management or safety, funded through capacity-building provisions. By raising the local

industry to international standards, the distinction between “local” and “foreign” providers will blur, and Sri Lankan firms can more easily integrate into multinational project teams.

Table 18: Construction Services Inflows in Jan-Aug 2023 and 2024

	Jan-Aug 2023	Jan-Aug 2024	Changes (%)
Construction	210.8	150.0	-28.8
Construction abroad	24.3	13.4	-44.7
Construction in the reporting economy	121.3	69.3	-42.9
Architectural, engineering & other technical services	65.1	67.3	3.3

Source: Central Bank of Sri Lanka

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/press/pr/press_20240930_external_sector_performance_august_2024_e.pdf

(accessed April 24, 2025)

3.2 Barriers from RCEP Countries

Sri Lanka’s entry into RCEP would grant its service providers access to large markets in Asia-Pacific. The RCEP services chapter does commit to significant opening on average 65 per cent of service sectors fully open, with higher foreign equity limits in areas like professional, telecom, financial, computer-related, distribution and logistics services (Kimura, et al. [2022](#)). However, substantial hurdles remain across service trade. In Table 19, we detail the major barriers in RCEP partner countries for Sri Lanka’s priority sectors: other business services, construction, transport, travel, and ICT services.

Table 19: Service Trade Barriers from selected RCEP Countries in Selected Sectors

Country	Construction	Other Business Services	ICT	Travel	Transport
China	<p>Foreign construction firms face licensing hurdles and ownership restrictions. Until recently, China required joint ventures or approvals for foreign construction companies. In April 2023, China lifted certain bans on branches of foreign construction firms (OECD, 2025). However, barriers remain. For government projects, only companies registered in China can bid (USTR, 2025). Even with these improvements, overseas contractors still contend with burdensome qualifications and the need to partner with local firms on large projects (OECD, 2025).</p>	<p>Strict limits on foreign professional service providers, especially in legal and accounting. Foreign legal offices may only advise on home-country or international law and cannot represent clients in Chinese courts. Similarly, sectors like accounting and architecture are tightly regulated. Foreign equity is capped, and partners must often hold Chinese qualifications (USTR, 2025).</p>	<p>China historically imposed a 49% foreign equity cap in telecom services and requires foreign telecom investors to form joint ventures with one of a few state-approved Chinese carriers. However, China recently introduced a pilot program to relax some of its restrictions to allow wholly owned subsidiaries in 4 places.</p>	<p>Recently, China launched pilot programs in Shanghai, Chongqing, and a few areas to temporarily allow qualified foreign travel agencies to offer outbound travel services. Outside these pilots, foreign tour operators are confined to China's inbound tourism market, and even there they face strict licensing. Overall, the travel sector remains difficult for foreigners to fully penetrate due to these policy barriers.</p>	<p>China bans foreign carriers from domestic transportation routes. Only in 2021 did China begin a limited trial to let certain foreign ocean carriers move domestic freight between select ports. In 2025, this pilot program has been continued (International Service Shanghai, 2025). In air transport, foreign investment in Chinese airlines is tightly controlled (foreign ownership is limited to minority stakes) and foreign airlines cannot operate domestic flights (USTR, 2025).</p>

Singapore	<p>Singapore’s construction industry is one of the most accessible in the region for overseas firms. Singapore allows 100% foreign ownership in construction companies; there are no special foreign equity caps in this sector (USDOS, 2024). Crucially, regulations do not discriminate against foreign firms.</p>	<p>Singapore imposes few barriers on business services overall. The notable exception is legal services: foreign law firms cannot practice Singapore law or employ Singapore-qualified lawyers in Singapore (USTR, 2025). Other professional fields (architecture, engineering) require practitioners to be locally licensed but do not mandate local ownership.</p>	<p>Singapore fully liberalized telecommunications, allowing foreign telecom operators to enter freely under a licensing regime. However, broadcast media is an exception: Singapore’s Broadcasting Act caps foreign shareholding in local broadcasters at 49%, and foreign control of broadcast licenses is prohibited.</p>	<p>Foreign investors can fully own and operate hotels, tour companies, travel agencies, etc., with no special restrictions on equity beyond normal business registration.</p>	<p>Singapore allows foreign entrants in most transport services. Singapore is a global maritime hub with foreign shipping lines actively operating. In aviation, Singapore unusually permits majority foreign ownership of airlines—except Singapore Airlines, which by policy must remain at least 50% locally owned (InterVISTAS-EU, 2009).</p>
Australia	<p>Australia does not impose special foreign equity caps in construction. The environment is favorable and largely non-discriminatory (OECD, 2025). One general hurdle is Australia’s skilled visa and labor rules. Work permits for bringing in foreign project staff can involve labor market tests and paperwork (OECD, 2025).</p>	<p>Australia’s professional and business services are largely liberalized. Legal services are completely open to foreign competition. Australian law firms can employ foreign lawyers and vice versa, subject only to qualification recognition. Similarly, accounting, engineering, consulting, and other business services have no foreign ownership limits (OECD, 2025).</p>	<p>Foreign telecom companies operate in mobile and internet markets with no statutory foreign equity cap in telecommunications (USTR, 2025). One emerging issue is content requirements. Australia is considering a local content quota for streaming platforms to ensure Australian programming is featured.</p>	<p>There are no foreign equity limits on hotels, tour operators, or travel agencies.</p>	<p>Transport services are mostly open, with some standard aviation limits. For example, foreign airlines cannot operate purely domestic routes (cabotage) in Australia without permission, though Australia occasionally grants temporary cabotage waivers for special flights (Australian Government, 2025).</p>

Korea	<p>South Korea allows foreign construction firms to operate, but regulations can be complex. Foreign contractors must obtain a Korean construction license and often partner with local firms, especially on public projects. South Korea is a signatory of the WTO Government Procurement Agreement, but large government tenders frequently favor Korean companies or require consortia with Korean-led firms (USTR, 2025).</p>	<p>Following the KORUS FTA, Korea has begun a phased opening. Full legal market is being implemented in stages. Similarly, accounting/audit firms in Korea must be majority-owned by Korean CPAs, limiting foreign ownership (USTR, 2025).</p>	<p>Significant foreign ownership caps and content regulations in ICT.</p>	<p>Travel industry is relatively accessible to foreign businesses in segments like hotels. Tour agency and guide services have some restrictions.</p>	<p>Transport services face typical foreign ownership limits and cabotage rules. Foreign airlines cannot establish a fully owned Korean subsidiary for domestic flights. Cabotage is banned in aviation and maritime transport. Port services and logistics are more open.</p>
Thailand	<p>Highly restrictive and most construction services are off-limits to foreign majority ownership. Thailand's Foreign Business Act (FBA) explicitly lists "construction" as a restricted sector for foreigners (UNCTAD, 1999). In general, foreign entities cannot own more than 49% of a construction business in Thailand unless they obtain special permission. Foreign contractors typically must partner with Thai companies to operate.</p>	<p>The FBA prohibits majority foreign ownership in professional services such as legal, architectural, and engineering services (UNCTAD, 1999).</p>	<p>Thailand limits foreign involvement in ICT through both the FBA and sector-specific laws. Foreign ownership in major telecom operators is capped at 49%</p>	<p>Tourism is vital to Thailand's economy, but the law reserves many tourism businesses for Thais. Under List 3 of the FBA, "hotel business" and "guided touring" are restricted – foreigners cannot own >49% of hotels or tour companies (USTR, 2025). Travel agencies and tour operators must be Thai-majority-owned and obtain licenses from the Tourism Authority; foreign-owned agencies are generally not granted new licenses. Additionally, only Thai</p>	<p>Thailand's transport services present substantial barriers to foreigners from ownership caps in airlines to outright prohibitions in domestic logistics.</p>

				citizens can be licensed tour guides.	
Malaysia	<p>Malaysia allows foreign construction firms to operate, but in practice they often need to team with local (especially Bumiputera-owned) companies (European Commission, 2025). While there is no blanket law barring foreign ownership in construction, the government heavily favors local participation. In private sector projects, foreign builders can work independently but must obtain a Construction Industry Development Board (CIDB) license and typically employ Malaysian professionals in key roles (USTR, 2025).</p>	<p>Selected service industries retain foreign equity limits Malaysia generally permits 100% foreign ownership in many services, but important exceptions remain due to “Bumiputera” affirmative action policies (USTR, 2025).</p>	<p>Malaysia’s ICT sector has seen gradual liberalization. Foreign investors may own up to 70% of a telecom network services provider under current policy (European Commission, 2025). Censorship and content regulations also create indirect barriers for foreign digital content providers. Malaysia encourages foreign investment in IT-enabled services (like data centers, software development) with 100% ownership permitted in those areas (USDOS, 2024).</p>	<p>Tourism relatively open, though some local equity preferences exist.</p>	<p>Malaysia’s transport sector allows foreign participation mainly in supporting services, while core operations (airlines, domestic shipping) stay under Malaysian ownership control in line with national interest policies (USTR, 2025).</p>

3.4 Conclusion

Across all these sectors, it is evident that Sri Lanka's service trade is held back by a combination of restrictive policies, capacity constraints, and competitive challenges. Common systemic barriers include limitations on foreign investment and ownership, burdensome regulations, and a lack of transparency, which create uncertainties for both domestic and foreign service providers. Human capital limitations and infrastructure gaps further undermine service competitiveness in multiple sectors. These issues do not exist in isolation; they reinforce each other to shape the overall business environment. For instance, restrictive telecom and professional services policies not only limit foreign entry but also reduce the incentive for knowledge transfer and innovation, affecting the quality of services that Sri Lanka can export.

By comprehensively tackling the barriers in its service trade, Sri Lanka can better integrate with both regional and global markets. By mitigating barriers and seizing opportunities, Sri Lanka can transform its service sectors into engines of growth, fostering closer ties with RCEP members, as well as with key partners like India, the EU, and the United States. This transformation will require dedication and prudent policymaking, but the long-term benefits for Sri Lanka's economy and its people make it a journey well worth undertaking.

4. RCEP Commitments and Gaps

This section analyzes how Sri Lanka's current trade policies compare to the commitments required under RCEP:

4.1 Sri Lanka's Current FTAs

Sri Lanka has signed FTAs with India, Pakistan, Singapore, and Thailand. India - Sri Lanka Free Trade Agreement (ISFTA) was signed on December 28, 1998 and entered into force from March 01, 2000. Pakistan - Sri Lanka Free Trade Agreement (PSFTA) was signed on August 01, 2002 and came into operation from June 12, 2005. Pakistan and Sri Lanka implemented their final phasing out commitment in 2009 and 2010 respectively. Both ISFTA and PSFTA do not apply to service trade. Sri Lanka - Singapore Free Trade Agreement (SLSFTA) was signed on January 23, 2018 and came into force from May 01, 2018. SLSFTA covers both goods and service trades. SLSFTA is not fully operational due to ongoing disagreements over market access terms, and both countries are currently negotiating the potential for full implementation in the future. Signed in Feb 2024, Sri Lanka – Thailand Free Trade Agreement (SLTFTA) is the latest FTA that Sri Lanka has. It covers trade in goods, services, investment, and other areas.

The government aims to enhance trade relations, especially with the Asia-Pacific region. Currently, Sri Lanka is a member of both the South Asian Free Trade Area (SAFTA) and the Asian-Pacific Trade Agreement (APTA) previously known as Bangkok Agreement. There are also renewed efforts by the Sri Lankan government to resume negotiations with China and to expand its existing FTA with India. EU is Sri Lanka's second largest trading partner after China, accounting for 12.4 per cent of Sri Lanka's total trade in 2023. Trade between EU and Sri Lanka are under the framework of Partnership and Cooperation Agreement (PCA) which came into force since April 1995. Sri Lanka is the third-largest beneficiary of the EU's Generalized System of Preference Plus (GSP+) arrangement. GSP was born due to the initiative of helping developing countries by United Nations Trade and Development (UNCTAD). The United States - Sri Lanka Trade and Investment Framework Agreement (TIFA), established in 2002, offers a platform for both governments to address and resolve

trade and investment issues early on. The latest TIFA discussions took place in September 2023.

4.2 RCEP Commitments

RCEP extends beyond the trade of goods to provide legal protections for service suppliers. These protections guarantee market access and non-discriminatory treatment, ensuring that service providers in RCEP markets receive treatment equivalent to that afforded to local and foreign competitors, subject to country-specific exceptions. These enhanced commitments are particularly significant for exporters seeking to engage in service-related activities that support their international business operations, such as establishing an in-market presence, forming commercial partnerships, or providing after-sales services. It is clear that RCEP countries have very different levels of economic system, size and development, the Agreement comes with flexibilities and differentiated commitments in service liberalization and investment.

The consolidation of service trade commitments under RCEP enhances transparency and usability for stakeholders aiming to identify opportunities within the Asia-Pacific region. Member countries have committed to progressive liberalization and transparency in market access commitments. Chapter 8 of the Agreement includes a Most-Favored Nation (MFN) rule, which ensures that service providers in negotiated sectors automatically benefit from any additional liberalization extended to third countries in future agreements. This fosters a more consistent and equitable environment for service trade. It is foreseen that at least 65 per cent of services sectors will be fully open with increased foreign shareholding in professional services, telecommunications, financial services, computer and related services, and transport services. (EU, 2021)

The base model on RCEP's services schedules was set down in the WTO's GATS. Chapter 8 mentioned that member countries are allowed to manage their service trade commitments by maintaining exceptions for sensitive sectors. These exceptions are framed either "termed limitations" (for countries using the positive list approach) or "reservations" (for countries using the negative list approach). Under a positive list

approach, for example, a country commits to liberalizing its telecommunications sectors but states that foreign ownership cannot exceed 49 per cent. Under a negative list approach, for example, a country reserves its education sector from liberalization, meaning foreign entities cannot establish schools or universities without specific approval. This flexibility ensures that countries can protect critical industries while progressively aligning with RCEP's broader liberalization goals.

RCEP introduces provisions for domestic regulation that are critical for service suppliers requiring licenses or registrations to operate in RCEP markets. The Agreement mandates that these processes must be based on objective and transparent criteria. Specific standards are established to streamline these processes, focusing on the examination and assessment of service providers, the costs associated with submitting applications, and the feedback provided on these applications. These measures aim to simplify registration and qualification procedures, making them more accessible for service suppliers navigating foreign regulatory frameworks.

The ability for business visitors and intra-corporate transferees to secure visas in a transparent and timely manner is a key facilitator for international trade. The Temporary Movement of Natural Persons (Chapter 9) (Mode 4) enhances access into RCEP countries for businesspersons engaged in trade in goods, service supply, and the conduct of investment activities. This provision is designed to support individuals and businesses in leveraging commercial opportunities within RCEP markets. And it excludes matters related to employment, immigration, citizenship, or permanent residency applications, maintaining its focus on trade-related mobility. Table 20 shows Sri Lanka's commitment on Mode 4 with Singapore and Thailand.

Public services provided by governments are typically excluded from RCEP's service commitments. Member countries retain the right to introduce or maintain policy measures, including trade-restrictive measures, in areas such as social services (e.g., health, public education, and social security), foreign investment screening, exclusive economic zone management, and biosecurity and food safety regulations. This ensures that essential public services remain protected from the pressures of trade liberalization.

Table 20: Sri Lanka's Schedule of Commitments on Mode 4

	Business Visitor	Intra-corporate transferees (ICTs)	Contractual Service Supplier (CSS)
Sri Lanka - Singapore FTA	30 days	As contract or 2 years which may be extended to 5 years in total. Such ICT should have been employed by the juridical person for at least a year.	Unbound
Sri Lanka - Thailand FTA	30 days	As contract or 1 year which may be extended to 5 years in total. Such ICT should have been employed by the juridical person for at least a year.	Unbound

Source: Sri Lanka-Singapore FTA can be found at:

<https://edit.wti.org/document/show/290ae462-2914-4e19-b516-678bbcd4f8e1>

4.3 Gaps in RCEP Commitments on Service Trade

Significant domestic economic challenges and the need for comprehensive reforms may impede full implementation of the agreement's rigorous standards. Based on Sri Lanka's service trade policies and RCEP commitments, Sri Lanka needs to address critical gaps. Table 21 summarizes the readiness of Sri Lanka in terms of entering into RCEP negotiations.

Table 21: Sri Lanka's Readiness in Service Sectors

Sector	Member Commitments	Ready	Not Ready
Financial Services	<ol style="list-style-type: none"> Foreign equity limitations in financial services (e.g., Thailand limits to 49%) Required incorporation under local law (most members) Indonesia requires local distribution agents Thailand restricts banking licenses with foreign equity caps at 25% 	<ol style="list-style-type: none"> Established regulatory framework by Central Bank of Sri Lanka Digital technologies adoption by commercial banks Permission for foreign companies to secure loans from foreign lenders 	<ol style="list-style-type: none"> Stringent forex conservation measures 100% cash margin requirements for certain imports Mandatory repatriation of export earnings within 180 days Limited refund mechanisms for cross-border transactions 2.5% stamp duty on foreign currency credit card transactions

ICT	<ol style="list-style-type: none"> 1. RCEP Chapter 12 provides comprehensive e-commerce framework 2. Most RCEP members allow up to 70% foreign equity in ICT 3. China permits wholly foreign-owned subsidiaries 4. Australia, Singapore, and Japan have advanced digital policies and infrastructure 	<ol style="list-style-type: none"> 1. Expanding mobile-broadband access (58.8% in 2018) 2. Well-developed legal framework (Electronic Transactions Act) 3. Payment gateway services development 4. Ratification of UN Electronic Communications Convention 	<ol style="list-style-type: none"> 1. Lack of comprehensive regulatory framework for new digital services 2. Limited cross-border e-commerce capabilities 3. Limited mutual recognition of digital signatures 4. Restrictions on data localization and cross-border data flows
Travel	<ol style="list-style-type: none"> 1. Most RCEP members permit up to 100% foreign ownership in hotels and tourism 2. Thailand restricts travel agencies with foreign equity cap of 49% 3. Vietnam allows 100% foreign ownership with some restrictions 4. Most members permit cross-border supply of tourism booking services 5. Indonesia has specialized regulatory frameworks for tourism platforms 	<ol style="list-style-type: none"> 1. Growing domestic B2C e-commerce platforms 2. SMEs increasingly utilizing social media for marketing 3. Established tourism infrastructure 	<ol style="list-style-type: none"> 1. Limited top tourist markets from RCEP countries 2. Lack of comprehensive regulatory framework for e-commerce operations in tourism 3. Limited B2C cross-border transactions
Transport	<ol style="list-style-type: none"> 1. RCEP allows higher foreign participation in maritime services 2. Most members maintain cabotage restrictions 3. Malaysia and Thailand allow up to 70% foreign equity in logistics 4. Road transport heavily restricted by most members 5. Vietnam maintains 49% foreign equity cap in maritime services 	<ol style="list-style-type: none"> 1. Colombo Port development increasing capacity 2. Strategic location in Indian Ocean shipping lanes 	<ol style="list-style-type: none"> 1. Restrictive cabotage regulations 2. High foreign equity limitations in shipping agencies (max 40%) 3. Restrictions on foreign freight forwarding (max 40%) 4. Limited air transport bilateral agreements
Other Business Services	<ol style="list-style-type: none"> 1. RCEP promotes mutual recognition of qualifications 2. Thailand requires local authentication of foreign professional services 	<ol style="list-style-type: none"> 1. Established accounting profession modeled on British standards 	<ol style="list-style-type: none"> 1. Significant restrictions on market access for foreign professionals 2. Case-by-case approval for intra-company transferees

	<ol style="list-style-type: none"> Most members maintain restrictions on medical and legal services Philippines requires understudy training for locals China permits wholly foreign-owned subsidiaries in engineering and architectural services 	<ol style="list-style-type: none"> Presence of global accounting firms (KPMG, EY, PWC, Deloitte) Limited opening for foreign medical specialists in BOI-approved hospitals 	<ol style="list-style-type: none"> Stringent registration process for foreign medical specialists Limited pathways for foreign lawyers to practice Employment of foreign professionals only permitted when local labor shortage demonstrated
Insurance Services	<ol style="list-style-type: none"> Thailand limits foreign ownership to 25% (up to 49% by OIC) in insurance Philippines requires 60% local ownership 	<ol style="list-style-type: none"> Allow for 100% foreign ownership with certain restrictions Established regulatory framework 	<ol style="list-style-type: none"> Only companies incorporated in Sri Lanka permitted to register as insurance providers Limited opening for health insurance through registered local brokers
Educational Services	<ol style="list-style-type: none"> Thailand requires school directors to be Thai nationals Malaysia restricts primary/secondary education China allows foreign majority ownership in education 	<ol style="list-style-type: none"> Growing private education sector Increasing openness to technical/vocational training 	<ol style="list-style-type: none"> Foreign universities must operate through local partnerships Stringent degree recognition processes
Intellectual Property Services	<ol style="list-style-type: none"> RCEP Chapter 11 provides comprehensive IP protection Standardized protection for copyright, trademarks, GIs, patents Many developing members implementing capacity building Cambodia, Laos, and Myanmar are not Madrid Protocol members 	<ol style="list-style-type: none"> Upgrade and modernization of National Intellectual Property Office (NIPO) Commit to join Madrid Protocol Reduction in trademark and patent examination backlogs 	<ol style="list-style-type: none"> Limited protection for new forms of IP Inadequate enforcement reported by agents for international brands Necessary laws not yet enacted to join Madrid Protocol
Personal, Cultural & Recreational Services	<ol style="list-style-type: none"> Most members maintain screen quotas, e.g., China has 34 foreign films quota annually on revenue-sharing basis Most members maintain cultural exceptions 	<ol style="list-style-type: none"> Limited opening for foreign films and TV series Expanding digital entertainment platforms 	<ol style="list-style-type: none"> Film import quota restricting foreign films Discriminatory licensing fees for international films Government approval required for all foreign films and TV programs
Government Procurement	<ol style="list-style-type: none"> RCEP Chapter 16 focuses on transparency 	<ol style="list-style-type: none"> Public tender process for most procurement 	<ol style="list-style-type: none"> Lack of transparency in tender specifications

	<ol style="list-style-type: none"> 2. Most developing members maintain preferences for local suppliers 3. Transparency requirements generally lower than GPA 4. Only Australia, Singapore, New Zealand, and South Korea are the GPA members 	<ol style="list-style-type: none"> 2. Observer status with WTO Government Procurement Agreement (GPA) since 2003 	<ol style="list-style-type: none"> 2. Favoring of specific companies in tender design 3. Limited competition in some procurement areas
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5. Foreign Direct Investment

According to the World Investment Report 2024, global foreign direct investment (FDI) flows fell by 2 per cent to USD 1.3 trillion in 2023. The RCEP countries account for USD 460 billion which is 35 per cent of global FDI inflows. In 2023, the United States (USD 310 billion) was the top FDI receipt worldwide, followed by China (USD 163 billion), Singapore (USD 160 billion) and Brazil (USD 66 billion). In terms of FDI outflows, U.S. (USD 404 billion) was the largest FDI contributor, followed by Japan (USD 184 billion), China (USD 148 billion) and Germany (USD 101 billion). From 2004 to 2023, the share of FDI in Service sector jumped from 66 per cent to 81 per cent on overall FDI, widening the gap between manufacturing sector and service sector.

Chapter 10 of the RCEP Agreement covers topics related to investment which includes standard provisions. For example, article 10.3 and article 10.4 are concerned with National Treatment and Most-Favored-Nation Treatment respectively. Articles 10.16 and article 10.17 focus on promoting and facilitating investment across the region. RCEP member countries commit to collaborating on investment promotion initiatives, which could potentially lead to establishing a regional investment promotion agency. Additionally, member countries have agreed to streamline investment processes within their respective legal frameworks by implementing simplified procedures and creating centralized points of contact and one-stop service centers. This creates an opportunity for countries that haven't yet developed such facilitation mechanisms and institutions to put them in place.

According to UNCTAD, FDI restrictiveness score is measured on a 0-1 scale, with 0 representing full openness and 1 representing actual prohibition of FDI. It is calculated by using different weights on limitations on foreign ownership, screening or notification procedures, operational restrictions, and movement of people. For the limitations on foreign ownership, a complete ban on ownership is much more restrictive than allowing a small foreign shareholding. Allowing majority foreign ownership (such as 51 per cent) is considered as less restrictive than a limitation to 49 per cent foreign equity or less. The report shows that Sri Lanka scores overall 0.32 in FDI restrictiveness in services in 2004, which was lower than China (0.44), Indonesia (0.61), Malaysia (0.54) and Thailand (0.53).

Sri Lanka's foreign investment framework is primarily governed by the BOI Act, which outlines the procedural aspects of establishing investment projects in the country. Sri Lanka maintains a largely open investment environment, allowing foreign participation across most sectors based on its development strategy that emphasizes the role of foreign investment. Many industries permit 100 per cent foreign ownership, including financial services, construction, mass transportation, telecommunications, IT, and petroleum distribution. Some sectors have a 40 per cent foreign ownership cap, while in others, the BOI determines ownership limits on an individual basis.

However, the current FDI legal framework requires substantial reform to incorporate modern considerations of sustainable development, public health, labor rights, and investor obligations. This includes the need to revise or replace the BOI Act, bilateral investment treaties, FTAs, and other relevant treaties to achieve a more balanced approach between protecting private investment interests and safeguarding public welfare, human rights, and environmental concerns.

Table 22: Comparison of Sri Lanka’s FDI Policy and RCEP Benchmark

Policy Area	Sri Lanka’s FDI Policy	RCEP Benchmark
Land Ownership	Foreign investors can lease land for up to 99 years when foreign shareholding is less than 50%	Varied: Indonesia restricts land ownership to nationals only; Thailand has similar restrictions; New Zealand and Australia maintain screening mechanisms
Investment Thresholds	Sector-specific minimums (e.g., \$150,000 for IT services, \$500,000 for tourism)	Varied: Indonesia requires minimum IDR 10 billion; most other members do not specify monetary thresholds
Equity Restrictions	40% foreign equity cap in strategic sectors including primary agriculture, mining, mass communications, education, freight forwarding, travel and shipping agencies	Varied: Thailand caps at 49% generally; Philippines at 40% in many sectors; Japan, Australia, New Zealand more open
Movement of Persons	Limited pathways for business visitors (30 days) and intra-corporate transferees (up to 5 years)	More comprehensive: China allows 90-day business visits; Japan permits 5-year stays for specialists; Australia permits spouse employment
Bilateral Protection	Investment Protection Agreements with 8 RCEP members; Double Tax Avoidance with 10 RCEP members	RCEP Chapter 10 standardizes investment protection across all 15 members

Liberalization could expose domestic service providers to competition from more developed economies, risking trade imbalances in sectors like education and professional consulting. Adjusting to RCEP’s liberalization framework might also entail high adjustment costs and political resistance, especially given Sri Lanka’s history of intermittent trade liberalization efforts.

Before 1977, Sri Lanka’s economy operated under a closed import-substitution model, with stringent controls on imports, high tariffs, and pervasive state intervention. The economy faced stagnation, high unemployment, and social discontent. The 1977 reforms marked a paradigm shift, focusing on reducing import barriers, introducing

export incentives, and creating Free Trade Zones (FTZs) to attract FDI. But such reforms heavily relied on external capital inflows to finance public investment projects. While these funds stimulated short-term growth, they increased external debt and exposed the economy to vulnerabilities. Liberalizing service trade under RCEP could attract FDI in high-growth sectors like ICT and tourism, providing a more sustainable growth engine. However, reliance on external capital must be balanced with robust domestic investment and safeguards against external shocks. Besides, import liberalization rapidly displaced labor in uncompetitive domestic industries. However, new job creation in export-oriented sectors lagged behind, exacerbating unemployment in the short term (Dunham and Kelegama, [1994](#)). Therefore, service trade liberalization must be accompanied by skill development programs to prepare the labor force for opportunities in IT, professional services, and logistics. Policies to protect vulnerable sectors and gradual opening of sensitive industries will help manage the social costs of adjustment.

6. Summary

This report examines the potential and preparedness of Sri Lanka's service trade sector in the context of its prospective accession to RCEP. As the world's largest trade agreement by GDP and population, RCEP presents a strategic opportunity for Sri Lanka to integrate into a high-growth regional economy. The report highlights the country's trade performance, sectoral competitiveness, institutional barriers, and policy alignment with RCEP requirements.

Section 1 outlines the motivation for Sri Lanka's pursuit of RCEP membership. The country faces a pressing need to stabilize its post-crisis economy, recover foreign exchange earnings, and reposition itself within global value chains. RCEP offers market access to fifteen countries, including fast-growing economies such as China, Japan, and ASEAN states. Given that services now account for 25 per cent of Sri Lanka's total trade, and over one-third of exports in recent years, service liberalization has become a strategic priority. Integration with Asia's dynamic middle-class markets is viewed as a viable path to diversification beyond traditional Western partners, while

RCEP's rules on investment, e-commerce, and trade in services align with Sri Lanka's longer-term reform objectives.

Section 2 reviews Sri Lanka's services trade from 2015 to 2023, a period marked by modest export growth and shifting sectoral patterns. Services exports rose from USD 5.02 billion to USD 6.12 billion, driven by the rebound in travel services and rapid expansion of other business services, while financial and insurance services declined. Imports fell slightly from USD 4.19 billion to USD 4.16 billion, largely due to reduced outbound travel and austerity. In 2023, Sri Lanka recorded a services trade surplus for the first time in nearly a decade—mainly the result of import compression—signaling greater resilience in the sector. The section also examines bilateral service trade with RCEP countries. In 2023, Sri Lanka exported USD 1.13 billion in services to RCEP markets—18.5 per cent of total exports—mainly to Japan, China, Singapore, and Australia. Imports from RCEP totaled USD 1.14 billion, led by Singapore and China. Despite recent fluctuations, the services trade with RCEP remains balanced, offering a potential buffer against Sri Lanka's merchandise trade deficits.

A competitiveness analysis in Section 2 confirms Sri Lanka's relative specialization in several key services. Revealed Comparative Advantage (RCA) scores show high competitiveness in travel (1.57), transport (1.22), construction services (2.08), and other business services (1.33). These results reflect Sri Lanka's traditional strengths in tourism, port logistics, and English-speaking professional services. However, in high-skill, high-tech sectors such as ICT (0.66), financial services (0.10), and insurance (0.06), the country remains under-specialized. Although ICT exports are growing in absolute terms, their share in the overall export mix remains below the global average. Comparisons with RCEP peers further highlight competitive gaps. Thailand, Cambodia, and the Philippines, for instance, show stronger performance in tourism and outsourcing. Nevertheless, Sri Lanka's bilateral RCA scores reveal niche strengths in construction and travel services with selected RCEP markets, such as New Zealand and Malaysia, suggesting targeted growth potential.

Section 3 identifies the main regulatory, institutional, and infrastructure-related barriers facing Sri Lanka's service exporters. In the tourism sector, foreign ownership restrictions, cumbersome visa processes, and underdeveloped air and land transport

infrastructure impede competitiveness. The national airport operates near capacity, and visa-free entry remains limited relative to regional competitors. In transport and logistics, port congestion at Colombo, delays in planned terminal expansions, and the absence of liberal air service agreements reduce the sector's capacity to function as a regional hub. The business services and ICT sectors suffer from talent shortages, inconsistent digital policies, and limited international branding. Despite growth in BPO and IT-enabled services, Sri Lankan firms often face difficulties competing with large providers in India and the Philippines. In construction, the lack of specialization, mechanization, and skilled labor weakens export competitiveness. Across sectors, weak coordination among regulatory bodies and limited investment in digital infrastructure and training compound these challenges. These constraints must be addressed if Sri Lanka is to meet RCEP's services commitments and attract service-sector investment from RCEP members.

Section 4 analyzes the alignment between Sri Lanka's current trade policies and RCEP commitment levels. RCEP requires member states to commit to liberal market access, national treatment, and transparent regulation of service sectors, along with a coherent schedule of commitments. Sri Lanka retains foreign equity caps in sectors like education and media and imposes restrictions on land ownership by foreign investors. Visa rules for foreign service suppliers remain rigid, and regulations for professional service providers are often opaque. Moreover, digital trade policies, including rules on cross-border data flows and consumer protection, remain underdeveloped. Full alignment with RCEP would require the modernization of Sri Lanka's regulatory frameworks.

Section 5 explores the role of foreign direct investment (FDI) in services and the implications of RCEP's investment provisions. Globally, over 80 percent of FDI stock is now concentrated in services, and RCEP economies attracted over USD 460 billion in FDI in 2023 alone. Sri Lanka permits 100 percent FDI in many service sectors under its BOI framework, but the legal environment lacks modern features such as investor obligations, sustainability clauses, and robust dispute settlement. RCEP's investment chapter provides for national treatment, most-favored-nation treatment, and simplified entry procedures for service investors. While RCEP excludes investor-state dispute settlement (ISDS), its cooperative approach promotes transparency and procedural

consistency across members. For Sri Lanka, accession would open the door to enhanced investment from regional partners, particularly in tourism, ICT, transport, and education. However, increased openness also implies greater competition for domestic service providers. The report emphasizes the importance of a phased, calibrated liberalization strategy—one that aligns domestic reform with RCEP’s market access provisions while allowing sensitive sectors time to adjust.

In summary, Sri Lanka’s service economy shows areas of strength that are well aligned with regional demand. However, a range of regulatory, infrastructural, and institutional barriers currently limit trade and investment flows. RCEP offers a framework for addressing these constraints, unlocking access to major Asian markets, and attracting the capital and expertise needed to elevate Sri Lanka’s service sectors. Realizing these benefits will require deliberate policy reform, sustained investment in trade readiness, and careful negotiation of liberalization commitments. If approached strategically, RCEP accession can help Sri Lanka convert its service trade potential into a more resilient and competitive growth model.

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