



SRI LANKA

What's happening in this economy

Sri Lanka's economy holds significant promise due to the country's strategic location near major sea-lanes, proximity to India, and strong human capital. Sri Lanka has a sophisticated and outward looking business community that welcomes international engagement.

Presidential elections in 2019 and parliamentary elections in the first half of 2020 will likely result in changes to economic and trade policy. The degree to which liberalisation and reform continues will be a key watch point.

Recent efforts to pursue economic reform—including working with the World Bank and IMF to improve export revenue—have sought to boost competitiveness, address barriers to trade and attract more investment. Targeted efforts to boost Sri Lanka's ease of doing business, if continued, should deliver benefits for international companies.

Non-tariff barriers are a hindrance on growth. Despite improvements in customs and other cross-border processes, delays and unexpected costs can be incurred. Further improving value addition industries is a current policy priority.

Improvements to internal coordination have resulted from initiatives such as the national export strategy, trade adjustment program, trade information portal, and innovation and entrepreneurship strategy. But there remains significant resistance to reform from vested interests. Public support for ambitious economic reform—and combating corruption—will be key to improving Sri Lanka's economy.

Foreign Direct Investment into Sri Lanka exceeded USD 2 billion for the first time in 2018. Sri Lanka is seeking to overcome an infrastructure deficit – the 26 year civil conflict limited international investment. New highways are being built to link Colombo with less developed areas of the country, replicating the success of the Southern Expressway which cut transit time to key tourist resorts. The 'Megapolis' initiative seeks to modernise Colombo's urban infrastructure.

Sri Lanka's transshipment industry is strong, with a significant proportion having India as its end destination. The agriculture sector employs a quarter of working Sri Lankans but delivers a significantly smaller proportion of GDP – the welfare of this sector has been a key consideration in recent macroeconomic reform. An established supermarket network and relatively modern supply chains provide a solid base for Australian food and beverage, as well as investment.

A sophisticated ICT industry competes internationally on both quality and price, but is limited in scale.

Key facts and figures

- Population: 21.7 million (2018)
- GDP growth: 3% (2018)
- GDP per capita: USD 3,837 (2019)
- Political system: democracy
- Two-way trade / key goods and services traded: AUD 1.68 billion / education, tourism, automobiles, agri-products, and tea
- Two-way investment/major investments: AUD 264 million / vocational training, real estate
- Aid relationship: AUD 27.1 million (2019–20)



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There is continuing demand for higher education delivered in partnership with local providers. A long-standing migration trend has led to skills shortages in the economy with young Sri Lankans seeking international education and competing for employment opportunities globally. Tourism and construction are among the industries that report skills shortages. However, many skilled employees have international experience.

Sri Lanka's mining sector is underdeveloped, but has a strong heritage in graphite and gemstones. The energy sector is seeking investment to overcome projected electricity generation shortfalls.

Sri Lanka is a longstanding recipient of Australian development assistance. Our current program supports economic reform, skills development in the tourism industry, efforts to boost the participation of women in business, and support for export-oriented SMEs.

Trade, investment, and commercial opportunities and activities

- Australia enjoys strong brand recognition in the Sri Lankan market. We have:
 - long-standing diplomatic relations
 - a large diaspora in Australia, and
 - growing two-way travel for education, business and leisure.
- Two-way trade between Australia and Sri Lanka has grown strongly in recent years, driven by increased education and tourism services:
 - key Australian goods exports to Sri Lanka include automobiles, vegetables and wheat, and
 - Sri Lanka exports tea, garments and some plantation products to Australia.
- There are opportunities to increase Australian exports in fine food and beverages. This is on the back of strong growth in Sri Lanka's tourism industry and higher domestic incomes, and its location in the region:
 - continued investment by Sri Lanka in infrastructure may open opportunities for Australian ancillary services
 - as Sri Lanka looks to boost domestic production, further opportunities in agribusiness advisory services are possible, and
 - the government actively promotes Sri Lanka as a regional hub.
- Education links continues to grow due to high demand for Australian qualifications and training
 - Australia is the top international education destination for Sri Lankan students, and
 - growth in education services is continuing, including through domestic campuses and partnerships with local institutions.
- The investment relationship is growing off a small base:
 - Australian companies have made successful investments in Sri Lanka including in manufacturing, agribusiness, garments and IT, and



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- Australian investors are looking at opportunities in education, mining and energy, industrial processes, retail and food processing.
- Sri Lanka is not a large source of foreign investment into Australia:
 - Sri Lankan companies tend to prioritise domestic investment opportunities, and
 - beyond Sri Lanka, its companies are exploring opportunities in South East Asia.
- The Australian Government undertakes a range of trade promotion activities to capitalise on opportunities in Sri Lanka. These are aligned with priority sectors.

Trade policy and negotiations

Sri Lanka remains focused on its vision to become a hub for trade and foreign investment into South Asia.

Australia and Sri Lanka signed a Trade and Investment Framework Arrangement (TIFA) in November 2017. The second meeting of the TIFA Joint Trade Committee was held in Colombo in September 2019 with the aim to deepen bilateral economic relations by facilitating and promoting trade and investment in both directions.

Sri Lanka has a goods only trade agreement with India, and FTAs with Singapore and Pakistan. Sri Lanka has recently pursued FTAs with India (an enhanced agreement liberalising services), China and Thailand. Sri Lanka currently has a preferential trading agreement with the European Union, but will lose this access in 2024 if it maintains its status as an Upper Middle Income Country for three consecutive years.

Sri Lanka is an active supporter of improved South Asia regional trade, including through the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and South Asian Free Trade Agreement (SAFTA).

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