India- Sri Lanka Background Note

Key achievements of the Sri Lankan Economy in the year 2011

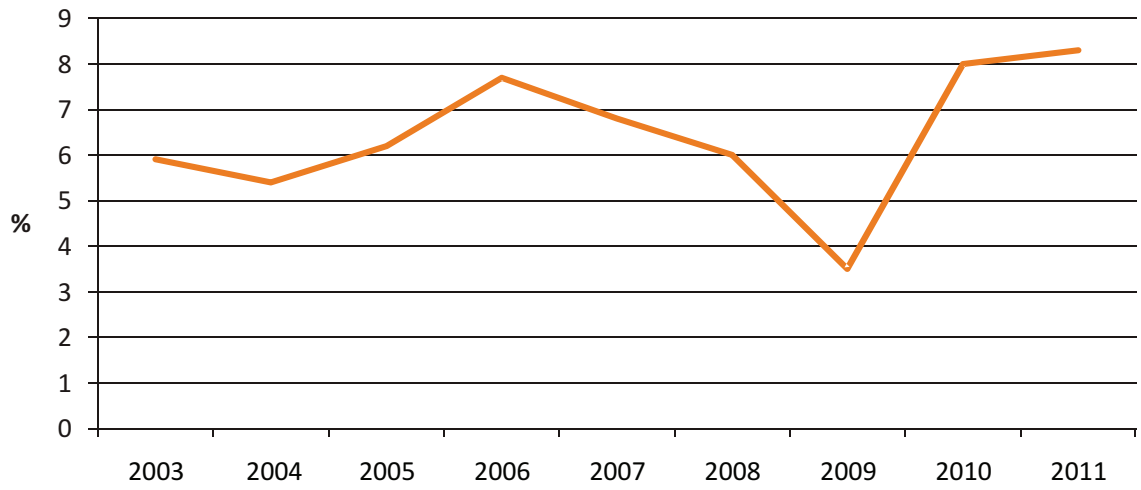
1. Services recorded its highest growth in 46 years.
2. Fisheries recorded its highest growth in 39 years, except the year after the Tsunami.
3. Industry recorded the highest growth in 33 years
4. Construction recorded its highest growth in 31 years.
5. Import trade recorded its highest growth in 18 years.
6. Small industries recorded its highest growth in 14 years.
7. Hotels and restaurants recorded its 2nd highest growth in 12 years, except for post Tsunami year.
8. Manufacturing recorded its highest growth in 11 years.
9. Factory industry recorded its highest growth in 11 years.
10. Export trade recorded the highest growth in 11 years.



Sri Lankan Economy[1]

The Sri Lankan economy grew by 8.3 percent in 2011. This was the highest in Sri Lanka's post-independence history. This growth came on the back of 8 percent plus growth in the previous year. Improved consumer and investor confidence arising from the peace dividend, favourable macroeconomic conditions, increased capacity utilisation, expansion of infrastructure facilities and renewed economic activity in the Northern and Eastern provinces underpinned this growth.

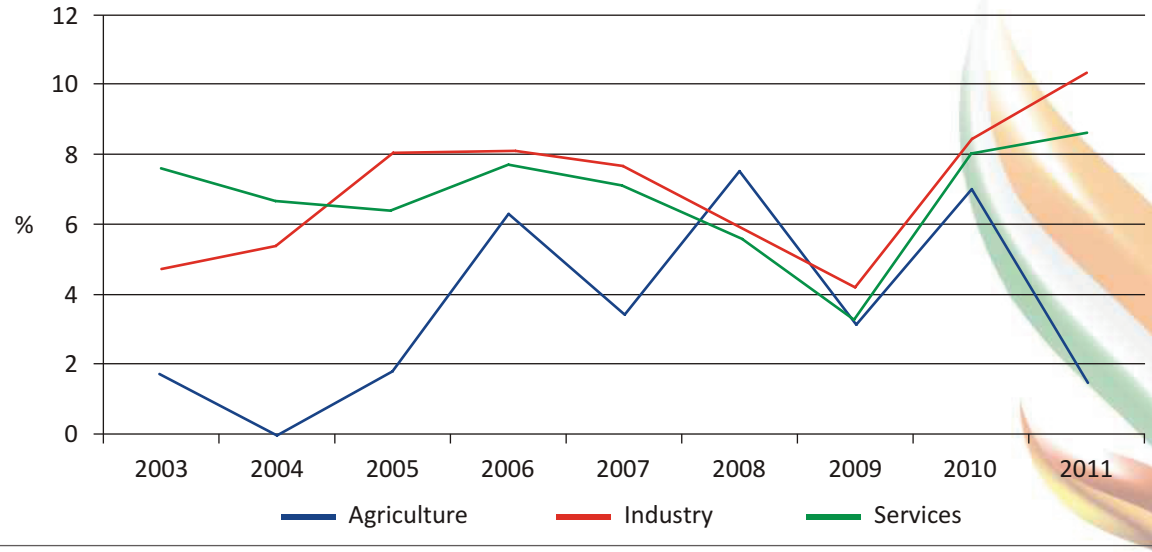
Fig 1 : Sri Lanka GDP Growth (%)



Value Added Sector Wise

The Sri Lankan economy grew by an impressive 8.3 percent, in real terms in 2011, following a growth of 8 percent in 2010. The Industry and Services sectors were the drivers of the high growth momentum in 2011. The Agriculture sector rebounded from the output loss recorded due to adverse weather conditions at the beginning of the year. The expansion in economic activity was reflected in the unemployment rate, which declined to the lowest recorded level of 4.2 percent in 2011.

Fig 2 : Value Added Sector Wise



[1]*This section is based on information and data provided by the Central Bank of Sri Lanka*

Inflation

Even when the South Asian region has experienced higher inflation, the Sri Lankan economy saw experienced single digit inflation for the last three years. This can be attributed to improved domestic supply conditions, prudent liquidity management by the Central Bank and benign inflation expectations.

Monetary Policy

Low inflation and subdued inflationary expectations allowed the Central Bank to continue to ease monetary policy in January 2011, but cautious and gradual tightening was initiated thereafter as credit and monetary aggregates continued to grow at a rate higher than projected. High excess rupee liquidity and the possible emergence of demand driven inflationary pressures necessitated the raising of the Statutory Reserve Ratio (SRR) on all rupee deposits of commercial banks by one percentage point to 8 per cent in April 2011. However, credit growth to the private sector increased rapidly reflecting the pent-up demand for credit and the increased access to credit, including in the Northern and Eastern provinces, as a result of the peace dividend. Credit to the government and public corporations also expanded significantly during the year contributing to high monetary expansion. As credit continued to grow unabated, in February 2012, the Central Bank raised policy interest rates. The Central Bank also issued a Direction in March 2012 to licensed banks as per Section 101(1) of the Monetary Law Act to limit credit growth to rein in possible demand fuelled inflationary pressures and to contain import related credit in order to safeguard external sector stability.

Fiscal Policy

Fiscal Deficit

The government reiterated its commitment to the fiscal consolidation process by maintaining the key fiscal indicators broadly in line with the budgetary estimates for 2011. Despite the shortfall in revenue collection, prudent management of recurrent expenditure helped maintain the fiscal deficit at 6.9 percent of GDP, marginally above the budgetary target of 6.8 percent of GDP.

Tax Reforms

The budget for 2011 introduced major tax reforms to simplify the tax system, broaden the tax base and improve tax compliance with the objective of strengthening tax collection, while creating an environment to attract private investment. In addition, various tax incentives were provided to encourage investment in specific sectors, while changes to the tax structure were intended to develop key sectors in the economy such as the financial sector. While tax reforms are expected to enhance revenue mobilisation in the medium term, the abolition of several taxes and the reduction in tax rates resulted in a decline in the tax revenue collection during the year. Rationalisation of recurrent expenditure and a slower growth in interest expenditure given the favourable interest rate environment helped contain recurrent expenditure while investment on public infrastructure was maintained at a level to support the high growth momentum. Reflecting the improvement in the fiscal sector, the debt to GDP ratio declined to 78.5 percent in 2011 from 81.9 percent in 2010.

External Sector

The external sector, which strengthened in the first half of 2011, came under pressure during the latter part of the year due to adverse global developments and rapid growth in imports. Despite the healthy growth in exports, significantly high import expenditure reflecting high oil prices and a surge in investment and intermediate good imports led to a rise in the trade deficit to an unprecedented high level. Although

improved foreign inflows through private remittances and other inflows to the services account helped to cover a substantial part of the trade deficit, the current account deficit as a percentage of GDP, increased to 7.8 percent in 2011. Inflows of private long term investments and inflows to the government were not sufficient to offset the deficit in the current account. As the demand for foreign exchange in the domestic foreign exchange market increased, the Central Bank intervened to reduce the pressure on the exchange market. As a result the balance of payments (BOP) turned to a deficit and gross official reserves reached USD 6 billion by the end of 2011. Several measures were taken by the Central Bank to encourage foreign exchange inflows to the country.



India Sri Lanka Bilateral Relations

Introduction

India and Sri Lanka share a long history going back to 2500 years. Commercial links between the two countries can be traced back to the 4th century AD. Under the British rule, the economic relations further got a boost as legal barriers to movement of goods and labour practically disappeared.

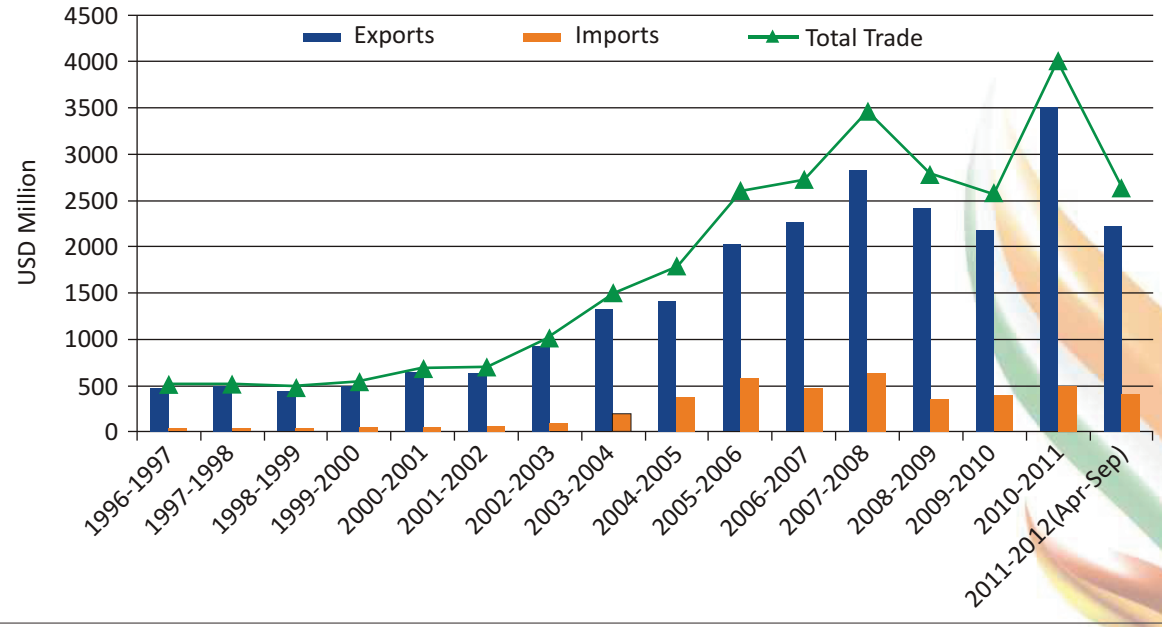
In the post independence period both the countries followed import substitution policies. This had a major impact on the bilateral trade. After this the first major step towards enhancing bilateral trade between India and Sri Lanka was the formation of Indo Sri Lanka Joint Committee on Economic Cooperation in 1968. The objective of the Joint Committee was to strengthen cooperation in trade, industry, agriculture and tourism. However, the trade between the two countries remained extremely low for the coming two decades. Sri Lanka had started its liberalization process in the year 1978. But the civil conflict in Sri Lanka, during the 1980s hampered the growth of bilateral trade.

The major turning point came when India's liberalization in 1991 coincided with a 'second wave' of policy reforms in Sri Lanka, and bilateral trade took an upturn.

India- Sri Lanka Bilateral Trade

India Sri Lanka bilateral trade in the year FY 2010-11 (Indian fiscal year) was USD 4.01 billion. This is a remarkable growth considering that thetotal trade stood at USD 520.25 million in the year 1996-97 (see fig 3). The total trade had increased at a compounded annual growth rate (CAGR) of around 15 percent during the period from 1996-97 to 2010-11. India Sri Lanka signed the FTA in the year 1998 which came into effect from the year 2000. The CAGR for the bilateral trade between the period 2000-01 to 2010-11 was at 19.33 percent.

Fig 3 : India-Sri Lanka Bilateral Economic Relations



Source: Ministry of Commerce and Industry, GOI

Major Export and Import Items

India's export to Sri Lanka grew at a CAGR of 14.2 percent from USD 477.41 million in 1996-97 to reach USD 3.51 billion in 2010-11. However, exports grew at a remarkable rate of 60 percent from 2009-10 to 2010-11. The major items of exports relate to automobile, mineral fuels, cotton, sugar etc. The share of top 5 items (at HS 2 digit level) accounted for 52 percent of India's exports to Sri Lanka.

Table 1 : India's Top 5 Exports to Sri Lanka (Value in USD million)

HS Code	Commodity	2009-10	2010-11	%Growth
	Total	**2,188.01**	**3,510.05**	**60.42**
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	233.83	707.39	202.53
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	568.01	625.1	10.05
52	Cotton	152.86	215.09	40.71
17	Sugars and sugar confectionery	5.07	161.21	3,078.47
89	Ships, boats and floating structures	48.55	139.13	186.55

Source: Ministry of Commerce and Industry, GOI

India's imports grew from USD 42.84 million in 1996-97 to USD 501.73 million in the year 2010-11. During this period, the CAGR grew at 17.83 percent. The major items of imports from Sri Lanka are given in table 2. The share of top 5 items (at HS 2 digit level) was 53 percent in the year 2010-11.

Table 2 : India's Top 5 imports from Sri Lanka (Value in USD million)

Hs code	Commodity	2009-10	2010-11	%Growth
	Total	**392.19**	**501.73**	**27.93**
89	Ships, boats and floating structures	233.83	707.39	202.53
9	Coffee, tea, mate and spices	53.81	58.17	8.11
40	Rubber and articles thereof	45.08	47.1	4.48
23	Residues and waste from the food industries; prepared animal fodder	48.75	46.83	-3.93
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	28.63	37.01	29.3

Source: Ministry of Commerce and Industry, GOI

Bilateral Agreements

India- Sri Lanka bilateral relationship has been strengthened by a number of agreements which have been signed to increase the economic and commercial cooperation between the two countries. They are given below:

- India- Sri Lanka Free Trade Agreement (ISLFTA)
- Double Taxation Avoidance Agreement (DTAA)
- Bilateral Investment Protection and Promotion Agreement (BIPPA).

Moreover, a number of bilateral agreements / MoUs have also been signed to increase sector wise cooperation:

- Air Services
- Small Development Projects
- Cooperation in Small Scale Industries
- Cooperation in Tourism, IT, Space, Education, Road Development and Agriculture.
- Cooperation on Science and Technology
- A Comprehensive Economic Partnership Agreement (CEPA) has been negotiated and declared ready for signature but has not yet been signed.

India-Sri Lanka Free Trade Agreement (ISLFTA)[2]

The India-Sri Lanka Free Trade Agreement (ISLFTA) that was signed in 1998 and entered into force in March 2000. A number of factors had played a role in signing of the ISLFTA. Local socio-economic sensitivities, safeguard measures to protect domestic interests, and revenue implications so as not to impact high revenue generating tariff lines in the short term, were taken into account. Considering the difference between the sizes of the two economies, India sought to do more without insisting on strict reciprocity from Sri Lanka. India agreed to open more tariff lines upfront and within a shorter time span of three years as against smaller and more staggered openings by Sri Lanka which was provided a longer time of eight years.

Currently 4150 Indian tariff lines have been made zero duty for Sri Lankan exports to India. Similarly, 3932 tariff lines have been made zero duty for Indian exports to Sri Lanka. In addition to these steps, India has offered quotas to Sri Lanka on certain tariff lines:

- 15 million tonnes of Tea (5 tariff lines) with 50% margin of preference with no port entry restrictions since June 2007;
- Textiles, where there is a 25% tariff reduction for 528 Textile items; and
- Garments where the 50% margin of preference on 8 million pieces over 233 tariff lines.

The Garments quota terms were further liberalized through a Memorandum of Understanding which came into effect in 2008. As a result, India has reduced duty to zero and removed restrictions on entry ports and sourcing of fabrics from India for 3 million pieces of apparel products from Sri Lanka. India has also removed port restrictions on the balance 5 million pieces of apparel products. These 5 million pieces of garments will be allowed to enter India at zero duty or Margin of Preference of 75% depending on the product category provided that they are manufactured using Indian made fabrics.

---

[2] *The section is based on the information provided by the Indian High Commission, Colombo, Sri Lanka*

ISLFTA Rules of Origin

In order to receive ISLFTA benefits, the merchandise exported between India and Sri Lanka should comply with the following Rules of Origin criteria:

Wholly Obtained Products

All wholly obtained products such as tea, fish, spices etc. will be able to enjoy duty free benefits at each other's markets without difficulty, provided they are eligible for duty concessions.

Products not Wholly Produced or Obtained

These include the products manufactured using imported raw materials. In order to enjoy ISLFTA benefits, the products should comply with the following criteria.

- The Domestic Value Addition (DVA) in the exporting country should not be less than 35% of the FOB value of the finished product, and
- HS Codes of the imported raw materials and the finished products should be different at 4-digit level (Change of Tariff Heading criteria).

Cumulative Rules of Origin

The Cumulative Rules of Origin encourage the contracting states (India and Sri Lanka) to source raw materials needed for their exports from each other. Accordingly, an exporter has to show only a minimum DVA of 25% of the FOB value of the finished product, provided the raw materials imported from the other contracting state accounts for not less that 10% of the FOB value of the particular product. (In other words, the aggregate value addition should not be less than 35% of the FOB value of the finished product, while the DVA in the exporting country should be minimum 25% of the FOB value)

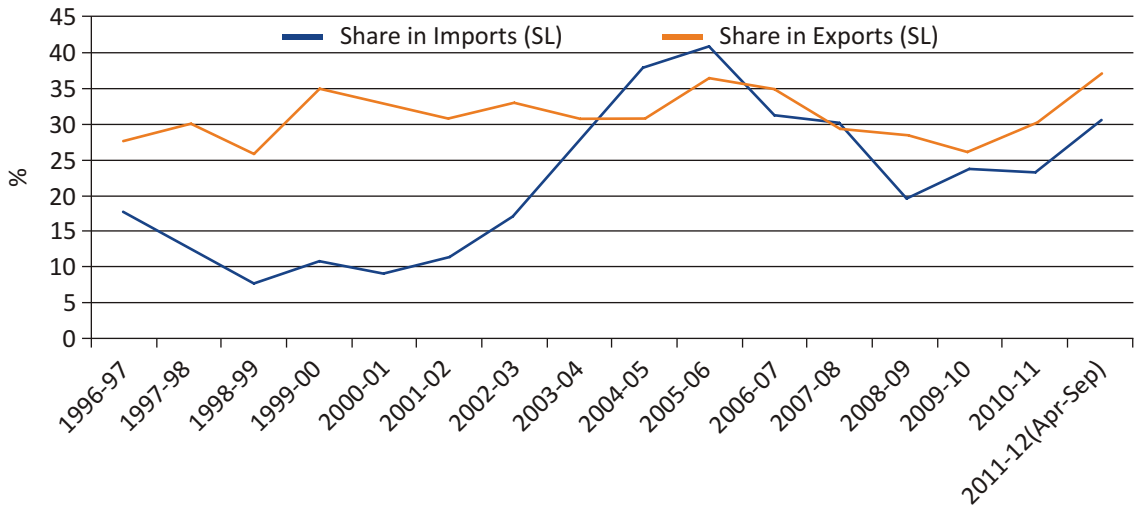
Under SAFTA, the Rules of Origin and Cumulative Rules of Origin are slightly different and the SAFTA agreement text must be consulted before making use of this provision.

Operational Certification Procedures (OCP)

Both ISLFTA and SAFTA specify Operational Certification Procedure for obtaining Certificates of Origin (COO) to make products eligible for concessions in the country of export under the relevant agreements. These must be carefully consulted and followed to avoid disappointment. The validity of the COO under SAFTA is 12 months and can be issued within 3 working days of the shipment of the product. The ISLFTA is silent in this regard and it is advisable to obtain COO before the consignment is shipped to avail benefits under the ISLFTA.

Positive Impact of ISLFTA

Fig 4 : Share of Sri Lanka in India's Trade with South Asia



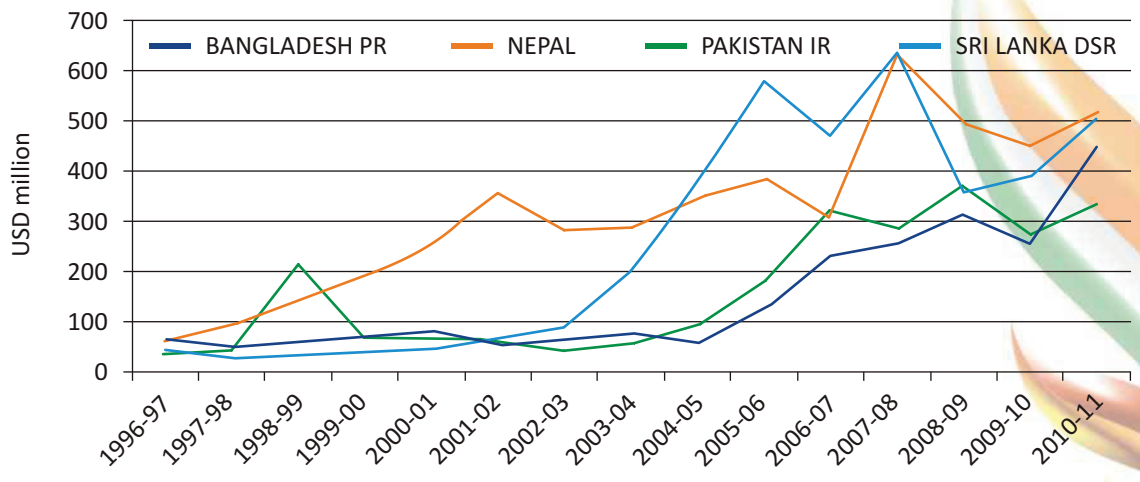
Source: Ministry of Commerce and Industry, GOI

Figure 4, gives the share of Sri Lanka in India's trade with SAARC countries. Sri Lanka's share has consistently increased after the signing of ISLFTA. Bilateral merchandise trade stood at USD 4.12 billion in the FY 2010-11.The bilateral trade got an immense boost after India-Sri Lanka Free Trade Agreement was signed in the year 1998, which came into effect in the year 2000. Sri Lanka's share in India's imports from the SAARC region stood at around 9.4 percent in 2000-01 and now has grown to 23 percent by 2010-11. When the data for April to September 2011-12 is compared Sri Lanka's share in the region is at around 30 percent.

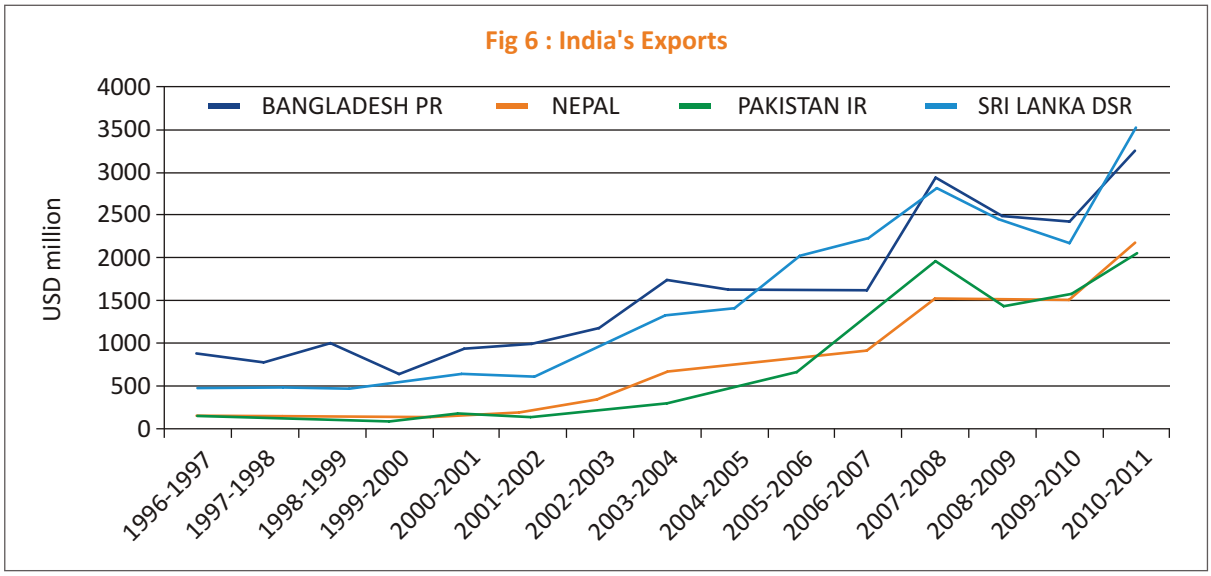
India's exports to Sri Lanka stood at 33 percent of its exports to the region at the time of signing the ISLFTA, but has declined to around 30 percent by 2010-11. As per the latest figure (April-September, 2011), the exports formed around 36 percent.

Fig 5 and Fig 6 show the imports and exports of India with selected South Asian countries. After the signing of FTA , Sri Lanka's importance as India's trading partner in the region has increased.

Fig 5 : India's Imports



Source : Ministry of Commerce and Industry, GOI



Source : Ministry of Commerce and Industry, GOI

Bilateral Investments

Sri Lanka has long been a priority destination for direct investment from India. India is among the four largest overall investors in Sri Lanka with cumulative investments over USD 600 million. Our main investments are in the areas of petroleum retail, hospitals, telecom, vanaspati, copper and other metal industries, real estate, telecommunication, hospitality & tourism, banking and financial services, IT and food processing (tea & fruit juices). India was the top investor in Sri Lanka in 2010. Out of the total FDI of USD 516.30 million, India's investment was USD 110.24 million constituting about 21 percent of the total investment. As per the latest estimates, Indian investments in Sri Lanka at a cumulative level stand at USD 700 million.

As per the latest figures available from Department of Industrial Policy and Promotion, India (DIPP), the cumulative investment from Sri Lanka in India between the year 2000 to May, 2012 stood at USD 23 million.

Main Indian investments are[3]:

- Lanka IOC PLC

  Lanka IOC PLC is a public liability company listed in the Colombo Stock Exchange with a turnover of SL Rs. 44.76 billion with a net profit after tax of SL Rs. 2.34 billion for the year 2007-08. Lanka IOC PLC has been ranked as No.1 amongst corporate in Sri Lanka by LMD (Lanka Monthly Digest – a business magazine).

  Lanka IOC has successfully raised money through an IPO to fund expansion of its activities, including the setting up of a lubes plant in Trincomalee with an investment of USD 5 million in 2008.

- Tata Communications Lanka Limited

  VSNL Lanka Limited, a part of the USD 29 billion Tata Group has now been renamed as Tata Communications Lanka Limited, following the global launch of Tata Communications as the new corporate identity for VSNL. Tata Communications Lanka Limited was incorporated in June 2003 and obtained an External Gateway Operator License (EGO). The company commenced operations in February 2004. The company has created a niche for itself for catering to the global telecommunication needs of the customers in Sri Lanka.

[3] *Information taken from Indian High Commission in Sri Lanka*

- ICICI Bank

ICICI Bank Limited commenced banking operations in Sri Lanka through a branch office on January 16, 2006, with the approval of the Monetary Board of Central Bank of Sri Lanka (CBSL) under the Banking Act of 1988.

ICICI Bank brings a range of world-class products & services to Sri Lanka with offerings in Personnel banking backed by technological strength and understanding of the global financial market.

- Asian Paints (Lanka) Limited

Asian Paints (Lanka) Limited is the second largest paint company in Sri Lanka, manufacturing complete range of Protective and Decorative Coatings.

The unit began operations in 1999 by acquiring Delmege Forsyth and Co. (Paints) and was later renamed to Asian Paints (Lanka) Ltd in Sept 2000. The company manufactures around 5500 KL of paints annually.

- Bharti Airtel Lanka

Bharti Airtel Lanka is a subsidiary of Bharti Airtel, which is one of world's leading integrated telecom services provider. After its acquisition of Zain Africa and Warid Bangladesh in 2010, its customer base is stated to have increased to 179 million spread over 18 countries. Bharti Airtel has been featured in Forbes Asia's Fab 50 list, rated amongst the best performing companies in the world in the Business Week IT 100 list 2007, and voted as India's most innovative company in a survey by The Wall Street Journal.

Bharti Airtel Lanka commenced commercial operation of services on January 12, 2009, and now has an aggregate of 1 million customers, and is Sri Lanka's fastest growing wireless operator. It was granted a license in 2007, in accordance with the Sri Lanka Telecommunications Act No. 25 of 1991. Under the license, the company provides digital mobile services to Sri Lanka inclusive of voice telephony; voice mail, data services and GSM based services. All of these services are provided under the Airtel brand.

- Piramal Glass Ceylon

Piramal Glass Ceylon (PGC) is a successful venture of Piramal Enterprise Ltd of Mumbai India, in Glass Container for Packaging. It has stemmed out of Ceylon Glass Company which was acquired by Gujarat Glass Pvt Ltd (part of Piramal Enterprises Limited) in the year 1999-2000. It was renamed as PGC in 2008. Gujarat Glass Pvt Ltd (GGPL) currently holds 54% of the equity of Piramal Glass Ceylon Plc. PGC was incorporated on May 17, 1955. It was setup by a consortium comprising of the Government of Sri Lanka, Mitsui of Japan and DFCC. It is located at Ratmalana which is 17 Km South of Colombo.

Its present glass manufacturing facility is located at Ratmalana – 17 km South of Colombo and other ancillary unit is based at Nattandiya- 55 km North of Colombo. Since GGL acquisition, PGC has grown with a CAGR of 20%. The turnover for the year 2005-06 was 1.60 billion. The company has been strategically focusing on diversified market of Sri Lanka and also strategically ventured into international business of colored glass containers.

- UltraTech Cement

  UltraTech's bulk cement terminal in Sri Lanka is located at Colombo. Cement is received by specially-engineered, self-discharging bulk cement carriers. It is then discharged at the port in road bowsers which transport cement 10 kms from port to the terminal. Cement is stored in 4 x 7500 T cement concrete silos. A sophisticated bulk cement terminal (which subscribes to all environmental norms) despatches cement in bulk form to RMC and asbestos plants. The terminal also has a modern Italian make Ventomatic packer to pack cement in 50 kg. paper bags to service customers in the island.

  With its sharp focus on cement, the Aditya Birla Group has always believed that like arrangements between countries in different parts of the world for regional cooperation, it (the group) should be present in adjacent countries with facilities to qualify as a local producer of cement. Two of the countries adjacent to India have limited deposits of limestone, the basic raw material for cement. This position compels the two to be dependent on import for their domestic construction activity. It was in this context that a joint venture bulk cement terminal was established in Colombo, Sri Lanka.

  Gujarat Cement Works (GCW) has a captive jetty engineered for exports. Accordingly, for the past five years, bulk cement has been exported from GCW to UltraTech Ceylinco Pvt. Ltd. (UCPL), the group's joint venture (JV) in Sri Lanka.

- L&T Infocity Lanka Private Limited

  With LTIL as the lead partner in the SPV, L&T Infocity Lanka Private Limited (LTILPL) has promoted the IT facility in Colombo. This exclusive built-to-suit IT Park (0.19 million sq.ft.) is in Rajagiriya, close to the Parliament of Sri Lanka. This project was commissioned in April 2005 and HSBC Electronic Data Processing Lanka Private Limited (HDPL) runs a major IT-enabled service operation of back office processing/ call center from the facility. LTIL has conceptualized and promoted the project and has also rendered project management services to LTILPL.

- MphasiS Sri Lanka

  MphasiS Sri Lanka became operational in September 2010. The company plans to hire over 2000 people in the next 3 years in Sri Lanka. The center will join MphasiS' network of Global Delivery centers providing Applications, BPO and ITO services to clients world-wide.

  With more than 34,000 employees, MphasiS, the 7th largest IT services company in India has a presence across India, Singapore, China, Japan, Europe, North America and Australia. Employees at the Sri Lanka center will be part of MphasiS Global Talent Pool and groomed as a part of MphasiS Talent Development Program.

- CEAT -Kelani Associated Holdings (Pvt) Ltd

  CEAT – Kelani began as a joint venture of CEAT India Ltd, Associated Motor Ways PLC & Kelani Tyres PLC and is the largest tyre manufacturer in Sri Lanka. It is a dominant player in Sri Lanka's domestic tyre market, with a share of over 60% in the truck and light truck sector. The company is also a market leader in the farm and three-wheeler sectors in Sri Lanka, and has the largest dealer network on the island. The company has a state-of-the-art radial tyre manufacturing facility of world-class standard at Nungamugoda, Kelaniya and Nagoda, Kalutara. It offers a range of tyres for trucks, light trucks, farm vehicles, two/ three wheelers; and radials for cars and vans. The company also markets tubes and flaps.

  It exports to 14 countries in the world and is the first local tyre manufacturing entity to obtain ISO 9000 certification.

Sri Lankan Investments

The last few years have also witnessed an increasing trend of Sri Lankan investments into India. Main Sri Lankan investments in India include Ceylon Biscuits (Munchee brand), Carsons Cumberbatch (Carlsberg), Brandix (approx USD 1 billion to set up a garment city in Vizag), MAS holdings, John Keels, Hayleys, and Aitken Spence (Hotels). There are also investments in the freight servicing and logistics sector from the services industry.

Main Sri Lankan investments in India :

- **Lion Brewery** has signed a joint venture agreement with Carlsberg International to venture into India, to take advantage of the market opportunities arising from the growth in the Indian consumer market. The progress of this joint venture in India has been impressive. The Company now operates 4 breweries, one each in Maharashtra, Rajasthan, Himachal and Kolkata. Lion will hold a 22.5 percent stake in the Indian JV company.

- **Brandix Sri Lanka**, one of the largest Sri Lankan apparel companies, are involved in the development of a 1000 acre SEZ at Vishakapatnam aimed at setting up a fully integrated 'Apparel City'. The development is based on 'Fibre-to-Store' concept and seeks to eventually draw investments of about USD 1 billion, and employment for 60,000 people. The investment is of a pioneering nature bringing in new technology and concepts into the Indian Apparel industry and is estimated to contribute eventually to an export capacity of USD 1.4 billion a year. The progress of the project has been quite impressive and has as of now it has 11 enterprises/projects: (i) Brandix India Apparel City, (ii) Ocean India, (iii) Pioneer Elastic, (iv) CMT, (v) Abhistan Investment India, (vi) DEB Fashions India, (vii) Seeds Intimate Apparel India, (viii) Quantum Clothing, (ix) Brandix Apparel India, and (x) Knit T-Shirt and (xi) Baby Wear Projects.

- **Aitken Spence** has ventured into the Indian hospitality industry with its “Heritance” brand of hotels having bagged management contracts for three hotels in India: (i) Poovar Island Resort, Trivandrum; (ii) Barefoot at Havelock, Andaman Islands; (iii) Heritance Madurai; (iv) Tamara, Coimbatore and (v) Hotel Atithi, Puducherry. It has bagged many other management deals in India, including four hotels in Delhi, many of which are currently under construction.

- **Ceylon Biscuits** has invested in a property in Patiala to manufacture its Munchee Brand of biscuits in India. The project has suffered due to litigation with original owners and currently the matter is sub-judice.

- **John Keells Logistics India Private Limited (JKLI)** is a fully owned subsidiary of John Keells Holdings PLC. A multimodal logistics service provider JKLI offers Ocean and Air Freight (Imports and Exports), Inland Transportation and Customs Clearance as well as handling of Project Cargo. With offices in most major metros - Bangalore, Chennai, Cochin, Coimbatore, Delhi, Mumbai and representative offices in other cities the company handles international as well as inter and intrastate logistics requirements.

- **John Keells Foods India Pvt Ltd (JKFIL)**, is a fully owned subsidiary of John Keells Holdings PLC's Keells Food Products PLC (KFP) of Sri Lanka. It started operations in 2008 to manufacture and market processed meats, including a wide range of ready-to-serve Chicken, Pork, Fish and Mutton products. The products of JKFIL are targeted at key metro cities across India.

- **Amanté**, a subsidiary of MAS Holdings was launched in India in the Fall of 2007. Aamanté, exclusively launched lingerie brand in India by MAS is currently sold in 233 retail outlets across 22 Indian states and was voted as “Product of the Year” in an AC Nielsen survey in March 2010.

Comprehensive Economic Partnership Agreement (CEPA)[4]

During the visit of Prime Minister of Sri Lanka to India in June 2002, the two governments decided to set up a Joint Study Group (JSG) to explore possibilities of starting negotiations for a CEPA, modelled on the India-Singapore CECA. Based on the report of the JSG in October 2003, the two countries began negotiations on a CEPA in early 2005. Thirteen rounds of negotiations have been completed, the last round having been held in Colombo on July 8, 2008. Following the last technical level meeting, the Commerce Secretaries of the two countries met on July 9, 2008 to finalise the remaining issues and officially declared that CEPA negotiations have been completed. However, the agreement is yet to be signed. CEPA seeks to build on the momentum generated by the FTA and take the two economies beyond trade in goods towards greater integration and impart renewed impetus and synergy to bilateral economic interaction. The salient features of CEPA as presently negotiated include :

1. Incremental measures to reduce the negative lists of both countries and to deepen the tariff liberalization programme contained in FTA.
2. Additional concessions in garments and textiles sectors by India.
3. There is a proposal to create new Product Specific Derogations (PSRs) for a large number of Sri Lankan products by easing the rules of origin norms criteria for a range of products. This was to address concerns among some exporters in Sri Lanka who felt that the FTA Rules of Origin criteria were far too stringent leading to effective denial of export possibility. Some of the products likely to be included are apparel items, jewellery, furniture, machineries, electrical and other appliances, agricultural and agro-processed items, fishery products, non-ferrous metals, and so on.
4. Revise the provisions of Rules of Origin and Operational Certification Procedures in keeping with progress on these issues in SAFTA and other FTAs.
5. Commitment to identify and root out all non-tariff barriers;
6. Provision for a close cooperation mechanism between the Customs Authorities; for transparency of laws, rules and regulations through prompt publication, adoption of risk management techniques to allow expeditious clearance to low risk consignments, adoption of paperless trading methods, adoption of advance ruling system etc.
7. Provision for a Mutual Recognition Agreement (MRA) as well as stipulation to adopt common Sanitary and Phyto-sanitary Standards (SPS). This measure is aimed at dealing with delays due to lab testing and certification processes. Testing and certification done in Sri Lanka or India would be recognized in each other's country. The products that will benefit include: ayurvedic products, fish and fishery products, coffee, tea and spices, edible fruits and nuts, vegetable fats and oils, all kinds of animal and animal products, plant and products of plant origin, and other agricultural and related items.
8. The main new opening in CEPA would be the inclusion of trade in services. A positive list approach as under WTO would be followed and reflected in the Schedule of Commitments of both countries. Like in the trade in goods covered under FTA, there would larger and deeper openings by India than by Sri Lanka. India will open far more sectors upfront and grant deeper concessions in each of these areas. In return, Sri Lanka will adopt a more gradual approach, open only selected areas and restrict openings in these sectors to levels it is comfortable with.
9. The Agreement will also update the Bilateral Investment Protection and Promotion Agreement (BIPPA). It will contain a schedule of commitment on investments which would be larger for India than for Sri Lanka.

[4] *High Commission of India in Colombo.*

10. Provision for bi-annual meetings at the level of Commerce Secretaries and annual meeting of the Commerce Ministers to deal with unresolved issues and to ensure that all concerns are addressed at a very high level and on a regular basis.

11. Provision of dispute resolution mechanism for redressal through non-governmental means by providing for arbitration.

12. Provides for economic cooperation in a wide range of areas. These include: Energy; Manufacturing; Services; Transport and infrastructure; Science and technology; Human resource development; and SMEs. This would help in creating capacities and developing human resource potential in Sri Lanka to better leverage the new openings envisaged in CEPA.

Areas of Cooperation

1. Tourism is an important aspect for people to people links. Arrival of Indian tourists in Sri Lanka is increasing every year. Sri Lanka, The Land of Emeralds, is an island to be explored. The Government of Sri Lanka hopes to attract two million tourists by the year 2016. 25 per cent of that two million, that is 500,000 tourists, will come from India. Thus, tourism and hospitality sector are important from the point of view of collaboration. For instance, ITC has recently made an investment of USD 100 million.

2. Youth have high aspirations globally, and Information Communication Technology (ICT) seems to be catching their imagination. ICT has huge potential and could be an important area of cooperation as it not only promotes technology up-gradation but also generates employment.

3. Telecom sector provides great opportunities for collaboration. Sri Lanka's telecom sector has shown a significant growth in recent times. The sector has been one of the major contributors of Foreign Direct Investments (FDI) to the county. It is expected to expand the capability of users for quick adaptation to digital technology, create partnerships with the private sector to improve information and knowledge sharing, upgrade the telecommunications services to meet the expectations and requirements of government, business communities, and general public and minimize the regional disparity of telecommunication facilities. Bharti Airtel has invested around USD 300 million in mobile telecommunications.

4. The base demand for power in Sri Lanka was 2517 MW in 2010 and is forecasted to increase up to 5306 MW by 2020. The Ceylon Electricity Board plans to generate 20% of the power supply from renewable energy sources by 2020 from 6% at present. In view of the growing demand for power and for the purpose of bridging this gap, longer-term more sustainable energy mix, options around renewable and clean energy generation (wind, wave, solar) and importing electricity from India could be explored.

5. Also, huge opportunities exist in the field of infrastructure. Indian companies can play a pivotal role in the Sri Lankan market (especially Northern and Eastern provinces) by partnering with Sri Lankan companies.

6. Agriculture, skill development, automobile sector, apparels, banking and financial services, among others, provide immense opportunities for forging bilateral alliances. For instance, State Bank of India, Indian Overseas Bank, Indian Bank, ICICI, Rediffusion, LIC, Jet Airways, Sahara Airlines, Indian Airlines, CADD Centre, ICFAI, Raymond, Madura Fashion & Lifestyle, Lanka IOC, Ambuja Cement, Ashok Leyland, Bajaj Auto, CEAT, etc. to name a few, have made huge investments in Sri Lanka.

FICCI's Initiatives in Fostering India-Sri Lanka Economic Relations

- FICCI is the sole officially designated nodal Chamber in India by the Ministry of Commerce, Government of India for India-Sri Lanka Free Trade Agreement. India - Sri Lanka Free Trade Agreement was signed on 28th December 1998 which finally became fully operational in March, 2000.

- A Joint Business Council comprising of Federation of Indian Chambers of Commerce and Industry (FICCI) from India and Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) from Sri Lanka is in existence from February, 1979. Various meetings of the India-Sri Lanka Joint Business Council have been held so far both in India and Sri Lanka. The last meeting of India – Sri Lanka JBC was held in November, 2006 at Colombo where more than 50 Indian business delegates participated. The next meeting of India – Sri Lanka JBC is scheduled in February / March, 2011. Under the umbrella of JBC, various business delegations have been exchanged in order to promote trade and investments across countries.

- India and Sri Lanka are also partners in BIMSTEC along with Bangladesh, Thailand and Myanmar. The sectors of cooperation under BIMSTEC include trade and investment, technology, transport and communications, energy, tourism, agriculture, HRD sector etc.

- FICCI and FCCISL are primary members of SAARC Chamber of Commerce and Industry and have been actively promoting regional economic cooperation in South Asia.

Some of the recent FICCI initiatives

FICCI-IIFA Global Business Forum, June 4, 2010, Colombo (Sri Lanka)

In its endeavor to improve economic ties with neighboring Country, FICCI had organized the FICCI-IIFA Global Business Forum on June 4, 2010 at Hotel Hilton, Colombo, Sri Lanka, on the sidelines of the IIFA weekend.

It focused on “India – Sri Lanka Partnership : The Way Forward”, convened an elite galaxy of speakers representing industry, Government and academia in a candid discussion on the sectors that power trade, commerce & investment and examined promising areas of cooperation between the two countries. The forum engaged CEOs and business decision makers in a stimulating dialogue on diverse aspects of India's bilateral relationship with Sri Lanka.

In separate sessions, the forum focused on the following:

- Investing and rebuilding the New Sri Lanka - North and East

- India, Sri Lanka and the future of Cricket and Entertainment

- Building economic partnership between India & Sri Lanka

The inaugural session of the forum included H E Mahinda Rajapaksa, Hon'ble President of Sri Lanka, Mr. Basil Rajapaksa, Hon'ble Minister for Economic Development and Tourism, Government of Sri Lanka, Mr. Laxman Yapa Abeywardene, Hon'ble Deputy Minister for Economic Development, Government of Sri Lanka, Mr Ashok K Kantha, High Commissioner of India in Sri Lanka, Dr Shashi Tharoor, Member of Parliament, Government of India, Ms Jyotsna Suri, Leader of FICCI Business Delegation & Chairperson and

Managing Director, The Lalit Suri Hospitality Group, Mr Kosala Wickramanayake, President, Federation of Chambers of Commerce and Industry of Sri Lanka and Mr Eric Wikramanayake, Environmental Resources International.

On this occasion, Mr Ashok K Kantha, High Commissioner of India in Sri Lanka released FICCI White Paper on India - Sri Lanka Economic Relations and presented the same to H E Mahinda Rajapaksa, Hon'ble President of Sri Lanka.

Over 50 Indian corporates and over 300 Sri Lankan corporate leaders representing different sectors participated in FICCI-IIFA Global Business Forum.

FICCI Business Delegation to Jaffna - January 20-24, 2011

Federation of Indian Chambers of Commerce and Industry (FICCI) had successfully mounted a 10-member strong business delegation to Jaffna (Sri Lanka) on the occasion of second Jaffna International Trade Fair 2011 held on January 21-23, 2011. This was the maiden FICCI delegation to Jaffna after the declaration of peace. The theme of the fair was “Jaffna: Open for Business”.

Jaffna International Trade Fair 2011 which was organized by Lanka Exhibition and Conference Services & Federation of Chambers of Commerce and Industry of Sri Lanka, in association with Chamber of Commerce and Industries of Yarlpanam & Sri Lanka Convention Bureau, had large presence of Indian business community. India was the partner country for this exhibition.

The event was supported by the Indian High Commission, the Sri Lankan Government and was anchored by the Indian Consulate in Jaffna.

The three day exhibition which was inaugurated by Mr Ashok K Kantha, High Commissioner of India in Sri Lanka focused on various sectors including agriculture, construction, apparel, automobile, hospitality, travel & tourism, consumer goods, housing, financial service institutions, information & communication technology, food, beverage, packaging etc

India – Sri Lanka CEOs' Forum

The India – Sri Lanka CEOs' Forum is being set up with the objectives of developing a roadmap for increased cooperation and mutually beneficial contacts and partnership between the two countries at the business level.

FICCI has been assigned to hold the secretariat of this CEOs' Forum in India. Ceylon Chamber of Commerce would be holding the secretariat from the Sri Lankan side.

Mr Sunil Bharti Mittal, Chairman, Bharti Enterprise Ltd and Mr Kulathunga Rajpaksa, Executive Director, Samson International Ltd are the Co-chairs of this CEOs' Forum from India and Sri Lanka respectively.

The Enabling Trade Index[4]

Most problematic factors for exporting	India	Sri Lanka
Identifying potential markets and buyers	16.5	19.9
Access to trade finance	13.8	16.5
Access to imported inputs at competitive prices	13	12.8
Inappropriate production technology and skills	10.9	11.8
High cost or delays caused by domestic transportation	9.7	11.6
Technical requirements and standards abroad	9.1	10.8
Difficulties in meeting quality/quantity requirements of buyers	9	5.7
Rules of origin requirements abroad	6.8	4.9
High cost or delays caused by international transportation	5.8	4.7
Burdensome procedures and corruption at foreign borders	5.3	1.3
Most problematic factors for importing	**India**	**Sri Lanka**
Burdensome import procedures	23.9	27.5
Tariffs and non-tariff barriers	23.7	25.5
High cost or delays caused by international transportation	14.5	12.6
High cost or delays caused by domestic transportation	12.7	12.5
Corruption at the border	12.2	9.5
Domestic technical requirements and standards	7.9	7
Inappropriate telecommunications infrastructure	2.6	2.7
Crime and theft	2.4	2.7

	India		Sri Lanka	
	Rank/132	Score	Rank/132	Score
1st pillar: Domestic and foreign market access	**130**	**2.6**	**103**	**3.7**
Tariff rate, (%)	118	12.6	115	11.7
Non-tariff measures, index 0100 (worst)	17	37.6	N/A	N/A
Complexity of tariffs, index 17 (best)	92	4.4	71	5.5
Tariff dispersion, standard deviation	116	14.3	118	15.4
Tariff peaks, %	63	2.9	54	1.4
Specific tariffs, %	93	6.2	89	3.9
Distinct tariffs, number	97	722	81	256

[4] *http://www3.weforum.org/docs/GETR/2012/India.pdf and http://www3.weforum.org/docs/GETR/2012/SriLanka.pdf*

	India		Sri Lanka	
	Rank/132	Score	Rank/132	Score
Share of duty-free imports, %	119	11.2	66	60.4
Tariffs faced, %	62	5.6	50	5.5
Margin of preference in destination mkts, index 0–100 (best)	115	9.4	84	15.1
2nd pillar: Efficiency of customs administration	**70**	**4.1**	**85**	**3.8**
Burden of customs procedures, 1–7 (best)	85	3.8	51	4.4
Customs services index, 0–12 (best)	59	7.3	84	5.1
3rd pillar: Efficiency of import-export procedures	**79**	**4.4**	**47**	**5**
Efficiency of the clearance process, 15 (best)	53	2.8	70	2.6
No. of days to import	73	20	71	19
No. of documents to import	101	9	37	6
Cost to import, US$ per container	49	1070	23	745
No. of days to export	59	16	83	21
No. of documents to export	95	8	47	6
Cost to export, US$ per container	62	1095	23	715
4th pillar: Transparency of border administration	**84**	**3**	**92**	**2.9**
Irregular payments in exports and imports, 1–7 (best)	85	3.1	101	2.8
Corruption Perceptions Index, 0–10 (best)	78	3.1	74	3.3
5th pillar: Availability and quality of transport infrastructure	**76**	**4**	**58**	**4.4**
Airport density, number per million pop.	128	0.1	131	0
Transshipment connectivity, index 0–100 (best)	18	84.5	23	81.7
Paved roads, % of total	69	49.3	43	81
Quality of air transport infrastructure, 1–7 (best)	62	4.7	56	4.9
Quality of railroad infrastructure, 1–7 (best)	24	4.4	38	3.8
Quality of roads, 1–7 (best)	78	3.4	45	4.5
Quality of port infrastructure, 1–7 (best)	76	3.9	42	4.9
6th pillar: Availability and quality of transport services	**59**	**3.8**	**81**	**3.4**
Liner Shipping Connectivity Index, 0–152.1 (best)	22	41.5	23	41.1
Ease and affordability of shipment, 1–5 (best)	55	3	50	3
Logistics competence, 1–5 (best)	39	3.1	68	2.8
Tracking and tracing ability, 1–5 (best)	55	3.1	85	2.7
Timeliness of shipments in reaching destination, 1–5 (best)	44	3.6	103	2.9

	India		Sri Lanka	
	Rank/132	Score	Rank/132	Score
Postal services efficiency, 17 (best)	61	4.8	83	4.4
GATS commitments in the transport sector, index 0–1 (best)	59	0	59	0
7th pillar: Availability and use of ICTs	**97**	**3**	**92**	**3.1**
Extent of business Internet use, 1–7 (best)	53	5.1	35	5.5
Mobile phone subscriptions/100 pop.	108	61.4	91	83.2
Broadband Internet subscriptions/100 pop.	93	0.9	90	1.1
Government Online Service Index, 0–1 (best)	53	0.5	90	0.4
Individuals using Internet, %	115	7.5	101	12
8th pillar: Regulatory environment	**50**	**3.9**	**42**	**4.2**
Property rights, 1–7 (best)	59	4	50	4.3
Ethics and corruption, 1–7 (best)	90	2.9	59	3.3
Undue influence, 1–7 (best)	55	3.5	43	3.9
Government efficiency, 1–7 (best)	58	3.7	37	4.1
Domestic competition, 1–7 (best)	65	4.2	45	4.4
Efficiency of the financial market, 1–7 (best)	28	4.3	33	4.2
Openness to foreign participation, index 1–7 (best)	87	4.4	85	4.5
Ease of hiring foreign labor, 1–7 (best)	110	3.5	116	3.4
Prevalence of foreign ownership, 1–7 (best)	76	4.5	58	4.8
Business impact of rules on FDI, 1–7 (best)	55	4.8	37	5
Openess to multilateral trade rules, index 0–100 (best)	65	65.4	80	60.2
Availability of trade finance, 1–7 (best)	34	4.5	26	4.7
9th pillar: Physical security	**87**	**4.5**	**58**	**5**
Reliability of police services, 1–7 (best)	70	4.1	72	4.1
Business costs of crime and violence, 17 (best)	66	4.8	38	5.4
Business costs of terrorism, 1–7 (best)	113	4.5	65	5.6

