Options for Pruning Sri Lanka’s SAFTA Sensitive List

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Outline

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• Assessing Actual Trade: Scenario 1, 2, 3, 4
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  • Tea
  • Processed Food
  • Fish & Salted Fish
• Concluding Remarks

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## Sri Lanka’s Imports from South Asia in 2007

<table>
<thead>
<tr>
<th>Imports from South Asia</th>
<th>Total Imports (LKR)</th>
<th>% of Total Imports of SL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>19,841,256,313</td>
<td>1.57</td>
</tr>
<tr>
<td>India</td>
<td>307,940,000,000</td>
<td>24.42</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1,208,270,141</td>
<td>0.095</td>
</tr>
<tr>
<td>Nepal</td>
<td>8,259,867</td>
<td>0.00065</td>
</tr>
</tbody>
</table>

Source: UN Comtrade
## Trade Coverage of Sri Lanka’s Sensitive Lists in 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Sensitive Imports (LKR)</th>
<th>% of Total Imports of SL</th>
<th>% of Imports from the Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>5,228,032,202</td>
<td>0.41</td>
<td>26.35</td>
</tr>
<tr>
<td>India</td>
<td>199,681,000,000</td>
<td>15.84</td>
<td>64.84</td>
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<tr>
<td>Bangladesh</td>
<td>588,525,103</td>
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<td>48.7</td>
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<tr>
<td>Nepal</td>
<td>3,166,886</td>
<td>0.00025</td>
<td>38.34</td>
</tr>
</tbody>
</table>

Source: UN Comtrade

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Assessing Competitiveness of Sri Lanka’s SAFTA Sensitive List Items

- Quantitative assessment of competitiveness of products placed in SL’s SAFTA Sensitive List

- Revealed Comparative Advantage (RCA) & Trade Potential along with imports from Rest of the World, for each sensitive list item was calculated over a 3 year period 2005-2007

- 8 scenarios emerge with:
  - high RCA, TP & High imports from ROW being one extreme
  - high justification for removal from sensitive lists & low RCA, TP & low imports from the ROW being the other extreme with little justification for removal from the sensitive lists.

- 2 “highs” being recorded; only 1 of 3 criteria being recorded as low, for further investigation. We then considered actual trade in these items & actual tariffs as of 2009. This would give an indication of impact of removal from sensitive lists.
• High general tariff indicates high potential gain from removal of item from negative list.

• If tariff was low, then marginal tariff difference of removal from negative list would be limited & impact on trade would be low.

• If preferences are offered through another bilateral agreement, in this case Pakistan-Sri Lanka FTA (PSFTA), there are two potential implications.
  - If preferences are already extended through another agreement, then argument for maintaining item in SAFTA negative list is diminished.
  - If an item is already obtaining duty free status such as HS code 830890 from Pakistan, impact of removal from negative list in SAFTA will be limited since item can anyway be obtained duty free through the PSFTA.
<table>
<thead>
<tr>
<th>Scenario 1: High RCA, High TP &amp; High Imports from ROW</th>
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</thead>
<tbody>
<tr>
<td><strong>Commodity</strong></td>
</tr>
<tr>
<td>Bangladesh</td>
</tr>
<tr>
<td>482110</td>
</tr>
<tr>
<td>Pakistan</td>
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<tr>
<td>030559</td>
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<tr>
<td>110100</td>
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<td>482110</td>
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<td>690890</td>
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<td>830890</td>
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<td>India</td>
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<td>400599</td>
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<td>482110</td>
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<td>690890</td>
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<tr>
<td>830890</td>
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<tr>
<td>853890</td>
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</tbody>
</table>
Assessing Actual Trade: Scenario 1

- Most items face a high level of tariff & most are also traded in a relatively significant magnitude, except following products:
  - HS 830890 – Base metal Buckles, Belts & clasps from Pakistan
  - HS 400121 – Natural Rubber smoked sheets from India
  - HS 400599 – Natural Rubber Other Compounded Rubber from India
  - HS 830810 – Base metal hooks, eyes & eyelets from India
- These items will not have a significant impact if removed from sensitive list.
- Therefore even though there should not be much resistance to their removal, actual trade impact of this removal would not be substantive.
- 4 product lines would have to be dealt with more caution given the fact that imports from South Asia are a significant proportion of total imports & therefore removal from negative list would entail more substantive impacts on trade, domestic competition & revenue.
Products are on negative lists of ILFTA & PSFTA: all except printing ink fall into highest tariff bracket.

- HS 090240 – Other Black Tea from India (61% of total imports)
- HS 690890 – Glazed Ceramic from India (21.5% of total imports)
- HS 210690 – Other food preparations from India (21.5% of total imports)
- HS 321519 – Printing ink from India (18.4% of total imports)

Concerns over large scale imports of Wheat Flour HS 110100 from India if removed from SAFTA negative list (it remains on the ISFTA negative list), which is not subject to highest tariff margin & is not in PSFTA negative list

HS 853890, parts of electrical apparatus, subject to a low tariff (6%), are also imported in significant quantities from India & are on ISFTA negative list

Printed labels of paper (HS 482110); imported from all three countries, but not in significant quantities, however the possibility of a broader regional trade impact is enhanced if this item is removed from negative list

HS030559, salted fish, is imported from Pakistan but is subject to a range of tariffs at 8 digit level, from 6% to 15%. It is therefore necessary to ascertain which items are imported from the region & the implications of free trade on local fisheries (this is on sensitive lists of both bilateral FTAs)
Scenario 2: High RCA, High TP & Low Imports from ROW

- All imported items from Bangladesh & Pakistan have negligible significance in terms of magnitude of trade.

- Imports of HS 081090 (other fresh fruit) from Pakistan are over 5% of global imports & is liberalised under the PSFTA; could be removed from SAFTA negative list.

- Half of tariff lines imported from Pakistan in this category are subject to duty reduction under PSFTA; could be removed from negative list of SAFTA.

- Other than for surgical gloves, all imports from Pakistan fall under 28% or 15% duty categories; absolute tariff reduction will be significant if removed from sensitive list.
Cont.

- HS 140490 Other vegetable products 92.4%
- HS 091030 Turmeric 87.1%
- HS 420321 Leather Gloves 91.3%
- HS 420299 Leather Musical Cases 68.2%
- HS 392329 Plastic Sacks & Bags 49.9%
- HS 401199 Pneumatic Tyres 31.1%
- HS 730820 Iron Towers 28.4%
- HS 030342 Yellowfin Tuna 25.7%

- Leather gloves & musical cases are not in ISFTA negative list & therefore should be removed from SAFTA sensitive list. HS 140490 is not in PSFTA negative list; could be considered for removal from SAFTA sensitive list.

- Remaining items fall either under 15% or 28% tariff range; removal from sensitive list will have a positive impact in terms of marginal tariff reduction.

- 26 out of 39 items imported from India in this scenario account for at least 5% of total imports of product; impact of removal of these items on actual trade is potentially significant.
Scenario 3: High RCA, Low TP & High Imports from ROW

- In this scenario South Asian imports of four product lines account for over 5% of total imports of those products

  - HS 220710 Ethyl Alcohol 34.1%
  - HS 480256 Paper Products 25.7%
  - HS 030559 Salted fish 18.5%
  - HS 870322 Vehicles below 1500cc 5.8%

- Salted fish (HS 030559) is not in PSFTA negative list & could be considered for liberalisation from SAFTA sensitive list as well.

- Articles of paper (HS 48) are subject to liberalisation in Asia Pacific Trade Agreement, to which India is party; Sri Lanka can consider removing these items from SAFTA negative list.

- HS 830890 is not in PSFTA negative list; liberalisation under SAFTA.
Scenario 4: Low RCA, High TP & High Imports from ROW

- Three items are subject to liberalisation in other FTAs; could be removed from SAFTA sensitive:
  - HS 100190 (other white seeds),
  - HS 853690 (electrical circuits)
  - HS 730890 (other iron structures).

- Items with substantial imports from SA
  - Pneumatic tyres (HS 401120) 35.7%
  - Electrical control bases (HS 853710) 25.3%
  - Plastic plates (HS 392020) 16.4%

- These items are largely subject to tariffs ranging from 15-28%; removal from negative list would have an important impact on marginal tariff reduction
Survey Analysis - Tea

• Since all other Tea producing countries in SA: India, Bangladesh & Nepal, predominantly produce CTC teas, which are not in demand in Sri Lanka, a significant increase in imports from these countries cannot be expected after removing from negative list.

• Will have very little impact on domestic consumer price, since teas from these producing countries will not be popular.

• Already imports are allowed under duty free scheme meant for re-export.

• State is declaring a policy of promoting re-planting an infilling in a major drive to increase yield & productivity of tea manufacture in Sri Lanka.

• Under duty paid scheme, negligible volume of tea enter to Sri Lanka, thus there is no major impact on tariff revenue.

• It would have positive benefit for brand marketing of multi origin blends.

• Perceived fear of producer segment, that it may depress Ceylon tea prices.

• Do not see a major impact on removing Tea from SAFTA negative list.
Processed Food

- Consumers will have a larger variety of products, at competitive prices in different qualities
  - Ex. Confectionaries

- Exporters will find it easier to compete in SA countries as tax benefit will make their products more price competitive than before. Yet due to shortage of raw material exporters import most of the raw material at a high cost & that increases their cost of production which ultimately increases their prices relative to producers like India, Bangladesh & Pakistan

- Importers will benefit from removing the products from SAFTA negative list.

- Domestic Producers will face a fierce competition from Indian products as their prices are quite low due to low cost of production compared to local products
Fish & Salted Fish

- Import only a small quantity of fish, a majority imported are dried fish & Maldives fish from India, Pakistan, Maldives & Afghanistan.
- Salted fish is exported in small quantities, & that also is for Sri Lankan Expatriates.
- Removal of fish & salted fish from SAFTA negative list will affect the large scale industries who export to SA countries.
- About 30% of fishermen are small boat owners that supplies to domestic market.
- Imports of fish at low prices will affect the domestic producers who supplies to domestic market negatively since their prices are quite high due to high overhead costs.
- Fish prices will become more affordable to the consumers if fish is imported without tax.
- The fish resources in Sri Lanka has reduced, thus importing fish is timely. Moreover, fine local fish is more expensive than imported fish, & is better in terms of quality.
- The government has implemented a field development plan they plan to purchase or manufacture deep sea - large boats & in process of expanding ice plan facilities around country.
- There is no tax charged when fish is imported, processed & re-exported.
- Importers are only allowed to import fish when fish resource in SL is less...
Concluding Remarks

• Significant scope for benefit through the removal of many items from SAFTA sensitive list

• Many items imported from region are subject to Sri Lanka’s maximum tariff of 28% & at least with regard to imports from India, make up a non-trivial component of total imports from ROW.

• Number of products that have been liberalised in other FTAs such as ISFTA, PSFTA & APTA, yet remaining on SAFTA sensitive lists.

• These products could immediately be considered from removal from SAFTA sensitive lists yet should be cautious.
Thank You