

Sri Lanka's Trade and Economic Relations with Australia

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Overview of Australian Economy

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- Two decades of continuous growth, low unemployment, contained inflation, very low public debt, and stable financial system are main features of Australian Economy in 2016.

- The services sector is the largest part of the Australian economy, accounting for about 70% of GDP and 75% of jobs. Australia was comparatively unaffected by the global financial crisis as the banking system has remained strong and inflation is under control.

- Australia benefited from a dramatic surge in its terms of trade in recent years, although this trend has reversed due to falling global commodity prices.

- Australia is a significant exporter of natural resources, energy, and food. Australia's abundant and diverse natural resources attract high levels of foreign investment and include extensive reserves of coal, iron, copper, gold, natural gas, uranium, and renewable energy sources.

- Australia is an open market with minimal restrictions on imports of goods and services. The process of opening up has increased productivity, stimulated growth, and made the economy more flexible and dynamic.

- Australia plays an active role in the World Trade Organization, APEC, the G 20, and other trade forums. Australia's free trade agreement (FTA) with China entered into force in 2015, adding to existing FTAs with the Republic of Korea, Japan, Chile, Malaysia, New Zealand, Singapore, Thailand, and the US, and a regional FTA with ASEAN and New Zealand.

- Australia continues to negotiate bilateral agreements with India and Indonesia, as well as larger agreements with its Pacific neighbours and the Gulf Cooperation Council countries, and an Asia-wide Regional Comprehensive Economic Partnership that includes the ten ASEAN countries and China, Japan, Korea, New Zealand and India. Australia is also working on the Trans-Pacific Partnership Agreement with Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US, and Vietnam.

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Trade Policy of Australia

Australia's trade policy continues to be based on the premise that trade openness, economic growth and improved living standards are strongly linked; emphasis is placed on improving international competitiveness and market access overseas. Australia pursues a combined multilateral, regional, bilateral and unilateral approach to trade policy, and is exemplary in the transparency of its trade regime.

Australia is an active Member of the WTO and contributes a significant amount of its official development assistance to aid for trade funding. Though Australia is fully committed to WTO process, the deepening competition has created a necessity to develop bilateral and regional associations to expand Australia's market and strengthen its economy.

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Australia's Trade with World

The purchasing power of 24 Million Australian population is high compared to the countries in the region; hence Australia is an important market for foreign products. In 2016 the value of Australia's total import was US \$184.3 billion. Australia is dependent on imports of number of goods and services including apparel products, food items, professional services, medicaments, motor vehicles, furniture, mattresses and cushions, plastic articles, rubber based

products, coir products etc..

Australia is the 21st largest export economy in the world. The top exports of Australia include iron ore and gold, agricultural products, liquefied natural gas and coal, education related travel services, crude petroleum etc..

Australia's major imports are petroleum, passenger motor vehicles, telecom equipment & parts, medicaments, computers, cooling and heating equipment & parts, furniture and mattresses, electrical machinery and parts etc..

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Australia's top 10 Trading Partners

China, Japan, United State, Republic of Korea, Singapore, New Zealand, United Kingdom, Malaysia, Thailand and Germany.

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Import Duty and Taxes in Australia.

Import duty and taxes are applied when importing goods into Australia whether by a private individual or a commercial entity. The valuation method is FOB (Free on Board). In addition to duty, imports are subject to other taxes and charges such as sales tax (GST) and Customs Service Fee.

Tariff Rates

Tariff rates in Australia vary from 0% to 10%, with an average duty rate of 4.6%. Some goods do not attract customs duty (e.g. food items, laptops, electronic products etc).

Sales Tax

GST applies to most imported goods, with a few exemptions. The main exemptions are for certain foodstuffs, some medical aids and imports that qualify for certain duty concessions. GST is applied at 10% of the Value of the Taxable Importation (VoTI), which is the sum of the customs value (CV), any duty payable, the cost of freight and insurance, and any Wine Equalisation Tax (if applicable).

Import Tariff Concession System of Australia

Customs duty and Commonwealth taxes are imposed on certain goods when they are imported into Australia, with the rate of duty payable determined by the tariff classification of the goods. Imposing duty on certain imported goods is designed to influence the flow of trade by regulating their value to protect Australia's local economy and industry. There are, however, a number of ways that importers can obtain duty-free entry of imported goods into Australia, including through accessing Free Trade Agreements and through the use of duty concession schemes, such as the Tariff Concession System (TCS).

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What is the Tariff Concession System (TCS)?

Â The TCS is designed to help industry become more internationally competitive. The system reduces costs to the general community by allowing duty-free entry for certain goods where there is no local industry that produces those goods. Certain classes of goods including foodstuffs, clothing and passenger motor vehicles are ineligible (the "excluded goods").

Australia's preferential tariff schemes can be grouped into four categories, by order of the size in terms of trade flows: developing country preferences, special rates for specific countries, Forum Island Country (FIC) preferences, and preferences applicable mainly to Least Developed Countries (LDCs). Among the Australian preferential measures, the Developing Country tariff is the broadest preference in terms of the number of economies that are eligible. Sri Lanka is eligible for tariff preferences for certain product export to Australia under the Developing Country Tariff Preferences.

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How does the Tariff Concession System work?

A Tariff Concession Order (TCO) will be granted on imported goods if substitutable goods are not produced in Australia. Substitutable goods are Australian-made goods which have a use corresponding to a use of the imported goods.

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Sri Lanka's Bilateral Trade with Australia

Australia is an important trading partner for Sri Lanka both as a significant market for exports and supply of raw material and intermediate goods. There has been a significant increase in the total trade turnover between the two countries over the past few years while the balance of trade continues to be in favour of Australia.

Sri Lanka's total exports to Australia registered an increasing trend from US \$ 159.5 Million in 2015 to US \$ 164.9 Million in 2016.

Exports & Imports and Balance of Trade with Australia (Value in US \$ Millions)

Years

Exports

Imports

Total Trade

Balance of Trade

2008

93.6

195.4

289.0

-101.8

2009

81.9

133.4

215.3

-51.5

2010

102.4

185.0

287.3

-82.6

2011

115.3

273.5

388.8

-158.2

2012

134.3

217.2

351.5

-82.8

2013

155.5

213.3

368.8

-57.8

2014

163.3

237.4

400.7

-74.1

2015

159.5

268.5

Item

2015

2016

Apparel

45.24

49.90

Tea

22.75

23.30

Footwear, gaiters & the like parts of such articles

9.52

9.38

Articles of apparel and clothing accessories (including gloves), for all purposes, of vulcanised r..

3.53

6.26

Other Exports

6.52

5.98

Virgin coconut oil

4.99

5.70

Miscellaneous edible Preparations (Except Hs 2101)

3.45

4.29

Coconut (copra), palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemi

4.27

4.26

Solid tyres

4.77

4.21

Ceramic products

4.26

4.11

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Growing Areas of Sri Lanka's Exports to Australia

Crude coconut oil (HS 151311) and footwear with outer soles of rubber or plastics (HS 640590) were identified as exports with a sharp growing trend while nuts and other seeds (HS 200819), glazed and ceramic flags and paving (HS 690890) brassieres (HS 621210) and Jerseys and pullovers (HS 611011) as exports with moderate growing trend.

Details of potential products are given below:

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HS Code

(6 Digit Level)

Product Description

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151311

Crude coconut oil

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640590

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Footwear with outer soles of rubber or plastics, with uppers other than rubber, plastics, leather

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200819

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Nuts and other seeds, incl. mixtures, prepared or preserved (excluding prepared or preserved

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690890

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Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes

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621210

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Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or

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611011

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Jerseys, pullovers, cardigans, waistcoats and similar articles, of wool, knitted or crocheted

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610469

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Women's or girls' trousers, bib and brace overalls, breeches and shorts of textile materials,

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610463

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Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres,

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401162

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Pneumatic tyres, new, of rubber, having a "herring-bone" or similar tread, of a kind used on

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090611

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Cinnamon "Cinnamomum zeylanicum Blume" (excluding crushed and ground)

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Sri Lanka's major Imports from Australia in 2015- 2016 (Value in US \$ Mns)

HS

Item

2015

2016

0402

Milk and cream, concentrated or containing added sugar or other sweetening matterÂ Â

51.12

41.07

9999

Other Imports

33.58

27.78

71340

Mysoor Dhal

66.69

25.31

10019910

Wheat and meslin.

34.45

22.27

48

Paper and paperboard; articles of paper pulp, of paper or of paperboard

13.51

16.91

78

Lead & articles thereof

4.30

5.43

32

Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter;

5.14

5.25

71320

Chickpeas

3.30

3.49

21

Miscellaneous edible Preparations

3.07

3.42

solid rubber wheels, electronic items (weighing systems), detergents, sanitizers & textile auxiliaries, apparel / garments, industrial thread, yarn, software development, infrastructure development, tourism and higher education.

FDI from Australia from 2012 – 2016 (US \$ million)

2012

2013

2014

2015

2016 Jan to Sep

14.747

18.176

37.395

Sri Lanka welcomes investment in all most all areas. The following sectors have been identified potential Foreign Direct Investment from Australia.

Sectors

- IT and IT enabled services
- Higher Education
- Agriculture / Food processing
- Skill Development / Vocational Training
- Textile / Apparels.
- Tourism / Recreation projects
- Infrastructure projects.
- Research & Development

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Conducive environment in Sri Lanka in terms of opportunities in manufacturing sector especially in the apparel sector as well as the higher education sector and the improved security situation can be a driving force for prospective investors to look at Sri Lanka in tourism and infrastructure development in the North & East Regions.

Target Companies

- Australian companies in relevant fields who find cost of production in Australia to be high. Such companies are likely to be looking out for alternative locating for their industries with a view to reduction in production costs.

- Australian companies that already have an export market to the Middle East, South Asia and South East Asia may find it more profitable to locate their manufacture units in Sri Lanka because of the advantages the country provides and its proximity to these markets.

- Companies who can utilize raw materials from Sri Lanka.

- Australian companies can take advantage of the Free Trade Agreements Sri Lanka has signed with India / Pakistan, as well as the FTA with China which is currently under negotiation, using Sri Lanka as a gateway to enter Indian /Pakistan markets.

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Investment Protection and Guarantee for Australian Investors

The bilateral agreements that exist between Sri Lanka and Australia provide for the following:

- Protection against nationalization.
- Prompt and adequate compensation if required
- Free remittance of earnings, capital and business fees
- Settlement of disputes under the International Convention for the Settlement of Investment Disputes (ICSID).

Sri Lanka is also a founder member of the Multinational Investment Guarantee Agency (MIGA). This provides further safeguards against expropriation and non “ commercial risk. Investors may also refer disputes for arbitration under the rules of International Chamber of Commerce.

Double Tax Treaty

Double tax relief agreement signed between Sri Lanka and other countries provide reduce tax rates on dividends interest and royalties.

Sri Lanka has signed a double tax agreement with Australia

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Tourism Promotion

Australians has re-invented Sri Lanka as an attractive destination and there has been

substantial increase in tourists' arrival to Sri Lanka from Australia. Total tourist arrival which was 63554 numbers in 2015 increased drastically to 74496 numbers in 2016.

Australia is supporting the improvement of Sri Lanka's skills of tourism industry and launched a Skill for Inclusive Growth programme with the Ministry of Skill Development and Vocational Training in January 2017. Australia is providing monetary aid and technical assistance over four years to strengthen the Sri Lankan tourism sector through training and mentoring for employees and small businesses over the full tourism value chain.

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Year

Tourist arrival from Australia

2008

19,536

2009

23,239

2010

33,456

2011

41,728

2012

51,614

2013

54,252

2014

57,940

2015

63,554

2016

74,496

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Tourism to Australia from Sri Lanka is also on the increase and in 2014/15 there were 26,200 Sri Lankan visitors to Australia.

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Trade in Services between Sri Lanka and Australia

Â Export of services to Australia from Sri Lanka amounted to US\$ 130.5 million in 2015/16 have recorded year-on-year growth of 17.3 per cent and make up 0.2 per cent of Australia's total services imports.

Import of services from Australia to Sri Lanka amounted to US\$ 238 million in 2015/16 and grew by 13.1 per cent year- on- year.

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Education Links between Australia and Sri Lanka

The education sector plays an important role in the bilateral relationship between Australia and Sri Lanka. Australia is the second largest and most popular tertiary education destination for international students originating from Sri Lanka with around 6,000 Sri Lankan students studying in Australia in 2016. Australia offered 107 new "Australia Awards"™ for Sri Lankan students to study in Australia in 2015-16.

Twenty three Australian education providers are operating in Sri Lanka and several Australian universities also have articulation programmes where degrees started in Sri Lanka can be completed at an Australian university. The majority of Australian education providers in Sri Lanka offer higher education courses or university preparation courses.

Â Sri Lanka also participates in the "New Colombo Plan"™; a signatory initiative of the Australian Government which aims to lift the knowledge of the Indo-Pacific in Australia by supporting Australian undergraduates to study and undertake internships in the region.

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Strengths of Sri Lanka as a Trade and Investment Destination for Australian Companies

1. Location and Connectivity

Sri Lanka is strategically located at the cross roads of both east and west sea routes and serves as the point of entry to South Asia and located next to the fast growing Indian sub-continent with close proximity to Southeast Asia and the Middle East. The Country has strong air connectivity with more than one hundred weekly flights to India alone. The Country is connected to the SEA-ME-WE III and IV (South East Asia-Middle East-Western Europe) fiber optic

communication backbone with over 11 communication satellites orbiting above the south of the country.

2. Educated and Adaptable Labour Force

Sri Lanka possesses the most literate population in South Asia and one of the highest in the developing world with a literacy rate of 92 per cent. Extensive government investment on education has produced a competent and intelligent workforce which is trainable and comfortable with high tech production and services. English is widely spoken and it is the main language used by the business community. Well educated, energetic, skilled and semi-skilled human resources are readily available at competitive wage rates in Sri Lanka.

3. Resilient Economy

A Peaceful domestic environment and improved investor confidence facilitated all key sectors to perform well, which contributed towards the high economic growth. The Service sector is the largest contributor to the national economy comprising more than 50 per cent. The strong economic performance in the Sri Lanka has lifted the country's per capita income substantially, which has enabled the country to be graduated to middle-income status from the list of Poverty Reduction and Growth Trust eligible countries.

4. Access to Key Markets

Sri Lanka is the only country to have Free Trade Agreements with both India and Pakistan, giving duty free access to over 1.3 billion consumers from the island. Since the agreement was signed bi-lateral trade between Sri Lanka and India has grown more than 5 times and bi-lateral trade between Sri Lanka and Pakistan has grown 3 times. In addition, by locating in Sri Lanka, a company can gain preferential trade access to two large regional blocs under the South Asian Free Trade Area (SAFTA) and the Asia-Pacific Trade Agreement (APTA).

5. Solid Infrastructure

Private and public investment programmes have been implemented to improve the country's basic infrastructure facilities such as sea, air, power and telecom. Colombo South Port Expansion, Development of high mobility road network, Southern Highway, Colombo-Katunayake Highway, Outer Circular Highway, Construction of Norochcholai coal power plant, Upper Kotmale Hydro Power project, Trincomalee Coal power project and Connecting to SEA-ME-WE IV project are the key recent infrastructure developments in the country.

6. Social Infrastructure

Sri Lanka leads the South Asian region in human development indices with its high literacy rate and national health indicators. Life expectancy is 70.3 years for males and 77.9 years for females. Sri Lanka is a firm proponent of international laws and UN's rights of labour, children and women.

7. Investment Protection and Double Taxation

Sri Lanka has signed bilateral Investment Protection Agreements (IPA) with 28 countries and has signed bilateral Double Tax Avoidance Agreements with 38 countries.

Potential Trade and Investment Opportunities in Australia for Sri Lankan Companies

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1. Agribusiness

Australia's diverse climate, rainfall patterns and soil types sustains a wide range of agribusiness enterprises. The geographic isolation and leading quarantine and monitoring regime support Australia for high quality production. Competitiveness in agribusiness is derived from locally-developed production methods and technologies and international research and development collaborations. Continuous innovation, research, consulting, sophisticated plant and animal breeding programs and intelligent transport solutions construct the ability of Australian agribusinesses to produce high quality commodities. Australia is keen to attract investment in innovation related to the agribusiness industry.

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2. Food Processing

With continuous developments in food processing, separation and packaging technologies and innovations Australia is staying at the forefront of the global food industry in the world. These strengths are combined with a reliable supply of high quality raw materials, a strong food safety regime and an environment that encourages creativity. Australia is seeking foreign investment in food production and advanced food processing.

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3. Tourism

With the key strengths such as proximity to the fast growing economies in Asia, unique natural wonders, the safe environment and food and wine experiences Australia's tourism industry has been identified as a growth sector. As one of the world's most transparent real estate markets and with strong growth in visitor numbers and trip spend, Australia's tourism sector is attracting strong international investment interest.

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4. Residential Aged Care

The ratio of over 65s to those of working age in Australia will be higher than ever as a result of lower fertility rates and longer life expectancies. By 2050, the numbers of people aged in the range of 65-84 will more than double. As a result of this scenario, residential aged care, medical research and re-skilling an ageing work force are identified as growing business sectors in Australia. In addition, the physiotherapy industry is expected to grow over the next five years with the ageing population.

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5. Tropical Medicine

Australia provides opportunities to invest in research, development and clinical validation of new vaccines, therapeutics and diagnostics for tropical diseases. With world class research institutions, bio-technology companies and collaborative research and clinical networks, Australia is both a world leader in medical research.

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6. Digital Technologies

Australia's need for efficiency gains is driving demand for digital technologies and creating strong opportunities across the economy including collaborative research and development, digital infrastructure and data centers, cyber security, financial services (fin-tech), agribusiness and food (ag-tech), resources and energy, digital health, transport and logistics, government services, education and tourism.

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7. Health and Wellness Spas

Demand in Australia for the health, wellness and spas industry's services has soared due to increasing focus on health and appearance. The industry has benefitted as spas have become popular with a wider client base, including men, corporate users, couples and families.

Sri Lanka has been at the centre of spiritual and physical healing for centuries and provides Ayurveda, Eastern and Western therapies such as Thai massage, hydrotherapy, herbal baths, and reflexology and beauty treatments. With this expertise in the health and wellness spa industry, Sri Lanka can tap into the opportunity in the Australian market.

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8. Advanced manufacturing, services and technology

Australia has advanced research and innovation capabilities in areas of advanced manufacturing and material science and technology solutions such as composite research including carbon fibres for aerospace, automotive, and industrial, light metal processing for example, additive manufacturing, bio products for medical and industrial use like nanotechnology and electronic and photonic materials such as batteries and energy storage. Australia offers world-class research infrastructure, a strong and flexible regulatory regime, including IP protection, tax incentives and supportive business culture for undertaking research and development.

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9. Other Sectors with Opportunities

In addition to above the key sectors, there are a few other sectors with opportunities in trade and investment in Australia for Sri Lankan business people. They are sports management, sports medicine, art and theatre and confectioneries.

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For Inquiries Please Contact:

Consul Commercial

Consulate General of Sri Lanka

Level 11, 48 Hunter Street

Sydney NSW 2000, Australia

Tel: 0061292211667

Fax: 0061292238750

E-mail: slcgsyd-trade@bigpond.com