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Working Paper

Utilization of trade agreements in Sri Lanka: Perceptions of exporters vs. statistical measurements

ARTNeT Working Paper Series, No. 96

Provided in Cooperation with:

Asia-Pacific Research and Training Network on Trade (ARTNeT), Bangkok

Suggested Citation: Mel, Deshal De; Jayaratne, Suwendrani; Premaratne, Dharshani (2011) : Utilization of trade agreements in Sri Lanka: Perceptions of exporters vs. statistical measurements, ARTNeT Working Paper Series, No. 96, Asia-Pacific Research and Training Network on Trade (ARTNeT), Bangkok

This Version is available at:

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Asia-Pacific Research and Training Network on Trade
Working Paper Series, No. 96, March 2011

Utilization of Trade Agreements in Sri Lanka: Perceptions of Exporters vs. Statistical Measurements

by

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1. Background

Sri Lanka's economy which followed an inward-looking policy regime in the 1960s and the 1970's witnessed a marked shift towards the liberalization of the economy since 1977. This was followed by structural transformations, with the economy changing its course from being primarily an agricultural economy to one driven by the services and industrial sectors. Furthermore, with the liberalization of the economy, Sri Lanka became increasingly dependent on trade, with the trade to GDP ratio being 41 per cent as of 2008.

In the early stages of trade reform the country's strategy to improve outward orientation was through unilateral tariff reforms, and Sri Lanka was slow in pursuing reciprocal preferential trade initiatives¹. Nevertheless, from the mid-1990s preferential trade policy initiatives were pursued, especially to strengthen bilateral trade and investment linkages with the selected partners in the region. As a result, Sri Lanka is now party to two bilateral agreements, Indo-Lanka Free Trade Agreement (ISFTA) and the Pakistan-Sri Lanka Free Trade Agreement (PSFTA) and two regional agreements, Asia Pacific Trade Agreement (APTA) and South Asia Free Trade Agreement (SAFTA).²

These trade agreements have been driven by both political and economic imperatives. Many traders see the proliferation of FTAs as unavoidable. But some see such deals as harmful, raising costs and diverting trade rather than increasing it, primarily owing to the low level of tariff preferences and lack of information pertaining to many such agreements like SAPTA. Yet, in the absence of a multilateral deal through Doha, FTAs are a second-best tool of trade liberalization. The effective utilization of trade agreements becomes a pressing issue in such a background.

A common concern of trade agreement proliferation is the possibility of overlapping rules and preferences amongst different agreements – what Bhagwati referred to as the Spaghetti Bowl effect, and became known as a Noodle bowl in Asian context. For example, Sri Lanka can export to India through ILFTA, APTA or SAFTA and soon under Bay of Bengal Initiative for Multi - Sectoral Technical and Economic Cooperation (BIMSTEC) – each agreement with its own preferential tariffs, negative lists and technical requirements such as value additions. This causes the exporter to incur a search cost in identifying the most suitable agreement and/or often has to **alter source of supply of inputs in order to qualify for preferences**. This process is made all the more challenging given the complexity of many of these rules. Such changes in production methods are both economically inefficient and may raise trade - related business costs of industries. The Rules of Origin (RoO) are the most complicated components in regional and bilateral trade agreements. The RoO are included to stipulate prevention of trade deflection and to ensure that the product receiving preferences originated in the exporting country that is party to the agreement, and not simply a re-export of a third party free riding on the said agreement.

Whilst RoO might be problematic for traders, they are necessary for ensuring the viability of a bilateral or regional trading agreement due to the free rider problem. **Adopting the less restrictive RoO could result in significant trade deflection and redundancy of a trade agreement**, while adopting the most restrictive RoO may result in no increased trade under the agreement.³ So far there has not been any standard framework that could be used as a reference-point by policymakers in devising rules of origin criteria for a regional grouping.

¹ Ibid

² It also receives preferential access to the EU market through the GSP+ which is a non-reciprocal agreement.

³ Ratna, R. S., (2008), "Rules of Origin: Diverse Treatment And Future Development In The Asia And Pacific Region", Chapter 3 in "Towards Coherent Policy Frameworks: Understanding Trade and Investment Linkages", UN-ESCAP.

There has been very limited analytical or empirical research carried out on assessing the economic effects of RoO systems in Sri Lanka, despite the fact that such an assessment should form the very basis of the RoO system.

In this background, this study will explore several areas, (i) the extent and the degree to which the Sri Lankan exporters use the preferences negotiated in various trade agreements, (ii) the benefits and costs of using trade agreements (iii) impact of multiple RoO on industries, and (iv) measures that can be taken to increase utilization of trade agreements will be observed. The study will focus on market access issues of FTAs to assess the noodle bowl effect on goods related to Sri Lanka. Section 2 of the paper reviews the existing literature while Section 3 provides an overview of the preferences and RoO requirements under each agreement. Section 4 analyses the usage of trade agreements in Sri Lanka and Section 4.1 focuses on the methodology. Section 4.2 examines the utilization of trade agreements followed by Section 4.3 that presents the analyses of the perception survey results. Conclusion and the way forward is presented in the final section that stem from the findings of the study.

2. Literature Review

Theoretical research on effectiveness of RoO has made progress over the years with early studies dealing with RoO dating back to the 1950s.⁴ Sound empirical work on the other hand is rare as RoO has been difficult to measure and model explicitly⁵. This section of the paper however, reviews fairly recent literature on RoO and the noodle bowl effect.

Table 1: Summary of the Literature Review with Key Finding

Author/s Name	Year	Title of Paper	Methodology	Main Findings
Kala Krishna and Anne Krugner	1995	Implementing Free Trade Areas: Rules of Origin and Hidden Protection		<ul style="list-style-type: none"> • When RoO is taken as Regional Value Content constraint (RVC) on a price and cost basis under perfect and imperfect competition, the results are different. • The cost and price definitions are not always equivalent and the effects of RoO are not necessarily monotonic.
Miriam Manchin and Annette O. Pelkmans-Balaoing	2007	Rules of Origin and the Web of East Asian Free Trade Agreements		<ul style="list-style-type: none"> • Proliferating preferential trade agreements in East Asia containing different RoO have important implications for economic integration in the region. • Expansion of separate FTAs would result in high administrative costs and if there are considerable differences in RoO for each trade agreement, even the production costs would increase. • The effects of the increased costs are mostly experienced by small producers than large producers and the costs would be so high that producers would be restricted to utilize just one single preferential channel.

⁴ Viner, J., (1950), "The Customs Union Issue", New York, Carnegie Endowment for International Peace

⁵ Tapp, S. (2007), "Understanding Rules of Origin: A Critical Review of the Literature", Working Paper, available at www.econ.queensu.ca/students/tapps/papers/tapp_ROO.pdf

<p>Brian Rankin Staples and Jeremy Harris</p>	<p>2009</p>	<p>Origin and Beyond: Trade Facilitation Disaster or Trade Facilitation Opportunity</p>	<ul style="list-style-type: none"> • Origin compliance can be costly and complex which can lead to disincentive for the development of sophisticated and efficient international trade but the traceability of goods and materials is essential not just for preferential origin but for environmental protection, consumer safety and security purposes. • The following three areas are recognized for improvement. <ol style="list-style-type: none"> 1. Reforms of Origin Value: allow coequal RoO and extend cumulation so that it would give firms the option to choose among two or more substantively equivalent criteria for showing origin. 2. Reform of Origin Administration: which would give firms much needed predictability and transparency in administrative aspects of origin compliance and documentation for both preferential and non-preferential trade and this would enable to assign any liability for duties even penalties if the administrative process identify non-compliance. 3. Embrace E-origin Traceability: develop and promote integrated information system.
<p>Janaka Wijayasiri</p>	<p>2007</p>	<p>Utilization of Preferential Trade Agreements: Sri Lanka's Experience with the EU and US GSP Scheme</p>	<ul style="list-style-type: none"> • In the EU GSP scheme, the coverage of products under the scheme has been high and the utilization and utility rates have been low, limiting the usefulness of the scheme. This is mainly due to the restrictive nature of the EU's current RoO. There is an obvious need to simplify its current RoO criteria and reduce the domestic value addition requirement to reflect the industrial capacity of the country for Sri Lanka to better utilize the scheme. • But the utilization rates are quite high under the US scheme, while the coverage and utility record low rates but the usefulness of the scheme is limited due to exclusion of sensitive products such as textiles and textile articles, which are the main exports from Sri Lanka to the US. Therefore one way to increase the real benefits of the US scheme is to improve the product coverage of the scheme.

Masahiro Kawai and Ganeshan Wignaraja	2009	The Asian “Noodle Bowl” : Is it Serious for Business?	Secondary data and a survey which was the first survey of firms in East Asia.	<ul style="list-style-type: none"> • Use of East Asian FTAs is higher than expected from previous studies. Around 22% of the East Asian firms surveyed use FTA preferences. • East Asian firms report more benefits than costs from major FTAs in effect including AFTA. • At the present level of concluded FTAs in the region, the evidence suggests that multiple RoOs impose a limited burden on firms in East Asia. • The four East Asian countries have institutional support systems of varying degrees of comprehensiveness and quality. • The above findings indicate the need for a comprehensive set of policies to mitigate the negative effects of Asian noodle bowl (caused by 37 FTAs) in the future.
Rajan Sudesh Ratna	2008	Rules of Origin: Diverse Treatments and Future Development in the Asia and Pacific Region		<ul style="list-style-type: none"> • RoO differ from agreement to agreement and country to country. Therefore it creates a complex web of RoO. Adopting less restrictive RoO would result in significant trade deflection and redundancy of a trade agreement while adopting the most restrictive RoO may result in no increased trade under the agreement. • Following elements can be considered for harmonization. <ol style="list-style-type: none"> 1. General definitions 2. List of wholly obtained or produced goods. 3. Insufficient or minimal operations or processes that do not confer origin 4. Neutral elements 5. Consignment criteria 6. Certificate of origin 7. Denial of preferential tariff treatment 8. Claim for preferential tariff treatments 9. Administrative arrangements relating to issuance and verification of certificate of origin.

Dorothea C. Lazaro and Erlinda M. Medalla	2006	Rules of Origin: Evolving Best Practices for RTAs/FTAs		<ul style="list-style-type: none"> • Best practices is having simple RoO that facilitate, so that it will avoid the possibility of high compliance costs for business and to maximize trade creation and minimize trade distortion in a present situation of increasingly globalized international trade. • General Propositions are: <ol style="list-style-type: none"> 1. RoO should be simple but precise, transparent as otherwise SMEs and low-income countries are badly affected most of the time. 2. RoO should be designed to have the least trade distortion impact and should not become disguised non-tariff barriers to trade. 3. The rules should be consistent across products and across agreements as great inconsistencies would lead to higher complexities for companies and to administrating officials.
Daisuke Hirastuka, Hitoshi Suto and Ikumo Isono		Impacts of Free Trade Agreements on Business Activity in Asia: The case of Japan	<p>- Secondary data from a Large Survey conducted by JETRO(Japan External Trade Organization)</p> <p>- Small survey done by the authors for the Asian Development Bank on selected industries such as electronics, electrical appliances, automobiles and garment industries.</p>	<ul style="list-style-type: none"> • As a large number of firms are already operating in Asia, for small parts suppliers FTAs do not offer large advantages and differentiated products that are not sensitive to changes in prices are not suitable for FTAs because production volume is small. • FTAs involving Japan may improve business environments as the FTAs provide opportunities for the business sector to participate and contribute at business and private talks related to FTA agreements. • With the Information Technology Agreement in effect, most information technology-related products are traded without tariffs. In addition, investment promotion schemes that exempt tariffs on intermediate goods for export purposes, like a BOI scheme, are available. • The phase-out tariff schedules by which tariffs are eliminated gradually over 10 years makes the impact of FTAs small, dampening the motivation for enterprises to use FTAs. • The current FTAs have documentation costs that are burdensome to exporters and reduce the incentives for firms to use FTAs. Under such a system, FTAs are

				<p>better utilized for intra-firm trade rather than inter-firm trade.</p> <ul style="list-style-type: none"> • The RoO issue impedes the utilization of FTAs. While the application and certificate fee is small, the administrative costs to prepare documents are costly for firms. • Time delays incurred to obtain certificates of origin from organizations conflict with “just in time” production. <p>SMEs and firms in the less developed countries face challenges to using FTAs. FTAs benefit most large enterprises but penalize smaller firms.</p>
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Looking specifically at Sri Lanka, the literature on the impacts of RoO on Sri Lankan trade is limited. Wijayasiri (2007) focuses on Sri Lanka and aims at assessing the utilization of trade preferences extended through non reciprocal trade arrangements to which Sri Lanka is party to, that is, the EU and US GSP schemes. The study uses the three indicators, coverage, utilization rate⁶ and utility rates⁷ to evaluate this.⁸ It finds out that although coverage is high in the EU scheme - as much as 98 per cent of exports to EU are eligible for preferential treatment - that the utilization and utility rates are low at around 40 per cent. The main reason for this has been the RoO restrictions. The study highlights that some sectors such as the textiles and textile articles are unable to meet the RoO criteria, with the regional cumulation provision (enabling sourcing from the SAARC region) proving useful only for a limited number of sectors.

In the case of the US GSP scheme it is found that the utilization rate is high, at 89 per cent while the utility rate is low, 7 per cent⁹ In contrast to the EU scheme, the product coverage in the US GSP is very low, around 8 per cent. The analysis of Sri Lanka’s experience of these two GSP schemes highlights several reasons for their limited use. These include low product coverage, strict RoO criteria and weak supply capacity of the country. Lack of awareness of the schemes on the part of exporters and understanding the conditions attached to the scheme do not seem to have caused problems in their usage. Neither have exporters encountered any significant problems in obtaining certificates of origin.

Though many studies have been conducted covering empirical consequences and policy options of trade under FTAs, so far not much work has been done on utilization of FTAs by industries in Sri Lanka. Hence firm-level evidence on FTA impacts is lacking for Sri Lanka. This study hopes to fill that void to some extent. This study intends to explore the extent to which the Sri Lankan exporters use the reciprocal and non-reciprocal¹⁰ tariff preferences and uncover the benefits and costs of trade agreements including FTAs and GSP scheme.

⁶ The *utilization rate* is defined as the ratio between imports that actually receive preferential treatment and those that are covered by the scheme. This indicator gives an idea of how much of all granted tariff concessions is actually used.

⁷ The *utility rate* is defined as the ratio of the value of imports that get preferences to all dutiable imports.

⁸ Apart from secondary data, Wijayasiri’s study has also carried out interviews and a survey in order to reach these conclusions.

⁹ Wijayasiri, J (2007), “Utilization of Preferential Trade Agreements: Sri Lanka’s Experience with the EU and US GSP Scheme”

¹⁰ Non-reciprocity means, that the countries that get the benefits (in this case, Sri Lanka) are not required to offer similar preferential access to their markets in return for the market access concessions they are granted to the EU market. It also means that a beneficiary country is not a party in determining the level of preferences but it is unilaterally decided on by a country giving preferential treatment.

Furthermore, impact of multiple ROO on industries and the support for domestic firms to export under trade agreements will be observed. Focus on market access issues of FTAs to assess the severity of the South Asian noodle bowl effect on goods will also be touched upon.

3. Preferential Trade Arrangements of Sri Lanka

Sri Lanka though a pioneer in the region to liberalize trade, has been a late participant to regionalism. Although there were early attempts in engaging in regional integration via agreements such as APTA and SAPTA, they did not have much effect due to various reasons. However, the country's trade policy has in recent years largely revolved around securing market access mostly through bilateral FTA in the region (see table 1 for details). The most significant of these include the FTAs with India (ILFTA) and Pakistan (PSFTA), both of which are fully operational. Deepening of the South Asian Free Trade Agreement – which will be fully implemented by 2016- will also contribute to Sri Lanka's gains in market access. Sri Lanka is also a beneficiary of the GSP and the GSP+ arrangement, which provides duty free access to the European market (the latter is till August 2010. More details given in the section that follows). GSP is a non-reciprocal arrangement.

Table 2: Outline of Trade Agreements of Sri Lanka

Trade Arrangement	Type	Scope	Status
Asia Pacific Trade Agreement (APTA)	Preferential Trade Agreement	Regional	Signed-1975, in force from 1976
India Sri Lanka Free Trade Agreement (ISFTA)	Free Trade Agreement	Bilateral	Signed in 1998 and in force from 2001
Pakistan Sri Lanka Free Trade Agreement (PSFTA)	Free Trade Agreement	Bilateral	Signed in 2002, in force from 2005
South Asian Free Trade Agreement (SAFTA)	Free Trade Agreement	Regional	Signed in 2004. In force since 2006
General System of Preferences (GSP, GSP+)	Non-Reciprocal Arrangement	Bilateral	From 31 December 2005

Sri Lanka also currently negotiates regional trade arrangements such as the Indian Ocean Rim-Association for Regional Cooperation (IOR-ARC)¹¹ and the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC).¹² The following section provides details of the agreements that Sri Lanka is party to.

3.1 SAPTA/ SAFTA

SAPTA

Sri Lanka initiated the concept of South Asian Preferential Trade Agreement (SAPTA) during the sixth SAARC summit in 1991. The agreement was intended to closely knit the member countries, namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, under the SAARC umbrella. The framework agreement of SAPTA was ratified in Dhaka in 1993 and

¹¹ IOR-ARC initially known as the Indian Ocean Rim Initiative was established in 1995. Its membership constitutes of 18 nations including India, Sri Lanka and Bangladesh from South Asia.

¹² The initial grouping which was formed in 1997 was called BIST-EC. In 2004 it was renamed BIMSTEC and the member countries include Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. It was initiated with the goal of combining Thailand and ASEAN's 'Look West' policy with India and South Asia's 'Look East' policy. 14 priority areas of work have been identified. BIMSTEC signed the BIMSTEC Free Trade Area Framework Agreement in 2004, and is now working on the List of Goods.

came into operation formally on 7th December, 1995. SAPTA aimed to gradually widen intra-regional trade while negotiating concessions on Tariffs, Para-Tariff and Non-Tariff Measures (NTMs). Moreover, it made special arrangements for Least Developed Countries (LDCs) in the region. The long-term vision of SAPTA was to remove all forms of trade barriers and allow free movement of goods and services and other resources in the region. Afghanistan acceded to the SAFTA as the eighth member of SAARC, at the 14th SAARC Summit in 2005.

SAPTA followed four negotiation approaches: product-by-product basis, across the broad tariff reductions, sectoral basis and direct trade measures. RoO of SAPTA ensure that the tariff concessions are offered only for the products originating within the SAARC member countries. A specific product had to contain 40 percent of local value addition in order to exercise the favourable tariff preferences. The first round of SAPTA negotiation covered 226 products at 6 digit HS lines and included only the removal of total or preferential tariff barriers, which concluded in 1995. At the end of the Second Round 126 tariff lines were given. The third round concluded in 1998, covering 3456 products under 6 digit HS lines. The total number of product coverage for tariff concessions was extended to 5553 at the end of the third round of trade negotiations.

Evolution of SAPTA into SAFTA

SAARC countries established the South Asian Free Trade Area (SAFTA) to further promote and enhance mutual trade and economic cooperation among members. The agreement was signed in Islamabad from 18-19 October 2005.¹³ With the signing of the agreement, SAPTA was superseded by SAFTA on 1st January 2006.¹⁴ The new agreement was signed to overcome the limited success of the SAPTA due to member countries' participation in other multilateral trade liberalization processes which were more attractive than concessions offered by SAPTA's. The new agreement takes a negative list approach for tariff reduction and includes a dispute settlement mechanism. It also makes provision for special and differential treatment as well as protection measures for LDCs. Tariff concessions under SAFTA includes tariffs, para-tariff, and non-tariff concessions.

The objectives of the agreement illustrate a greater desire to promote mutual trade and economic cooperation among the member countries. It proposes,

- eliminating barriers to trade in, and facilitating cross broader movement of goods between the territories of the contracting states
- promoting conditions of fair competition in the FTA and ensuring equitable benefits to all contracting states by taking into account their respective levels and pattern of economic development
- creating effective mechanisms for the implementation and application of the agreement, its joint administration and for the resolution of this agreement.
- establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this agreement.¹⁵

In addition, SAFTA ensures the free movements of goods between members except for the products that are in the negative lists of each country, entails the adoption of trade facilitation and other measures, as well as the progressive harmonization of legislations in standards,

¹³ Eleventh Meeting of the Committee of Experts (COE) on South Asian Free Trade Area (SAFTA), Islamabad, 18-19 October, 2005, South Asian Association for Regional Cooperation (SAARC/COE/SAFTA/13)

¹⁴ Eleventh Meeting of the Committee of Experts (COE) on South Asian Free Trade Area (SAFTA), Islamabad, 18-19 October, 2005, South Asian Association for Regional Cooperation (SAARC/COE/SAFTA/13), p.13

¹⁵ Eleventh Meeting of the Committee of Experts (COE) on South Asian Free Trade Area (SAFTA), Islamabad, 18-19 October, 2005, South Asian Association for Regional Cooperation (SAARC/COE/SAFTA/13), p.3

customs clearance procedures, customs classification, and import licensing and registration procedures. With regard to RoO, SAFTA requires a Change of Tariff Heading at 4 digit level while the PSFTA has a more favourable 6 digit CTH requirement.

3.2 Indo – Lanka Free Trade Agreement

The India – Sri Lanka Free Trade Agreement (ISFTA) was signed on 28th December, 1998 with an overall objective to promote trade and economic relations between the two countries and promote Foreign Direct Investment. It entered into force on 1st March, 2000.

India has implemented Zero Duty on 4150 tariff lines for exports from Sri Lanka. The list of such items is available in Annex E - India's Zero duty and Residual List of India - (Zero duty from March 2003).¹⁶ Sri Lanka has implemented Zero duty on 1208 tariff lines for Indian exports to Sri Lanka. The list of such items is available in Annex FI – Sri Lanka's Zero duty items with effect from 2000.03.01 and Annex FII- Sri Lanka's Zero duty items with effect from 2003.03.01.¹⁷ Sri Lanka has also progressively liberalised its duties to reach zero-level in respect of additional 2724 tariff lines in November 2008. As of now, 1180 tariff lines remain in the Sri Lanka's negative list that includes agriculture/livestock items, rubber products, paper products, iron and steel, machinery, and electrical items. There are 429 items in the Indian negative list,¹⁸ which include garments, plastic products and rubber products etc.

The ISFTA uses a combination of Domestic Value Addition (DVA) and Change of Tariff Heading (CTH) to adjudicate origin. For products that use inputs from 3rd parties, minimum DVA is 35 per cent of Freight on Board (F.O.B) value of the product. If the inputs originate from one of the two parties, DVA must be a minimum of 25 per cent of the F.O.B value of the product, provided that the combined value addition of the two Parties is at least 35 per cent of F.O.B value of the product. In addition to fulfilling the domestic value addition criteria, the final product being exported must have a different classification, at the 4 digit level based on the Harmonised Commodity Description and Coding System (HS Code), from all of its constituent inputs.

3.3 Pakistan – Sri Lanka Free Trade Agreement

The Pakistan-Sri Lanka Free Trade Agreement (PSFTA) was signed in 2002 and is being implemented since 12th June, 2005. Pakistan is the second largest trading partner of Sri Lanka in the SAARC region after India. Sri Lankan businesses are currently enjoying duty free market access on 206 products in the Pakistani market that include tea, rubber and coconut. Pakistan, in return, has gained duty free access in the Sri Lankan market on 102 products including oranges, basmati rice and engineering goods.

The main objectives of the agreement are:¹⁹

1. To develop economic integration,
2. Increase trade, investment and services through complete or phased elimination of tariffs, and
3. To establish a free trade area between the two countries

¹⁶ http://www.doc.gov.lk/web/indusrilanka_freetrade_dutycon.php

¹⁷ Ibid

¹⁸ Ibid

¹⁹ PSFTA (2002) Article I - Objectives, Pakistan – Sri Lanka Free Trade Agreement

Like the ILFTA, the PSFTA uses two criteria to determine origin for products that are not wholly obtained in the exporting party. The major difference between the RoO in the ILFTA and PSFTA is that for the change of tariff heading criterion, the PSFTA adopts a CTH at 6 digit level, which is substantially more favourable to Sri Lanka – particularly with regard to the export of blended tea.²⁰

In the recent past, efforts at rejuvenating the Doha Round of the WTO talks have come to a standstill and in this backdrop other South Asian countries, particularly Bangladesh, have been considering the possibility of engaging in Bilateral FTAs with other SAARC members – further threatening the relevance of SAFTA

3.4 Asia Pacific Trade Agreement

The first agreement involving trade negotiations among developing countries in Asia and the Pacific, known as the Bangkok Agreement, came into being in 1975 as Asia's first plurilateral preferential trade agreement (PTA). Trade negotiations under the Agreement have followed the positive list, product-by product approach.

After China's accession to APTA in 2001, signatories recognized the vast potential of the Bangkok Agreement as a mechanism to strengthen regional economic cooperation and initiated a process to revitalize the agreement. The agreement was renamed as Asia-Pacific Trade Agreement (APTA) and signed on 2nd November, 2005 and came into effect on 1st September 2006.²¹

The first round of negotiations were concluded in 1975 as a result which tariff preferences were granted for a total number of 104 products. A total number of product items for which tariff preferences were extended in the renegotiations were 93. Of the 93 products, the ad valorem duties of 80 products were reduced by an average of 23 per cent and the tariffs of 9 products were bound at the existing tariff levels. In the case of the 4 remaining products, specific duties were reduced, ranging from 10 per cent – 67 per cent.²²

The first session of the second round of negotiations was held in 1985 and the second session was held in October 1986, while the third session was held in May 1988 where bilateral negotiations on tariff and non-tariff preferences were commenced. The second round of negotiations resulted in tariff concessions being exchanged on 438 items in addition to 63 items for which special concessions were extended to Bangladesh. The extent of tariff concessions varied among the participating states ranging from 13-30 per cent. The second round of negotiations completed in 1990.

²⁰ Tea will be discussed further as is one of the most important traded commodity.

²¹ ESCAP, 2006, *Facts about the Asia – Pacific Trade Agreement*, Informal Information Note, Trade and Investment Division, ESCAP. Thailand

²² ESCAP, 2006, *Facts about the Asia – Pacific Trade Agreement*, Informal Information Note, Trade and Investment Division, ESCAP. Thailand.

Table 3: Product Coverage After the Third Round of Negotiation

Concession Offering States	After Third Round			
	No. of Products covered by Concessions		Margin of Preference (MOP)	
	General Concessions	Special Concessions	General Concessions	Special Concessions
Bangladesh	209	-	14.1	-
China	1697	161	26.7	779
India	570	48	23.9	39.7
Republic of Korea	1367	306	35.4	64.6
Sri Lanka	427	72	14	12.0
Total	4270	587	26.8	58.8

Source: Department of Commerce, Sri Lanka, 2009

The Fourth Round, launched in October 2007, concluded by the Third Ministerial Council in October 2009. This Round aimed to widen the coverage of preferences to at least 50 per cent of the number of tariff lines of each member, and at least 20-25 per cent the value of bilateral trade. It also aimed to provide a tariff concession of at least 50 per cent (on average). Moreover, the Fourth Round of negotiations extended into areas beyond the traditional tariff concessions in order to deepen trade cooperation and integration. APTA members are currently negotiating three framework agreements on trade facilitation, trade in services, and investments. In addition, APTA members are exchanging information on non-tariff measures

Products contained in the National Lists of Concessions in the Agreement shall be eligible for preferential treatment if they satisfy the Rules of Origin set out in the following table, which is an integral part of this Agreement. With the presence of several major economies in the Agreement, particularly China, India and the Republic of Korea, the market potential within the Agreement is huge. China's entry into the Agreement has brought with it several interesting possibilities and could have profound implications for trade in the region. The Agreement can be used by developing countries in the region as a mechanism not only to provide mutual support in dealing with economic challenges but also to form common positions on specific negotiating issues in WTO. It would be a good opportunity for Sri Lankan exporters to diversify their exports by identifying potential items from the lists of concessions offered by the APTA member countries.

3.5 European Union GSP

The European Union (EU) is Sri Lanka's largest trading partner and with the duty free access to the world's largest market through the Generalised System of Preferences (GSP) and GSP+ scheme Sri Lanka's exporters to the EU market increased at a significant level. Sri Lanka exported goods and services worth over \$ 3 billion (37 per cent of Sri Lanka's total exports) to the EU in 2009. It is also Sri Lanka's second major source of imports, accounting for 12 per cent of the country's total imports in 2009.

The EU's GSP is a trade arrangement through which the EU provides preferential access to its market to developing countries, in the form of reduced tariffs. This trade arrangement is non-reciprocal in nature. Under the EU GSP scheme, there are three separate preference regimes:²³

²³ <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/>

- The standard GSP arrangement, which provides preferences to 176 developing countries and territories on over 6300 tariff lines.
- The special incentive arrangement for sustainable development and good governance, known as GSP+, which offers additional tariff reductions to a selected number of countries.
- The Everything But Arms (EBA) arrangement, which provides duty-free and quota-free access for all products (except for arms and ammunition) for the 50 Least Developed Countries (LDCs).

As a developing country, Sri Lanka gets preferential access to the EU market, based on the standard GSP system. Over and above the GSP accorded to all developing countries, special incentives are provided under the GSP+ regime for countries that ratify and implement 27 international conventions in the areas of human rights, core labour standards, sustainable development and good governance. GSP+ provides duty free access to over 7200 products in the European market. Sri Lanka, together with 14 other countries, qualified for GSP+ for a period of three years, from December 31st, 2005 to December 31st, 2008. All beneficiaries are evaluated by the EU Commission, every three years, before an extension of the trade arrangement. In December 2008, the European Commission listed Sri Lanka among 16 developing countries to which GSP+ was awarded from January 2009 till December 2011.²⁴ By 2008, exports to EU from Sri Lanka under GSP+ amounted to euro 1.24 billion in 2008 with sectors like garments and fisheries gaining substantial benefits from the preferences.

Nevertheless, on 15 February 2010 the EU decided to temporarily withdraw the preferential tariff benefits to Sri Lanka.²⁵ The suspension comes in to effect in six months, giving Sri Lanka time to address the problems identified. Sri Lanka will, however, continue to receive preferences under the standard GSP arrangement.

The same RoO rules apply for both GSP and GSP+. RoO criteria requires goods to be either domestically 'wholly obtained' or sufficiently worked or processed. This can be met by one of the 3 or a combination of, (1) change of headings, (2) value addition criteria or (3) specific process criteria. GSP+ allows for bilateral cumulation where beneficiaries can use inputs from EU, Norway and Switzerland as well as for regional cumulation where in the case of Sri Lanka, it can use inputs from SAARC countries. However, value addition RoO requirements change by product category to category, and even within a sector.

Challenging rules of origin criteria, requiring high levels of domestic value addition, have been a constraint for better utilization of the GSP scheme. There have been proposals to relax RoO, so that the beneficiary countries can make better use of tariff preferences. As a result of high RoO, the utilization of preferences has been an issue, especially for sectors, such as the garment industry. Wijayasiri (2007) shows that the restrictive nature of the EU's RoO has limited the usefulness of the scheme.

²⁴ The other 15 countries that have qualified for GSP+ are Armenia, Azerbaijan, Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Georgia, Guatemala, Honduras, Mongolia, Nicaragua, Paraguay, Peru, and Venezuela.

²⁵ According to the EU this decision was the result of an investigation by the European Commission which identified shortcomings in respect of Sri Lanka's implementation of three UN human rights conventions signed by Sri Lanka.

Table 4 – Rules of Origin Requirements of Different Agreements

Measure	RoO Requirements				
	SAFTA	ISFTA	PSFTA	APTA	GSP
Domestic Value Addition (DVA)		Minimum of 35% F.O.B value	Minimum of 35% F.O.B value		change by product category to category
Cumulative Rules of Origin (RoO)		Exporting country minimum value addition of 25% F.O.B. if inputs from importing country are utilised. Subject to the condition that aggregate value addition is 35% F.O.B value.	Aggregate DVA of 35% must apply with a minimum of 25% value addition in the final exporting country	Aggregate content originating in the territory of the Participating States is not less than 60% of its F.O.B value	change by product category to category
Change of Tariff Heading (CTH)	CTH at 4 digit HS classification	CTH at 4 digit HS classification	CTH at 6 digit HS classification		change by product category to category
Products not wholly produced or obtained				Cannot exceed 55% of F.O.B value	change by product category to category

Source: SAFTA RoO available at <http://www.doc.gov.lk/web/saftaroulsoforigin.php>

ILFTA RoO available at <http://www.doc.gov.lk/web/induslrulsoforigin.php>

PSFTA RoO available at <http://www.doc.gov.lk/web/pakisslrulsoforigin.php>

APTA RoO available at <http://www.unescap.org/tid/aptaro.pdf>

GSP RoO available at <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/>

4. Utilization of Trade Agreements by Sri Lanka

4.1 Methodology

In order to analyze the utilization of the RTAs, both primary and secondary data on trade agreements were used in this study. Secondary data were obtained from the Department of Commerce of Sri Lanka to calculate the utilization and utility rates for the Sri Lanka's RTAs.

Additionally, a small survey was carried out at the firm level, in order to obtain the perception of stakeholders on the duty free access, preferences and RoO requirements of trade agreements. A combination of techniques including structured interviews (based on questionnaires) and key informant interviews with relevant stakeholders in the business and the government sector were used in this regard.

A total of 17 businesses/firms were surveyed in this study and 5 officials in related organizations were interviewed. The surveys were carried out via email, telephone and also through the face – to – face interviews. As an explanatory exercise, the research was carried out primarily in the Colombo District which is also, the business hub in Sri Lanka. The 17 firms represent the agricultural and the manufacturing sectors of the economy and focus on the export sectors tea, rubber tyres and insulated copper wires. These three sectors were decided upon

analysis of data. Firms were selected based on their size and the structure of the sector: 2 small scale firms, 2 medium scale and 2 large scale firms.²⁶

In order to choose common products of exports under all the agreements, the top 20 products exported to each of the country's or region's with which Sri Lanka has a trade agreement were listed. Import/export data of the Sri Lanka Customs for the year 2008 were used for this purpose. Then the products that were common to all the relevant trade agreements, including Pakistan were listed and prioritized based on the value of exports. Tea, rubber tyres and insulated copper wire were products that were exported under each of the agreements and were of significant export value to Sri Lanka.

A list of exporters who export the chosen products to at least one of the countries with whom Sri Lanka has a trade agreement was acquired from the Sri Lanka Export Development Board (EDB). Since the list of exporters was a short one, which contained 15 tea exporters, 15 tyre exporters and 10 insulated copper wire exporters, the survey questionnaires were sent to all 40 exporters. There were 2 questionnaires,²⁷ one for companies that use at least one trade agreement in exporting their products and the other for exporters who do not use any one of the trade agreements. Thus the sample captured the responses of both users and non-users of trade agreements. Out of the 40 exporters that were contacted 17 companies responded: 9 tea exporters, 5 rubber tyre exporters and 3 insulated copper wire exporters.

With respect to the selection of the interviewed officials, relevant stakeholders from government agencies like Department of Commerce, Board of Investment and the private sector such as the Ceylon Chamber of Commerce were identified. They were interviewed to obtain a broader understanding of the utilization of FTAs in Sri Lanka and the link between trade preferences and performance of industries.

The first part of the questionnaires gathered general information on the profile of the firm. The other sections of the questionnaire focused on the utilization levels of the current FTAs by the firm, impediments to using FTA preferences, business costs of using the preferences (i.e. multiple Rules of Origin requirements) and methods that can be used in order to increase utilization of FTAs.²⁸

4.2 Findings on Utilization of Trade Agreements based on Secondary Data

Table 5 tracks Sri Lanka's trade with two bilateral partners: India and Pakistan, with two preferential blocs, APTA and SAFTA and with the EU, provider of non-reciprocal preferences. It is revealed that Sri Lanka's trade with India, APTA members and EU have increased since the inception of these preferential trading arrangements. However, despite similar trading concessions existing through BTA with Pakistan and SAFTA, Sri Lanka's trade with them still remains at a low level.²⁹

²⁶ Since there is no nationally accepted definition to classify companies based on their size as large, medium and small the study used the classification put forward by the Task Force for SME Sector Development Programme in the 'White Paper on National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka' (2002). This classifies small enterprises as those with 5-29 employees, medium enterprises with 30-149 employees, and large scale, as companies with 150 or more employees.

²⁷ See Annex I and Annex II

²⁸ See Annex I and Annex II.

²⁹ SAFTA includes India and Pakistan, while APTA includes India. In fact when trade with India and Pakistan is deducted from SAFTA total, trade with SAFTA is declining. See Table in Annex III

Table 5: Sri Lanka's Exports

Year	Exports (US\$ million) to					Exports (as a % of total exports of Sri Lanka)				
	India	Pakistan	SAFTA	EU	APTA	India	Pakistan	SAFTA	EU	APTA
2000	55	28	180	1437	99	0.1	0.5	3.3	26.0	1.8
2001	69	24	151	1207	111	1.5	0.5	3.3	26.1	2.4
2002	169	29	254	1349	224	3.6	0.6	5.4	28.7	4.8
2003	244	37	350	1536	301	4.8	0.7	6.8	29.9	5.9
2004	379	38	490	1810	430	6.6	0.7	8.5	31.4	7.5
2005	566	44	653	1961	635	8.9	0.7	10.3	30.9	10.0
2006	489	58	600	2321	559	7.1	0.8	8.7	33.7	8.1
2007	515	55	646	2875	602	6.7	0.7	8.5	37.6	7.9
2008	418	71	561	3034	520	5.2	0.9	6.9	37.4	6.4
2009	322	55	441	2727	438	4.5	0.8	6.2	38.5	6.2

Source: Annual Report, Central Bank of Sri Lanka, Various Issues

4.2.1 Utilization of Indo – Lanka Free Trade Agreement

Even prior to the bilateral agreement, India was a key source of imports to Sri Lanka, accounting for 8.5 per cent of total imports in 1999. However, India accounted for a negligible share of total exports of Sri Lanka and ranked 14th in the list of export destinations in 1999. With the implementation of the ISFTA, trade between Sri Lanka and India underwent substantial changes. By 2008, India was Sri Lanka's 4th most important export market (behind the US, UK and Italy), and it is now the 6th largest export destination of Sri Lanka absorbing 4.5 per cent of its total exports.

Overall trade between the countries grew by six fold since the ISFTA came in to effect. Sri Lanka's exports to India increased at an annual average of 60 per cent during the period 2000-2005 and reached a peak of \$ 566 mill in 2005, a tenfold increase compared to the export values in 2000. Imports grew at a more modest annual rate of 27 per cent in the same period.

However, the positive picture that emerges from aggregate figures of trade between the two countries has to be interpreted with care. Much of the increase in trade during 2000-2005 was concentrated in two products - copper and Vanaspathi (vegetable oil). These accounted for over half of total exports to India by 2005. Therefore, if copper and Vanaspathi were excluded from the trade figures Sri Lanka's exports to India would have dropped by half during the concerned period. The export of these products increased not necessarily due to Sri Lanka having a particular comparative advantage in the production but due to tariff arbitration by Indian manufacturers who invested in Sri Lanka. There were concerns with regard to the benefits to Sri Lanka, as there was low domestic value addition in these industries and thus, limited employment generation, as well as some environmental issues. Trade disputes led to India restricting the volume of Vanaspathi imports by imposing quotas and canalization. As a result, Vanaspathi exports from Sri Lanka to India ceased. Copper exports were also scrutinized, and with price regulation imposed by India to prevent the misuse of RoO criteria governing the ISFTA, copper exports fell sharply from \$ 145 million in 2005 to a mere \$13 million in 2008. As a result of low exports of Vanaspathi and copper in the last few years, Sri Lankan exports growth to India fell to 4.5 per cent from a peak of 9 per cent in 2005. Consequently, the utilization rate of the ISFTA by Sri Lankan exporters too has been declining from as high as 99 per cent and 97 per cent in 2003 and 2005 respectively, to 75 per cent in 2008 and the utilization rates are likely to drop further since the Vanaspathi exports are expected to be non-existent from 2009.

Table 6: Utilization Rates of Indo – Lanka Free Trade Agreement

Year	Exports of Sri Lanka under ISFTA (\$ Mill.)	Total Sri Lankan Exports to India (\$ Mill.)	Utilization Rate (Percentage)
2003	238.8	241.1	99
2004	339.9	385.5	88
2005	543.0	559.2	97
2006	431.1	494.1	87
2007	398.2	516.4	77
2008	315*	418.1	75.*

*Provisional, Department of Commerce of Sri Lanka, 2009

Source: Department of Commerce of Sri Lanka, 2009

4.2.2 Utilization of Pakistan – Sri Lanka Free Trade Agreement

In terms of the PSFTA, it is yet to become fully operational as Sri Lanka is scheduled to complete tariff liberalization on non-sensitive products in 2010. Pakistan has fully liberalized trade other than items in the sensitive list as of June 2008. Thus far the impact of the agreement in terms of Sri Lankan exports to Pakistan has been limited. In 2003, Sri Lanka's exports to Pakistan were \$36 million (0.7 per cent of total exports). Whilst in absolute terms, total exports to Pakistan by 2009 had increased to \$55 million, it still accounted for a mere 0.8 per cent of total exports. Furthermore, it is clear that Pakistan's exports to Sri Lanka have grown at a much faster rate during this period, increasing from \$71 million in 2003 (1 per cent of total imports) to \$197 million in 2009 (1.9 per cent of total imports). The growth in Sri Lankan exports to Pakistan was largely in similar products to those exported prior to the Agreement.

Table 7: Utilization Rates of Pakistan – Sri Lanka Free Trade Agreement

Year	Exports under PSFTA (\$ Mill.)	Total Exports to Pakistan (\$ Mill.)	Utilization Rate (Percentage)
2005	24	43	56
2006	54.5	56	97.32
2007	40.23	57	70.58
2008	NA	71	NA

Source: Department of Commerce of Sri Lanka, 2009

The utilization rate of the PSFTA had improved since its inception in 2005 from 56 per cent to 97 per cent in 2006 and has dropped to 70 per cent in 2007. The increase in exports of rubber and rubber based products, coconut and coconut products and tea have contributed to the high utilization of PSFTA in 2006 due to the zero duty concession offered to rubber and rubber based products and coconut and coconut products under the PSFTA. However, tea did not even use half the Tariff Rate Quota, which was 10, 000 metric tonnes offered under the PSFTA in 2006. Moreover, there had been a drop in tea and rubber exports to Pakistan in 2007, which has resulted a low utilization rate than the previous year's utilization rate.

The only notable change between 2002 and 2009 is the increase in exports of coconuts and decline in exports of tea and copra.³⁰ In 2006 garment exports to Pakistan have thus far been

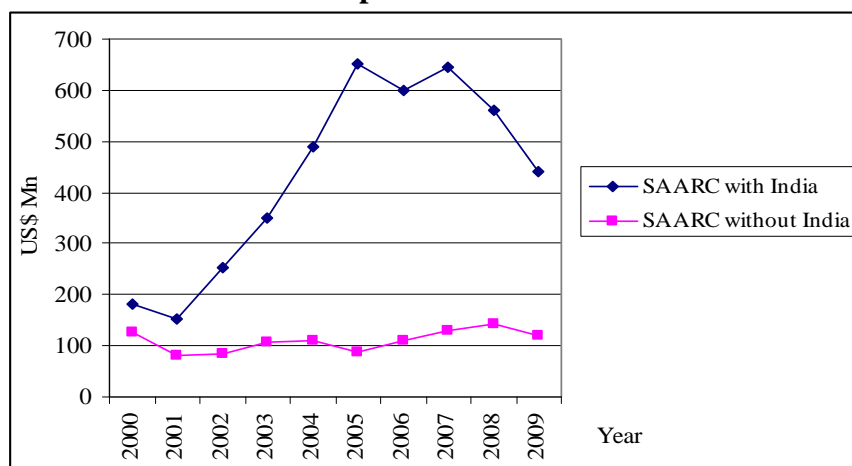
³⁰ The likely cause of this reduction is the fact that the price of Ceylon tea increased as global demand (especially from the Middle East and CIS countries) increased substantially, making it less attractive compared to Kenyan tea

negligible. It is clear that export diversification has been limited, but it remains early days in the implementation of the agreement and it will take some time for the full impact of Pakistan's complete liberalization to be felt. Nonetheless some products have been exported to Pakistan taking advantage of the preferential tariffs. Fresh pineapples, sports goods, tamarind with seeds and activated carbon are just some of the products that were not previously exported but are now exported using concessions.

Following the FTA imports from Pakistan have grown significantly. The major import item from Pakistan is textiles and fabrics, making up 55 per cent of Sri Lanka's imports in 2007. Other items include medicaments, potatoes, rice and dried fish. It is important to note that the majority of the items imported from Pakistan do not receive benefits under the FTA. Textile and apparel articles receive MFN duty free rates, as do medicaments. Rice and dried fish fall under the negative list and potatoes are imported under a tariff rate quota.

4.2.3 Utilization under South Asian Free Trade Area

Chart 1: Sri Lanka's Exports to SAARC with/without India



Source: Annual Report, Central Bank of Sri Lanka, Various Issues

Sri Lanka's main export items to SAFTA had not been changed since its inception to date where cloves, pepper, tea, coconut, dried fruits, insulated wire, electrical accumulators and pneumatic tyres remain the highest exports to SAFTA. The concessions offered under the ILFTA are more attractive than that of SAFTA's concessions which is the underlying reason for trader's to choose between SAFTA and ILFTA when exporting to India and most exports to India are carried out under ILFTA. Thus the utilization rate of SAFTA remains at a very low level as portrayed in the Table 9. Total exports under SAFTA include Sri Lanka's exports to all SAFTA members including exports to India and Pakistan using SAFTA.

which did not increase in price to the same extent. It remains to be seen whether the decline in tea exports is a one off event or a continuing trend – the former is more likely given the unusually high commodity prices that prevailed through the latter half of 2007.

Table 8: Utilization Rates of South Asian Free Trade Area

	Exports under SAFTA (US\$)	Total Exports to SAFTA (US\$)	Utilization Rate (%)
2006 (July-Dec)	14,001.15	600,000,000	0.00233
2007 (Jan-Dec)	202,476.19	646,000,000	0.03134
2008 (Jan-Dec)	64,203.90	561,000,000	0.01144
2009 (Jan-June)	10,446.15	441,000,000	0.00237

Source: Department of Commerce of Sri Lanka, 2009

4.2.4 Utilization under Asia Pacific Trade Agreement³¹

Sri Lanka's current major export items to the member countries of APTA are desiccated coconut, coconut fibre, copra, coconut oil, natural rubber, tea, cloves and crude glycerine. The consolidated national lists of the members countries have offered concessions on items of export interest to Sri Lanka, in addition to the above products, are spices (pepper, nutmeg, mace), cashew nuts, essential oils, natural graphite, activated carbon, rubber products (tyres, gloves, mats, rings) floor tiles, ceramic tableware/kitchenware, glassware, semi precious stones, gem and jewellery, stuffed toys, brooms and brushes, cut flowers, footwear, biscuits, chocolates, apparel, fresh fruits and juices, wooden furniture, mattress, electric lamps, ornamental fish, fresh/frozen fish and fishery products. The APTA paves the way for promotion of investments and joint ventures in Sri Lanka on projects such as manufacture of microwave ovens, fans, computers, electronic/video games, telecommunication apparatus, motorcycles, marble, copper items, aluminium products, telephone sets, garments and footwear since China and Korea has comparative advantage in producing these goods and Sri Lanka is a heavy importer of the aforementioned items.

Sri Lanka's trading relationship with China, as the largest member of the APTA is quite significant when examining the prospects of the APTA to Sri Lanka. While Sri Lankan exports to China have grown over the past 5 years, imports from China have grown at a faster rate than exports. For instance, Sri Lanka's exports to China increased from \$ 34.2 Mill in 2007 to \$ 46.8 Mill in 2008, while imports from China to Sri Lanka increased from US\$ 923.8 Mill in 2007 to US\$ 1091.5 Mill in 2008 recording a trade balance of \$ -1044.7. Sri Lanka's major exports to China include raw coconut coir, apparel items, tea-whether or not flavoured, natural rubber, diamonds and other precious stones, titanium ores and concentrates, and bicycles and other cycles. Sri Lanka's major imports from China include electrical machinery and equipment, boilers and machinery and parts, cotton, iron or steel and its articles, man-made staple fibres, knitted or crocheted fabrics, fertilizers, railway locomotives and inorganic chemicals.

Under APTA, China already provides tariff concessions for over 1700 products covering around 50% of total Sri Lankan exports to China at a margin of preference of 27%, These concessions are expected to increase up in coverage to 2000 export products within the next 2 years (so in 2011 and 2012). Yet the usage of tariff concessions by Sri Lankan exporters is reportedly very low as according to the Department of Commerce, Sri Lanka has utilized less than 5% of preferential tariff lines granted by China. Out of APTA eligible exports, 15% is still completely untouched by Sri Lankan exporters.

³¹ Utilization Rates could not be obtained due to the ongoing revisions in evaluations at the Department of Commerce.

4.2.5 Utilization under General System of Preferences

The value of total exports to the EU increased from \$1.5 billion in 2003 to \$2.9 billion in 2009. In 2006, when Sri Lanka had zero duty access to the EU market total exports increased substantially, with an annual growth of 24.7 per cent compared to a growth of 2.7 per cent in 2005. Consequently, the utilization rates have increased over the years from 42 per cent in 2003 to 72 per cent in 2008.³²

The utilization rate of GSP has increased over the years, especially after the GSP+ came in to place in late 2004. Challenging ROO, requiring high levels of domestic value addition, have been a constraint for better utilization of the GSP scheme. There have been proposals to relax ROO, so that the beneficiary countries can make better use of tariff preferences. As a result of high ROO, the utilization of preferences has been an issue, especially for sectors, such as the garment industry. Nevertheless, Sri Lanka has been able to improve its utilization rate gradually over time (see Table 10).

Table 9: Utilization Rates of General System of Preferences

	Preferential Exports (€Mill.)	Total Exports to EU (€Mill.)	Utilization Rate (Percentage)
2003	383.55	1340.69	42
2004	489.69	1528.55	42
2005	624.76	1577.94	52
2006	939.45	1871.12	64
2007	1118.08	2079.52	69
2008	1237.66	2130.60	72

Source: Department of Commerce of Sri Lanka, 2009

The majority of Sri Lanka's exports to EU are garments – garments account for over half (51 per cent) of Sri Lanka's total exports to the EU- and the local ready-made garment industry has been the largest beneficiary of the GSP+ scheme so far. In this context, GSP+ is of particular importance to the garment industry. The 24.7 per cent growth in exports to the EU in 2006 was led by garment exports which grew by 21.2 per cent. It is possible to identify some key changes in the trends in several sectors of the economy as a result of GSP+. Sri Lanka's garments exports to the EU have been increasing rapidly after being granted GSP+ while Sri Lanka has been losing its market share in the USA. In 2008 EU for the first time surpassed USA share, to be the largest market for Sri Lanka's garment exports: while EU absorbed 49 per cent of total garment exports, exports to USA was 45 per cent. The importance of GSP+ to Sri Lanka has emerged strongly during these times of the economic crisis. Although there was an initial decline in garment exports in December 2008, the garment sector has been fairly resilient recording positive growth rates in 2009. March 2009 statistics show that textile and garment exports to the EU grew by 18.4 per cent while exports to USA declined. The growth of the exports of garments to EU has been sustained owing mainly to the concessions of GSP+. These concessions have helped Sri Lankan garment exporters to offer competitive prices in the EU, compared to its competitors and this has led to an increase in demand for Sri Lankan garments. However, EU's decision to withdraw GSP+ concessions from August 15th 2010³³ is

³² Department of Commerce, Sri Lanka

³³The European Union (EU) has decided to withdraw the GSP Plus concessions from August 15 after the Sri Lankan government failed to make a written commitment to implement 15 conditions related to human rights. Sri Lanka rejected the 15 conditions the EU set saying that they are unacceptably intrusive and EU's move is politically motivated.

expected to affect especially, the garment sector with the small and medium sized garment producers already feeling the brunt of the decision.

4.3. Perception Survey Findings

A majority of the companies in the survey focused mainly on the export market: 4 of the 5 large scale rubber tyre manufacturers produced only to the export market while the other company produced 33 per cent of their production for the export market. Five of the tea manufacturers produce tea for export market only and three tea producers marketed more than ninety seven percent of their tea production to the export market. Of the copper wire exporters, almost eighty per cent of their production is sold in export markets. Therefore, export markets are the main source of income/profit for all exporters who participated in the survey

It is interesting to note that 14 out of 17 respondents (82 per cent of the respondents) utilize at least one trade agreement, with ten companies using just one trade agreement, two companies utilizing two agreements, and two companies utilizing three or more trade agreements. All the companies who responded to the questionnaire were aware of the trade agreements in place: ISFTA, PSFTA, SAFTA, APTA and EU GSP. From the companies which use trade agreements most of them are aware of the details of the trade agreements they utilize and apart from that, twelve of them know some parts of at least one trade agreement they are yet to utilize.

4.3.1 Users of Trade Agreements

Benefits of Trade Agreements

Out of the seventeen companies who responded to the questionnaire a majority use the EU GSP and the ISFTA (see Table 10). A majority rated the GSP scheme and the ISFTA to be highly beneficial and eight companies thought they were partially beneficial. The PSFTA and the SAFTA are the less popular ones with only one exporter using each of the agreements; they were rated as partially beneficial. The perceptions of exporters who use APTA are divided with 2 exporters rating it as highly beneficial and 2 as partially beneficial.

Table 10: Use of Trade Agreements by the Surveyed Firms: Users of Trade Agreements

Trade Agreement	Highly	Partially	Not Used	Total
ISFTA	4	2	1	7
PSFTA		1		1
APTA	2	2		4
SAFTA		1		1
EU GSP	5	3		8

One company which has started exporting tea recently and which use the ISFTA was of the view that the trade agreement is not beneficial as it is the importer who gains the tax benefit and not so much the exporter as the price is driven mainly by the tea auction rates. Likewise, one tea exporting company stated that they use the EU GSP trade agreement mainly because it is the buyer's requirement. However, it should be noted that this is a sentiment expressed by few exporters in one sector.

All companies that use trade agreements identified the increase in market access and new business opportunities to be the main benefits of using trade agreements. One exporter also

identified the increase in predictability and transparency in tariff regimes to be a benefit of using trade agreements.

None of the interviewed companies considered the ease of importing intermediate goods to be a benefit of using trade agreements. In fact, one company stated that it is not worth going through the entire process of getting the concessions (i.e. getting the relevant documents) when the duty concession they receive for their product is about 2 ½ per cent, which they consider to be very low. Interestingly, one Board of Investment (BoI) company stated that since they could import raw materials duty free – as part of concessions offered to BOI companies- it is not necessary to import them under trade agreements.

Cost of Using Trade Agreements

From the costs identified, the documentation requirement was the main factor that was identified by exporters in this survey to be an additional cost of using trade agreements. However, it is interesting to note that all exporters thought the document costs involved in using the trade agreements to be negligible and some mentioned that the formalities are required in order to identify genuine exporters. Two exporters mentioned greater delays at customs and other related institutions at the destination – both with regard to the use of ISFTA, and one identified the changes that had to be met in production patterns to meet trade agreement requirements to be other costs of using trade agreements.

Table 11: Cost and Benefit of Using Trade Agreements

Cost	Number of Respondents	Benefit	Number of Respondents
In house administrative costs		Increase in market access	14
Documentation requirements	14	Easier to import intermediate goods and raw material	
Greater delays at customs and other related institutions at the destination	02	New business opportunities	
Changes to production patterns to meet trade agreement requirements	01	Increase in predictability & transparency of tariff regime	01

Impediments to use trade agreements

Many companies in the survey were of the view that any trade agreement or concessions would be fully utilized by companies if the preferences offered would offset the costs involved. Inadequate product coverage and too many product exclusions is one of the reasons why most of the companies do not use trade agreements. For example, one rubber tyre exporter stated that in the PSFTA the relevant products are still in the negative list and it is difficult to penetrate the market without concessions because it is difficult to compete with Chinese products which are a lot cheaper than their products.

Furthermore, when the main export markets of a company are not the countries with which Sri Lanka has the trade agreements with (i.e. in the case of tea exports, where the main export markets are Europe, Russia and Middle Eastern Countries) most companies do not consider it necessary to export little amounts of the product to the countries with which we have agreements even though certain concessions are offered. When the companies make very large

profits by exporting to other countries they are able to operate without using the trade agreements, and see the preferences they receive to be negligible. For a majority the small margin of preferences offered by trade agreements to their product of interest is a major impediment in using trade agreements. When compared to the cost and time spent on getting the relevant paper work in place the preference offered are not attractive to many of the exporters irrespective of size.

Three exporters (or 18 per cent of the respondents) considered restrictive and complicated RoO requirements to be an impediment of using trade agreements. While two companies stated that RoO requirements in EU GSP are an impediment, one company (tea exporter) stated that the restricting and complicated RoO requirements in the ISFTA are an impediment.

Many of the respondents stated that there is a requirement to provide confidential information such as the cost structures to obtain certificates related to the trade agreements. However, they did not consider this to be an impediment so long as confidentiality is met and the information is not shared with outside parties. In fact, they considered this a justifiable requirement of information.

According to the responses, non-tariff barriers, especially in India, play a major role in discouraging Sri Lankan exporters utilizing trade agreements. Lack of information about the trade agreements is another impediment cited by companies as to why companies are not utilizing trade agreements.

Meeting the Rules of Origin Requirements

Only three companies out of the seventeen companies perceived RoO as an impediment in using trade agreements. The rest of the companies found RoO of the trade agreements they use as easy to meet. Five of the exporters wanted RoO to be improved so that they are less restrictive and simpler and four companies wanted RoO to be more specific and detailed. Meanwhile four companies believed that there is no need of any improvement in RoO. Different RoO for different trade agreements were not viewed as a problem for many of the companies who responded to the questionnaire: only one company believed that multiple RoO poses a problem while five companies believed that multiple RoO is not a problem. Rest of the companies stated that they are not aware whether different RoO for different trade agreements is a problem when utilizing trade agreements since they are not utilizing more than one trade agreement.

Table 12: Meeting the RoO Requirements

RoO Requirements	Number of Respondents	Multiple RoO Requirements	Number of Respondents
Make them less restrictive and simple	05	Problem	01
Make them more specific, and detailed	04	Not a problem	05
No need for any improvement	04	Do not know	11

Only six companies responded to what their preference for harmonization of RoO criterion is. Two companies preferred Value added criterion and two companies stated that they would prefer an option between Value Added criterion and Change of tariff code classification.

Impediments to Export: Beyond FTA Provisions

Eleven of companies are hoping to use trade agreements which they have not utilized so far and their main reason for this is to increase their exports. But most companies, for instance the tea exporters, stated that current trade agreements do not cover markets important to them. For example, Middle East is one of the main markets for Ceylon tea exports and it is not covered by the trade agreements. In addition to that, most of the companies complained that products relevant to their companies are not covered in trade agreements and thus making utilizing of trade agreements irrelevant.

Institutional Support and Support Services for Use of Trade Agreements

Exporters, if they did require information on trade agreements go to Department of Commerce and the Chamber of Commerce. Furthermore, except for one company all others have not participated in any consultations prior to trade negotiations with any government agency/chamber. In the interviewing process it was felt that although traders are, on the whole, aware of the existing trade agreements there are SMEs who require more information as to what exactly the concessions are and the process of acquiring them, i.e. one SME exporter in the tea sector assumed that when a shipment is made to India it automatically qualifies for concessions offered by the ISFTA whereas, shipments have to obtain the ISFTA certificate if it is to get the concessions. The chambers can play a big role in this. It was suggested for the chambers to have a desk where traders can receive information on the specific concessions a particular sector receives and other trade agreements-related information.

One company suggested that it would be helped if there was financial support to meet ISO standards and also if the government supports the promotion and marketing of tea in the global arena.

Some companies mentioned that export expansion under certain agreements like the ISFTA is possible but that government facilitation is essential to overcome bureaucratic issues in India.

Furthermore, a respondent stated that in order to build relationships with importers and to increase utilization of trade agreements like the ISFTA that it is necessary for the governments to facilitate the visa process between the two countries that are party to the agreement, i.e. currently getting business visa to India was cited as being “very difficult” and as a process that does not promote Sri Lankan businessmen visiting India. The exporters/ importers thought visa facilitation for businessmen a key aspect in developing trade between the two countries.

Also, assistance and encouragement should be given to traders to engage in promotional activities in the partner countries. A respondent suggested that the EDB for instance to have a system where they can provide tax benefits for participants at international exhibitions, etc, if direct monetary support cannot be extended. If Sri Lanka’s prospective exporters can be facilitated to exhibit in international fairs it is envisaged to be a big boost on the image and for awareness building.

4.3.2 Non-Users of Trade Agreements

From the three companies who do not export under the trade agreements two companies are tea producers (one large and the other medium scale) and the other a copper wire manufacturer (medium scale producer). Both tea companies export almost all their production while the copper wire manufacturer exports 95 percent of its total production with the balance 5 per cent directed towards the local market. Therefore, for all three companies the export market is of vital importance. Markets where they export?

Despite them not using any of the agreements ISFTA, PSFTA, SAFTA, APTA and EU GSP, they were all aware that these agreements are in place. However, all 3 exporters were aware of only about some parts trade agreements. Were they asked WHY they do not use the agreements?

Potential Benefits and Costs of Trade Agreements

While one out of the three companies thought that the utilization of trade agreements will not be beneficial for them, two companies did not know if using trade agreements would be beneficial or not. Therefore, they could not answer the question on what the perceived benefits would be.

Impediments to Use Trade Agreements

Two of the three non-users stated that the non-coverage of important markets and inadequate product coverage and/or too many product exclusions to be the major impediments of using the trade agreements that Sri Lanka are currently party to. For the other user, the lack of information about trade agreements was the main impediment. It is interesting to note that the non-users considered the costs entailed in using trade agreements such as administration and documentation costs to be insignificant; the extra costs were not seen as an impediment to using trade agreements. Requirement of confidential information, restrictive and complicated Rules of Origin, small margins of preferences were also not viewed as factors that prevent them from using the agreements.

Rules of Origin

The exporters' responses on issues relating to Rules of Origin are quite limited given that they do not use the trade agreements and are not aware of the Rules of Origin requirements. All three companies were not aware as to whether the Rules of Origin specified under any of the agreement would be easy, difficult or impossible for them to meet. They were also not aware if multiple rules of origin requirements would be difficult to meet.

Measures to Encourage Utilization of Trade Agreements

Two of the companies identified the need for (1) Sri Lanka to cover countries such as the Middle East and the GCC countries which are important markets for their products, and (2) the need to provide more information on trade agreements as they thought they were important measure that could be undertaken to improve the utilization of trade agreements. The exporters stated that the trade agreements should be with countries that have economic relevance to Sri Lanka and that they should not be entered in to for political reasons.

Future Use of Trade Agreements

Except for one of tea producing companies other two companies are not planning to use trade agreements in the future. The company which suggested that they may use all five trade agreements in the future stated that it would be to increase market access and also because they are hoping to engage in new production. All three companies are of the view that the current trade agreements do not cover markets important to them and that current trade agreements do not cover their products adequately.

Institutional Support for Exporting Under Trade Agreements

All three companies have not participated in any consultations with government agencies/business associations prior to official trade negotiations between the two countries and two of the companies stated that enhanced consultations during FTA negotiations would support their use of trade agreements. They did not specify that they need assistance in upgrading their technical standards and quality or financial support

5. Conclusion and Way Forward

From the close observations of Sri Lanka's current trading patterns under the trade agreements, the progressive strengthening of trade links with member countries is vital. However, each agreement comes with its own preferential tariffs, negative lists and technical requirements such as value additions which all have an impact on the utilization of trade agreements by a country's trading community. Data show that the utilization rates of the bilateral agreements, ISFTA and PSFTA are relatively higher (77 per cent and 70 per cent respectively in 2007) than regional trade agreements. Utilization rates of SAFTA remains low while it is difficult to assess the utilization rates of APTA with the unavailability of data. Nevertheless, the utilization rates of the GSP scheme have been increasing, especially after Sri Lanka was granted the GSP+ concessions in 2005. GSP+ provides duty free access to 7200 products which have been used extensively by the garment industry, the largest foreign exchange earner in Sri Lanka.

In this background a perception survey was carried out to find out to what extent exporters use trade agreements, the benefits and costs they perceive in using trade agreements, the ease or difficulty in meeting RoO criteria, the ease or difficulty in meeting RoO criteria in trade agreements, and measures that can be taken to improve the utilization of trade agreements. The perception survey that was carried out among exporters of the tea, rubber tyres and insulated copper wires showed that 82 per cent of the respondents used at least one trade agreement. While a majority used just one agreement four out of the seventeen respondents used more than one agreement. Both users and non-users of trade agreements were aware of the trade agreements in place although their knowledge about the particulars of trade agreements was largely limited to the agreements that they use. A majority of the respondents used the EU GSP (8 exporters) while the ISFTA was utilized by 7 exporters. The PSFTA and the SAFTA were the agreements that were used the least by the exporters.

In terms of costs documentation costs was the additional costs that many of the exporters identified. However, it was also mentioned that the documentation costs were negligible and documentation needs were seen as necessary. Inadequate product coverage and non-coverage by trade agreements of markets important to the exporters were identified to be the main impediments in using trade agreements. For instance increase in market access is very low under the SAFTA due to the inadequate product coverage or due to the marginal preferences. In PSFTA some products, such as tyres and copper wires, which could bring about large revenues

to Sri Lanka are still in the negative list. Thus it is difficult to enter the Pakistan market without concessions due to the difficulty of competing with China, whose products are much cheaper despite the 45% of antidumping duty. Hence if the product coverage could be widened and further tariff reductions could be offered the utilization rates of trade agreements would increase. Moreover, although there are no Non – Tariff Measures attached to some agreements like the ILFTA there are countervailing duties to be paid, which reduces the benefit of the agreement.

Only 3 of the 14 users of trade agreements stated that the complex RoO requirements are an impediment in using trade agreements. A majority did not consider meeting multiple RoO to be difficult. Many of the four respondents who use more than one trade agreement stated that they do not find the different multiple RoO difficult to meet. This may be due to the fact that the RoO is more or less the same in each agreement. However, the Value Addition requirement of 35% across the board in many of the trade agreements is problematic to some industries as that requirement cannot be met, especially for metal related industries. Thus the need to revise and formulate product – based value addition schemes is vital and more meaningful.

Providing more information on trade agreements was the main factor the respondents identified necessary to encourage the use of trade agreements' preferences. Respondents also stated the importance of complimenting the usage of trade agreements by facilitating the mobility of human resources across countries with which Sri Lanka has trade agreements, i.e. by reforming immigration and visa policies of traders who travel between their home country and trading partners. Businessmen especially cited the difficulty in obtaining visa to India. It was also mentioned that assistance and encouragement should be given to exporters to engage in promotional activities in other countries by the government, i.e the Export Development Board to provide a tax benefit, if the government can not reserve funds for this. Importantly, one exporter highlighted the need for the government to support the strengthening of the companies, locally and thought that it is mainly those who perform strongly in the local market that could perform better in the international markets. The company thought the current post-conflict scenario of Sri Lanka where a considerable amount of reconstruction projects are implemented to be a good opportunity for the government to engage in such activities.

The impact of the loss of GSP+ concession on all traders who trade with EU countries is already being felt and some traders who were expecting to export to EU countries as well as those who are currently exporting are discouraged and disheartened by the current status of negotiations and the stand the government is taking. Given the importance of EU as an export market, they were of the view that it is important to protect the concessions that Sri Lanka is currently enjoying rather than looking to obtain preferential access to new markets.

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Annex I

Utilization of Trade Agreements in Sri Lanka

QUESTIONNAIRE (For users of trade agreements) Stakeholder Perception Survey

The Institute of Policy Studies (IPS) of Sri Lanka, the apex economic policy research institute in Sri Lanka, has been commissioned by the Asia-Pacific Research and Training Network on Trade (ARTNeT) – UNESCAP to study the utilization of trade agreements in Sri Lanka. The study will cover the following trade agreements signed by Sri Lanka:

- Indo-Sri Lanka Free Trade Agreement (ISFTA)
- Pakistan-Sri Lanka Free Trade Agreement (PSFTA)
- Asia Pacific Free Trade Agreement (APTA)
- South Asia Free Trade Agreement (SAFTA)
- EU Generalized System of Preference (GSP)

The study will focus on the extent to which Sri Lankan companies use the above trade agreements. In this regard, the study would gather information from Sri Lankan businesses regarding: their awareness and knowledge of the agreements; their utilization of the agreements; benefits and costs of the agreements; impediments to implementation of the agreements, and measures to address them, etc.

The company details and individual responses will be treated strictly confidential and will not be made public or shared with another party. We thank you in advance for your time and cooperation in completing this questionnaire. Once completed please return the form by email to suwendrani@ips.lk or [dharshani@ips.lk](mailto:धारशनी@ips.lk) Alternatively you can fax it to: 011-2431395. If you require further information or clarification regarding the study and/or questionnaire, please contact Suwendrani or Dharshani on (011) 2431368.

Section A: Identification of Respondent and Company Profile

You can complete the questionnaire on the computer by typing on the space provided (grey boxes) and by clicking on the relevant boxes (for the boxes to be checked).

1. Name of the Respondent and Position:
2. Name of Company:
3. Address:
4. Telephone Number: e-mail:
5. Nature and Area of Business (i.e. tea, tyres, etc):
6. Number of Years in Business:
7. Number of Employees:
8. Would you call yourself a small, medium or large company in the industry?
a) Small b) Medium c) Large
9. What are the main products that you export?
10. To which market do you cater mainly? Please provide % of total sales in the space.
a) Export Market only
b) Both export and local markets - % are export sales
11. What are your main export markets?
12. Date of Response:

Section B: Awareness and Knowledge of Trade Agreements

1. Are you aware of the following trade agreements: ISFTA, PSFTA, APTA, SAFTA, EU GSP?
 a) Yes
 b) No
2. If the answer is Yes to the above question, how well are you aware of the contents of these agreements?

	ISFTA	PSFTA	APTA	SAFTA	EU GSP
a) Aware in- detail	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Aware of some parts of the agreements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Do not know in detail	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section C: Utilization of Trade Agreements

1. Are you currently using any of the trade agreements that Sri Lanka has with other countries? Please tick the relevant boxes

	ISFTA	PSFTA	APTA	SAFTA	EU GSP
a) Utilizing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Not utilizing but planning to utilize	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Not utilizing and not planning to utilize	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Undecided	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. When did you start using the agreements to export goods?

- a) ISFTA Year:
 b) PSFTA Year:
 c) APTA Year:
 d) SAFTA Year:
 e) EU GSP Year:

Section D: Benefits and Costs of Trade Agreements

1. How beneficial are the agreements? Please tick the relevant boxes

a) ISFTA	<input type="checkbox"/> Highly	<input type="checkbox"/> Partially	<input type="checkbox"/> Not beneficial
b) PSFTA	<input type="checkbox"/> Highly	<input type="checkbox"/> Partially	<input type="checkbox"/> Not beneficial
c) APTA	<input type="checkbox"/> Highly	<input type="checkbox"/> Partially	<input type="checkbox"/> Not beneficial
d) SAFTA	<input type="checkbox"/> Highly	<input type="checkbox"/> Partially	<input type="checkbox"/> Not beneficial
e) EU GSP	<input type="checkbox"/> Highly	<input type="checkbox"/> Partially	<input type="checkbox"/> Not beneficial

2. What are the benefits of using these trade agreements? Please tick the relevant boxes

	ISFTA	PSFTA	APTA	SAFTA	EU GSP
a) Increase in market access	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Easier to import intermediate goods and raw material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) New business opportunities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Increase in predictability & transparency of tariff regime	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Others (specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. What are the costs of using these trade agreements? Please tick the relevant boxes

	ISFTA	PSFTA	APTA	SAFTA	EU GSP
a) In house Administrative costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Documentation requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Greater delays at customs and other related institutions at the destination	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Changes to production patterns to meet trade agreement requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Others (specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section E: Impediments to Use Trade Agreements

1. What are the impediments of using the trade agreements? Please tick the relevant boxes

	ISFTA	PSFTA	APTA	SAFTA	EU GSP
a) Inadequate product coverage/too many product exclusions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Lack of information about the agreements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) High administrative costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Requirement of confidential information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Restrictive and complicated Rules of Origin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f) Small Margin of Preference	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g) Non-tariff barriers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h) Others (specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section F: Rules of Origin Issues

1. Are Rules of Origin requirements of trade agreements easy to meet? Please tick the relevant boxes

	Easy	Difficult	Impossible	Do not Know
a) ISFTA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) PSFTA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) APTA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) SAFTA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f) EU GSP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. How can the ROO be improved? Please tick the relevant boxes

- a) Make them less restrictive and simple
- b) Make them more specific, and detailed
- c) Other (specify)
- d) No need for any improvement
- e) Do not know

3. Are different Rules of Origin under each of the trade agreements a problem? Please tick the relevant boxes

- a) Yes
- b) No
- c) Do not know

4. If the answer is Yes to the above question, what are the problems? Please tick the relevant boxes.

- a) Different rules lead to increased business costs
- b) Requires change of production patterns
- c) There might be problems in the future
- Others (specify)

5. What is your preference for harmonization of Rules of Origin criteria?

- a) Value added (VA) criterion
- b) Change of tariff code (CTC) classification
- c) Option to choose between VA and CTC
- d) No need to harmonize
- e) Do not know

Section G: Measure to Encourage Utilization of Trade Agreements

1. What measures do you think can be undertaken to encourage the utilization of trade agreements?

- a) Provide more information on trade agreements
- b) Deal with ROO issues
- c) Wider range of products subject to preferential tariffs
- d) Less demanding administrative requirements
- e) Others (specify)

Section H: Future Use of Trade Agreements

1. Are you hoping to use any other trade agreement in the future?

- a) Yes
- b) No

2. If the answer is Yes to the above question, what agreement/s do you hope to use in the future?
Please tick the relevant boxes

- a) ISFTA
- b) PSFTA
- c) APTA
- d) SAFTA
- e) EU GSP

3. Why are you hoping to use these in the future? Please tick the relevant boxes

	ISFTA	PSFTA	APTA	SAFTA	EU GSP
a) To increase exports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) It will be easier to import intermediate goods and raw material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Hoping to engage in new production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Other (specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Why are you not planning to utilize other trade agreements? Please tick the relevant boxes

- a) Current trade agreements do not cover markets important to the company
- b) Inadequate product coverage
- c) Lack of information on trade agreements
- d) High administrative costs
- e) Requirement of confidential information
- f) Rules of Origin issues
- g) Small margin of preferences provided
- h) Others (specify):

Section H: Institution Support for Exporting Under Trade Agreements

1. What have been your sources of information on the trade agreements?

- a) Ministries
- b) Department of Commerce
- c) Department of Customs
- d) Export and/or investment promotion agencies
- e) Business association
- f) Chambers of Commerce
- g) Business counterparts
- h) Others (specify)

2. Have you participated in consultations on trade agreements with government agencies/ business associations prior to official trade negotiations?

- a) Yes b) No

3. What support services do you require to use trade agreements?

- a) Upgrading of technical standards and quality
- b) Adoption of electronic data inter-change to speed up and simplify ROO requirements
- c) Financial support for upgrading technology and skills
- d) Enhanced consultations during FTA negotiations
- e) Other (specify)

Thank you for your feedback!
Please return to suwendrani@ips.lk or dharsani@ips.lk or
fax 011- 2431395. Tel. (011) 2431368

Annex II

Utilization of Trade Agreements in Sri Lanka

QUESTIONNAIRE (For non-users) Stakeholder Perception Survey

The Institute of Policy Studies (IPS) of Sri Lanka, the apex economic policy research institute in Sri Lanka, has been commissioned by the Asia-Pacific Research and Training Network on Trade (ARTNeT) – UNESCAP to study the utilization of trade agreements in Sri Lanka. The study will cover the following trade agreements signed by Sri Lanka:

- Indo-Sri Lanka Free Trade Agreement (ISFTA)
- Pakistan-Sri Lanka Free Trade Agreement (PSFTA)
- Asia Pacific Free Trade Agreement (APTA)
- South Asia Free Trade Agreement (SAFTA)
- EU Generalized System of Preference (GSP)

The study will focus on the extent to which Sri Lankan companies use the above trade agreements. In this regard, the study would gather information from Sri Lankan businesses regarding: their awareness and knowledge of the agreements; their utilization of the agreements; benefits and costs of the agreements; impediments to implementation of the agreements, and measures to address them, etc.

The company details and individual responses will be treated strictly confidential and will not be made public or shared with another party. We thank you in advance for your time and cooperation in completing this questionnaire. Once completed please return the form by email to suwendrani@ips.lk or dhmarshani@ips.lk Alternatively you can fax it to: 011-2431395. If you require further information or clarification regarding the study and/or questionnaire, please contact Suwendrani or Dharshani on (011) 2431368.

Section A: Identification of Respondent and Company Profile

You can complete the questionnaire on the computer by typing on the space provided (grey boxes) and by clicking on the relevant boxes (for the boxes to be checked).

1. Name of the Respondent and Position:
2. Name of Company:
3. Address:
4. Telephone Number: _____ e-mail: _____
5. Nature and Area of Business (i.e. tea, tyres, etc):
6. Number of Years in Business:
7. Number of Employees:
8. Would you call yourself a small, medium or large company in the industry?
a) Small b) Medium c) Large
9. What are the main products that you export?
10. To which market do you cater mainly? Please provide % of total sales in the space.
a) Export Market only
b) Both export and local markets - _____ % are export sales
11. What are your main export markets?
12. Date of Response:

Section B: Awareness and Knowledge of Trade Agreements

3. Are you aware of the following trade agreements: ISFTA, PSFTA, APTA, SAFTA, EU GSP?
 a) Yes
 b) No
4. If the answer is Yes to the above question, how well are you aware of the contents of these agreements?
- | | ISFTA | PSFTA | APTA | SAFTA | EU GSP |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a) Aware in- detail | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Aware of some parts of the agreements | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c) Do not know in detail | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Section C: Utilization of Trade Agreements

3. Are you currently using any of the trade agreements that Sri Lanka has with other countries? Please tick the relevant boxes
- | | ISFTA | PSFTA | APTA | SAFTA | EU GSP |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a) Utilizing | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Not utilizing but planning to utilize | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c) Not utilizing and not planning to utilize | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d) Undecided | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
2. Do you think there are any benefits in using any of the above trade agreements?
 a) Yes b) No C) Do not know
3. If the answer is Yes to the above question, what would be the benefits of using these trade agreements? Please tick the relevant boxes
- a) Increase in market access
 b) Easier to import intermediate goods and raw material
 c) New business opportunities
 d) Increase in predictability & transparency of tariff regime
 e) Others (specify):

Section E: Impediments to Use Trade Agreements

2. What are the impediments of using the trade agreements? Please tick the relevant boxes
- a) Inadequate product coverage/too many product exclusions
 b) Lack of information about the agreements
 c) High administrative costs
 d) Requirement of confidential information
 e) Restrictive and complicated Rules of Origin
 f) Small Margin of Preference
 g) Non-tariff barriers
 h) Others(specify):

Section F: Rules of Origin Issues

1. Are Rules of Origin requirements of trade agreements easy to meet? Please tick the relevant boxes.

- a) Easy b) Difficult c) Impossible d) Do not know

2. How can the ROO be improved? Please tick the relevant boxes

- a) Make them less restrictive and simple
b) Make them more specific, and detailed
c) Other (specify)
d) No need for any improvement
e) Do not know

3. Are different Rules of Origin under each of the trade agreements a problem? Please tick the relevant boxes.

- a) Yes b) No c) Do not know

4. If the answer is Yes to the above question, what are the problems? Please tick the relevant boxes.

- d) Different rules lead to increased business costs
e) Requires change of production patterns
f) There might be problems in the future
d) Others (specify)

Section G: Measure to Encourage Utilization of Trade Agreements

1. What measures do you think can be undertaken to encourage the utilization of trade agreements?

- a) Provide more information on trade agreements
b) Deal with ROO issues
c) Wider range of products subject to preferential tariffs
d) Less demanding administrative requirements
e) Others (specify):

Section H: Future Use of Trade Agreements

2. Are you hoping to use any of the trade agreements in the future?

- a) Yes b) No (go to Question 4)

2. If the answer is Yes to the above question, what agreement/s do you hope to use in the future?
Please tick the relevant boxes

- a) ISFTA
b) PSFTA
c) APTA
d) SAFTA
e) EU GSP

3. Why are you hoping to use these in the future? Please tick the relevant boxes

	ISFTA	PSFTA	APTA	SAFTA	EU GSP
a) To increase exports	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) It will be easier to import intermediate goods and raw material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Hoping to engage in new production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Other (specify):	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Why are you not planning to utilize other trade agreements? Please tick the relevant boxes

- a) Current trade agreements do not cover markets important to the company
- b) Inadequate product coverage
- c) Lack of information on trade agreements
- d) High administrative costs
- e) Requirement of confidential information
- f) Rules of Origin issues
- g) Small margin of preferences provided
- h) Others (specify):

Section H: Institution Support for Exporting Under Trade Agreements

1. What have been your sources of information on the trade agreements?

- a) Ministries
- b) Department of Commerce
- c) Department of Customs
- d) Export and/or investment promotion agencies
- e) Business association
- f) Chambers of Commerce
- g) Business counterparts
- h) Others (specify) :

2. Have you participated in consultations on trade agreements with government agencies/ business associations prior to official trade negotiations?

- a) Yes b) No

3. What support services do you require to use trade agreements?

- a) Upgrading of technical standards and quality
- b) Adoption of electronic data inter-change to speed up and simplify ROO requirements
- c) Financial support for upgrading technology and skills
- d) Enhanced consultations during FTA negotiations
- e) Other (specify)

Thank you for your feedback!
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Annex III

Sri Lanka's Exports

	India	Pakistan	I+P	SAFTA	SAFTA-(I+P)	EU	APTA	APTA - I	India	Pakistan	I+P	SAFTA	SAFTA - (I+P)	EU	APTA	APTA - I
2000	55	28	83	180	97	1437	99	44	0.1	0.5	0.6	3.3	2.7	26	1.8	1.7
2001	69	24	93	151	58	1207	111	42	1.5	0.5	2	3.3	1.3	26.1	2.4	0.9
2002	169	29	198	254	56	1349	224	55	3.6	0.6	4.2	5.4	1.2	28.7	4.8	1.2
2003	244	37	281	350	69	1536	301	57	4.8	0.7	5.5	6.8	1.3	29.9	5.9	1.1
2004	379	38	417	490	73	1810	430	51	6.6	0.7	7.3	8.5	1.2	31.4	7.5	0.9
2005	566	44	610	653	43	1961	635	69	8.9	0.7	9.6	10.3	0.7	30.9	10	1.1
2006	489	58	547	600	53	2321	559	70	7.1	0.8	7.9	8.7	0.8	33.7	8.1	1
2007	515	55	570	646	76	2875	602	87	6.7	0.7	7.4	8.5	1.1	37.6	7.9	1.2
2008	418	71	489	561	72	3034	520	102	5.2	0.9	6.1	6.9	0.8	37.4	6.4	1.2
2009	322	55	377	441	64	2727	438	116	4.5	0.8	5.3	6.2	0.9	38.5	6.2	1.7

Source: Central Bank of Sri Lanka, Various Issues.