

# ISAS Insights

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Institute of South Asian Studies  
National University of Singapore  
29 Heng Mui Keng Terrace  
#08-06 (Block B)  
Singapore 119620  
Tel: (65) 6516 4239 Fax: (65) 6776 7505  
[www.isas.nus.edu.sg](http://www.isas.nus.edu.sg)  
<http://southasiandiaspora.org>



## **Singapore Sri Lanka economic relations – a look at the trends and barriers to trade**

*Singapore and Sri Lanka have recently launched negotiations towards finalising a bilateral free trade agreement. Offering a profile of the trends in bilateral trade and tariffs this insight reflects on possible gains which either country could expect through a liberalised trade and market access regime.*

Deeparghya Mukherjee<sup>1</sup>

As two island nations of Asia, Sri Lanka and Singapore have had several linkages spanning strategic, economic and cultural dimensions over time. Singapore as a major trading hub of the world is one of the busiest ports apart from being one of the most investor friendly countries. Sri Lanka on the other hand is a land of great potential with immense opportunities for business, trade and development. Trade relations between Singapore and Sri Lanka in particular have been growing in the recent past. However, both countries appreciate the untapped potential in increasing economic relations and have thus started negotiating a Singapore-Sri Lanka Free Trade Agreement in July, 2016.<sup>2</sup>

Looking at the Sri Lankan economy, in the recent years, the GDP growth rate has been between 4 to 5%. The inflation rate is about 5% and the country has been running a current account

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<sup>1</sup> Dr Deeparghya Mukherjee is a Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at [isasdm@nus.edu.sg](mailto:isasdm@nus.edu.sg). The author bears responsibility for the facts cited and opinions expressed in this paper.

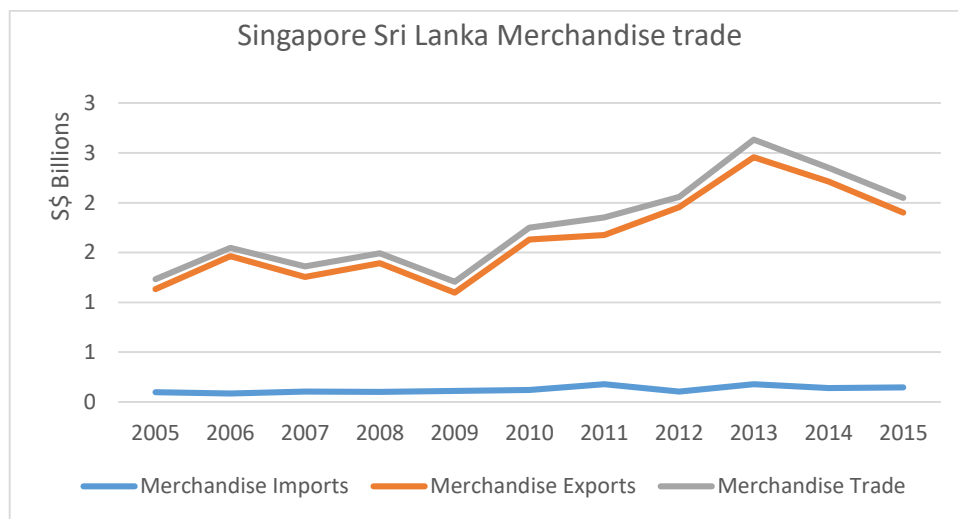
<sup>2</sup> See “Singapore and Sri Lanka launch Free Trade Agreement Talks” <http://www.channelnewsasia.com/news/business/singapore-and-sri-lanka/2965110.html>

deficit in its balance of payments. Foreign investment has not picked up in the recent years and Sri Lanka has faced politically turbulent times. However, initiatives have been taken to improve investment lucrativeness of the country. Firstly, land ownership regulations have been liberalised and public-private partnership opportunities have been further developed. The main sectors which have seen inflow of foreign funds till date are manufacturing, tourism, housing and property development, telecommunications and port development. In 2015, Singapore has been the 8<sup>th</sup> largest foreign investor in Sri Lanka ranking behind countries like Hong Kong, China, India and Malaysia.<sup>3</sup> Singapore and Sri Lanka already have a Bilateral Investment Treaty (BIT signed in 1980) and an avoidance of double taxation agreement (DTA signed in 1979), revised and signed in 2014 awaiting ratification.<sup>4</sup>

## Singapore - Sri Lanka Trade

Singapore - Sri Lanka trade has been growing in the last few years with exports picking up after 2009 but facing bottlenecks after 2013, from when it has declined for two consecutive years (Figure 1). Singapore’s imports from Sri Lanka have been stable and much lower than its exports. Hence Singapore maintains a trade surplus with Sri Lanka.

**Figure 1: Singapore Sri Lanka bilateral merchandise trade**



Source: Calculated using statistics from Department of Statistics, Ministry of Trade and Industry, Singapore

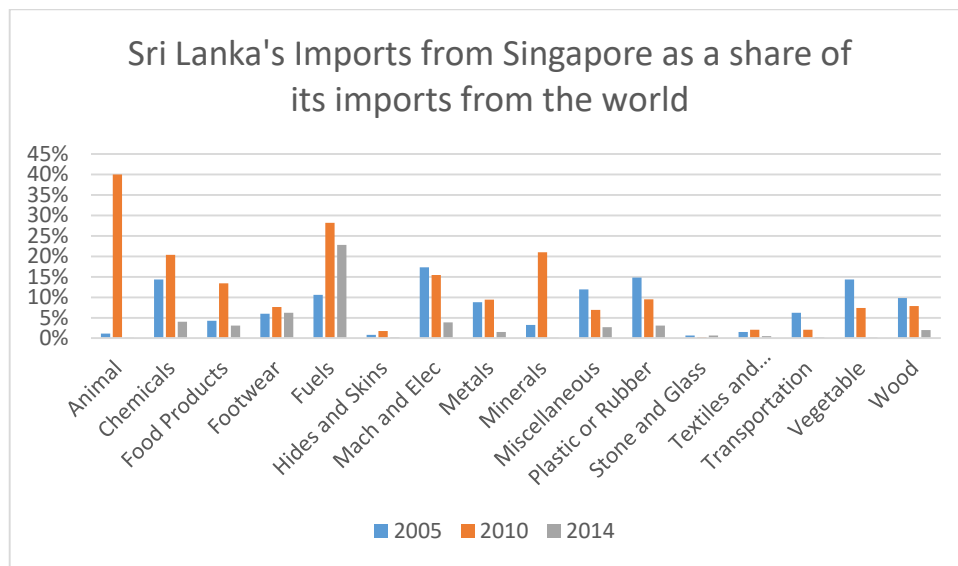
<sup>3</sup> See “BOI plans strong investor push for 2016” <http://www.investsrilanka.com/news/story/4107/BOI-plans-strong-investor-push-for-2016>

<sup>4</sup> See “Factsheet on Sri Lanka - Singapore Economic Relations” [https://www.mti.gov.sg/NewsRoom/SiteAssets/Pages/Singapore-and-Sri-Lanka-keen-on-Free-Trade-Agreement/Press%20release%20on%20plans%20for%20Sri%20Lanka-S'pore%20FTA%20study%20\(media\).pdf](https://www.mti.gov.sg/NewsRoom/SiteAssets/Pages/Singapore-and-Sri-Lanka-keen-on-Free-Trade-Agreement/Press%20release%20on%20plans%20for%20Sri%20Lanka-S'pore%20FTA%20study%20(media).pdf)

The most important commodities imported by Singapore from Sri Lanka in 2014 were Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes (USD 15 Million); Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin (USD 14 Million); Articles of apparel and clothing accessories, not knitted or crocheted (USD 14 Million); Articles of apparel and clothing accessories, knitted or crocheted (USD 14 Million) and Coffee, tea and spices (USD 8 Million) (Compiled by the author from World Bank WITS database). This implies that major imports of Singapore from Sri Lanka are centred on mineral fuels, textiles and wearing apparel and jewellery. Singapore's imports from Sri Lanka as a share of its imports from the world across broad sectors are well below 1% for most sectors.

Looking at Sri Lanka's imports from Singapore, mineral fuels, mineral oils and products of their distillation, bituminous substances and mineral waxes stand out with a value of USD 993 million which is about 79% of total imports. Plastics and articles thereof (USD 41 Million); organic chemicals (USD 31 Million); miscellaneous chemical products (USD 22 Million); tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks (USD 17 Million) are other significant articles in Singapore's exports to Sri Lanka (compiled by the author from WITS, World Bank statistics). Hence, it is clear that most important imports of Sri Lanka include fuels, chemical products, paints, tanning and dyeing products. Figure 2 shows us that Singapore's share as a source of imports for Sri Lanka increased between 2005 and 2010 but has declined across most sectors by 2014. The sectors for which Sri Lanka is crucially dependent on Singapore are chemicals, fuels and machinery and electricals.

**Figure 2: Sri Lanka's imports from Singapore as a share of imports from the world by sector**



Source: World Bank WITS database

### Singapore - Sri Lanka Tariff barriers

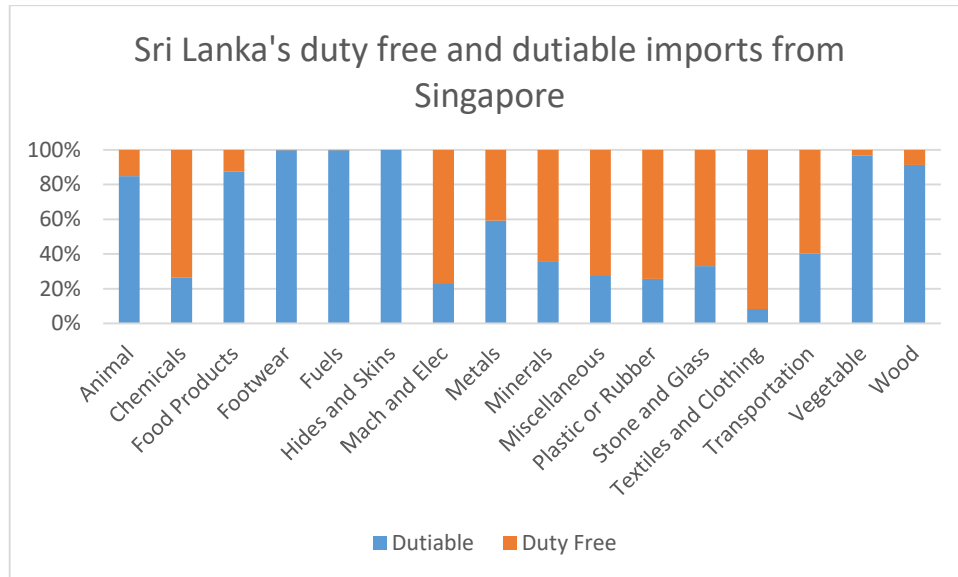
The dutiable imports of Singapore from Sri Lanka (in value terms) are around 5% or less of its total food products imports from Sri Lanka as of 2014. 98.5% of the tariff lines under food products are duty free when it comes to Singapore's imports from Sri Lanka. When we drill down further to check for the imported products that had a tariff, we find, a tariff of 444.48 % on beer made from malt to be the only food product which had a tariff on it (compiled by the author from WITS, World Bank statistics).

To sum up, Singapore's tariff structure for Sri Lanka, Singapore's markets are almost free from import tariffs levied on Sri Lankan exports to Singapore. More than 98% of Singapore's imports from Sri Lanka remain tariff free. Imports from the food products sector, namely beer made from malt was taxed the most in 2014. Most other imports remained duty free. We also note that Sri Lanka accounts for less than 5% of total Singapore imports.

Figure 3 outlines the share of dutiable and duty free imports of Sri Lanka from Singapore in value terms. We find the share of dutiable imports to be highest for footwear, fuels, hides and skins, Vegetable, Wood and Animals. Duty free imports have highest shares for textiles, machinery and electric, plastic and rubber, and transportation. Given that fuels are one of the most important imported commodities of Sri Lanka from Singapore, 100% dutiable imports in

the sector may be harming consumer welfare while being one of the major sources of tariff revenue for the government.

**Figure 3: Relative share of dutiable and non-dutiable imports of Sri Lanka from Singapore**



Source: World Bank WITS database

Clearly from the above, Sri Lanka is a more protected economy than Singapore and is a far less significant player in world trade. However, it is a country with lot of potential for development with a strategic geographic location which makes it almost equidistant from the European region as well as Asian economic giants like China or Japan with close proximity and strong trade relations with India.

The envisaged free trade agreement is scheduled to improve trade prospects of both countries with each other as well as allow greater market access and investment opportunities. Given that Singapore is one of the most outward-oriented economies of the world, it would need to relax relatively fewer barriers than Sri Lanka. Trade barriers in the form of tariffs on imports by Sri Lanka from Singapore are relatively higher and FTA negotiations would aim at bringing the same down. Additionally, foreign direct investment regulations of Sri Lanka for Singapore investors would need relaxations thereby working on the market access aspect of the economic relations. Singaporean companies are already present in sectors like construction, infrastructure, food processing, and manufacturing in Sri Lanka. In value terms Sri Lanka is the 39<sup>th</sup> largest trade partner of Singapore. As of 2014, Singapore’s direct investment into Sri Lanka which is predominantly in the manufacturing sector amounted to S\$656 million while

Sri Lankan investment in Singapore was to the tune of S\$203 million. The most important sectors in Sri Lanka where Singapore is most interested for investment and growth are manufacturing, urban planning, secure logistic services, construction and infrastructure development.<sup>5</sup>

Sri Lanka as opposed to most countries in the Asian region has been less pro-active in signing and implementing free trade agreements. It is a signatory to a total of five free trade agreements which are in effect. These are namely: Sri Lanka- India FTA, Sri Lanka- Pakistan FTA, Sri Lanka- Iran FTA, the South Asian Free trade area (SAFTA comprising of Bangladesh, Bhutan, India, Nepal, Pakistan, Maldives and Sri Lanka) and the Asia-Pacific trade agreement (APTA comprising of Bangladesh, India, Laos, China, Korea and Sri Lanka). The two agreements which Sri Lanka is currently negotiating apart from the one with Singapore are the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area and a separate one exclusively with China.<sup>6</sup> There have been talks to improve and upgrade the FTA with India which is reported to have already generated a significant increase in trade between the two nations.

Singapore on the other hand is negotiating about nine FTAs. Two more have been signed but yet to come into effect and finally twenty other FTAs with countries or groups of countries.<sup>7</sup> Given that Singapore is one of the signatories of the Trans Pacific partnership (TPP) which has set very high standards on trade liberalisation (yet to be implemented), it may be easily expected that it is ready to commit for the highest levels of liberalisation and may negotiate for reciprocation on similar counts from its FTA partners. The negotiating point for Sri Lanka would be to consider the extent of benefit it sees from such liberalisation. Historically, in the immediate aftermath of liberalisation, most protected economies have seen limited benefits through trade channels if their FTA partners were already liberal before the signing of the agreement. This is because protected countries do not get any incremental market access in their partner economies but provide greater market access to their more liberal trade partners. However, in the longer run, with greater competitiveness in sectors of expertise, these countries can gain out of the FTA. Sri Lanka may similarly gain more in the longer run. In the short run, Sri Lanka may gain by liberalising FDI regulations for Singaporean companies which would facilitate improvement of port infrastructure such that Sri Lanka develops its potential of being

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<sup>5</sup> See [https://www.mti.gov.sg/NewsRoom/SiteAssets/Pages/Singapore-and-Sri-Lanka-keen-on-Free-Trade-Agreement/Press%20release%20on%20plans%20for%20Sri%20Lanka-S'pore%20FTA%20study%20\(media\).pdf](https://www.mti.gov.sg/NewsRoom/SiteAssets/Pages/Singapore-and-Sri-Lanka-keen-on-Free-Trade-Agreement/Press%20release%20on%20plans%20for%20Sri%20Lanka-S'pore%20FTA%20study%20(media).pdf)

<sup>6</sup> See "Free Trade Agreements by country" <https://aric.adb.org/fta-country>

<sup>7</sup> See [https://www.mti.gov.sg/MTIInsights/Pages/Free-Trade-Agreements-\(FTAs\).aspx](https://www.mti.gov.sg/MTIInsights/Pages/Free-Trade-Agreements-(FTAs).aspx)

a trading hub over time. Sri Lanka has been developing the potential through collaboration with other countries like China and India apart from Singapore. Similarly, as statistics revealed that Sri Lanka trades significantly in fuels and mineral products with Singapore, existent tariffs in this sector would need sufficient lowering to improve welfare of the consumer but this would come at the cost of tariff revenue for the Sri Lankan government.

In conclusion, Singapore and Sri Lanka have much to achieve through the envisaged FTA for which negotiations have just started. While Singapore investors would be benefitted with relaxation of FDI regulations and market access especially in areas like port and infrastructure planning and development, construction; Sri Lanka would be looking for greater access in the south east Asian region through Singapore apart from investments from Singapore which would facilitate economic growth and development of Sri Lanka. However, given that Sri Lanka is a more protected economy at this stage, it would have to liberalise significantly in selected sectors keeping Sri Lanka's longer term trade competitiveness in mind. Sri Lanka's developmental efforts should be expected to script a brighter future for the economy especially with the signing and implementation of not only its FTA with Singapore but also the ones with BIMSTEC and China.

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