TPCI | Trade Promotion Council of India

Reduction in sensitive list- Sri Lanka

TPCI Research Desk

Proposing delisting of commodities from sensitive list of Sri Lanka for (non LDCs) India

Contents

Abstract

The study suggests an approach to reduce Sri Lanka's sensitive list under SAFTA. The concept of Revealed Comparative Advantage has been used to pair the RCAs for products on Sri Lanka sensitive list with the corresponding RCAs of India. Four categories of items are generated based on whether India or the Sri Lanka is competitive in each of the items. This process helps in identifying items in which Sri Lanka is competitive and those where the India is not competitive. Such items are recommended for removal from Sri Lanka's sensitive list. Items that are vulnerable to competition include those items where the India is competitive but Sri Lanka is not. Such items can remain on the sensitive list and can be removed gradually in a phased manner.

Objective

The objective of this study is to examine the commodities currently in the sensitive lists of Sri Lanka, and to offer an approach and economic rationale to policymakers for pruning the sensitive lists maintained by Sri Lanka for India.

Analytical framework for pruning for Sri Lanka's sensitive list:
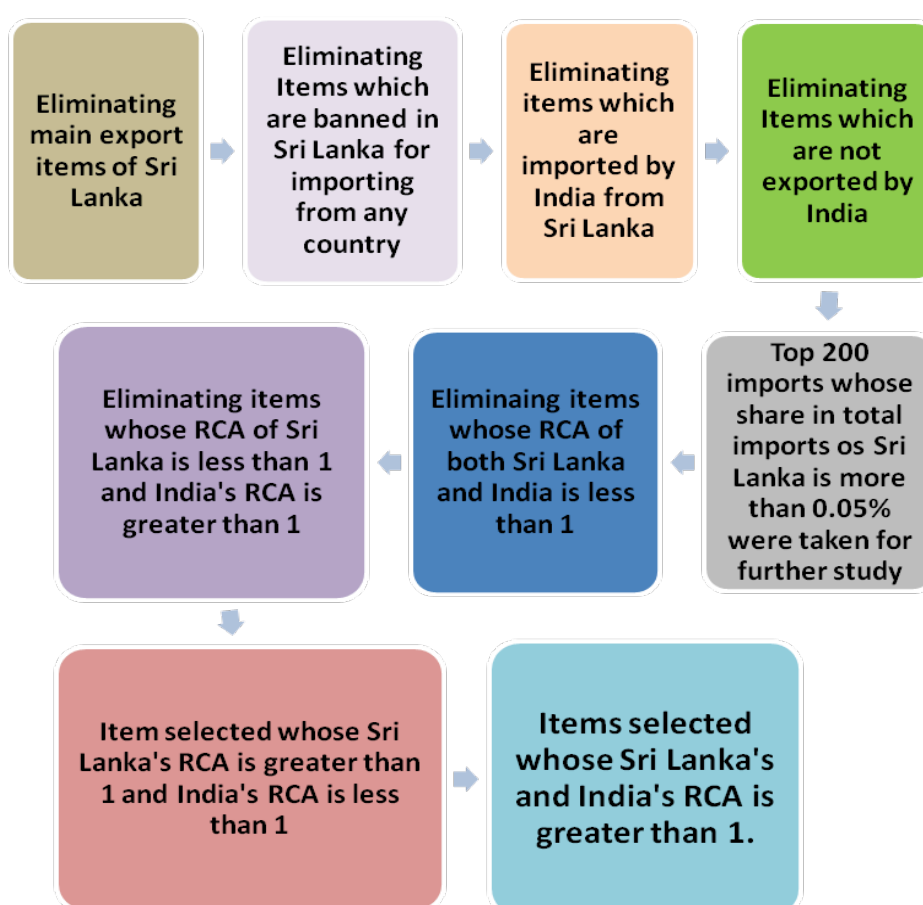
Introduction

SAPTA was envisaged primarily as the first step towards the transition to a South Asian Free Trade Area (SAFTA) leading subsequently towards a Customs Union, Common Market and Economic Union. The purpose of SAFTA is to encourage and elevate common contract among the countries such as medium and long term contracts. Contracts involving trade operated by states, supply and import assurance in respect of specific products etc. It involves agreement on tariff concession like national duties concession and non-tariff concessionThe objective of the agreement is to promote competition in the area and to provide equitable benefits to the countries involved. It aims to benefit the people of the countries by bringing transparency and integrity among the nations.

A sensitive list is a list with every country which does not include tariff concession. Bangladesh has 1,233 products on the sensitive list for the Least Developing countries and 1,241 for the non-Least developing countries under the SAFTA. Bangladesh will reduce the sensitive list by 246 items for the least developed countries (LDCs) and 248 for the non-LDCs. India has 25 items on the sensitive list for the LDCs and 695 for the non-LDCs. Bhutan has 150 items for both the LDCs and non-LDCs and has no plan of shortening its list. Nepal has 1,257 for the LDCs and 1,295 for the non-LDCs. Nepal has reduced its list by 259 from its previous list of 1295. Now its 1036, said joint secretary at Ministry of Commerce and Supplies. The Maldives has 681 for all seven SAFTA nations. Pakistan had 1,169 in its sensitive list but has cut its sensitive list by 20% to 936.[7]Sri Lanka has 1,042 and Afghanistan has 1,072 items on the negative list.

According to the tariff liberalisation programme under SAFTA, member countries are required to review the list for reduction every four years or earlier, as established by the SAFTA Ministerial Council (SMC) but there is no formal or binding commitment. Hence, the reduction of sensitive lists becomes a voluntary decision by each member country.

Keeping in view that Sri Lanka being a SAFTA member countries, it should on its part take asymmetric responsibility to liberalise imports by pruning its own sensitive list with respect to other South Asian countries

The approach through which Sri Lanka can prune the sensitive list is discussed in this paper. The objective of the pruning exercise is to provide greater market access to India.

Methodology

The elimination exercise excludes revenue items. Revenue items are retained for fiscal considerations. Revenue items are excluded from the pruning exercise, these items are first identified. Then those items which are imported by India from Sri Lanka are identified and removed. Elimination also includes those items which are banned in Sri Lanka from importing by any country as inclusion or removal of these items does not affect India. There are also several items on the sensitive list that have not been exported by the India and can therefore be removed from the sensitive list. Items whose share in Sri Lanka's total imports are more than or equal to 0.06% are studied for further pruning of the list. After eliminating these items from the exhaustive sensitive list, the remaining items are classified on the basis of RCA of the Sri Lanka and India to arrive at the pruned sensitive list.

In this study, the RCA for each item on Sri Lanka's sensitive list has been paired with the corresponding RCAs for these items in India. This procedure has been used to classify the pairs of items on the sensitive list on the basis of their competitiveness. Items in which Sri Lanka is not competitive but the India is are those where Sri Lanka is in a weak position. Such items, though inefficient, should remain on the sensitive list but should be liberalised in a phase manner. . Items where Sri Lanka is competitive and where neither Sri Lanka nor the India is competitive are eliminated. The remaining items where Sri Lanka is not competitive in the international market but the India is are retained in the pruned sensitive list.

RCA index has been computed by averaging item-wise RCA for each of the years 2012, 2013, and 2014. An RCA index value of greater than unity implies that the country is competitive in exporting a product. This study computes the RCA for each commodity on Sri Lanka's sensitive list and pairs it with the RCA of India in the same item. Computing the RCA for a pair of countries, i.e. India with each of the exporting countries the following four categories is generated:

> **Category I**: SRCA > 1, IRCA < 1
>
> **Category II**: SRCA > 1, IRCA >1
>
> **Category III**: SRCA < 1, IRCA <1
>
> **Category IV**: SRCA < 1, IRCA > 1

Here, SRCA denotes Sri Lanka's revealed comparative advantage and IRCA denotes India's revealed comparative advantage. Category I comprises of items in which Sri Lanka is competitive but the India is not. Such items should be removed from the sensitive list as the importing country is well-equipped to face competition in the

international market and hence, can face competition in the domestic market too. Category II indicates a situation where both Sri Lanka and India are competitive. These items can also be removed from the sensitive list since Sri Lanka is already competing with the India in the international market. Category III comprises of items where neither Sri Lanka nor the India is competitive. Category IV comprises of items where the India is competitive but Sri Lanka is not. Such items can be retained on the sensitive list and constitute part of the pruned sensitive list.

Analysis

After pruning of operational sensitive list of Sri Lanka by the methodology described above, 35 items are remained on the operational sensitive list of Sri Lanka. RCA computed for each of these items for India and Sri Lanka. Each such pair is classified into four categories based on whether the value of the RCA is greater than or less than unity. The number of items in Categories I, II, III and IV are 1, 9, 6 and 18 respectively.

Category I	Category II
Sri Lanka Competitive SRCA >1; IRCA <1 1	**Sri Lanka and IndiaCompetitive** SRCA >1; IRCA >1 10
Category III	Category IV
Neither Sri Lanka nor India Competitive SRCA <1; IRCA <1 6	**India Competitive** SRCA <1 ; IRCA >1 18

Interestingly, a higher number of items belong to Category IV where competition for Sri Lanka is more severe, than to Category III, where neither Sri Lanka nor India is competitive in the international market. Sri Lanka, thus, has opened up its market to India even in the most critical category.

The 10 items of category I and category II which are can be removed from current sensitive list of Sri Lanka are:

| S.No	HS code	Description
1	8308.9	Beads, spangles & other made up art nes, for clothing/footwear, awnings etc
2	2106.90	Food preparations nes
3	0713.40	Lentils dried, shelled, whether or not skinned or split
4	4001.21	Natural rubber in smoked sheets
5	4016.99	Articles of vulcanised rubber nes, other than hard rubber

6	240120	Tobacco, partly or wholly stemmed/stripped
7	240110	Tobacco, not stemmed/stripped
8	4011.20	Pneumatic tires new of rubber for buses or lorries
9	0713.20	Chickpeas, dried, shelled, whether or not skinned or split
10	0305.59	Fish nes, dried, whether or not salted but not smoked

1. Product: 8308.90 -Beads, spangles & other made up art nes, for clothing/footwear, awnings etc

This is an only product which comes into category I according to categorization of products as per RCA's of Sri Lanka and India. In this product Sri Lanka is competitive in international market but India is not. So there is no harm for Sri Lanka in removing this product from the list as Sri Lanka is well-equipped to face competition in the international market and hence, can face competition in the domestic market too.
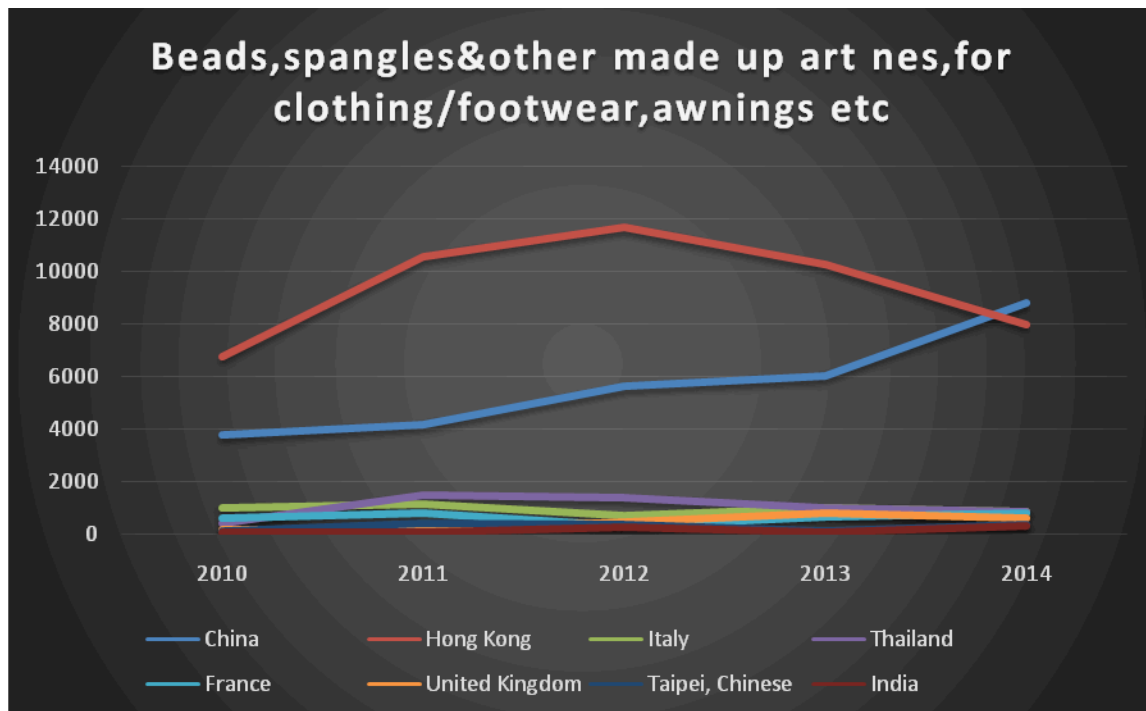

India with respect to imports by Sri Lanka is at 8th rank. Maximum imports were from China and Hong Kong. India imported growth of value from 2010-2014 is 39% whereas in terms of quantity it is 19%.Tariff applied by Sri Lanka for India is 15%.The reason for low exports from India to Sri Lanka is tariff. United States, Hong Kong, France, Italy, Germany applies 0% tariff on imports from India.
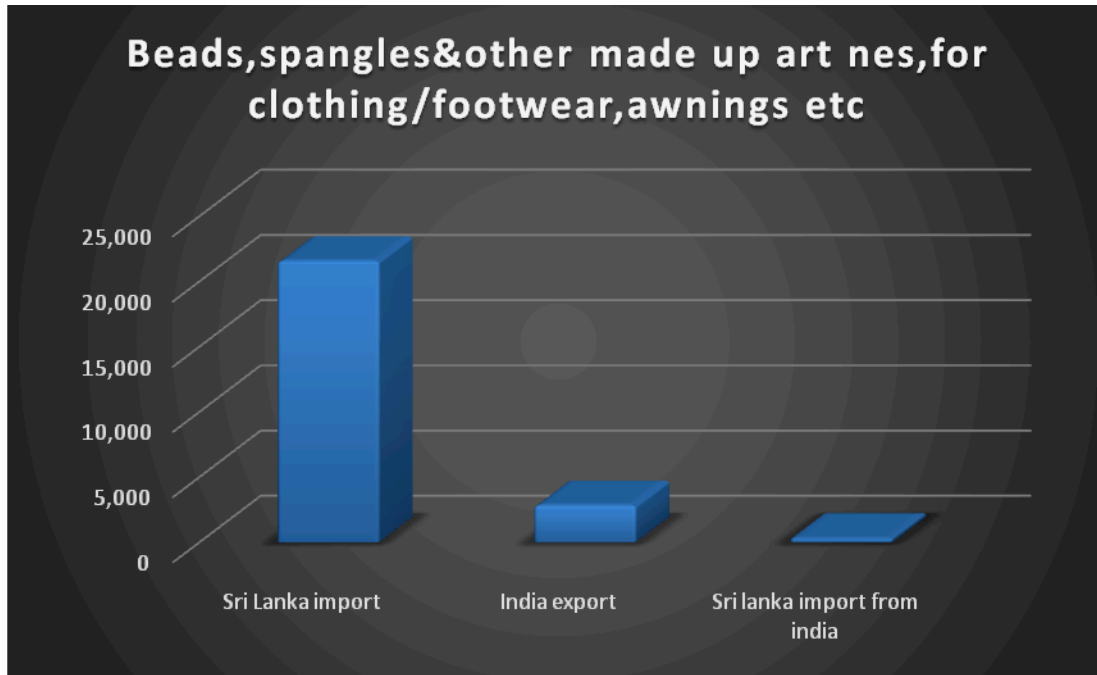
Sri Lanka imported 21,580 USD dollar products from the world in year 2014. Out of which, only 314 UD thousand worth product was imported from India which is around 1.5% of total imports. In 2014, 43 tons of beads, spangles and other made of art necessary for clothing/footwear etc were imported from India whose unit/value was 7302.India exported 2844 value products in international market in year 2014.

2. Product: 2106.90 - Food preparations nes

These are food preparations not elsewhere specified or included in the list. This falls under category II of categorization as per RCA's. Therefore, India and Sri Lanka both are competitive in international market. This item can be removed from the sensitive list as Sri Lanka is already competing.

Food preparations nes
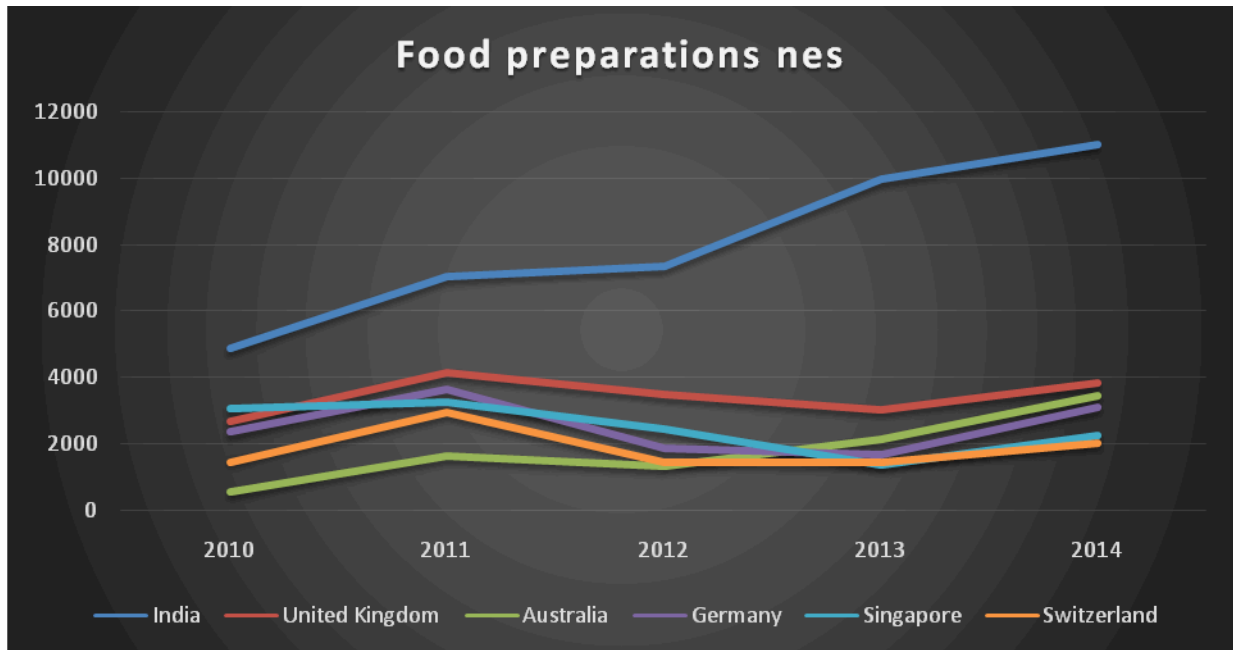
Sri Lanka imports maximum amount of Food preparations nes from India. As we can see it is gradually increasing. There is 22% growth in value and quantity imported by Sri Lanka from India from 2010 to 2014.Tariff applied by Sri Lanka on this product is 11.5%
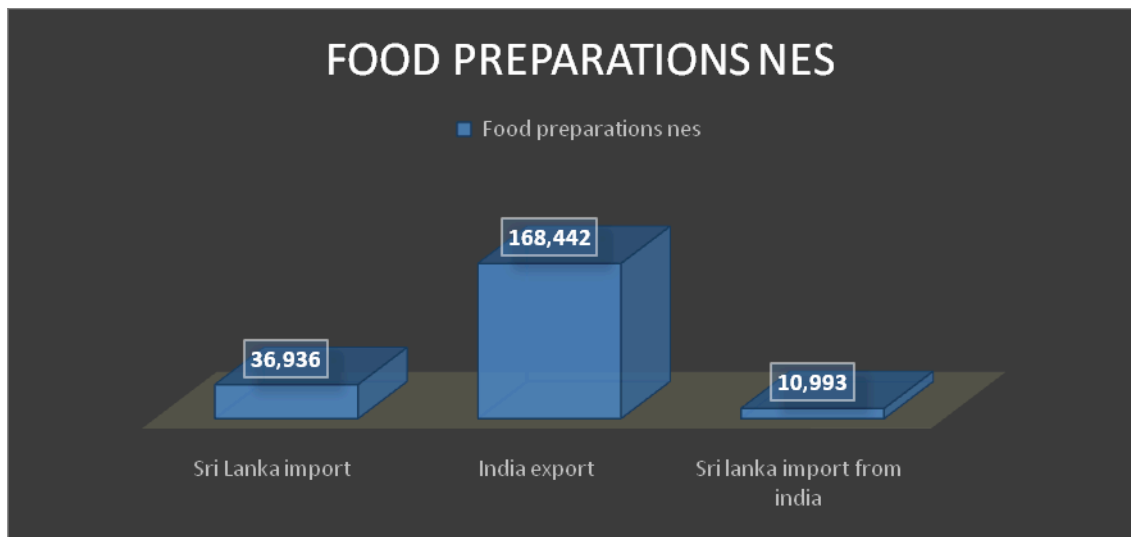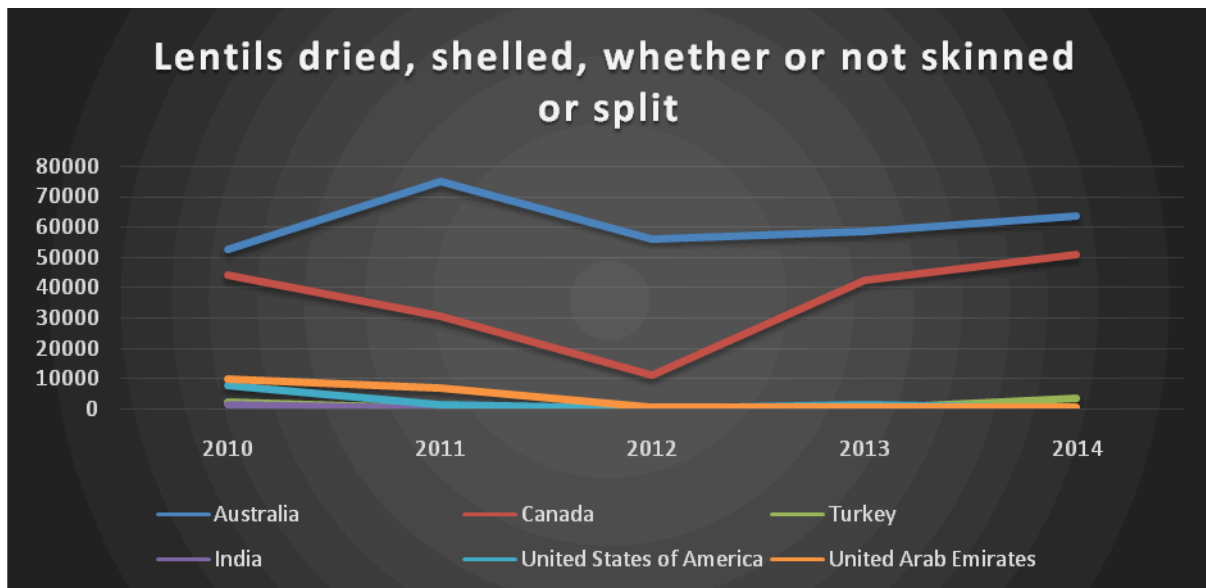

This item has 0.14% share in total imports of Sri Lanka in year 2014.Sri Lanka imported value of this product is 36.936 USD thousand. Out of this 10,993 USD thousand was imported from India which is around 29.8% of its total imports. In 2014, 1188 quantity was imported from India with unit value of 9253.India exported 168442
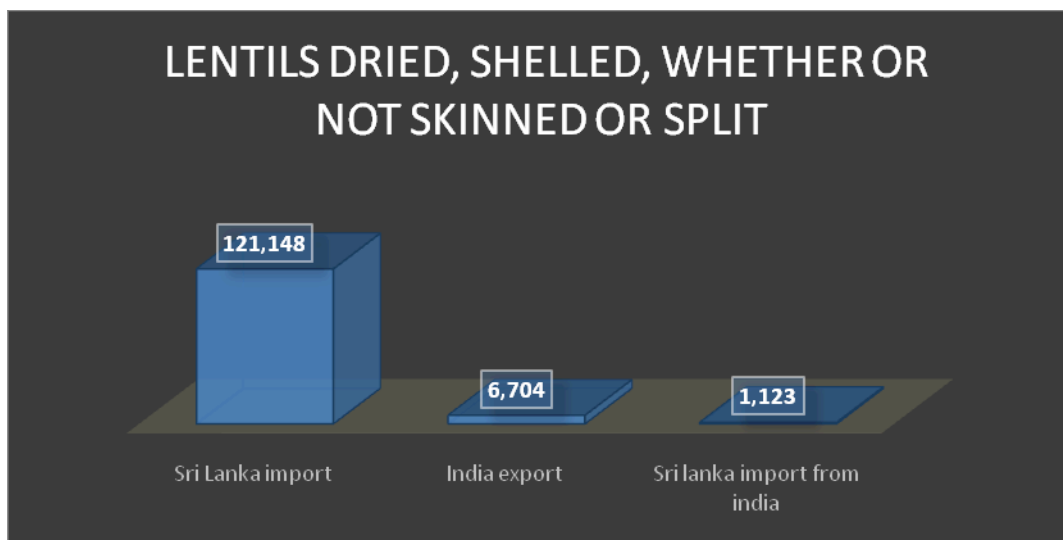
USD thousand value product in year 2014.The reason for such a high exports by India to the world still low exports to Sri Lanka can be high tariff.

3. Product: 0713.40 - Lentils dried, shelled, whether or not skinned or split

This product also comes under category II of categorization as per RCA's. Therefore, India and Sri Lanka both are competitive in international market. This item can be removed from the sensitive list as Sri Lanka is already competing.

India is 4th largest exporter of Lentils dried, shelled, whether not skinned or split to Sri Lanka. Tariff applied by Sri Lanka on India is 5%.Whereas tariff by Myanmar, Singapore, Malaysia, Australia is 0% and by United states of America is 0.1%
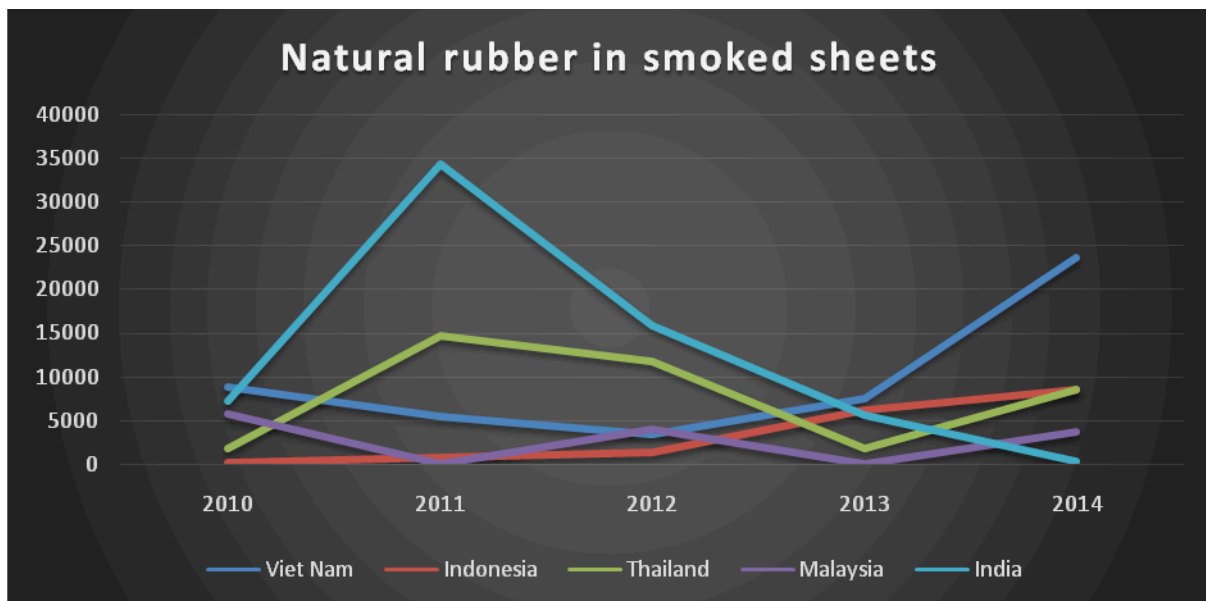

This item has 0.52% share in total imports of Sri Lanka in year 2014.Sri Lanka imported value of this product is 121,148 USD thousand. Out of this 1123 USD thousand was imported from India which is around 0.9% of its total imports. In 2014,

1278 quantity was imported from India with unit value of 879.India exported 6704 USD thousand value product in year 2014

4. Product: 4001.21 Natural rubber in smoked sheets

This product also comes under category II of categorization as per RCA's. Therefore, India and Sri Lanka both are competitive in international market. This item can be removed from the sensitive list as Sri Lanka is already competing


Sri Lanka imports maximum amount of Food preparations nes from Vietnam. India is fifth largest exporter to Sri Lanka. There is -55% growth in value and -50% in quantity imported by Sri Lanka from India from 2010 to 2014.Therefore it is decreasing at a increasing rate tariff applied by Sri Lanka on this product is 15%
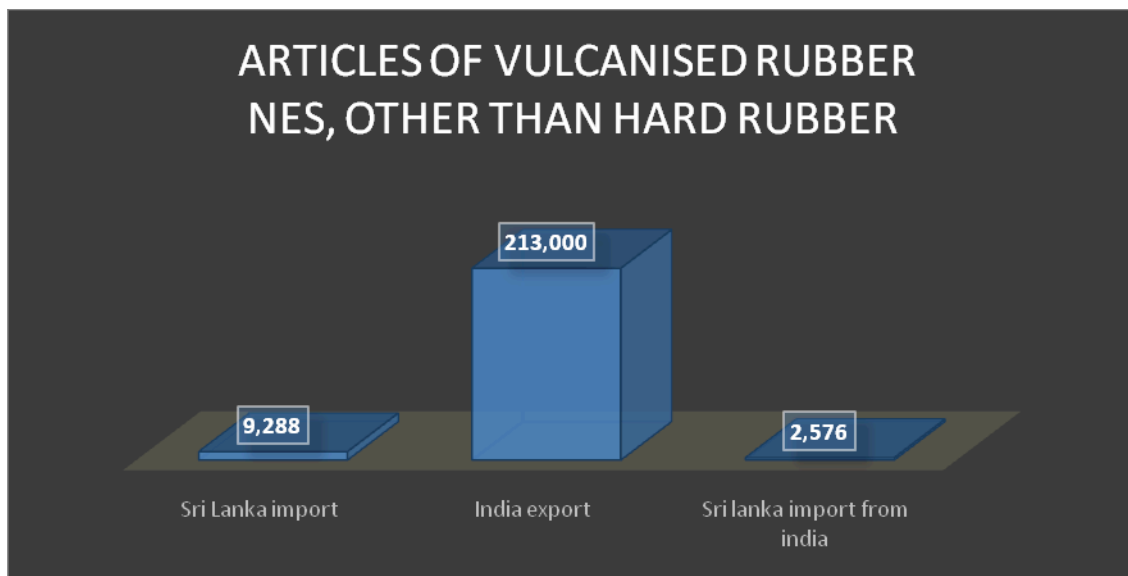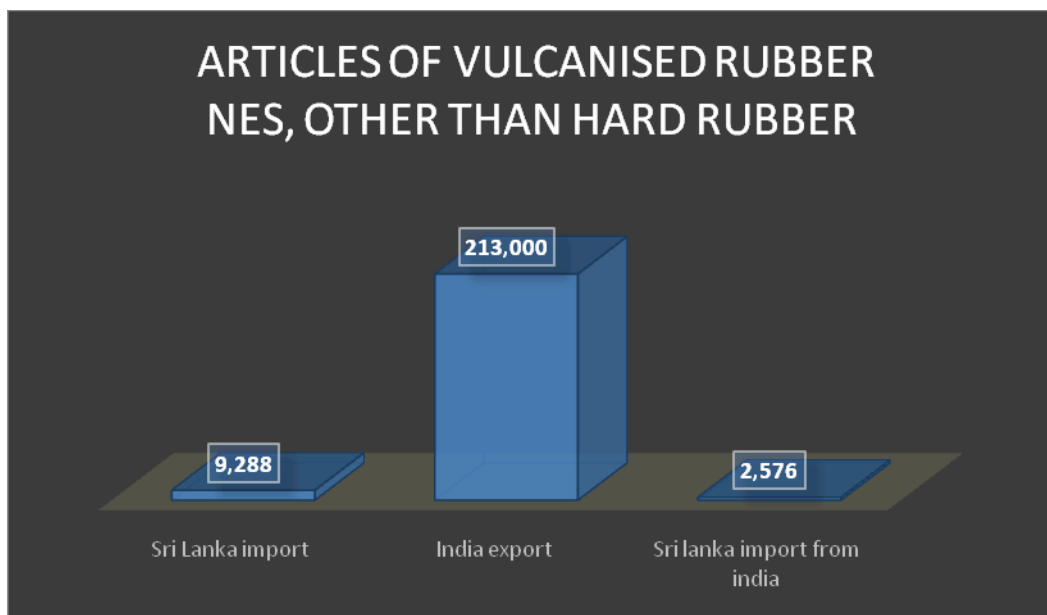
This item has 0.12% share in total imports of Sri Lanka in year 2014.Sri Lanka imported value of this product is 44686 USD thousand, out of this 338 USD thousand was imported from India which is around 0.8% of its total imports. In 2014, 14o tons was imported from India with unit value of 2414.India exported 1848 USD thousand value product in year 2014.

## 5. Product: 4016.99 - Articles of vulcanised rubber nes, other than hard rubber
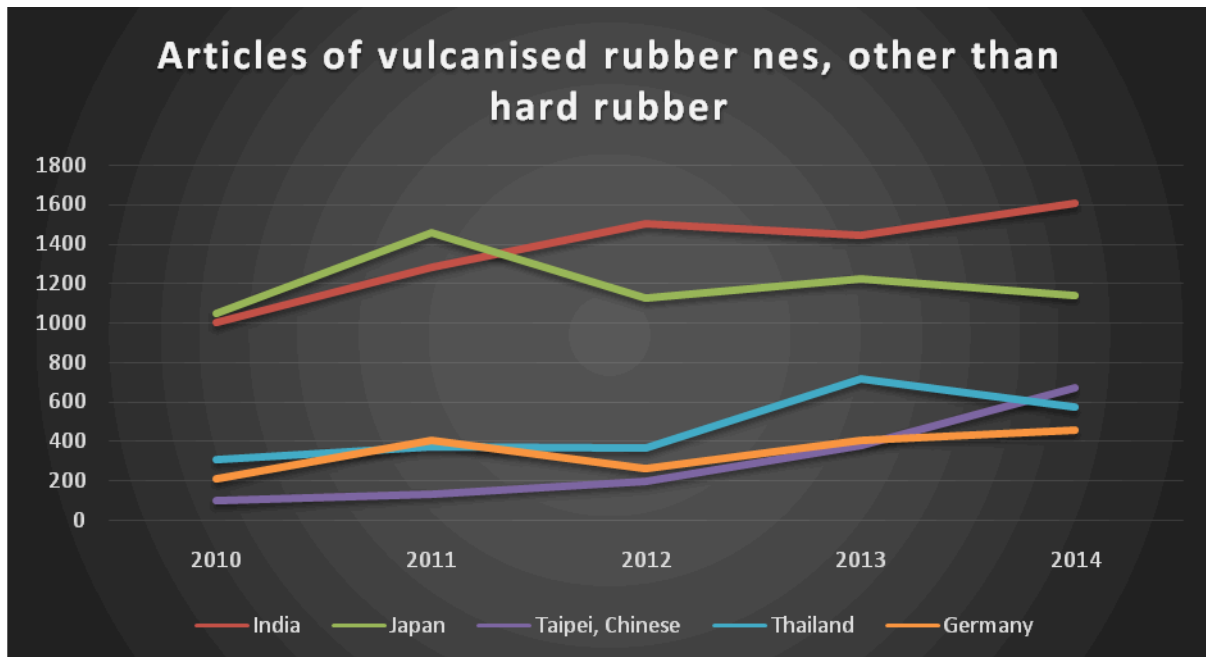
India is second largest exporter to Sri Lanka. There is 11% growth in value and 1% in quantity imported by Sri Lanka from India from 2010 to 2014.Tariff applied by Sri Lanka on this product is 5%.
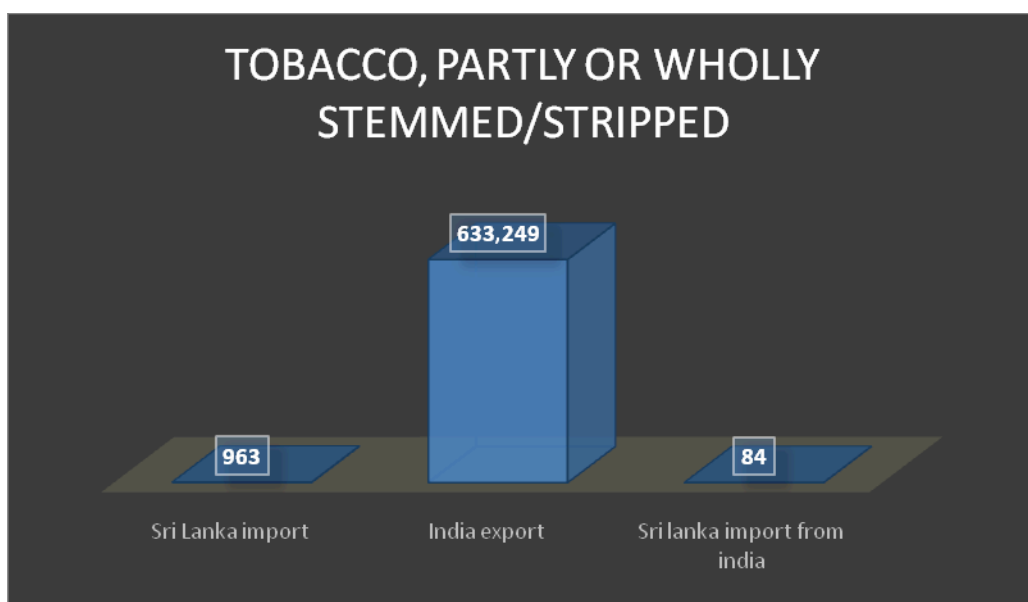
This item has 0.069% share in total imports of Sri Lanka in year 2014.Sri Lanka imported value of this product is 9288 USD thousand, out of this 1604 USD thousand was imported from India which is around 17.3% of its total imports. In 2014, 273 tons was imported from India with unit value of 5875.India exported 213000 USD thousand value product in year 2014.

6. Product: 2401.20 - Tobacco, partly or wholly stemmed/stripped
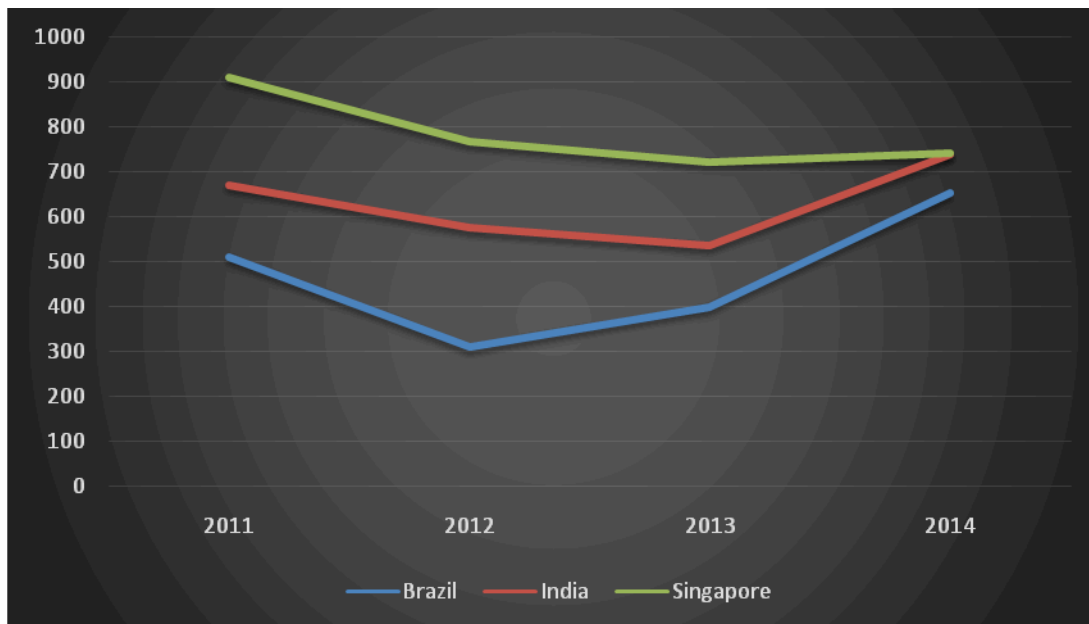

India is second largest exporter of this product to Sri Lanka. First is Singapore. Exports of India to Singapore are gradually increasing. Tariff applied by Sri Lanka is 75% which is extremely high as compared to tariffs applied Belgium (5%), Egypt (16%), Philippines (7%).

This item has 0.045% share in total imports of Sri Lanka in year 2014.Sri Lanka imported value of this product is 963 USD thousand, out of this 305 USD thousand was imported from India which is around 31.7% of its total imports. In 2014, 18 tons was imported from India with unit value of 16944.India exported 633,249 USD thousand value product in year 2014.

7.Product: 2401.10- Tobacco, not stemmed/stripped
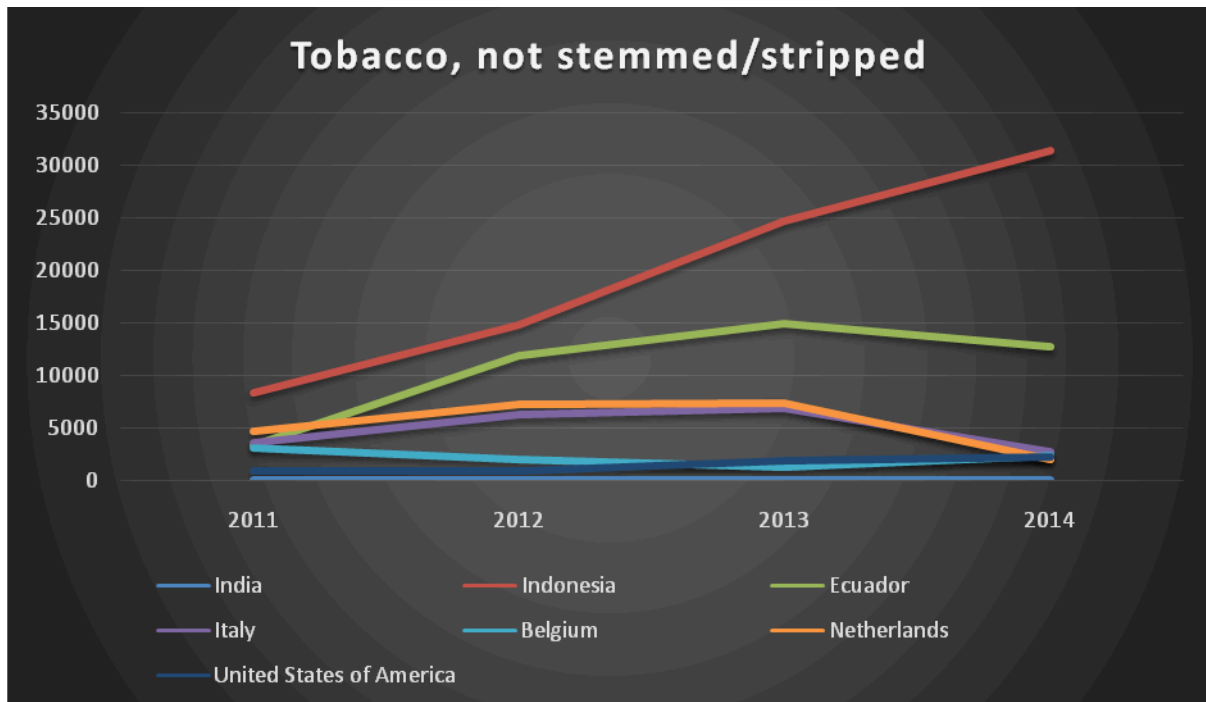
Indonesia, Ecuador and Italy are main exporter of this commodity to Sri Lanka. There has been negligible trade on this commodity in year 2014. Even in earlier years trade has been very less. Tariff charged by Sri Lanka is 75%. Sri Lanka should open up his market for India as his good is also competitive in international market.

8. Product: 4011.20 - Pneumatic tires new of rubber for buses or Lorries.

Pneumatic tires new of rubber for buses or lorries
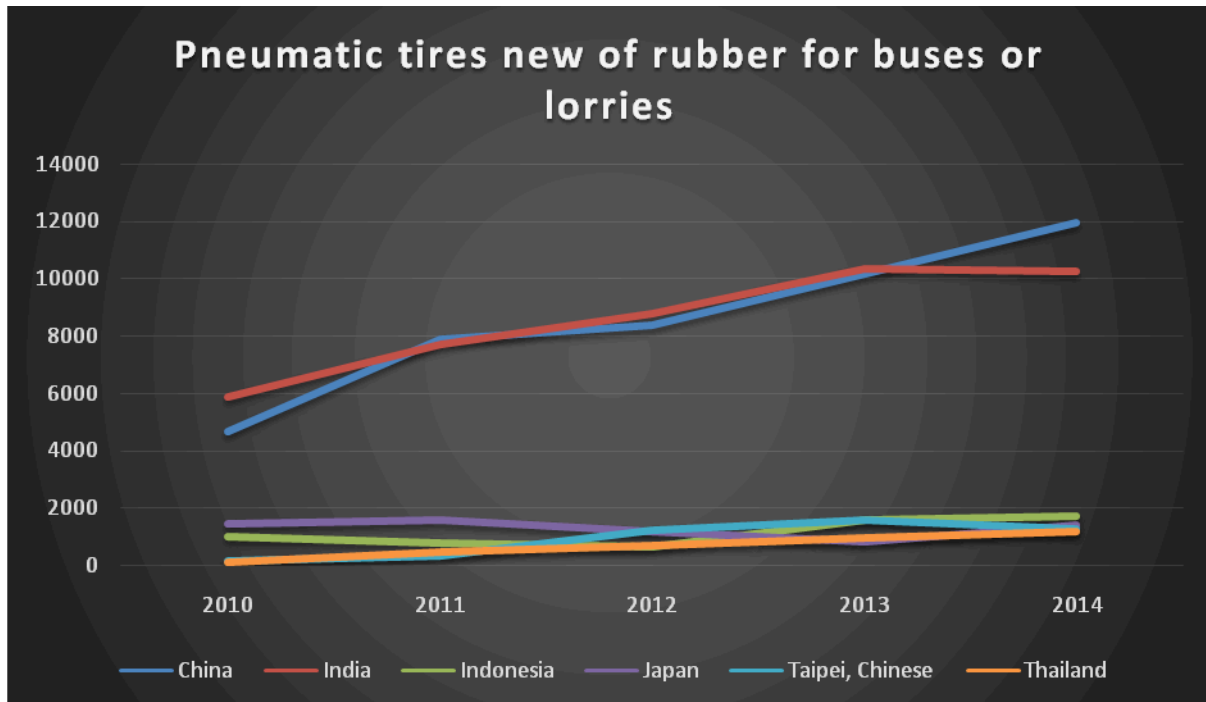
India is one of the main exporters of this product to Sri Lanka. Sri Lanka imported 28,935 valued pneumatic tires new of rubber or lorriesout of which 35.4% was imported from India. Growth in imports from 2010 to 2014 is 15%.Tariff applied by Sri Lanka on import of this good from India is 15%.

PNEUMATIC TIRES NEW OF RUBBER FOR BUSES OR LORRIES
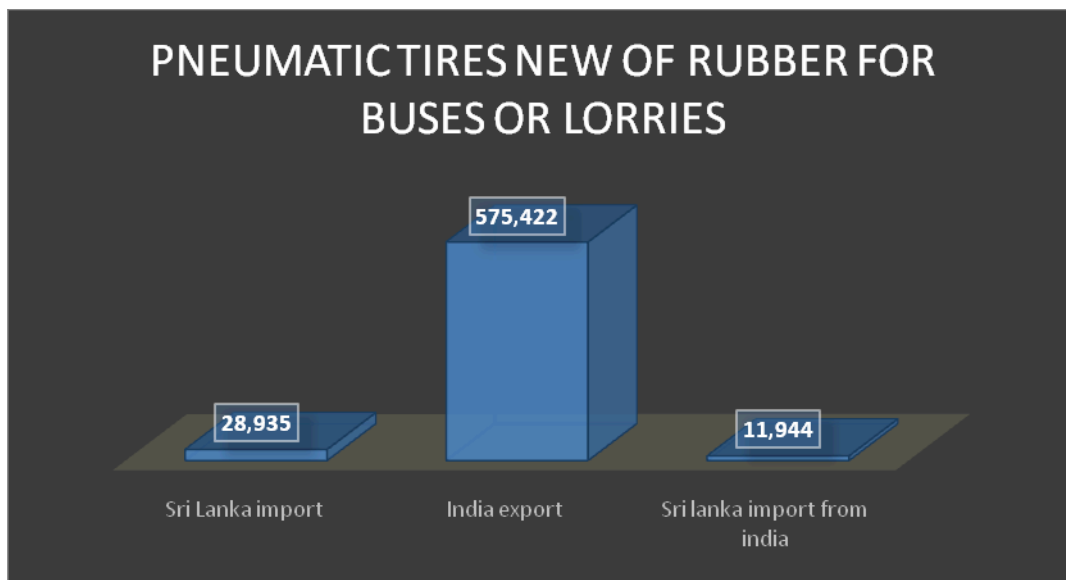
This product has 0.14 % share in total imports of Sri Lanka. Sri Lanka imported 2232 tons of this product from India in year 2014 with unit value of 5351.India exported 575422USD thousand worth product to international markets.

9.Product: 0713.20 - Chickpeas, dried, shells, whether or not skinned or split.

Chickpeas, dried, shelled, whether or not skinned or split
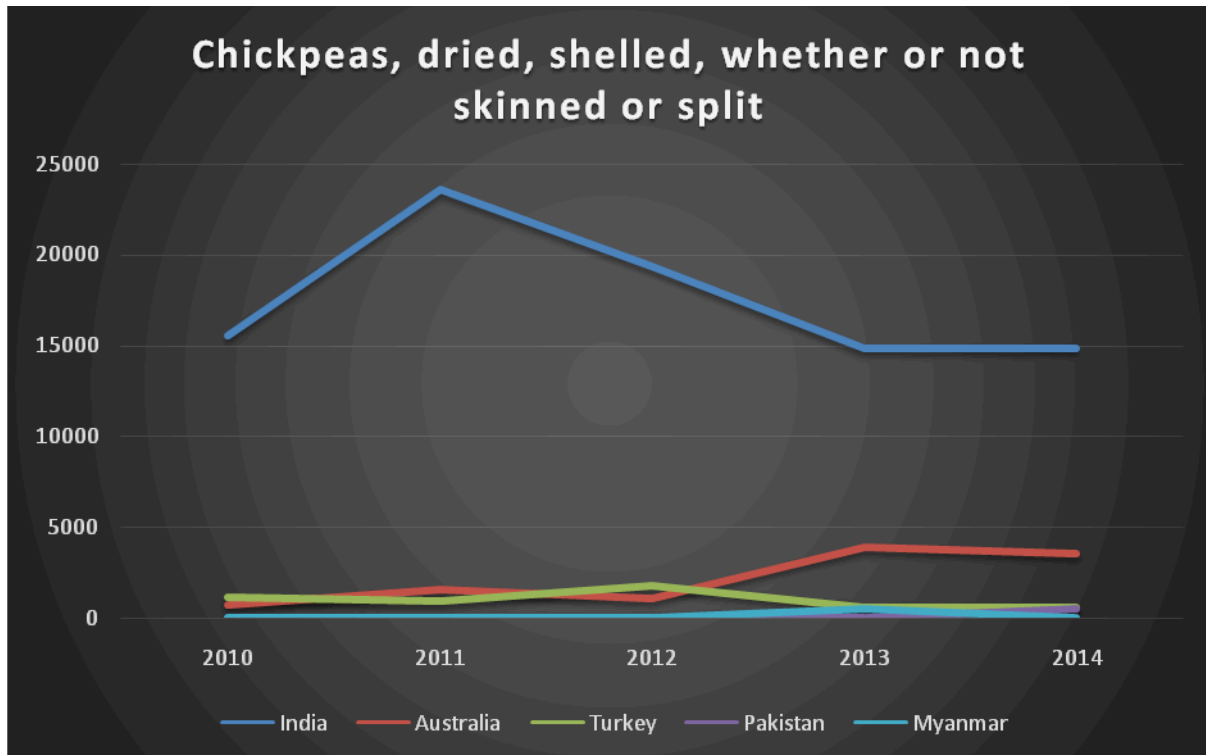
India is biggest exporter of this product to Sri Lanka. The growth in imports of this product from India from 2010-2014 is negative (-5%). Growth in quantity imported from India is also 1%. Tariff charged by Sri Lanka on India is 15%, whereas Pakistan charges 2%, Algeria 5%.

CHICKPEAS, DRIED, SHELLED, WHETHER OR NOT SKINNED OR SPLIT
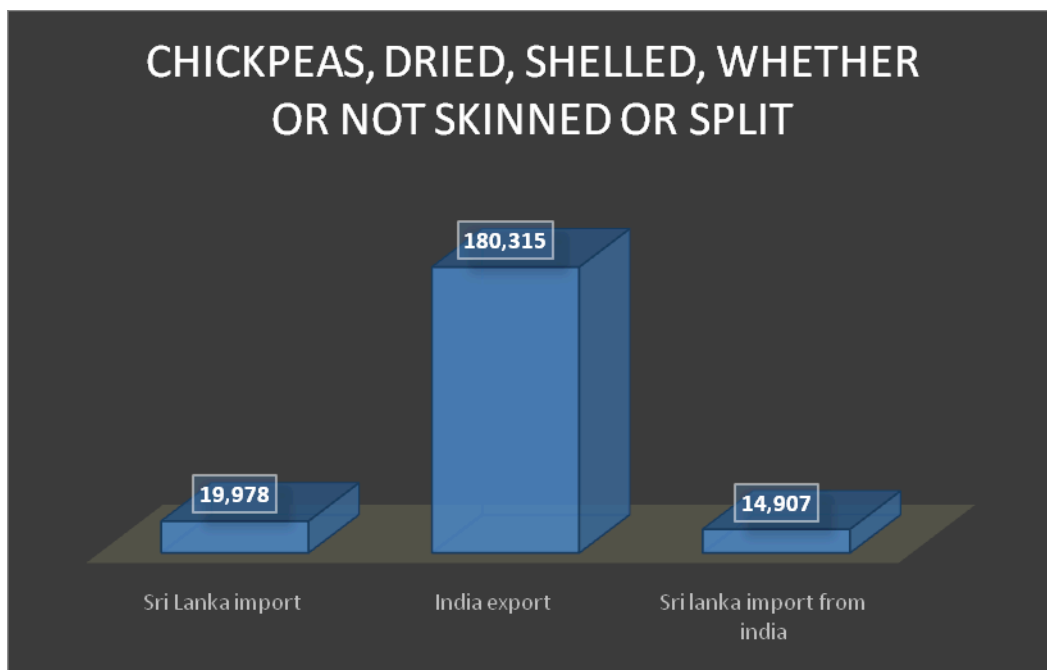
India exported value to the world in year 2014 is 180315 USD thousand. Sri Lanka imported 19,978 valued products from the world in year 2014 out of which 74.6% was

imported from India. Sri Lanka imported 17,458 tons of product from India with unit value 854.

10. Product: 0305.59 - Fish nes, dried, whether or not salted but not smoked.

This product also comes under category II of categorization as per RCA's. Therefore, India and Sri Lanka both are competitive in international market. This item can be removed from the sensitive list as Sri Lanka is already competing
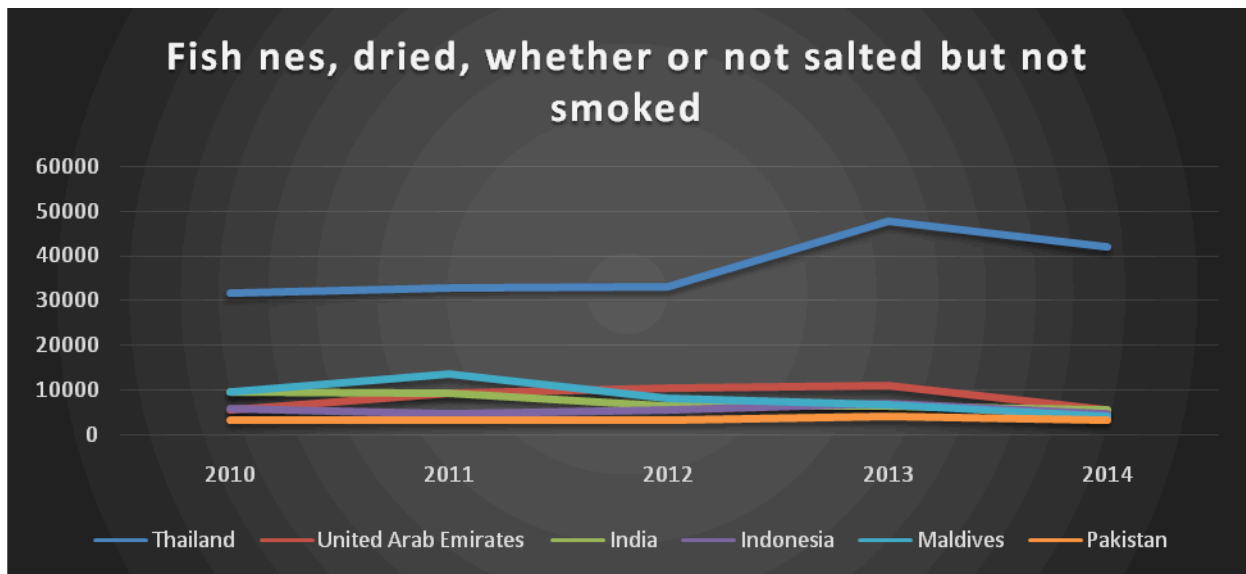
Third largest exporter of fish nes, dried, whether or not salted but not smoked is India in 2010 but it is gradually decreasing. Thailand is largest exporter of this product to Sri Lanka
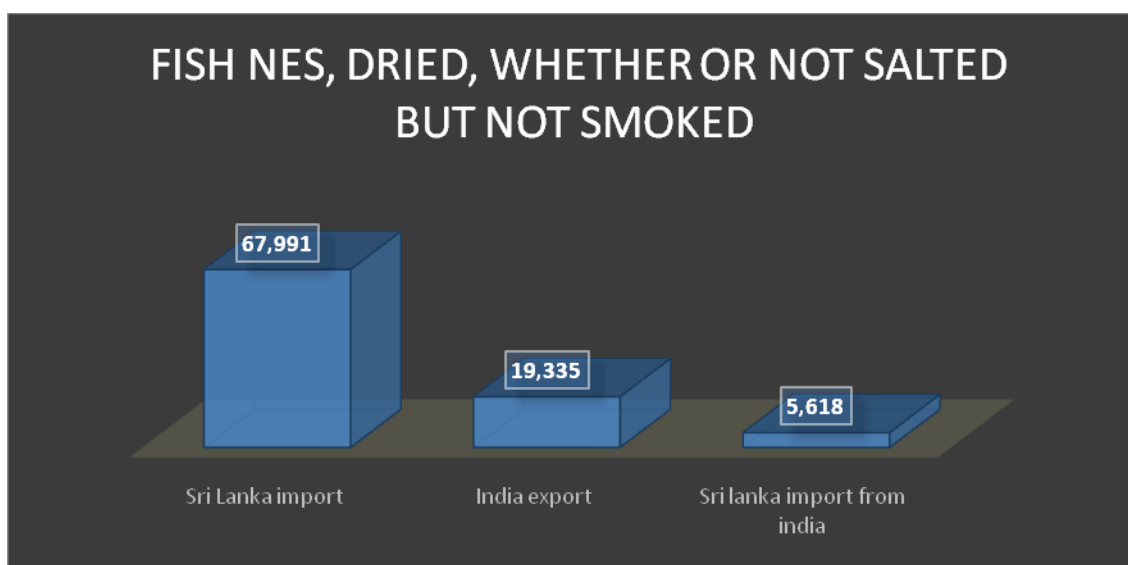
Sri Lanka imported 67991USD thousand worth product from the world. India exported 19335 USD thousand valued products to the world out of which 5618 was to Sri Lanka.

Conclusion

The 10 products discussed in this paper are not vulnerable from import from India to Sri Lanka. Therefore, Sri Lanka can remove these products from sensitive list. The analysis suggests that those products which are vulnerable can be retained in the sensitive list but items which cannot harm the domestic market of Sri Lanka should be removed so as to improve the trade. This approach has implications for Sri Lanka's import policy vis-à-vis India's and could be used to liberalize Sri Lanka's imports in SAFTA.

Appendix

RCA:

Since RCA is central to the pruning exercise it is important to explain why this index has been selected as an indicator of competitiveness. Kathuria (1997) points out that competitiveness can be measured by the extent of successful export performance. It is common in the literature to measure comparative advantage with the help of the Balassa index. The use of revealed comparative advantage (RCA) hence captures competitiveness of a country's export products vis-à-vis each other in the international market. The concept of RCA can also be used by pairing the RCAs for products of an exporting country with the corresponding RCAs of another country. This provides an approach for classifying pairs of items for any two exporting countries on the basis of their competitiveness. This can also serve as a rationale for identifying items that are most vulnerable to competition.

The RCA index is a ratio of the share of a given product in a country's exports relative to the product's share in world exports (Balassa, 1965). RCA is computed using the following formula:

$$RCA_{ij} = (X_{ij} / X_I) / (X_{wj} / X_W)$$

Where X_{ij} represents country i's export of commodity j, X_{wj} represents world exports of commodity j, X_I represents the total exports of country I, and X_W represents total world exports.

Tables:

S.NO	HS code	Product	SRCA>1	IRCA<1
1	8308.9	Beads,spangles&other made up art nes,for clothing/footwear,awnings etc	1.8513	0.975

S.NO	HS code	Product	SRCA>1	IRCA>1
1	240120	Fish nes, dried, whether or not salted but not smoked	6.829399231	37.86057292
2	305.59	Lentils dried, shelled, whether or not skinned or split	6.6472813	9.384207953
3	713.4	Glass fibres (incl glass wool) and articles thereof	12.7046719	1.14210378

			3	5
4	2401.1	Food preparations nes	4.539064811	15.07399517
5	4011.2	Natural rubber in smoked sheets	1.234600839	12.42281141
6	2106.9	Tobacco, partly or wholly stemmed/stripped	2.301829001	2.788804052
7	4001.21	Tobacco, not stemmed/stripped	12.33851661	3.593499021
8	713.2	Pneumatic tires new of rubber for buses or lorries	2.425465816	100.3846587
9	4016.99	Chickpeas, dried, shelled, whether or not skinned or split	8.716575453	9.203005119

S.NO	HS code	Product	SRCA<1	IRCA<1
1	2202.1	Waters, including mineral waters and aerated waters, containing added sugar or	0.145184548	0.166097539
2	2208.9	Undenatrd ethyl alc <80% alc cont by vol&spirit,liqueur&spirit bev nes	0.062556089	0.395972452
3	8703.33	Of a cylinder capacity exceeding 2,500 cc :	0.012201696	0.251294258
4	8703.32	Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc :	0.002363577	0.244409795
5	8415.1	Window or wall types, self-contained or "split system" :	0.030213567	0.887961847
6	8703.24	Of a cylinder capacity exceeding 3,000 cc :	0.027661522	0.008652493

S.NO	HS code	Product	SRCA<1	IRCA>1
1	8703.22	Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc:	0.002431	24.38637
2	1701.99	Refined cane or beet sugar, solid, without flavouring or colouring matter	0.044653	28.47538
3	902.4	Other black tea (fermented) and other partly fermented tea : 9024 - Machines for testing the hardnes /strength	0.063121	140.3450
4	210390	Sauces and preparations nes and mixed condiments and mixed seasonings	0.101338	1.927948
5	220830	Whiskies	0.249869	5.310601
6	8703.23	Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000	0.0014538	1.306182
7	703.1	Onions and shallots :	0.0471009	77.11873
8	7308.9	Structures&parts of structures,i	0.0929838	6.122979
9	6908.9	Tiles, cubes and sim nes, glazed ceramics	0.7502942	9.333263
10	1901.9	Malt extract&food prep of Ch 19 <50% cocoa&hd	0.2934992	6.263582

		0401 to 0404 < 10% cocoa		
11	3920.2	Film and sheet etc, non-cellular etc, of polymers of propylene	0.0114116	13.33565
12	7210.49	Flat rolled prod,i/nas,plated or coated with	0.0028489	23.38162
13	7308.2	Towers and lattice masts	0.0354487	43.99819
14	1006.3	Semi-milled or wholly milled rice, whether or not polished or glazed	0.5451517	184.1021
15	8507.1	Lead-acid, of a kind used for starting piston engines	0.0883735	3.758823
16	8708.99	Motor vehicle parts nes	0.0037054	14.93570
17	1806.9	Chocolate and other food preparations containing cocoa nes	0.618281	2.078472
18	7310.29	Cans, iron or steel, capacity <50 litres nes	0.179410	5.256196

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