

## SRI LANKA

### Business Conditions Snapshot

- Sri Lanka's economy holds significant promise due to the country's strategic location near major sea-lanes, proximity to India, and investment in human capital. The country has a sophisticated and outward looking business community that welcomes international engagement.
- Presidential elections in 2019 and Parliamentary elections in 2020 resulted in a government with strong majority. Attracting inward investment is a stated focus of the new administration, though COVID-19 provided an impetus to temporarily restrict imports.
- Like many countries, the impact of COVID-19 on key sectors has been significant. Key sources of foreign exchange such as textiles, remittances and tourism contracted sharply, which resulted in the introduction of restrictions to preserve foreign exchange reserves.
- Disruptions in demand and supply chain markets caused by the pandemic damaged Sri Lanka's modest but growing export industries. Among consistent support to industry provided by the government, the central bank announced a series of financial concessions to business to induce activity during COVID-19.
- To support the post-COVID-19 recovery, inward FDI and in-country value addition are a current priority. Opportunities exist for investment in the re-export of bulk Australian commodities to nearby South Asian, Middle East and African markets after value-addition in Sri Lanka.
- Despite a tight external situation, Sri Lanka has a long history of meeting its debt obligations. Assessments by ratings agencies—including a ratings downgrade in 2020—highlighted a COVID-related drop in tax revenue compounding a significant fiscal deficit, as well as forthcoming external debt repayments.
- Overall, the long-term outlook is positive. Sri Lanka's location is attractive for investment from a trade and logistics perspective. Australian companies have a role in Sri Lanka's goal of developing into a regional hub, including in education, trans-

#### Key facts and figures

- Population: 21.7 million (2018)
- GDP growth: 2.7 per cent (2019)
- GDP per capita: US\$3,946 (2019)
- Political system: Democracy
- Two-way trade: A\$1.72 billion (2018–19)
- Major Australian exports: education, tourism, automobiles, vegetables
- Major Australian imports: tea, textiles, clothing
- Two-way investment/major investments: A\$264 million, vocational training, real estate (2018)
- Aid relationship: A\$27.1 million (2019–20)



shipment and logistics. Work is underway to improve trade facilitation and to further facilitate business through Australia's aid program.

- Non-tariff barriers remain a hindrance to growth. Despite improvements in customs and other cross-border processes before COVID-19, delays and unexpected costs can be incurred.
- Sri Lanka is seeking to overcome an infrastructure deficit – the 26-year civil conflict limited international investment. Attracting commercial investment into infrastructure surrounding ports and airports is a government focus. 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.
- 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. An established supermarket network and relatively modern supply chains provide a solid base for Australian food and beverage, as well as investment.
- In recent years Australia's aid program has sought to—among other goals—improve inclusive growth in Sri Lanka by boosting competitiveness, addressing barriers to trade and investment, and improving the business environment. Continued progress will also deliver benefits for international companies.

## Trade and Investment Opportunities

- There is strong overlap between Australian commercial offerings and Sri Lanka's policy priorities; including to become a regional education hub. Prospective Australian investments in mineral resources, energy, water infrastructure, textiles and higher education are progressing, and more opportunities exist.
  - Policies to expand the share of energy coming from renewables, LNG and battery power present opportunities for Australian suppliers and experts.
  - Upgrades to energy supply chains also provide opportunities in supporting technology and services.
  - As part of an agricultural modernisation program the government is focused on developing domestic dairy and poultry industries, and encouraging investment to develop cost-effective local practices.
  - There are significant opportunities in supplying feed grain and seeds.
- Building on the expansion of Colombo airport, the tourism industry's recovery is a priority after COVID-19 and the 2019 Easter Sunday terrorist attacks.
  - Australian businesses are positioned to pursue opportunities as Sri Lanka further diversifies its tourism offering, including in premium Australian food and beverage inputs, and in education and training.



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- Australian companies enjoy strong and positive brand reputation. The growing and balanced bilateral trade relationship is driven by strong services engagement, particularly in tourism and higher education.
- While Australian exporters generally enjoy good market access, temporary import restrictions implemented during COVID-19 will need to be gradually wound back to ensure trade stability.
  - A self-sufficiency drive in some areas of agriculture will have a longer-term impact on some Australian exports.
  - Transparency in tender processes will also be key.
- Australian education providers have a strong market position.
  - Efforts to increase institutional linkages and expand Australian partnerships delivered locally have resulted in a record number of Australian education institutions present in Sri Lanka.
  - Longer term, education will be key to Sri Lanka's regional hub aspirations.
- As part of a range of trade promotion activities to capitalise on opportunities in Sri Lanka, the Australian Government continues to advocate for improved transparency of FDI pathways, including for the mining and education sectors.

## Trade Policy Focus

- 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.
  - This initiative is deepening bilateral economic relations by facilitating and promoting trade and investment in both directions.
  - TIFA is also an opportunity for Australia to address non-tariff barriers.
- Sri Lanka has a goods only trade agreement with India, and Free Trade Agreements (FTA) 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 would lose this access if it attained and maintained upper middle income country status for three consecutive years.
- Sri Lanka supports 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).



Australian Government

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*Insight current as at December 2020.*



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