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**TRADE POLICY REVIEW**

REPORT BY

SRI LANKA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Sri Lanka is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Sri Lanka.

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## **1 INTRODUCTION**

1.1. This is the Fourth Trade Policy Review of Sri Lanka at the World Trade Organization (WTO). It is a historic occasion for Sri Lanka to present its Trade Policy Review to the WTO under the National Unity Government (NUG) which was established by the coalition of the two main political parties of the country. The NUG is in the process of introducing transformative reforms to the national economy to align it with the global economic direction while achieving the sustainable development goals declared in the Agenda of the United Nations Sustainable Development Summit held in 2015.

1.2. Sri Lanka, since its unilateral trade liberalization (1977) has initiated extensive reforms to its trade policy regime with a view to establishing a strong economic foundation taking in to account its capacities, constraints and national realities. These reforms, while placing the country in a stronghold in its economic development frontier have also contributed towards its significant achievements in the social development frontier where Sri Lanka is placed at a high rank in the Human Development Index (HDI) while comfortably surpassing most of the Millennium Development Goal targets set for 2015. In the Global Competitive Index 2014/15, Sri Lanka ranks 73 among 144 countries ahead of many emerging economies and also improving its record in a range of criteria since 2012/13.

1.3. Presently, the Government is in the process of initiating several measures to re-energize the economy with particular emphasis on infrastructure development, enhancing investment and developing a competitive and predictable economic policy framework. These measures coupled with a stable political environment is expected to boost investment and export-led economic growth while paving way towards achieving the country's long term macroeconomic objectives of equitable distribution of income and poverty alleviation.

1.4. Sri Lanka also welcomes this review as an opportunity to bring WTO members' attention to the developments which have taken place in its trade policy regime since the last WTO review in 2010 with special emphasis on the challenges it faces as well as the steps that are being taken to overcome such challenges.

1.5. The progressive and continuous liberalization of its market to integrate itself into the multilateral trading system coupled with its fulfilment of WTO obligations has made Sri Lanka a more reliable and predictable trading partner. The country accords prominence to advancing rule-setting and trade liberalizing efforts at the WTO with its proactive engagement in WTO negotiations. In supporting the rule-based multilateral trading system, Sri Lanka has taken immediate measures to ratify the Trade Facilitation Agreement (TFA) in May, 2016.

## **2 MACROECONOMIC ENVIRONMENT AND ECONOMIC PERFORMANCE**

2.1. Sri Lanka was able to maintain its economic growth at an average rate of 6.4% over the course of 2010 to 2015 despite the external pressure arising from global economic slowdown and the domestic economic challenges. The resilience of the economy to these challenges by maintaining overall growth and relatively stable macroeconomic environment reflects a peace dividend and a determined policy thrust towards reconstruction and growth. The per capita income has increased from US\$2,744 in the year 2010 to US\$3,924 in 2015 arising from an economic strategy of promoting inclusive growth with underlying macroeconomic foundation for financial and economic stability and robust economic performance.

2.2. The real GDP growth of 4.8% reported in 2015 was mainly attributable to the increase in consumption demand and the modest growth in investment related activities particularly on infrastructure development. All three sectors of the GDP reflected moderate average annual growth rates reflecting the pro-growth economic policies followed by the Government. This has also improved the labour force participation rate of the country which reported the highest percentage in 2013 and 2015 at 53.8.

	2010	2011	2012	2013	2014	2015 <sup>a</sup>
<b>DEMOGRAPHY</b>						
Mid-year population ('000 persons) <sup>b, c</sup>	20,675	20,869 <sup>a</sup>	20,424 <sup>a</sup>	20,579 <sup>a</sup>	20,771 <sup>a</sup>	20,966
Growth of mid-year population (%) <sup>b</sup>	1.0	1.0 <sup>a</sup>	0.7 <sup>a</sup>	0.8 <sup>a</sup>	0.9 <sup>a</sup>	0.9
Population density (persons per sq.km) <sup>b</sup>	330	333 <sup>a</sup>	326 <sup>a</sup>	328 <sup>a</sup>	331 <sup>a</sup>	334
Labour force ('000 persons) <sup>d, e</sup>	8,108	8,555	8,454	8,802	8,805	8,973
Labour force participation rate (%) <sup>e</sup>	48.1	47.8	52.6	53.8	53.3	53.8
Unemployment rate (% of labour force) <sup>e</sup>	4.9	4.2	4.0	4.4	4.3	4.6
<b>OUTPUT<sup>f</sup></b>						
GDP at current market price (Rs. billion)	6,414	7,219	8,732	9,592	10,448 <sup>g, g</sup>	11,183
GNI at current market price (Rs. billion)	6,344	7,147	8,578	9,366	10,212 <sup>g, g</sup>	10,932
Per capita GDP at market price (Rs.) <sup>h</sup>	310,214	345,925	427,559	466,112	503,032 <sup>g, g</sup>	533,398
Per capita GNI at market price (Rs.) <sup>h</sup>	306,839	342,473	419,975	455,126	491,638 <sup>g, g</sup>	521,412
Per capita GDP at market price (US\$) <sup>h</sup>	2,744	3,129	3,351	3,610	3,853 <sup>g, g</sup>	3,924
Per capita GNI at market price (US\$) <sup>h</sup>	2,714	3,097	3,291	3,525	3,766 <sup>g, g</sup>	3,836
<b>REAL OUTPUT (percentage)<sup>f</sup></b>						
GNI	7.9 <sup>i</sup>	8.5	8.3	2.8	4.9 <sup>g, g</sup>	4.8
GDP	8.0 <sup>i</sup>	8.4	9.1	3.4	4.9 <sup>g, g</sup>	4.8
Sectoral classification of GDP						
Agriculture	7.0 <sup>i</sup>	4.6	3.9	3.2	4.9 <sup>g, g</sup>	5.5
Industry	8.4 <sup>i</sup>	9.3	9.0	4.1	3.5 <sup>g, g</sup>	3.0
Services	8.0 <sup>i</sup>	8.9	11.2	3.8	5.2 <sup>g, g</sup>	5.3
<b>AGGREGATE DEMAND AND SAVINGS (% of GDP)<sup>f</sup></b>						
Consumption	76.9	79.8	72.8	75.4	76.0 <sup>a</sup>	77.4
Private	68.5	71.3	65.2	67.6	67.7 <sup>a</sup>	68.6
Government	8.5	8.6	7.6	7.8	8.3 <sup>a</sup>	8.8
Investment	30.4	33.4	39.1	33.2	32.0 <sup>a</sup>	30.1
Net exports of goods and services	-7.3	-13.2	-11.9	-8.6	-8.0 <sup>a</sup>	-7.4
Exports of goods and services	19.6	20.9	19.8	20.3	20.9 <sup>a</sup>	20.5
Imports of goods and services	26.8	34.1	31.7	28.9	28.9 <sup>a</sup>	28.0
Domestic savings	23.1	20.2	27.2	24.6	24.0 <sup>a</sup>	22.6
Net primary and secondary income from rest of the world	5.4	6.1	6.1	5.2	5.5 <sup>a, i</sup>	5.2 <sup>i</sup>
National savings	28.5	26.3	33.3	29.9	29.5 <sup>a</sup>	27.8
<b>EXTERNAL TRADE</b>						
Trade Balance (US\$ million)	-4,825	-9,710	-9,417	-7,609	-8,287	-8,430
Exports <sup>k</sup>	8,626	10,559	9,774	10,394	11,130	10,505
Imports <sup>k</sup>	13,451	20,269	19,190	18,003	19,417	18,935
Terms of trade (percentage change)	27.4	-8.9	-1.5	4.6	4.3	2.3
Export volume index (2010=100) (percentage change)	-13.3	10.2	-0.2	6.7	4.3	4.6
Import volume index (2010=100) (percentage change)	19.6	23.6	0.5	-1.5	9.5	10.6
<b>EXCHANGE RATES</b>						
Annual average						
Rs./US\$	113.06	110.57	127.60	129.11	130.56	135.94
Rs./SDR <sup>p</sup>	172.50	174.54	195.38	196.19	198.35	190.16
NEER (2010=100) (24-currency basket) <sup>q</sup>	100.00	99.84	90.44	91.39	91.99	96.61
REER (2010=100) (24-currency basket) <sup>q, r</sup>	100.00	101.84	95.80	100.61	101.94	106.18
Year end						
Rs./US\$	110.95	113.90	127.16	130.75	131.05	144.06
Rs./SDR <sup>p</sup>	170.84	174.87	195.31	201.36	189.86	199.63

a Provisional.

b As reported by the Registrar General's Department.

c Mid-year population estimates in 2000 were prepared based on the Census of the Population and Housing - 1981 and thereafter until 2011 were prepared based on the Census of the Population and Housing - 2001. Mid-year population estimates in 2012 onwards were prepared based on the final report of the Census of Population and Housing - 2012.

d Data up to 2011 for household population aged 10 and above while that of 2012 onwards for those aged 15 and above.

e For 2000, data excludes both Northern and Eastern Provinces. For 2010, data excludes Northern Province. From 2011 onwards, data covers the entire Island.

f Rebased GDP estimates (base year 2010) of the Department of Census and Statistics have been used from 2010 onwards.

g Revised.

h Estimates updated with latest population figures.

i Data is under the 2002 base year.

k Excludes re-exports and re-imports from 2007 onwards.

p Special Drawing Rights (SDR), the unit of account of the IMF.

q Exchange rates have been defined in the terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rate indices.

r CCPI is used for the computation of the Real Effective Exchange Rate (REER). The REER is computed by the adjusting Nominal Effective Exchange Rate (NEER) for inflation differentials with the countries whose currencies are included in the basket.

2.3. Agriculture sector on average grew by 4.5 during the reference period. The sector reported 5.5% growth in 2015 contributing to 7.9% of the GDP. Factors such as favourable weather conditions, increased prices of agriculture products and value addition in several other key sub-sectors i.e. coconut, fruits and vegetables have been the key contributors for this improved performance.

2.4. The average growth rate of the industry sector reported for the reference period was 6.2%. Having contributed to 26.2% of the GDP, the sectoral growth indicated 3.0% in 2015 in comparison to 3.5% recorded in 2014. The slow growth was largely attributed to lower performance in construction and mining and quarrying activities. The manufacturing sector has been the key contributor to the growth in the industry sector. The Government continued its technical assistance, infrastructure upgrading and promoting regional industrialization etc. for the development of the industry sector.

2.5. The services sector accounting 56.6% of GDP expanded by 5.3% in 2015 in comparison to 5.2% in 2014. This was largely attributed to the growth in financial services by 15.8%, while real estate activities, transport activities and wholesale and retail sale also accounted for significant contribution to maintain the growth momentum in the services sector.

2.6. Inflation remained below mid-single digit levels throughout the reference period reflecting prudential demand management policies followed by the Central Bank of Sri Lanka and favourable supply side developments in the domestic and international markets. Notably, inflation reported the lowest annual average at 0.9 in 2015 while the 3rd quarter of 2015 reported negative figure, after 20 years.

2.7. The floating exchange rate system was administered ensuring an adequate level of liquidity in the system thereby strengthening the stability of the foreign exchange market and the external competitiveness. In 2015, Sri Lanka permitted greater flexibility in the determination of the exchange rate. The volatility in the domestic foreign exchange market resulting from high volume of foreign exchange outflows on account of increased imports, debt service payments, reversal of foreign investments from government securities market and lower than expected foreign currency inflows was appropriately managed by the timely intervention of the Central Bank of Sri Lanka.

2.8. The external sector performance reflected the dynamism of the global as well as the domestic economic environment. Trade deficit on absolute terms has been widening over the reference period. Despite the benefits of lower expenditure on fuel imports, the slowdown in the growth of demand for Sri Lanka's traditional exports and the decline in prices have resulted in a marginal expansion of the trade deficit in 2015. The Government's export-led economic growth policy is envisaged to boost exports and curtail the trade deficit to ensure external sector stability.

2.9. The Balance of Payments (BOP) registered a deficit in 2015 largely due to lower inflows to the financial account. The BOP in 2015 recorded an overall deficit of U.S. dollars 1,489 million in comparison to the surplus of U.S. dollars 1,369 million in 2014. Sri Lanka's official foreign reserve also declined to U.S. dollars 7.3 billion at the end 2015 from U.S. dollars 8.2 billion at the end of 2014. The reduction was mainly due to scheduled foreign currency debt service payments, payments to the IMF Stand-By Arrangement (SBA) and the supply of liquidity to the domestic foreign exchange market.

2.10. However, amidst all these developments and challenges, it is expected that with appropriate policies, the economy will return to a high growth path in the medium term while addressing the key constraints including low government revenue to GDP ratio, falling exports to GDP ratio and insufficient inflow of Foreign Direct Investments. Other structural and emerging challenges that confront the Government range from ensuring energy security, renewable energy development, bridging the skill development gap, issues of food security, low productivity and lack of diversification in agriculture, introducing diverse range of financial products and services and improving public transportation etc.

### **3 TRADE POLICY**

3.1. Taking cognizance of the changing development priorities, the Government policy statement presented in November 2015 envisioned promoting a globally competitive, export-led economy

with an emphasis on inclusive growth. In this context, The NUG is in the process of introducing necessary reforms to the national trade policy closely aligned to the principles and commitments to the WTO. The expected trade policy reforms will include macro-level measures viz. improvement of overseas market access for Sri Lankan products, integration of trade promotion in the national development framework by further rationalization of trade and tariff policies, facilitation of a fair trading environment, encouragement of investment and undertaking implementation of trade facilitation commitments.

3.2. The new policy initiatives of the Government also incorporate encouraging small and large scale entrepreneurs to participate in the global economy and positioning of Sri Lanka in the global value chain in order to sustain the contribution of the industry, agriculture and service sectors to the growth momentum.

3.3. Sri Lanka continues to rely on the multilateral trading environment as a fair and equitable means of recognizing development needs of small economies within the global trading environment. The proliferation of RTAs and their commitments beyond WTO are matters of concern for small economies such as Sri Lanka where there would be a possibility of getting marginalized particularly due to erosion of preferences.

3.4. Sri Lanka continues to play an active role in the WTO negotiations and noting the outcome of the 10th Ministerial meeting held in Kenya in December, 2015, expects positive gains through the implementation of those decisions. Sri Lanka has been selected as the Coordinator for the Asia Pacific Developing countries in the WTO for the year 2016 and is expected to play an active role towards successful implementation of the Ministerial decisions while contributing to address the remaining major issues relating to agriculture, Non- Agricultural Market Access (NAMA) and services.

3.5. The slow progress in the negotiation of the remaining major areas relating to agriculture and NAMA remains a concern for Sri Lanka and therefore places its high expectations to finalize these major negotiations prior to the 11th Ministerial Conference scheduled for 2017.

3.6. Sri Lanka is a net food importing developing country and is also recognized as a Small and Vulnerable Economy (SVE). It is therefore expected that necessary flexibilities be provided for small economies such as Sri Lanka during the process of agriculture negotiations. Sri Lanka, as a member of G33 and SVE, continues to support its position for such flexibilities.

3.7. While being cognizant of the country's commitments to multilateral liberalization at the WTO, Sri Lanka further pursues its liberalization objective through bilateral and regional trade agreements such as Indo-Sri Lanka Free Trade Agreement (ISFTA), Pakistan Sri Lanka Free Trade Agreement (PSFTA), SAARC Preferential Trading Arrangement (SAPTA), South Asian Free Trade Area (SAFTA), Asia Pacific Trade Agreement (APTA), Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) and Indian Ocean Rim Association (IORA).

3.8. Sri Lanka's exports continue to be concentrated in a basket of few products despite the efforts exerted to diversify the country's exports and markets. Export of apparel products continues to dominate by contributing to 50% of total export revenue during the period under review. This was followed by traditional export products such as tea, coconut, spices and rubber products. The NUG therefore, focuses on pragmatic approaches aimed at product and market diversification. A comprehensive work plan towards achieving this objective is expected to be introduced during the latter part of 2016.

3.9. Sri Lanka considers that the WTO Technical Assistance particularly under Standard Trade Development Facility (STDF) and Aid for Trade programmes are of immense value to the country to further facilitate its integration to the world trading system. In addition, the bilateral assistance programme extended by the European Union (EU) is expected to advance trade related capacity development in the country.

3.10. Sri Lanka strongly believes that it is of paramount importance to develop necessary infrastructure to facilitate the export sector particularly in view of establishing sustainable living environment. Sri Lanka has economically suffered from the prolonged internal conflict which ended in 2009. The Government, through its trade and economic policies expects to develop equitable

status for all communities living in the country in strengthening their engagement in the national development activities. Priority attention has been paid to enhance productivity and improve the links between rural and urban sectors thereby ensuring filtration of the benefits gained from the foreign trade to the rural communities.

3.11. Towards achieving sustainable economic development in the country, Sri Lanka continues to emphasize on innovation, private sector investment, improvement of public service delivery, strengthening the competitiveness and growth of the SME sector in to a transformative stage and further enhancement of private-public partnership. Special emphasis has been placed in the National Budget towards achieving these objectives.

3.12. The Department of Commerce of the Ministry of Industry and Commerce and the Ministry of Development Strategies and International Trade continue to play a key role in trade policy formulation, co-ordination, negotiation and implementation.

3.13. The NUG realizes Sri Lanka's trade potential as a way to accelerate the transformation of the economy and generate new and more attractive employment opportunities. Sri Lanka continues to concentrate on capitalizing the opportunities created by trade, Foreign Direct Investment and regional integration.

3.14. The outward oriented trade policy of the Government aims at developing its economic infrastructure as a potential trading hub in Asia, making required policy environment and necessary infrastructure towards achieving this objective. Sri Lanka can leverage its strategic location and geographical proximity to the powerhouses in the world economy towards realizing its own growth potential. The new trade policy framework of Sri Lanka would focus on how Sri Lanka can best explore the opportunities through regional synergies and its proactive engagements of the Preferential Trade Agreements (PTAs).

#### **4 TRADE POLICY MEASURES**

4.1. The Government of Sri Lanka has recognized the need to adopt policy reforms that strengthen the country's competitiveness in the global market thereby ensuring sustainable and inclusive growth. The Government has identified the need for a revision of trade and investment policies coupled with reforms for promoting innovation, entrepreneurship and skills formation needed to push Sri Lanka forward within the global trading system. It has identified not only the need to strengthen competitiveness in traditional sectors such as apparel, natural resources transformation and tourism but also the need to establish necessary conditions for a thriving knowledge economy, the integration of productive local companies in to global value chains, and the attainment of higher value addition in the manufacturing sector. In positioning Sri Lanka as an economic hub in the region, key value added thrust areas such as financial and services sector, information technology science, digitalization of the economy, bio-medical and nano sectors, tourism industry, Meetings Incentives Conferences and Events (MICE) tourism sectors, port and airport logistical corridor and other transport related enterprises and value added trade will be the main economic drivers.

4.2. Sri Lanka's foreign trade policy is committed to the objectives of trade liberalization and deeper integration to the global economy. It is highly reflected in its unwavering commitments in the successful bilateral, regional and multilateral trade agreements. In most of the cases, Sri Lanka has been progressively reducing its tariffs and in general has continued to remain low. Further, future measures would be sought to optimize the utilization of manufacturing and services opportunities available in the regional and global trading and investment arena while maintaining an appropriate policy space for strengthening and developing the domestic industry.

4.3. Sri Lanka's trade policy mainly focuses on value based measures than non-tariff measures. Sri Lanka continues to implement the WTO Customs Valuation Agreement since 7 January 2003. One of the key developments in the import and export procedure during the period under review is the implementation of a single electronic gateway where a single window to all public and private sector entities involved in export and import provides regulatory information through a single electronic gate way and the payments associated with clearance are made online. In addition, Sri Lanka uses ASYCUDA system since 1994 and has substantially improved the processing of documents relating to trade. Sri Lanka has secured 20th position in relation to efficiency of

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handling port operations indicating a much improved and highly conducive operational environment for trade in addition to policy developments.

4.4. Rationalization of the tariff structure was one of the major policy directives of the last budget proposal. In the year 2009, Sri Lanka had a five-band tariff system and it was transformed into a four-band system in 2010 which continued till the end of 2015. According to the new budget proposal to rationalize the tariff system, a three-band tariff structure has been introduced. Accordingly, the current tariff bands remain at 0%, 15% and 30%. Further, out of the total of 6965 tariff lines at HS eight digit level, 3922 tariff lines or 56% has zero tariff rate while 1324 lines are with 15% and 1457 lines are with 30% tariff. A few tariff lines are subject to luxury rates.

4.5. Overall, Sri Lanka has made substantial progress in simplifying its trade regime while making it more transparent, especially through the elimination of quantitative restrictions, reduction and simplification of tariff schedule and improving the public access to up-to-date information.

4.6. In order to promote inward transfer of technology thereby lowering the cost of production and improving competitiveness, import duties on inputs and capital goods have been either reduced or eliminated while conforming to the multilateral disciplines of non-discrimination.

4.7. Sri Lanka grants preferential tariffs under its bilateral and regional agreements on reciprocal basis. There are no major changes to this area from the previous review report except for commencement of negotiations in 2016 on comprehensive free trade agreements with India, China and Singapore. The market access gained under prevailing FTAs/RTAs is significant, although Sri Lanka is yet to reap the full potential. South Asian Preferential Trade Agreement (SAPTA), South Asia Free Trade Area (SAFTA), Asia Pacific Trade Agreement (APTA), India – Sri Lanka Free Trade Agreement (ISFTA), Pakistan Sri Lanka Free Trade Agreement (PSFTA) and the Global System of Tariff Preferences (GSTP) are currently active. Sri Lanka has also submitted its application to receive preferential treatment from the EU under the Special Incentive Arrangement for Sustainable Development and Good Governance of the EU Generalized Scheme of Preferences.

4.8. Food Act No. 26 of 1980 and their subsequent amendments in 2009 and 2011 govern the SPS regulation in Sri Lanka. Sri Lanka as a member of Codex Alimentarius Commission, the World Organization for Animal Health (OIE) and International Plant Protection Convention (IPPC) follows their continuous guidelines to assure food safety and address related issues.

4.9. Sri Lanka has notified 50 trade related technical regulations and 39 SPS notifications to the WTO as of July 2016. Ministry of Health remains the National Focal Point for all SPS related matters while the Sri Lanka Standards Institution acts as the National Focal Point for the formulation of National Standards giving due consideration to equivalent standards established by other countries and relevant international organizations.

4.10. The preparation of the national legislation relating to trade remedies has been in progress and due to be enacted in the near future.

4.11. In line with the conditions laid down by the EU, Sri Lanka has made the necessary infrastructure development and control measures which facilitated market access to EU for Sri Lankan fish and fish products in June, 2016. The timely administered policy measures within the fisheries sector has made it an industry with high growth potential while having due compliance to the international standards and regulations.

4.12. Sri Lanka has been gradually implementing its trade policy, moving the economy away from protectionism towards greater trade openness and global economic integration. Traditional focus has been on the trade policies which affect imports and exports trade, with primary attention to tariff, non-tariff barriers, export policies and phytosanitary measures. This focus has been broadened to establish appropriate policy framework for Sri Lanka aligning with its international commitments. Trade in services, intellectual property, government procurement, trade facilitation and customs valuation, Agreement on information technology, e-commerce are prominent new areas of consideration for the country's proactive engagement. For Sri Lanka, the multilateral trading system remains a key instrument in developing a fair and equitable global trading environment taking in to consideration its status and development needs as a small economy.



4.13. Sri Lanka has deposited its Instruments of Acceptance of the Trade Facilitation Agreement (TFA) with the WTO, becoming the 81st country to accept the implementation of the Agreement. With the aim of accelerating the implementation, Sri Lanka with the assistance of the WTO, has conducted a need assessment in 2014 which was followed by a team from the World Bank to assess the implementation requirements of the country. Sri Lanka highly relies on capacity, technical and related infrastructure development assistance for implementation of its category C requirements. The country has developed a coordinating mechanism with the Geneva-based international organizations with the objective of seeking their expertise assistance for successful implementation of the TFA in the country. It is noteworthy that Sri Lanka has already progressed on some aspects of the trade facilitation requirements such as ASYCUDA based single-window mechanism to process customs documentation online. The National Committee on Trade Facilitation (NCTF) has also been setup with joint participation of relevant government institutions and the private sector. Sri Lanka expects to implement on priority basis the launching of a trade portal, single window and establish a NCTF Secretariat. While appreciating the support of the donor community for various trade related programmes in the country, Sri Lanka particularly looks forward to their continued support towards implementation of priority areas identified.

4.14. The Department of Import and Export Control continues to administer the import and export measures only on selected products on the basis of economic, national security, health and environment reasons. The Imports and Exports (Control) Act No. 1 of 1969 and Special Import License Regulation No. I of 1977, as amended, regulate the list of goods subject to import licensing and there have been no major developments from the previous report.

## **5 INTELLECTUAL PROPERTY (IP)**

5.1. The Intellectual Property Act No. 36 of 2003 which makes provisions for a variety of Intellectual Property rights and their acquisition, management and enforcement governs the intellectual property system of Sri Lanka. Considering the growing importance of preserving intellectual property rights to effectively support and facilitate businesses and innovators in the protection and uses of their IP, Sri Lanka has given due prominence for necessary regulatory reforms. In this regard, the following amendments to the national legislation have been initiated and will be finalized in the near future:

(a) Proposed Amendments to the Intellectual Property Act No. 36 of 2003 for registration of Geographical Indications (GI) to enhance the protection for GIs specifically for Ceylon Tea and Ceylon Cinnamon;

(b) Proposed Amendments to the Intellectual Property Act No. 36 of 2003 introducing exceptions to copyright provisions facilitating access to printed material by the visually impaired or print disabled with a view to ratifying the Treaty obligations;

(c) Proposed Amendments to the Intellectual Property Act No. 36 of 2003 with the objective of signing the Madrid Protocol by end of 2017/early 2018. Electronic filing of applications will be facilitated for local and international applicants for registration of Trade Marks eliminating the necessity to file through IP agents;

(d) Implementation of the "IP hub" project with the assistance of World Intellectual Property Office (WIPO) which includes IP policy formulation, upgrading, modernization of the National Intellectual Property Office (NIPO) including upgrading of the IP Automated System (IPAS);

(e) Introduction of the voluntary registration of original creative work (Copyright registration) via the proposed amendment to the Intellectual Property Act No. 36 of 2003. A copyright division will be setup in the NIPO which will also be responsible for monitoring the Collective Management Societies.

5.2. Sri Lanka deposited the Instrument of Acceptance for amending the WTO Agreement on TRIPS on 9th September, 2015. The amendment incorporates additional health related flexibilities to the TRIPS Agreement addressing the concerns of the developing countries.

5.3. A Steering Committee on Intellectual Property Development (SCIP) was established in 2015 with the objectives of; improving dissemination of information to the general public, organizing a

"Heads of Intellectual Property Offices Conference" in Sri Lanka for the member states of South Asian Association for Regional Cooperation (SAARC), establishing a coherent Intellectual Property Strategy, accession to WIPO administered Treaties/Protocols/Agreements, infrastructure development etc.

## **6 INVESTMENT**

6.1. The Board of Investment of Sri Lanka (BOISL) Act of 1978 continues to provide the necessary legal framework for the promotion of investment in Sri Lanka. During the review period of 2010 to 2015, the total inflow of FDI into Sri Lanka was US\$6.9 billion compared to US\$3.1 billion for the earlier review period of 2005-2009.

6.2. The Land (Restrictions on Alienation) Act of 2014 imposed new restrictions on the sale, transfer or lease of land, properties or condominiums. The Finance Act of No. 12 of 2012 Part IV and Commercial Hub Regulations No. 1 of 2013 were amended with certain provisions to provide additional concessions to foreign investors involved in certain business activities such as entrepôt trade, by exempting from the provisions of customs ordinance, Exchange Control Act and Import and Export Control Act No. 1 of 1969.

6.3. Sri Lanka has remained in compliance with its commitments to WTO TRIMs Agreement.

6.4. Sri Lanka is a highly conducive location for investment opportunities in the South Asian region offering a well-educated and skillful work force, low cost manufacturing environment and attractive incentives. The NUG being conscious of the low inflow of investment compared with the regional peers in the recent past, created a strategic road map for improving and reforming the investment climate. It was proposed to restructure the present BOISL with a view to improve operational efficiency and facilitate investments while connecting local and global investors with emerging world business competencies of global value chains that manage raw materials and competencies of different countries successfully. It is envisaged to augment the capacities of the enabling environment to connect local and global investors effectively.

6.5. Major investment initiatives include western megapolis infrastructure worth around US\$40 bn to be implemented over a period of 15 years, development of the Colombo International Financial City (CIFC) costing approximately US\$1.5 bn and development of Kandy, Colombo, Hambantota Economic Corridor and the Eastern region development plans, including Trincomalee and surrounding areas. The NUG has also identified key thrust areas for potential investment over US\$2 billion which are; Oil refinery, renewable energy, integrated car manufacturing, manufacturing steel bridges for the region, fertilizer, manufacturing triple super phosphate, satellite technology, air craft repair and logistical support and integrated sugar industry.

6.6. The key impediments for attracting FDIs to Sri Lanka are expected to be addressed via removal of tax on leasing of land to foreigners, removal of restrictions on land ownership, introduction of an investor friendly foreign exchange management Bill, exemption of income tax from dividends derived from listed shares by non-citizens and foreign companies on investment received through inward remittance, for expeditious processing by the BOISL. Further, in line with the present liberalization of exchange control, Sri Lanka intends to abolish Securities Investment Account (SIA) and instead substitute a system whereby foreign investors could channel their investment to the country through any bank account existing in the formal banking system which is expected to promote inward remittance and investment inflows.

## **7 SECTORAL PERFORMANCES**

### **7.1 Agriculture**

7.1. Agriculture sector plays an important role in the economy of Sri Lanka contributing to GDP, employment, foreign exchange earnings while supplying resource inputs to the industrial sector. During the period of review, it contributed to 7.9% of the GDP. However, the contribution of this sector to the national economy is highly volatile due to unpredictable weather conditions, seasonal yield variations and world market prices.

7.2. The major focus of the Government in relation to the agriculture sector is to formulate a new agriculture policy including setting up granaries with state of the art technology for paddy, maize, gingelly, pepper, black gram etc. and cold rooms for vegetables and fruits, developing local fishery harbours, creating an agro-livestock and fish processing park as well as the removal of import duties pertaining to agriculture machinery and equipment.

7.3. In order to achieve this objective, the Government recognizes optimal strategy to increase yields from this sector through private public partnership especially in productivity improvement related investments, drip irrigation methods, greenhouse technology, introduction of high quality seeds and mechanization in productivity improvement. Similarly, strengthening the supply chain linkages via collaborative partnership, disseminating the knowledge to the private sector farms, improving the storage and marketing facilities of farmers to optimize the land usage through intercropping, use of high yield plants and seeds and technology are proposed to revitalize the agriculture sector in the country.

7.4. The agriculture sector is intended to be a means of inclusive growth as well as a potential export sector. For this purpose, the Government aims to transform the current agricultural sector into an agribusiness export industry by 2020. Twenty three Agricultural Development Mega Zones have also been proposed in order to make Sri Lanka's agricultural products globally competitive. The national agricultural policy also includes measures to increase domestic production to ensure food security, enhance productivity and reduce unit costs of production, improve living standards and income of farming communities, application of environmentally friendly techniques in agriculture.

## **7.2 Industry**

7.5. Sri Lanka has continuously adopted an export oriented industrial strategy by diversification of industrial exports, expansion of their manufacturing base to all regions of the country and strengthening backward and forward integration. It also promotes and sustains the socio economic development equitably across the country. The main objective of the Government has been to promote value added export of industrial products.

7.6. Sri Lanka's manufacturing sector has been largely driven by the textiles and clothing sector rubber and plastic sector and food and beverage industry. The fastest growing sectors in the recent past in Sri Lanka have been the apparel, rubber and plastic products. Sri Lanka has been keen to develop its manufacturing sector due to the uncertainties associated with high reliance on agricultural output that are subject to domestic and international market fluctuations and vulnerability to climatic changes. In this regard, the Government has been keen for product as well as market diversification giving more emphasis on the development of value-added products which create high demand in foreign markets. The comparatively low cost of both skilled and unskilled labour and backward and forward linkages within global value chains have played a vital role for this purpose in addition to the numerous support services provided by the line ministries and agencies.

7.7. Clothing and garment sector has become the second largest contributor to the foreign exchange earnings of Sri Lanka. The growth and success of this sector is duly attributable to the far sighted industrial policy introduced by Sri Lanka in 1977 through its trade liberalization policy. Clothing sector has matured as complete apparel solutions provider well linked to the supply chain network of South Asia and many countries in the world. The apparel sector produces a wide array of branded clothing which accounts for 90% of production. Availability of skilled labour, technology and conducive business environment have complemented the growth of this industry. The clothing sector has also gained a prestigious image through their due consideration to ethical manufacturing (concept of "Garments without Guilt"), sustainable environment policies (Green Factories) and corporate social responsibilities.

## **7.3 Services**

7.8. The services sector which accounts for 56.6% of GDP in 2015 has maintained an average growth rate of 7% for the reporting period. Sri Lanka has made its primary commitments under the GATS to liberalize 3 main sectors namely; banking insurance and other financial services, telecommunication services and tourism and travel related services. As a further step towards

liberalization of services, Sri Lanka has negotiated for higher level of Commitments under the SAARC Agreement on Trade in Services (SATIS). The NUG expects to pursue further liberalization with its key potential markets for services through the comprehensive free trade agreements under negotiation

## **8 CONCLUSIONS**

8.1. Sri Lanka has maintained a consistent adherence to outward looking market oriented policies throughout the period under review. It remains committed to the multilateral WTO rule based system and will work together with the other members for greater coherence and fulfilment of the WTO liberalization agenda.

8.2. The resilience of the economy has enabled the country to successfully weather the new challenges in the aftermath of the global financial crisis and also the resolution of domestic conflict within the country which involved extensive re-construction, restoration of infrastructure, re-settlement of displaced persons across the island. The country is now poised towards becoming a geo-economic hub in the Indian Ocean through major economic reforms and expansive plans for infrastructure facilities, establishment of Mega Zones/economic corridors for development in technology, finance and industry.

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