LAKSHMAN KADIRGAMAR INSTITUTE
OF INTERNATIONAL RELATIONS AND STRATEGIC STUDIES

POLICY BRIEFS

2024 / 02

LKI *Policy Briefs* are extended analyses on policy issues.

Sri Lanka's Path to Economic Integration: An Assessment of Past Efforts and Prospects of the Regional Comprehensive Economic Partnership (RCEP)

Mihin Perera

June, 2024

Abstract: *The Regional Comprehensive Economic Partnership (RCEP), conceptualized in November 2012 and coming into effect on 01 January 2022, marked a significant milestone in fostering economic integration within the Asia-Pacific region. With the aim of promoting growth, equitable development, and cooperation, RCEP brings together 15 nations, including the ten ASEAN member states and its five FTA partners. Sri Lanka submitted its letter of intent to join the RCEP on 28 June 2023, underlining its commitment to strengthen economic cooperation and trade linkages within the broader Asian region, which would possibly open new avenues for growth and development in Sri Lanka. This policy paper examines the prospects of Sri Lanka's accession to the RCEP and the overall impact on the country that can be expected by RCEP membership. It also explores how Sri Lanka could leverage this partnership to advance its efforts at regional integration, in the path towards achieving its economic ambitions effectively.*

Mihin Perera is a Research Assistant at the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI) in Colombo.

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Abbreviations

RCEP	Regional Comprehensive Economic Partnership
FTA	Free Trade Agreement
WTO	World Trade Organization
RTA	Regional Trade Agreement
ASEAN	Association of Southeast Asian Nations
UN	United Nations
AFTA	ASEAN Free Trade Area
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
AEC	ASEAN Economic Community
IPEF	U.S. Indo-Pacific Economic Framework
ISFTA	India-Sri Lanka Free
PSFTA	Pakistan-Sri Lanka Free Trade Agreement
SLTFTA	Sri Lanka Thailand Free Trade Agreement
APTA	Asia Pacific Trade Agreement
GSTP	Global System of Trade Preferences
SAPTA	South Asian Preferential Trade Agreement
SAFTA	South Asian Free Trade Agreement
EU GSP+	European Union's Generalised Scheme of Preferences
VCCI	Vietnam Chamber of Commerce and Industry
RoO	Rules of Origin
GDP	Gross Domestic Product
MFA	Ministry of Foreign Affairs
ECI	Economic Complexity Index
COI	Complexity Outlook Index
CHEC	China Harbor Engineering Company
CPCEC	Colombo Port City Economic Commission
SEZ	Special Economic Zone

01 Introduction

Sri Lanka's strategic pursuit in strengthening its economic connectivity, especially within the broader Asian region, has led it to eagerly seek entry into the Regional Comprehensive Economic Partnership (RCEP). Involving Southeast Asian nations, Australia, China, Japan, New Zealand, and Republic of Korea, RCEP was conceived to strengthen manufacturing supply chains, boost productivity, and stimulate wage growth and job opportunities across the Asian region. It did emerge as a timely mechanism for advancing regional integration and economic growth.

Sri Lanka is now in the spotlight as it has formally expressed its intention to join RCEP, recognizing the significant benefits that economic integration with the world’s largest trade bloc can bring. While the process for admitting new members to RCEP is still being developed internally, Sri Lanka has a unique opportunity to become an early non-founding member to gain entry. This reflects the country's firm commitment to enhancing its economic ties within the broader Asian region. Given Sri Lanka’s recent fiscal challenges and the need for restoring its economy, RCEP offers a platform through which Sri Lanka can position itself and actively strengthen its bonds with ASEAN nations.

While Sri Lanka's interest in joining RCEP is evident, it's essential to understand the concerns regarding the potential challenges it may face, particularly considering the "noodle bowl" effect created by the multitude of FTAs in the region over the past two decades. While RCEP aims to mitigate this issue to some extent, it may not completely eliminate it. According to the World Trade Organisation (WTO), the number of Regional Trade Agreements has emerged over the years with a notable increase in large plurilateral agreements. It reports a total of 361 RTAs which are in force as of 01 January 2024. Given this growing scale of cross-border transactions, it is no doubt going to be a huge challenge for developing nations to gain traction and capitalise on mega Free Trade Agreements. As a small island nation, traditional comparative advantage has less potential compared to other countries in the region given the economic factor constraints and due to the relatively large market size, certain demographic and geographical factors. Therefore, this study aims to look beyond the traditional perceptions of pure economic gain from participation in Free Trade Agreements and emphasises the need for caution and pragmatic economic policies to complement an outward-looking economic recovery. As this paper will demonstrate, opening the economy fails in isolation, and must take a more holistic approach. In tandem, it is crucial to examine Sri Lanka's rationale in joining the RCEP alongside the anticipated benefits. Failing to do so could result in the potential losses outweighing the gains for Sri Lanka within this trade agreement.

02 The Composition of RCEP

2.1 Overview

The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement between 15 nations in the Asia-Pacific region. It consists of the ten ASEAN member states - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam - and their five FTA partners - Australia, China, Japan, New Zealand, and the Republic of Korea. RCEP has often been defined as the natural corollary of the efforts of the Association of Southeast Asian Nations (ASEAN) to strengthen regional integration efforts within ASEAN members and with external partners (Asian Development Bank, 2022).

Figure 1: RCEP Member States

Source: Library of Parliament

*Notes: *India who took part in the initial negotiations of RCEP later decided to opt out from negotiations in November 2019*

RCEP is the world's largest Free Trade Agreement and also the world's second largest investment bloc after the European Union. The agreement also eliminates tariffs on 90% of goods stimulating free trade within the Asia-Pacific region (UNCTAD, 2021).

The Regional Comprehensive Economic Partnership (RCEP) stands out not only as the largest FTA globally in terms of population and total gross national product but also for its diversity in the developmental stages of its member countries (Table 1). Besides, it is important to note that United Nations (UN) has categorized Cambodia, Laos, and Myanmar as least developed countries. Although there are no low-income countries (with income per capita of US$1,035 or less) among the members, the significant income disparities within the group are illustrated starkly by the fact that the average income of Singaporeans, at approximately US$67,000, exceeds that of Cambodian citizens by over 40 times, who have an average income of roughly US$1,600.

Table 1: GDP, Level of Trade Openness and the Income Status of RCEP member countries, by GNI per Capita (2022)

Economy	GDP (2022)	Trade Openness	GNI per capita (2022)	Income Level
Singapore	466.79 billion	212.4	67,200	High Income
Australia	1.69 trillion	42.6	60,840	High Income
New Zealand	248.10 billion	40	49,090	High Income
Japan	4.26 trillion	38.6	42,550	High Income
Rep. of Korea	1.67 trillion	84.5	36,190	High Income
Brunei	16.68 billion	140.4	31,410	High Income
China	17.96 trillion	35.1	12,850	Upper Middle Income
Malaysia	407 billion	158.9	11,830	Upper Middle Income
Thailand	495.42 billion	119.1	7,230	Upper Middle Income
Indonesia	1.32 trillion	40.1	4,580	Upper Middle Income
Vietnam	408.8 billion	178.7	4,010	Lower Middle Income
Philippines	404.28 billion	55.6	3,950	Lower Middle Income
Lao PDR	15.47 billion	99.8	2,310	Lower Middle Income
Cambodia	29.50 billion	177.2	1,690	Lower Middle Income
Myanmar	62.26 billion	55.4	1,270	Lower Middle Income

Source: Developed by author based on data from the World Bank

Notes: GDP values are in US$; Trade Openness is based on Merchandise trade as a percentage of GDP (2022); GNI per capita is in current US$. The economies are ordered based on GNI per Capita (from highest to lowest)

2.2 Rationale for Establishment

The ASEAN countries have consistently shown interest in fostering intraregional integration, evolving from the ASEAN Free Trade Area (AFTA) in the 1990s to a more comprehensive ASEAN Economic Community (AEC) established in 2015. AEC adapted the AEC Blueprint 2025 that aimed to deepen regional integration measures further by 2025. ASEAN also expanded its integration efforts concurrently beyond its membership, forging free trade agreements with Dialogue Partners such as Australia, New Zealand, China, India, Japan, the Republic of Korea, and Hong Kong, China.

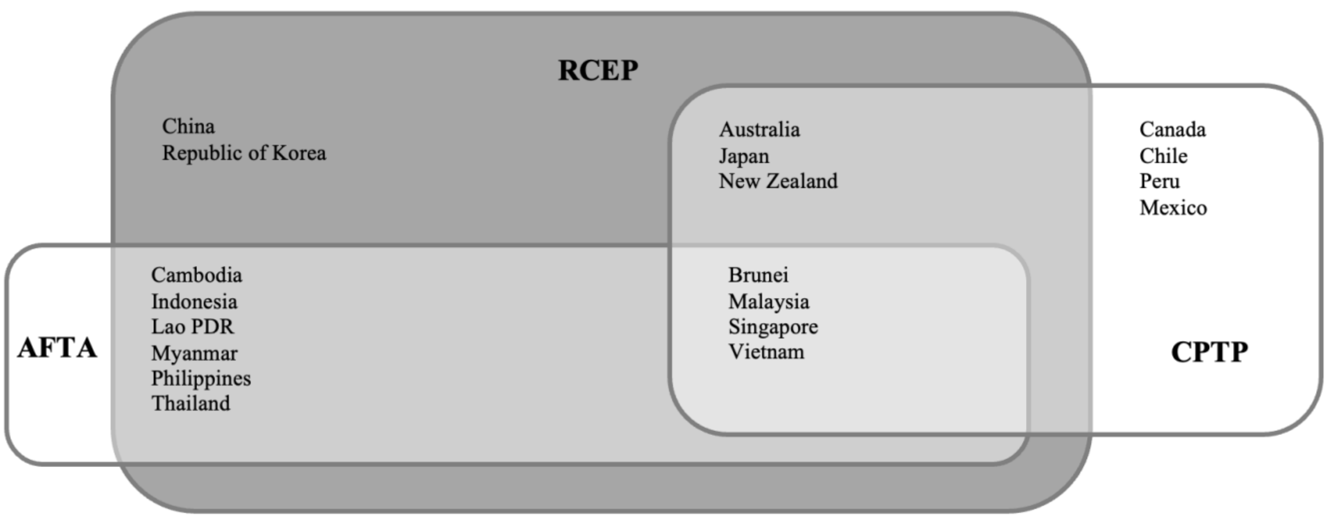
The idea for the Regional Comprehensive Economic Partnership (RCEP) was first conceived (formally commenced negotiations) in November 2012 at the ASEAN Summit held in Cambodia, following a framework established during the 2011 ASEAN Summit held in Bali, Indonesia. It drew upon discussions from two other regional cooperation initiatives: the East Asia Free Trade Agreement and the Comprehensive Economic Partnership in East Asia, which operated under either ASEAN+3 or ASEAN+6 membership configurations. Unlike these previous arrangements, RCEP was not designed with a predetermined membership structure. Instead, it was structured around an open accession framework, allowing the participation of any ASEAN Free Trade Agreement (FTA) partners from the outset or at a later stage when they were prepared to join. Moreover, the arrangement remained open to the inclusion of any other external economic partners (Basu Das, 2015; ADB, 2022).

After eight years of negotiations, the agreement was ultimately signed on 15 November 2020. According to the agreement, RCEP was to be implemented 60 days after reaching the minimum number of ratification notifications, which required ratification by six ASEAN members and three non-ASEAN countries. By 15 December 2021, six ASEAN members (Brunei, Cambodia, the Lao PDR, Singapore, Thailand, and Vietnam) and five non-ASEAN countries (Australia, China, Japan, the Republic of Korea, and New Zealand) had ratified the Agreement. Following the fulfilment of the quorum for entry into force in November 2021, it officially came into effect on 1 January 2022, encompassing ten initial participating countries - Australia, Brunei Darussalam, Cambodia, China, Japan, Lao PDR, New Zealand, Singapore, Thailand, and Vietnam. Since then, all 15 members have ratified the agreement (Annex I).

From its inception, the primary goal of RCEP was to establish a comprehensive and mutually advantageous economic partnership agreement aimed at fostering deeper engagement and enhancing existing ASEAN FTAs with Dialogue Partners. It was designed to accommodate the varying levels of development among participating members, presenting numerous challenges due to its novel nature without any prior precedence to follow. Negotiating RCEP involved navigating three distinct sets of dynamics among participating members: interactions between ASEAN members, between ASEAN and FTA partners, and among the six FTA partners (Includes India who took part in the initial negotiations, but later decided to opt out from negotiations in November 2019). While ASEAN members and ASEAN and FTA partners had collaborated on economic integration previously, negotiating among the FTA partners posed difficulties as few had existing trade agreements with one another. Additionally, RCEP negotiating members varied significantly in their stages of development and market structures, resulting in differing levels of interest in reaching an agreement. While the flexibility clause integrated into the RCEP framework was intended to facilitate overcoming impasses and safeguarding diverse national interests, critics argued that it could potentially hinder significant changes or limit greater liberalization.

RCEP negotiations spanned 8 years before reaching completion. RCEP differs from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in terms of membership, scope, and depth. Notably, four ASEAN members (Brunei Darussalam, Malaysia, Singapore, and Vietnam) are part of both RCEP and CPTPP, while six countries (Cambodia, Indonesia, the Lao PDR, Myanmar, the Philippines, and Thailand) are members of RCEP but not CPTPP. Among non-ASEAN members, five countries are divided into two groups: three (Australia, Japan, and New Zealand) are members of both RCEP and CPTPP, while two (China and the Republic of Korea) have only joined RCEP. CPTPP came into effect on December 30, 2018, after seven countries ratified the Agreement. The scope of CPTPP is broader, encompassing provisions on state-owned enterprises, labour and environmental standards, business facilitation, among others, making it often regarded as more comprehensive than RCEP.

Figure 2: Regional Trade Agreements found within the RCEP



Source: Developed by author based on Asian Development Bank data (2022)
Notes: AFTA = ASEAN Free Trade Agreement, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership.

The Asia-Pacific region has experienced a high concentration of Free Trade Agreements (FTAs) over time and has cultivated a complex environment with various conflicting and multi-level trade agreements between partners. RCEP aims to overcome some of these challenges and streamline trade in the region by promoting free trade and regulatory alignment, increasing regional productivity and strengthening supply chains.

At the same time, it is important to acknowledge that the establishment of RCEP goes beyond just economic intuition and spills over into geopolitical analysis. Certain critical views are brought on RCEP, realizing it as a China-led mechanism to enhance trade facilitation across the region and create a preferential trading environment, which some experts suggest is an attempt to improve its economic and strategic foothold in the Indo-Pacific (China Briefing, 2022). Some analysis also considers this as a potential factor that deterred India's participation in the agreement. The decision to stay out of the joint declaration on the trade pillar of the U.S. Indo-Pacific Economic Framework (IPEF) appeared to have been driven more by economic considerations based on domestic protectionism policies than a foreign policy decision. While the political aspects of RCEP may be more complicated than the initial analysis may suggest, this paper continues to serve as an economic assessment of the agreement and how it is relevant to the case study of Sri Lanka.

2.3 What makes RCEP different from other trade agreements?

RCEP offers deeper economic integration compared to other regional trade agreements, such as BIMSTEC, SAFTA, and APTA (Weerakoon & Hewage, 2020). The RCEP aims to lower tariffs, open trade in services, and promote investment to help emerging economies, such as Sri Lanka, catch up with major global players. PriceWaterhouseCoopers (PWC) has determined that the combined GDP of the member states is US$26 trillion, the combined population is 2.27 billion, and the total export value is US$5.2 trillion. The RCEP is expected to help reduce costs and time for companies by allowing them to export a product anywhere within the bloc - without meeting separate requirements for each country.

The impact of RCEP on international trade is expected to be significant. Trade in goods among RCEP members was close to US$2.5 trillion in 2019, about 13% of global trade (Nicita, 2021). The RCEP agreement aims to further advance regional trade by providing members with better market access conditions, largely by reducing tariffs and implementing trade facilitation measures, therefore bringing RCEP countries a step closer to becoming a regional trading bloc (UNCTAD, 2021). The RCEP covers countries accounting for 31% of global gross domestic product—more than the United States-Mexico-Canada free trade agreement (28%), the European Union (18%), and the Comprehensive and Progressive Agreement for TransPacific Partnership (13%) (ADB Outlook, 2021).

Experts estimate that RCEP will boost global GDP by US$186 billion a year (Babones, 2020). The agreement is expected to raise the economic interdependence of the Asia Pacific, increasing trade among members by US$428 billion, reducing trade among non-members by US$48 billion, and generating tens of millions of jobs (Agrawal, 2021).

2.4 Prospective Members of RCEP

RCEP membership is 'open to any state or separate customs territory after the lapse of 18 months from the date of enforcement' (Chaisse, 2022). RCEP includes a provision to allow non-member countries to submit an expression of interest to join the agreement. This provision was to take effect 18 months after the agreement had entered into force. As this timeline has now passed, RCEP is now open for new member states and in addition to Sri Lanka, two other states or customs territories - Bangladesh and Hong Kong, have also expressed their interest in joining the world's largest trade bloc (VCCI, 2023; Daryl, 2024).

However, the procedure for any potential newcomer is yet to be announced. Once they are all set, interested countries can start the formal negotiation process to be part of the RCEP. According to Deputy Secretary-General for ASEAN Economic Community, Satvinder Singh, the preparation of the groundwork for the accession rules is in the process and the process is quite rigorous in nearing finalization (Shofa, 2024).

2.4.1 Bangladesh

The Bangladesh Ministry of Commerce has recommended the country's accession to the RCEP, recognizing the numerous benefits that the membership could bring (VCCI, 2023). But the final decision is yet to be made. Bangladesh is set to lose duty benefits once the UN graduates their status from a least developed country to a developing country in 2026 (Mirdha, 2022). Local exporters are expected to face 8-12% increase in duties following this change. Due to the erosion of preferential trade, Bangladesh is set to lose US$7 billion worth of exports a year. The nation has focused on retaining duty benefits, lobbying with major trade partners and economic blocs to sign free trade agreements, comprehensive economic partnership agreements, and preferential trade agreements. RCEP is one of these. In 2020, following RCEP's establishment, Bangladesh's Commerce Ministry swiftly established a nine-member committee to conduct a feasibility study on RCEP. This committee was tasked with assessing the benefits Bangladesh could derive from joining RCEP, as well as any potential negative impacts on the country's exports. Bangladesh's feasibility study revealed that joining RCEP could potentially increase the nation's exports by US$5 billion. It is important to note that Bangladesh currently has limited trade agreements but no FTAs (Nikkei Asia, 2023).

The Ministry of Commerce of the Bangladesh government has recommended that the nation join RCEP (Kashem, 2021) and officials of the Bangladesh Foreign Ministry estimate that after applying for accession, it will take two to three years for Bangladesh to join the bloc (Kashem, 2023; Haidar, 2023). In an interview with Nikkei Asia, Bangladeshi Prime Minister Sheikh Hasina made clear the trajectory which the nation would probably be heading to as she emphasized the fact of prioritizing diversification as a major strategy towards their economic development (Takahashi & Nitta, 2023). Food processing, digital equipment and fisheries were amongst the sectors she highlighted which Bangladesh carries a huge potential apart from its giant garment sector. In the same interview she stated that Bangladesh is holding discussion with about 11 countries including India, China and Japan on potential FTAs.

2.4.2 Hong Kong

Hong Kong expressed its early interest to join RCEP in mid-January 2022 (Lester, 2022). RCEP member countries constituted over 70% of Hong Kong's total merchandise trade in 2021, according to the Trade and Industry Department. Hong Kong has completed negotiations with ASEAN — a precondition for joining RCEP. ASEAN has declared that Hong Kong is 'well-placed to add value to RCEP'. China is also supporting Hong Kong's application to which it has no objections within the framework of its 'one country, two systems' arrangement (Chaisse, 2022). The RCEP will further bolster Hong Kong's participation in regional economic cooperation. While Hong Kong has free trade agreements with ASEAN, China, Australia, and New Zealand, it currently lacks bilateral agreements with Japan and Rep. of Korea. By entering the RCEP, Hong Kong may be able to take advantage of significant new trade and investment opportunities with these two nations, and vice versa (Lester, 2022). Thus, Hong Kong authorities are actively pursuing early accession to the body and have the most favourable conditions to join the agreement due to their close ties with China and the region, and since they already have existing FTAs with 13 of the 15 RCEP member states (Yau, 2023).

The Secretary for Commerce and Economic Development, Algernon Yau Ying-wah, stated that RCEP has started vetting Hong Kong's membership application and that "most of its members have thrown their support behind Hong Kong becoming a member". He went on to say that "the whole vetting process takes about 18 months" (Yau, 2023). Once the rules of accession have been finalised, it is highly likely that Hong Kong will be the first state or customs territory, outside of the original 15 members, to join RCEP, which could happen as soon as the end of 2024.

2.4.3 Sri Lanka

Sri Lanka submitted a letter of intent to join RCEP on 28 June 2023 (MFA, 2023). The RCEP rules for accession have not been made public yet. For now, Sri Lanka will have to conduct separate negotiations with the 15 RCEP members, regarding trade issues such as tariffs and then establish an FTA with the RCEP member states. The RCEP allows for import tariffs to be gradually reduced over a period of 25 years. Member states generally would have the first 20 years to reduce import tariffs for approximately 90% of the trade among member states.

Following this, Sri Lanka's application will be assessed by the member states. Once the member states approve of Sri Lanka's application, the state or customs territory would then have to deposit their instrument of ratification. After a period of 60 days, the nation's ratification becomes effective and will enter into force for any signatory state and they are officially a member state of the RCEP (Ministry of Trade and Industry Singapore, 2022).

Sri Lanka will have to be prepared for opening its market to the RCEP-member countries in return for getting such preferential market facility from RCEP. The trade diversion and the trade creation resulting from this agreement will significantly impact Sri Lanka's economic trajectory. When looked at Sri Lanka's bilateral trade with RCEP member states, it is evident from the bilateral trade balances that it would take some effort for Sri Lanka to reap benefits from RCEP (Annex II). Before delving into the potential gains and challenges Sri Lanka would face with the accession to RCEP, it is essential to first examine how Sri Lanka has performed under its previous trade agreements and assess the current status of its regional engagements.

03 Sri Lanka's Experience with FTAs and PTAs

Sri Lanka has actively participated in various trade agreements over the years as part of its efforts to foster economic growth and broaden its economic base. These agreements serve to reduce trade barriers for imports and exports between two or more countries. Alongside four bilateral trade agreements with Pakistan, India, Singapore, and Thailand, Sri Lanka is also a member of four Regional Trade Agreements (RTAs), including the Preferential Trading Arrangement (SAPTA) within the South Asian Association for Regional Cooperation (SAARC), the Asia Pacific Trade Agreement (APTA), South Asian Free Trade Agreement (SAFTA), Global System of Tariff Preferences (GSTP), and EU GSP+.

Table 2: Sri Lanka - Trade Agreements

Agreements in effect			SL Exports (Value in US$ Mn)			Imports (Value in US$ Mn)			Utiliazation Rate 2021 (%)	
Agreement	**Entry into force**	**Signatories**	**Exports in the precedin-g year of the effective date of agreeme-nt**	**Total exports of Sri Lanka - 2021**	**Exports under the agreem-ent - 2021**	**Imports in the precedin-g year of the effective date of agreeme-nt**	**Total Imports of Sri Lanka - 2021**	**Imports under the agreem-ent - 2021**	**Exports**	**Imports**
India-Sri Lanka Free Trade Agreement (ISFTA)	01 March 2000	India and Sri Lanka	49	891.422	525.85	512	4748.64	208.94	58.99%	4.41%
Pakistan-Sri Lanka Free Trade Agreement (PSFTA)	12 June 2005	Pakistan and Sri Lanka	39.13	99.63	62.25	107.71	423.37	12.32	62.48%	2.91%
Singapore-Sri Lanka Free Trade Agreement	01 May 2018	Singapore and Sri Lanka	233.67	118.53	N/A	1292	775.93	N/A	N/A	N/A

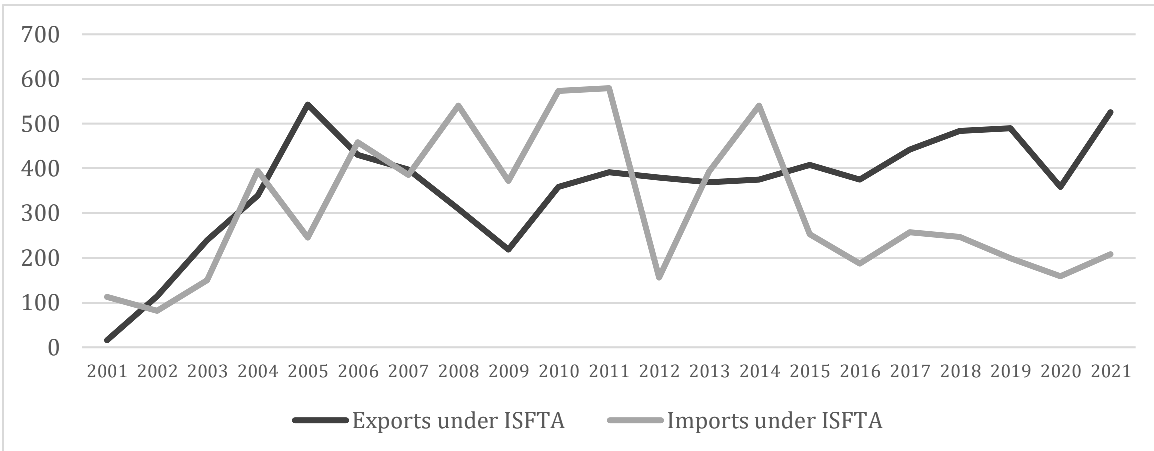
Sri Lanka Thailand Free Trade Agreement (SLTFTA)	03 February 2024	Thailand and Sri Lanka	50.15	58.96	N/A	254.1	426.62	N/A	N/A	N/A
Asia Pacific Trade Agreement (APTA)	17 June 1976	China, India, Bangladesh, Rep. of Korea, Laos, Sri Lanka	N/A	1491.31	238.61	N/A	10091.67	24.22	16%	0.24%
Global System of Trade Preferences (GSTP)	19 April 1989	44 developing countries	N/A	N/A	91.82	N/A	N/A	0.01	N/A	N/A
South Asian Preferential Trade Agreement (SAPTA)	07 December 1995	India, Bangladesh, Bhutan, Pakistan, Maldives, Nepal, Sri Lanka	N/A	1420	1.42	N/A	0.13	0.13	0.10%	0.00%
South Asian Free Trade Agreement (SAFTA)	01 January 2006	India, Bangladesh, Bhutan, Afghanistan, Pakistan, Nepal, Maldives, Sri Lanka	644.42	1452	101.64	1584.97	5100	7.65	7%	0.15%
EU GSP+	2005	Armenia, Bolivia, Cape Verde, Kyrgyztan, Mongolia, Pakistan, Philipines, Sri Lanka, and Uzbekistan	1800	3628.55	2,402.10	N/A	N/A	N/A	66.20%	N/A

Source: Developed by author based on data from Asia Regional Integrational Center, ADB, ITC Trade Map, Sri Lanka Customs, Department of Commerce, Central Bank of Sri Lanka (CBSL), GSP Hub, and findings presented by Dr. Samarathunga – Senior Economic Advisor to the President at Pathfinder's webinar on "Sri Lanka's path to RCEP membership: Unlocking new horizons"
Notes: APTA, GSTP, and SAPTA are partial scope agreements; N/A implies that the data is not available or the criterion does not apply under the given agreement; The current status of Sri Lanka-Singapore FTA is non-operational; The tariff liberalisation through SLTFTA will be effective from January 2025

India-Sri Lanka Free Trade Agreement (ISFTA), the first bilateral trade agreement of Sri Lanka came into effect on 01 March 2000 (Department of Commerce, 2022). Before this agreement came in to effect, India held a minor position as as an export destination for Sri Lanka, ranking 14th among its destinations in 1999. However, India currently stands as Sri Lanka's third-largest export market, with exports totaling US$816 million in 2021 (6.67% of total exports), primarily benefiting from tariff preferences within the ISFTA.

The substantial growth in trade early on the agreement came into effect was heavily influenced by specific products like copper and vanaspati (vegetable oil), which dominated Sri Lanka's exports to India. But this increase in the export of copper and Vanaspathi was not necessarily due to Sri Lanka having a comparative advantage in their production. Instead, it was primarily driven by tariff arbitrage by Indian manufacturers who invested in Sri Lanka. Excluding these products, Sri Lanka's export performance to India would have shown a decline during the initial years of the FTA (Figure 3 and Annex VI).

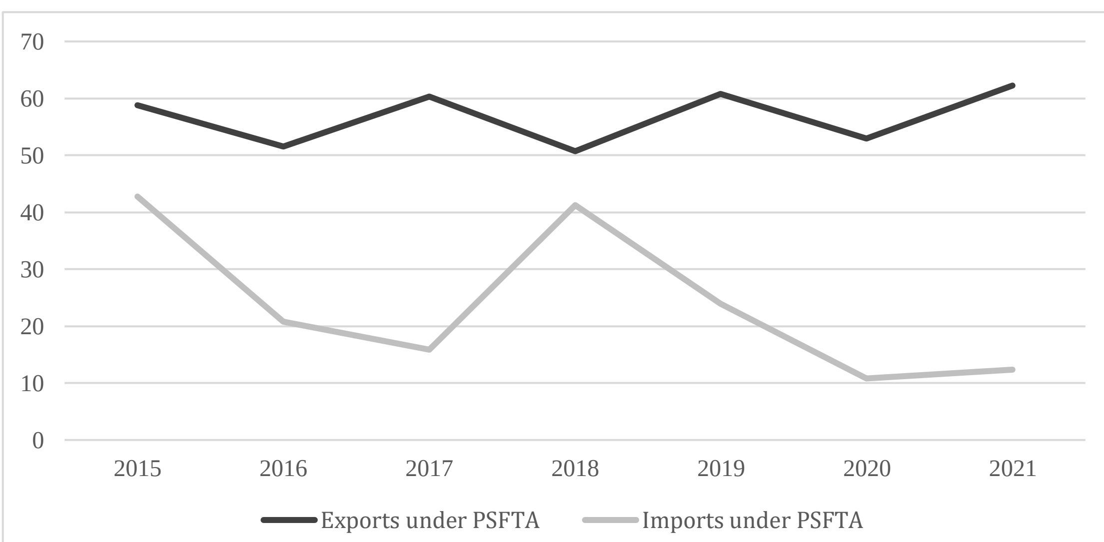
Figure 3: Sri Lankan Imports and Exports under the ISFTA (Values in US$ Mn)



Source: Author's computation based on data from Sri Lanka Customs and Department of Commerce

The Pakistan-Sri Lanka FTA which was signed in 2002 and came into effect in June, 2005 also didn't bring any significant boost to Sri Lankan exports amidst duty-free access for over 4500 products. The lack of export diversification was the main reason for this, as coconut and rubber-based products consistently dominated the share of Sri Lankan exports to Pakistan.

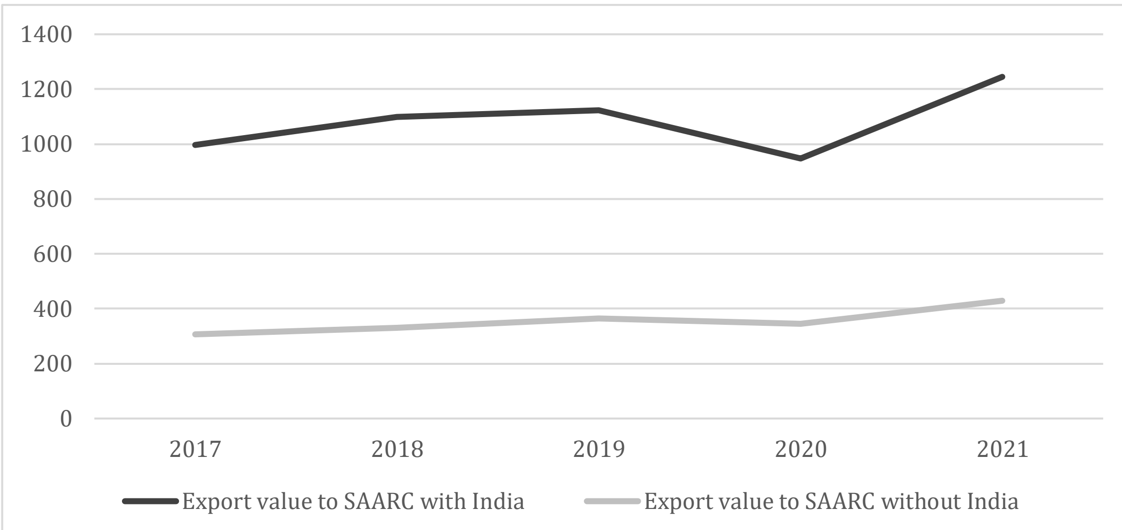
Figure 4: Sri Lankan Imports and Exports under the PSFTA



Source: Author's computation based on data from Sri Lanka Customs and Department of Commerce

During the SAARC summit in 1991, Sri Lanka proposed the South Asian Preferential Trade Agreement (SAPTA), that was ratified in 1993. The limited success of it led to the establishment of the South Asian Free Trade Agreement (SAFTA) on January 1, 2006, as a successor to SAPTA. Yet, due to more favorable terms provided for exporters under the ISFTA, Sri Lankan exporter primarily utilized the India-Sri Lanka Free Trade Agreement (ISFTA) when exporting to India over the SAFTA, resulting in overall low utilization rate under SAFTA (Figure 5).

Figure 5: Comparison of Export Value to SAARC Countries including/excluding India (Values in US$ Mn)



Source: Developed by author based on data from Department of Commerce, Sri Lanka

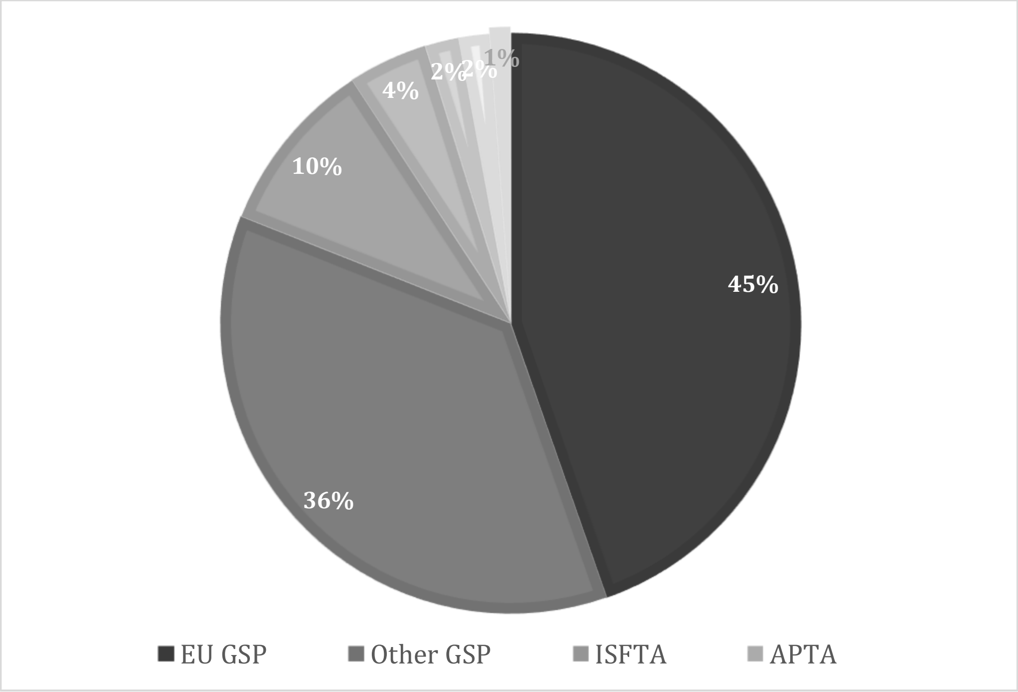
The Sri Lanka-Thailand Free Trade Agreement was signed on February 3, 2024 and the duration of the tariff liberalization will be 16 years effective from January 2025. Thailand is the second RCEP economy to sign a free trade agreement (FTA) with Sri Lanka after Singapore. However, the potential for a substantial increase in bilateral trade in already traded products is a concern as major currently traded products between the two countries are already under zero tariffs while the immediate concessions provided by the agreement covers a lower percentage of products (Wijesinghe, 2024). Also, many products in the offensive lists of both the countries which get tariff concessions under SLTFTA, are not traded bilaterally. This raises doubts about whether the agreement will deliver significant benefits to Sri Lanka. Sri Lanka heavily relied on a few products for export revenue, with 42.9% of bilateral export earnings in 2021 coming from just three products (gems, knitted or crocheted fabrics, and wheat or meslin flour) exported to Thailand. In contrast, Thailand exhibits a much lower concentration, with only 13.0% of export revenue derived from a comparable number of products (Wijesinghe & Rathnayake, 2022). This indicates Sri Lanka's limited export profile adding concerns in yielding a positive gain through the accession to RCEP.

The Generalized System of Preferences Plus (GSP+) scheme significantly boosted Sri Lanka's exports to the EU since its introduction in late 2004. The European Union (EU) is currently Sri Lanka's second-largest export market, with exports reaching US$ 3 billion in 2022, predominantly driven by apparel, which comprises about 50% of total exports to EU (European Commision , n.d.). GSP+ enabled Sri Lanka to capture a larger share of the EU apparel market, surpassing the USA in 2008 as its largest market for garment exports.

However, the EU temporarily withdrew GSP+ in 2010 due to human rights concerns, which impacted some sectors largely such as the export of live animals and animal products (Withanawasam & Kumara, 2015). However, GSP+ was reinstated in 2017, providing duty-free access to 66% of tariff lines (International Trade Centre, 2021).

Despite covering over 7,000 product lines, Sri Lanka's utilization of GSP+ remains concentrated primarily in apparel, along with selected sectors like rubber and food products. The scheme, while advantageous, presents challenges such as stringent Rules of Origin criteria, which requires dual transformation from yarn to fabric and fabric to apparel. Compliance costs associated with these criteria often outweigh the tariff benefits, demotivating exporters from fully exploiting GSP+ preferences for apparel. Nevertheless, among Sri Lanka's current array of preferential trade agreements, the EU's GSP+ scheme stands out as the most beneficial, given the importance of preferential treatment for its products which it already has a comparative advantage (Figure 6).

Figure 6: Sri Lanka’s Exports under Preferential Trade in 2021 (Value in US$ Mn.)



Source: Author’s computation based on data from Department of Commerce

When assessing Sri Lanka's range of preferential agreements, aside from the EU GSP+ scheme, none have yielded substantial benefits – mainly attributing to the fact of country's limited export diversification. This presents a significant challenge for Sri Lanka when entering into RCEP.

Addressing this challenge will necessitate adapting policies to create a supportive environment, particularly aimed at broadening Sri Lanka's export base with a focus on high-value-added products. In the upcoming chapters, the author intends to discuss the necessary policies, the focus and strategy that Sri Lanka possibly needs to bring in with the aim of tackling these underlying challenges in order to achieve positive outcomes through RCEP.

04 Trade and Investment Opportunities under RCEP

4.1 Opportunities in Trade

The Schedules of Tariff Commitments applied by RCEP members fall into one of two brackets. The "harmonized concession" model only features one tariff reduction schedule, where exporters from any RCEP country will receive the same tariff when exporting into these markets. This model is available to Australia, New Zealand, Malaysia, Singapore, Brunei, Cambodia, Laos and Myanmar. The rest of the countries have some variations in their schedules. This is known as the "country-specific concession" model. In this model, RCEP Parties are subject to different tariff concessions, with tariff rates depending on the country of origin determined by the rule of origin. As an example, Indonesia has schedules for ASEAN and separate schedules for each of ASEAN's Dialogue Partners, i.e., FTA partners of RCEP - Australia, China, Japan, New Zealand, and Rep. of Korea (East Asia Business Council, 2022).

Amongst the most liberalized industries under the RCEP include electromechanical industry, non-precious metal industry, chemical industry, textile and raw material industry, optical, clock and medical equipment industry, plastic and rubber industry, furniture and toy industry (VCCI, 2022).

Under the RCEP, initial duty rates for electromechanical products are lower and decrease gradually over ten-year span following the agreement's enactment. Japan welcomes immediate zero tariffs on all ASEAN electromechanical products. While not all ASEAN's FTA partners (Australia, China, Japan, New Zealand, and Rep. of Korea) immediately eliminate tariffs, by the tenth year, around 70% of all electromechanical products have zero tariffs, denoted by the 'zero tariff ratio'. 'Zero tariff ratio' explains the percentage of product with zero tariffs from the total amount of products in that category listed under the customs trade product classification (Center for WTO and International Trade, n.d.).

Australia, China, Japan, New Zealand, and Rep. of Korea will collectively eliminate tariffs on over 80% of total non-precious metals and products in ASEAN. Australia is expected to experience the most significant reduction in tariffs over ten years, with immediate zero tariffs on 60.57% rising to 86.50% by the tenth year in this category of non-precious metals and products.

Japan, Australia, and New Zealand will all have immediate zero tariffs on over 90% of ASEAN's chemical products, with further increases to over 94% by the tenth year. Australia is projected to achieve 99.36% trade liberalization by then. Rep. of Korea shows the largest increase in zero-tariff ratios in the chemical industry over ten years, from 57.45% to 78.85%.

In textiles and raw material products, China, Japan, and Rep. of Korea will immediately implement zero tariffs on over 80% of ASEAN's products, maintaining this ratio over the ten-year period following the agreement's enactment.

For plastic and rubber products, immediate zero tariff ratios for China, Australia, and New Zealand range from 40% to 50%, while Rep. of Korea's is lower at 17.54%. Japan achieves immediate zero-tariff ratio of 83.89% for plastics and rubber products from ASEAN countries, maintaining it for the ten-year duration (VCCI, 2022).

Table 3: Liberalization of various products of ASEAN's FTA Partners to ASEAN

Industry	**Zero Tariff Ratio (%)**	**China**	**Rep. of Korea**	**Japan**	**Australia**	**New Zealand**
Mechanical and electrical industry	Year 1	55.7	59.14	100	82.88	42.82
	Year 10	72.5	73.67	100	92.48	69.58
Base metals and products industry	Year 1	66.43	59.5	94.48	60.57	51.87
	Year 10	82.06	70.34	94.48	86.5	73.71
The chemical Industry	Year 1	73.57	57.45	94.39	90.22	90.6
	Year 10	88.56	78.85	94.39	99.36	95.68
Textile and Raw material industry	Year 1	75.25	90.19	83.77	44.22	47.61
	Year 10	87.06	90.31	83.77	76.26	62.09
Optical, watch, medical equipment industry	Year 1	62.56	84.83	97.63	91	84.24
	Year 10	83.89	99.05	97.63	96.68	92.61
Plastic and rubber industry	Year 1	43.13	17.54	83.89	52.61	44.55
	Year 10	71.09	86.73	83.89	79.62	70.62

Source: Author's compilation based on RCEP's schedule of tariff commitments and data from Vietnam Chamber of Commerce and Industry (VCCI)

ASEAN contracting parties vary in their tariff reduction arrangements with their FTA partners - China, Rep. of Korea, Japan, Australia, and New Zealand, under RCEP. Cambodia, Laos, Malaysia, Myanmar, Brunei, and Singapore treat all FTA partners equally in terms of tariff commitments (Table 4), while Vietnam, Philippines, Indonesia, and Thailand have different reduction commitments with each partner.

In the first year of RCEP, Cambodia, Laos, Malaysia, Myanmar, Brunei, and Singapore exhibit the highest trade liberalization in the chemical industry. Malaysia and Brunei achieve zero tariffs on over 90% of products from China, Rep. of Korea, Japan, Australia, and New Zealand within the first year of RCEP, while Cambodia, Laos, and Myanmar fluctuate between 45% and 65% across all industries. Singapore immediately implements 100% zero tariffs across all the above-mentioned industries immediately following the agreement's enactment. Brunei surpasses 90% zero tariffs in non-precious metals, chemicals, textiles, and rubber industries, while Malaysia exceeds 90% in chemicals, optics, watches, and medical equipment. Malaysia and Brunei maintain higher trade liberalization than Cambodia, Laos, and Myanmar. Malaysia notably increases zero-tariff ratios in textiles, furniture, toys, and miscellaneous products from about 50% in the first year to over 90% in the tenth year. However, the number of zero-tariff products in Cambodia, Laos, and Myanmar remains unchanged over the decade (VCCI, 2022).

Table 4: Liberalization of various products of ASEAN to ASEAN's FTA Partners

Industry	Zero Tariff Ratio (%)	Cambodia	Lao PDR	Malaysia	Myanmar	Brunei Darussalam	Singapore
Mechanical and electrical industry	Year 1	9.08	21.79	76.91	47.73	31.91	100
	Year 10	9.08	21.79	85.86	47.73	65.63	100
Base metals and products industry	Year 1	27.89	24.69	44.84	38.72	99.47	100
	Year 10	27.89	24.69	66.9	38.72	99.47	100
The chemical Industry	Year 1	45.87	48.72	91.35	62.26	94	100
	Year 10	45.87	48.72	91.86	62.26	95.27	100
Textile and Raw material industry	Year 1	45.73	26.76	50.25	6.41	91.21	100
	Year 10	45.73	26.76	92.21	6.41	91.58	100
Optical, watch, medical equipment industry	Year 1	6.16	31.75	97.63	4.27	29.38	100
	Year 10	6.16	31.75	99.53	4.27	81.52	100
Plastic and rubber industry	Year 1	38.39	28.44	25.59	9.48	90.52	100
	Year 10	38.39	28.44	38.86	9.48	90.52	100

Source: Author's compilation based on RCEP's schedule of tariff commitments and data from Vietnam Chamber of Commerce and Industry (VCCI)
Notes: Vietnam, Philippines, Indonesia, and Thailand are absent in this layout as they adopt different tax reduction commitments for different FTA partners under the RCEP

Vietnam leads in trade liberalization within the chemical industry under RCEP, achieving zero tariffs on over 90% of chemical products with its FTA partners - China, Rep. of Korea, Japan, Australia, and New Zealand, within the first year of RCEP. Additionally, Vietnam progressively eliminates tariffs on optics, clocks, and medical equipment products from its FTA partners, reaching 100% zero tariffs by the tenth year (VCCI, 2022).

In the first year of the RCEP's entry into force, the Philippines implements zero tariff for 94%-99% of products in many industries, such as the electromechanical industry, chemical industry, optical industry, clocks, medical equipment industry, furniture, toys, and miscellaneous products industries from China, Rep. of Korea, Japan, Australia, and New Zealand. The plastics and rubber industries have the lowest degree of trade liberalization, with a zero-tariff ratio of only about 65% (VCCI, 2022).

Indonesia achieves high trade liberalization in the optical, clocks, and medical equipment industries, with over 80% zero tariffs on products from its FTA partners under RCEP. Other industries show varying degrees of liberalization, with plastics and rubber having the lowest, at about 40% (VCCI, 2022).

Thailand showcases notable trade liberalization in industries like chemicals, optics, clocks, medical equipment, furniture, toys, and miscellaneous products. The textile and raw materials industry sees a significant increase in zero-tariff ratios from around 67% in the first year to over 98% by the tenth year. Similarly, the plastics and rubber industry show a rise from 43% to over 91%. Additionally, Thailand achieves near-complete zero tariffs on textiles and raw materials from Japan, Australia, and New Zealand by the tenth year following the agreement's enactment (VCCI, 2022).

4.2 Opportunities in Investment

In order to delve into the opportunities lying in investment, it is imperative to study about the position of each RCEP contracting party specially the case of ASEAN, and its motive for (outward and inward) investment. Most of the investment is concentrated in the manufacturing sector which involves industries such as automobiles, electronics, machinery and chemicals (VCCI, 2022).

In the case of Japan, the relatively high proportion of manufacturing investment is due to the industrial transfer relationship between Japan and ASEAN. With its geographic proximity to Japan and its advantages in resources and labour costs, ASEAN has become an ideal place to undertake the transfer of Japanese industries. Multinational companies from Japan have established branches in ASEAN contracting parties through mergers and acquisitions to realise the transfer of production from Japan to ASEAN and in corporate ASEAN into Japan's global production chain (VCCI, 2022).

Initially, China directed substantial investments towards energy-related sectors within ASEAN, primarily focusing on resource acquisition. However, post-2010, there has been a notable transition in Chinese investment patterns, with a shift towards infrastructure development, real estate, mining, and finance. This shift has enabled China to establish a significant global advantage in infrastructure construction, with Chinese enterprises emerging as leading investors in this sector across ASEAN.

Another major influencer for investment is the rankings set under various frameworks related to global competitiveness such as the global rankings published by World Economic Forum's 'Global Competitiveness Report'. Among the 141 economies participating in the global ranking, 7 of the ASEAN contracting parties ranked within 100, of which Singapore ranked first. According to the World Bank's "Doing Business 2020" report, among the 190 economies in the world, 7 of the ASEAN contracting parties ranked within 100, of which Singapore ranked second just to New Zealand. The degree of the importance of this metric could be realized by observing the amount of investment that Singapore has attracted as a proportion of total foreign investment to ASEAN.

According to statistics from ASEAN, in 2018, the proportion of Singapore's total foreign investment to ASEAN's total increased from 45.3% in 2017 to 50.2%, followed by Indonesia (14.2%), Vietnam (10%), Thailand (8.6%), the Philippines (6.3%), Malaysia (5.2%), Myanmar (2.3%), Cambodia (2.0%), Laos (0.9%) and Brunei (0.3%). This is clear evidence of how uneven is the distribution of foreign investment in ASEAN, which nearly half of the foreign investment flows to Singapore (VCCI, 2022).

Non-service sector investments such as agriculture have been largely protected by many member countries of RCEP including Cambodia, Laos, Myanmar, Thailand, Vietnam, and Japan. Agriculture is one of the pillar industries of these countries and have been put into the negative list by these countries limiting investment only to citizens of those country and foreigners who have obtained permanent residency in these countries (VCCI, 2022).

05 Potential Gains for Sri Lanka through RCEP

5.1 Streamlining Trade in the Region

RCEP facilitates and enables trade through uniformity in trade legislation and more favourable economic conditions. These are achieved through both lower tariffs and by reducing the transaction and administrative costs associated with non-tariff barriers to trade. By reducing barriers to trade, RCEP enables Sri Lanka to access a significantly greater market for exports, with partner countries comprising around 30% of global GDP, while also enabling Sri Lankan businesses to purchase industrial inputs at a lower cost due to reduced tariffs on incoming goods. Furthermore, RCEP creates common rules of origin for the entire bloc. In international trade, rules of origin are a set of criteria used to determine the national source of a product (Graham, 2021).

A significant concern regarding the proliferation of trade agreements in the region is the potential for overlapping rules and preferences, often referred to as the "*Spaghetti Bowl effect*", or the "*Noodle bowl*" in the Asian context. This has been a major criticism of ASEAN as it has increased the costs of trade and offset some of the potential benefits of the FTAs. For instance, Sri Lanka can export to India through various agreements such as ISFTA, APTA, SAFTA, and soon under the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), each with its own set of preferential tariffs, negative lists, and technical requirements like value additions. This scenario imposes search costs on exporters who must identify the most suitable agreement or adjust their source of inputs to qualify for preferences. These adjustments can be economically inefficient and increase trade-related business costs. The Rules of Origin (RoO) represent one of the most complex aspects of regional and bilateral trade agreements. They are designed to prevent trade deflection and ensure that products receiving preferences originate from the exporting country that is party to the agreement, rather than being a re-export of a third-party taking advantage of the agreement's benefits (De Mel, Jayaratne, & Premaratne, 2011).

RCEP was formed to mitigate challenges faced by businesses across multiple FTAs. It was developed as a comprehensive agreement, covering issues of market access, regulatory coherence across trade in goods and services, investment and other cross-sectoral issues such as intellectual property rights, competition policy, government procurement, electronic commerce, support for small and medium-sized enterprises (SMEs), and others (ADB, 2022).

Participation in RCEP also opens avenues for promoting Sri Lankan workers in the Asia-Pacific region, potentially increasing remittance inflows into the country. Additionally, initiatives like China's Belt and Road Initiative (BRI), embraced by 13 out of 15 RCEP member states, aim to address infrastructure constraints. These initiatives are expected to reduce trade costs and facilitate increased trade, benefiting Sri Lanka's trade connectivity. Furthermore, the withdrawal of the United States from the Trans-Pacific Partnership (formerly TPP, now CPTPP) under the administration of President Donald Trump in 2017 has improved the prospects of success for RCEP (McBride et al., 2021).

5.2 Export Diversification

Sri Lanka stands to benefit significantly from targeting key export sectors such as tea, spices, and apparel and leveraging the Regional Comprehensive Economic Partnership (RCEP) to tap into new markets and expand market share. With products like pepper, cinnamon, turmeric, ginger, and shrimp, which Sri Lanka wholly obtains, there are ample opportunities to meet the global demand for these commodities.

In this section, the author will use two key indexes to explain Sri Lanka's performance and progress of its efforts on export diversification - the 'Complexity Outlook Index' (COI) and the 'Economic Complexity Index' (ECI). The COI simply represents the current potential of a country to diversify into other products, whereas the ECI depicts the past performance of a country in developing new, complex products.

The Atlas of Economic Complexity helps us to understand better the potential which Sri Lanka carries in expanding its export basket. Countries tend to achieve greater success in diversification when they transition to industries that utilize similar expertise and build upon existing capabilities. According to the Complexity Outlook Index (COI) from the Atlas of Economic Complexity, Sri Lanka holds the 37th position out of 133 countries (Harvard Growth Lab, 2024). As stated by the author previously, the COI simply represents the current potential of a country to diversify into other products. I.e., COI provides an indication of the number of complex products that a country could produce with that country's current productive capabilities – which Sri Lanka stands high in the rankings in comparison to its peers. If a country is able to produce more complex products, it stands to benefit from greater comparative advantages as it will have fewer direct competitors in international markets. Complex products may include electronics and certain chemicals. Conversely, least complex products, encompasses raw materials and simple agricultural goods that most countries can produce. Bangladesh, a rapidly developing country, ranks at 100th given its existing capabilities are mostly confined to textiles. Even China stands at 41st, while Singapore ranks 40th, highlighting that Sri Lanka possesses considerable potential – albeit hindered by bottlenecks (Harvard Growth Lab, 2024).

Sri Lanka's export growth during the past to date presents a concerning trend, with the largest contribution coming from low and moderate complexity products, particularly in apparel, knitwear, and rubber products. Sri Lanka has started the process of structural transformation, crucial for economic advancement, which involves reallocating economic activities from low- to high-productivity sectors. This typically has entailed a shift from agriculture to industries like textiles, followed by electronics and machinery manufacturing. Despite its presence in textile exports, Sri Lanka's global market share in electronics has remained stagnant over the past decade.

Moreover, the country's export dynamics have been predominantly driven by textiles in recent years, yet textile exports have experienced a decline, hampering overall economic growth (Harvard Growth Lab, 2024).

While the country has diversified into a variety of new products, their contribution to income growth remains limited due to their relatively small volume of production (table 5). Notable among these new products Sri Lanka have added to its export basket over the period of 2006-2021 are cargo ships and similar vessels (22.7%), nails and articles of iron or steel (14.04%), electric sound or visual signalling apparatus (13.61%), and various agricultural products, collectively comprising over 25% (Harvard Growth Lab, 2024).

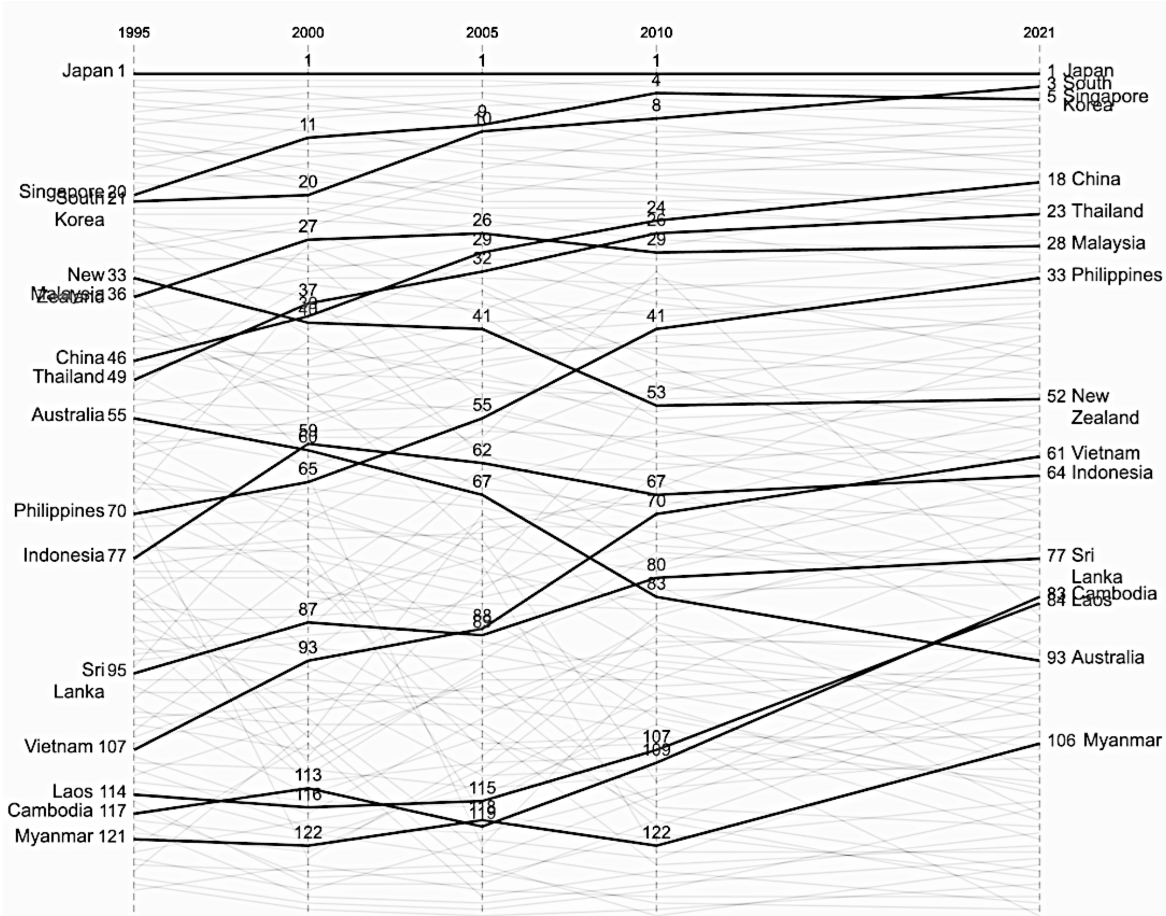
Table 5: New products added by Sri Lanka 2006-2021

Country	Number of New Products	Total Value (US$)	Value per New Product (US$)
Pakistan	26	1.50B	0.06B
Sri Lanka	18	329M	18.28M
India	16	6.12B	0.38B
Bangladesh	9	823M	91.44M

Source: Harvard Growth Lab (2024)

This phenomenon is apparent from the Economic Complexity Index (ECI), introduced by the Harvard Growth Lab's Country Rankings, where Sri Lanka currently holds the 77th position out of 133 countries (Harvard Growth Lab, 2024). This index indicates a country's success in the expansion of both the quantity and complexity of products exported over time. Countries endowed with substantial knowledge, specialized skills and expertise couple with complex production capabilities typically produce more complex products. Sri Lanka's ranking suggests that Sri Lanka stands notably behind in this aspect of building complex products relatively to other economies (Figure 7).

Figure 7: ECI Ranking Comparison between RCEP Member States



Source: Harvard Growth Lab (2024)

Sri Lanka, positioned 95th in ECI rankings in 1995, has only ascended by 18 ranks to reach 77th in 2021, indicating a poor performance in diversifying its export portfolio towards more complex products compared to its peers (Harvard Growth Lab, 2024). However, the previous discussion of the Complexity Outlook Index (COI) evaluates the potential and feasibility of diversification into products based on existing knowledge and capabilities a country has, in which Sri Lanka ranks high. This indicates significant growth potential for Sri Lanka, as its current expertise and capabilities presents numerous opportunities to expand into related product categories. RCEP could accelerate this process by increasing demand for certain products, making Sri Lanka a more attractive market for supply, and facilitating the investment necessary to build new industries.

To achieve this, Sri Lanka needs to first address bottlenecks hindering its ability to diversify into related products. Based on its current exports, sectors with high potential for new diversification in Sri Lanka include articles of iron or steel, electrical machinery and equipment, parts of motorcycles or wheelchairs, and plastics. Sri Lanka possesses the necessary capabilities in these areas, and entering these product spaces could open further new links to complex products.

In accordance with Ricardo Hausmann's theory, Sri Lanka should adopt a "Parsimonious Industrial Policy Approach" to overcome obstacles and access more complex industries through targeted strategies (Hausmann et al., 2021). Unlike broad, unfocused industrial policies that scatter resources across various sectors, the parsimonious approach advocates for concentrating support on specific industries closely aligned with the country's existing capabilities. This selective backing ensures that limited resources are directed where they can yield the greatest impact.

5.3 Supply Chain Participation and Foreign Direct Investment

The most attractive prospect of participation in RCEP is the facilitation of foreign direct investment it provides. RCEP would provide an opportunity to Sri Lankan firms to participate in global value chains and in attracting foreign investment to establish stages of production in the country, also capitalising on the geographical proximity to India's booming market. FDI will be an important part of Sri Lanka's economic recovery and that could be increased through cultivating a supply chain hub that supports international businesses (Hundlani & Wignaraja, 2018). Sri Lanka's small and medium-sized enterprises could also gain from subcontracting opportunities and selling services to larger international firms, increasing their own productive potential.

Furthermore, becoming a member state could stimulate enhanced technology and skill transfer from more developed RCEP nations to Sri Lanka. If Sri Lanka engages with global supply chains and welcomes foreign direct investment to develop domestic industries or explore untapped potential, RCEP creates an attractive environment for technology transfer and can improve productivity in sectors such as IT services, agriculture, professional services and sustainable tourism. The availability of foreign investment can further enhance infrastructure and market access, thus boosting the competitiveness of these sectors.

The sources of global demand are gradually shifting towards East Asia, with China emerging as a pivotal trading partner for countries in the region. Notably, China has surpassed the United States and the European Union to become the largest source of final demand for East Asian countries. The export value added absorbed by final demand in China has seen a significant increase, rising from 1.6% of the region's GDP in 2000 to 5.4% of GDP in 2021. Furthermore, the final demand from other countries in East Asia is also on the rise, expanding from 3% of the region's GDP in 2000 to 3.5% of GDP in 2021. This indicates a growing intra-regional trade dynamic within East Asia. Moreover, the emergence of a middle class in East Asia is another significant trend. The number of individuals categorized as part of the middle class in East Asia increased from 834.2 million in 2016 to 1.1 billion in 2020. Presently, over 54% of the population in East Asia is considered part of the global consumer class, with daily consumer spending averaging US$12 or more. East Asia currently accounts for 29% of the global consumer class in 2022, and projections suggest that by 2030, one in three members of the world middle class will hail from East Asia (Perera, 2024). These trends signify a significant shift in global economic dynamics, with East Asia poised to play a central role in driving global consumption and economic growth. By aligning with East Asia, Sri Lanka stands to benefit from these positive trends, tapping into the growing demand for goods and services within the region and capitalizing on the expanding middle class consumer base.

The Colombo Port City project, initiated by the Sri Lankan government in partnership with China Harbor Engineering Company (CHEC), is a significant endeavor aimed at transforming Colombo into a prominent global financial and business hub. Through extensive land reclamation and urban development, the project seeks to improve Sri Lanka's ease of doing business and create a favorable environment for both local and foreign investors. Governed by the Colombo Port City Economic Commission Act No. 11 of 2021, the project is overseen by the Colombo Port City Economic Commission (CPCEC), a regulatory body responsible for managing all activities within the Port City. Under this legal framework, businesses operating within the Port City must comply with Sri Lankan laws and regulations, with potential exemptions or incentives provided by the CPCEC Act. This streamlined approach eliminates the need for investors to navigate multiple government entities, as the Commission serves as a single point of contact, simplifying procedures and accelerating approvals as the Single Window Investment facilitator. Colombo Port City is a great representation of the Commitment of the Sri Lankan Government in further enhancing Sri Lanka's 'Special Economic Zone'(SEZ) strategy, by marking a shift from manufacturing to the services sector (Economynext, 2024). As the country's first SEZ specifically designed to attract investments in the services sector, Colombo Port City holds immense potential as a driver of economic growth, as a hub to attract financial and service sector businesses looking to expand their reach into India and its neighbouring states such as east Asia, which the accession to RCEP would be directly beneficial given the trade density in services sectors such as banking and insurance, logistics and tourism.

5.4 Non-Economic Benefits

Beyond pure economic benefits, joining the RCEP presents compelling political reasons for Sri Lanka. By becoming a signatory to the agreement, Sri Lanka gains the opportunity to actively shape the future direction of RCEP. As a member, Sri Lanka can participate in negotiations and contribute to setting trends in emerging issue areas such as e-commerce and intellectual property.

RCEP is structured as a "living agreement," meaning that it includes provisions for ongoing negotiations and updates to address contemporary issues related to regional integration and sustainable growth (Kimura et al., 2022). This built-in agenda for future negotiations allows member countries to adapt to the evolving economic and trade landscapes, ensuring the agreement remains relevant and responsive to changing global dynamics.

By participating in RCEP, Sri Lanka can influence the development of trade rules and standards within the region, ensuring they align with its interests and priorities. This proactive engagement in shaping the emerging global trade architecture enhances Sri Lanka's geopolitical relevance and strengthens its diplomatic position on regional and international platforms. Staying out of RCEP would limit Sri Lanka's ability to shape the future trajectory of regional trade integration and could potentially isolate the country from important regional economic developments.

One of Sri Lanka’s biggest strengths is its strong resident diplomatic presence in the Indo-Pacific region, covering almost all the RCEP member countries (except Brunei, Cambodia and Laos). Deep historical ties with Southeast Asia and the Pacific also reinforces these strong relationships and provides the foundation for Sri Lanka to develop strong trading relationships with RCEP member countries. Sri Lanka’s non-aligned foreign policy also enables the government to engage with all partners and manage bilateral relationships better. This unified approach can preserve strong bilateral relations and provide more favourable outcomes in negotiations due to Sri Lanka’s limited diplomatic contentions.

06 Impending Hurdles and Threats for Sri Lanka with RCEP Membership

6.1 Lack of Influence in Negotiations

There are also legitimate concerns regarding the potential effectiveness of the RCEP for Sri Lanka's economy. One primary concern is the possibility that Sri Lanka's engagement with RCEP countries could be overshadowed by the larger member states, particularly China, Japan, and Rep. of Korea. These countries may have stronger negotiating positions and may disproportionately benefit from the agreement compared to smaller economies like Sri Lanka.

Sri Lanka faces several challenges in its engagement with RCEP member states due to the limited number of FTAs with the member states of RCEP - one with Singapore (that is presently inactive) and the other with Thailand. According to the Presidential Media Division of Sri Lanka, (2024), Sri Lanka is currently engaged in FTA talks between Indonesia, Malaysia, Vietnam, and China. This situation implies a prolonged negotiation period to establish FTAs with RCEP members. Additionally, Sri Lanka has limited Bilateral Investment Promotion and Protection Treaties (BITs) with RCEP countries, potentially reducing incentives for trade engagement.

Sri Lanka faces several hurdles within RCEP due to its modest economic and export bases. Challenges also include limited connectivity, cultural disparities, and differences in business practices. Building relationships with local counterparts might be challenging post-membership, given cultural and linguistic barriers and negative perceptions towards China.

The practicality of the RCEP agreement for Sri Lankan exporters may be additionally constrained by varying preferential tariffs among member states and an extended phasing-in period, with tariff reductions stretched over up to 36 years for certain countries and products. Additionally, the current agreement is a work in progress, likely facing challenges in its implementation to deepen provisions and expand coverage through its built-in work plan (Petri and Plummer 2020; Crivelli and Inama 2021).

6.2 Lack of Domestic Competitiveness

A major challenge to address is the limited diversity of goods in Sri Lanka's export basket, with quantities often constrained. Countries such as India has followed protectionist economic policies in recent decades, focusing on making its own goods instead of importing them. According to India's Minister for External Affairs, S. Jaishankar, India's withdrawal from RCEP negotiations was solely based on the rational of protecting its domestic industries as previous trade agreements with Rep. of Korea, Japan, and ASEAN had caused deindustrialization and had hurt manufacturing industries like electronics and light manufacturing in India (Gupta & Ganguly, 2020). He argued that removing tariff barriers would harm Indian industries that can't compete globally, unlike other RCEP member states. The rapid removal of tariffs, by 90% in the first 15 years, could also be costly for Sri Lankan industries that aren't globally competitive. According to Gupta & Ganguly (2020), joining RCEP could harm Indian farmers, especially small-scale, family-owned farms, which could be wiped out by the trade agreement. Dairy farmers could also lose revenue from domestic sales because the FTA would allow foreign producers to enter Indian markets. The dairy industries of Australia and New Zealand are larger and more industrialized, threatening local producers (Kumar, 2020). These could also be a concern for Sri Lanka. There is apprehension about the absence of safeguards in the RCEP agreement that could lead to an unchecked flow of Chinese imports into Sri Lanka. This influx of imports could potentially flood the local market, posing significant challenges for domestic companies, especially smaller businesses and industries that may struggle to compete with larger foreign competitors (Gupta & Ganguly, 2020).

New Trade Theory suggests that governments can play a vital role in promoting and supporting the growth of new industries, particularly in developing economies. Examples such as the Japanese car industry in the 1950s highlight the significant impact of government support on fostering the growth of key industries. Similarly, several Southeast Asian economies have benefited from government protection and support in developing their industries (Krugman, 1979). In many cases, poorer and developing economies may struggle to establish certain industries due to their inability to achieve economies of scale comparable to those enjoyed by developed economies. This is not necessarily due to a lack of intrinsic comparative advantage but rather the significant economies of scale already possessed by firms in developed countries. To overcome this challenge, developing economies may require tariff protection and domestic subsidies to encourage the creation and development of capital-intensive industries. By providing support to these industries for a limited period, governments can enable them to exploit economies of scale and become competitive without ongoing government assistance. This approach aligns with the concept of infant industries, where temporary protection and support are provided to infant industries until they can compete effectively in the global market. Therefore, in the negotiation process, Sri Lanka needs to be cautious on agreeing to certain rules or conditions in terms of access to these markets.

6.3 Sensitivities

Sri Lanka's ongoing economic and debt crisis could also present challenges in its bid to join the RCEP, potentially casting the country in a negative light to other member states. This could make it harder to gain approval for Sri Lanka's accession to the agreement. Even if Sri Lanka does succeed in joining, its low sovereign credit ratings may deter FDI. Moreover, Sri Lanka might face steeper trade concessions as a latecomer to the bloc, like China's experience when it joined the WTO.

While RCEP offers tariff reductions on a significant portion of current tariff lines, it largely excludes politically sensitive agricultural sectors, posing a challenge for Sri Lanka. Additionally, Sri Lanka may find that its exportable products are included in the negative lists of major markets within the RCEP. As discussed in section 04 of this paper, low technology/labor intensive sectors including agriculture, and textiles have been highly protected by most of the RCEP member countries. As the electronics sector is on the boom in many South East Asian countries, the priority and the requirement lie in supporting its supply chain through integrating regionally, where RCEP’s facilitation comes paramount.

Compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), RCEP is less comprehensive and lacks effectiveness in shaping international economic rules and global regulatory governance (McBride et al., 2021). This is primarily due to its omission of key issue areas such as dispute settlement mechanisms and avoidance of contentious topics like environmental standards, labour rights, government procurement, and subsidies (Mbengue & Schacherer, 2021).

However, RCEP does include provisions in areas such as intellectual property, telecommunications, financial services, e-commerce, and professional services. This contrast stems from the U.S.'s original intent to establish a rulebook for 21st-century trade in the Trans-Pacific Partnership (TPP), influencing the regulatory agenda. In contrast, RCEP operates under the "ASEAN Way," characterized by the group's non-interventionist principle. Under this approach, RCEP member states make decisions through consultation and consensus (ASEAN, 2020).

07 Conclusion and Recommendations

Since the specific terms of joining the RCEP agreement for new members have not been disclosed publicly at this point of time, the precise timeline for Sri Lanka's accession to RCEP remains uncertain. Sri Lanka needs to first complete its credit enhancement initiatives and negotiate with each of the 15 RCEP member states. These processes are time-consuming, potentially delaying Sri Lanka's accession to RCEP for a significant period.

Key concerns for Sri Lanka regarding RCEP include the lack of economies of scale and higher production costs, as well as the inclusion of Sri Lankan export products in the negative lists of major markets within RCEP. Additionally, there are apprehensions about safeguarding domestic strategic industries and agriculture. Another important aspect to consider is the effects of trade diversion within RCEP. This effect could potentially be offset by trade creation, but for a non-RCEP member like Sri Lanka, it would represent a net loss. Moreover, the compensatory effect of trade creation counteracts trade diversion, while RCEP can also mobilize foreign direct investment and encourage a transformation toward knowledge-based diversification of products. Sri Lanka's niche market for wholly obtained products such as turmeric, cinnamon, pepper, ginger, vanilla, and shrimp, presents high-growth opportunities in the world market within the RCEP framework. Wholly obtained products simply mean goods that are exclusively produced in the territory of the party to a preferential trade arrangement, without incorporating materials from any other country (European Commission , n.d.).

The potential benefits for Sri Lanka from joining RCEP are manifold. Firstly, it offers access to a sizable and diversified market, driving up opportunities for increased exports and tapping into an emerging larger consumer base. Additionally, participation in RCEP allows Sri Lanka to integrate into regional and global production networks, enhancing competitiveness through shared values and disciplines, as well as adopting common standards and quality frameworks. Intra-regional cumulation further facilitates trade by simplifying rules of origin.

Sri Lanka relies on RCEP member states for approximately 40% of its imports (Refer Annex II). Since RCEP reduces or eliminates tariffs on a wide range of goods and services, entering an FTA with RCEP would result in reduced import costs. One perspective on participation would be that a more liberal trading environment would increase competition for local producers and industries, creating a much greater incentive to reduce costs and increase productivity. This could lead to Sri Lanka shifting more towards goods and services in which it has a comparative advantage over other producers, specialising the economy and improving competitiveness. However, there are many historical case studies, such as Australia, who embraced tariff liberalisation and faced significant short-term challenges. While this strategy may lead to longer-term adjustments, this approach faces serious short-term consequences that may be too harsh for Sri Lanka’s current economic climate.

According to Sri Lanka’s Product Space analysis explained in section 05, the country's exports cover various sectors, including textiles, agriculture, gems and stones, minerals, metals, chemicals, vehicles, machinery, and electronics. This indicates that Sri Lanka has expertise and capabilities in these fields. Utilizing these capabilities offers great potential for Sri Lanka to expand into new products. To achieve this, Sri Lanka needs to address barriers preventing it from diversifying into related products. Sectors with high potential for diversification include articles of iron or steel, electrical machinery and equipment, motorcycle or wheelchair parts, and plastics. Sri Lanka already has the necessary capabilities in these areas, and entering these product spaces could lead to the development of complex products and greater comparative advantages.

Sri Lanka, like Bangladesh, should form a taskforce to evaluate the overall impact of joining the free trade agreement, and which sectors it can empower if it gains access to RCEP markets and undertake a similar feasibility study . Such an analysis would involve examining the tariff schedule outlined in the agreement to gauge Sri Lanka's potential gains. Additionally, any concerns regarding potential negative impacts on Sri Lanka's exports could be addressed during the negotiation phase.

The aim of this paper was to gauge the prospects of RCEP and the challenges that would result the potential accession of Sri Lanka to the RCEP. It's evident that the agreement would primarily favor high-value industries like electronics and their associated supply chains. Given that Sri Lanka's exports mainly consist of low-value products such as textiles and agriculture, the benefits may not be significant given the protectionist policies most of these member states of RCEP implement. These industries are heavily protected by other RCEP members, as they stand as significant pillars of their economies.

Sri Lanka will have to be prepared for opening its market to the RCEP-member countries in return for getting such preferential market facility from them. Given the unfavorable bilateral trade balances across almost all the RCEP member states, there’s no clear-cut option for Sri Lanka but to gear up to become 'RCEP-ready'. This entails efforts taken to diversify exports and implementing crucial reforms to promote a conducive environment for investment.

Another significant stride, which is currently underway with its process is the digitalization of the economy, which involves modernizing of the documentation processes essential for trade and investment in Sri Lanka, as well as streamlining various clearance and verification procedures related to business activities. This transformation would also bring in enhanced transparency and a low level of corruption while streamlining business operations, thereby incentivizing investors to establish and manage their businesses effectively. The solution will offer the businesses the capability to fill and submit relevant information and documents digitally without having to visit government offices. Initiatives like the Colombo Port City project exemplifies Sri Lanka's efforts to attract investment by creating these sorts of favorable conditions. Investors engaging with

Colombo Port City doesn’t need to navigate multiple government entities. Instead, the Commission serves as a single point of contact, simplifying procedures and expediting approvals, as the Single Window Investment facilitator for investors’ end-to-end requirements.

To stay at the forefront as one of the world’s best places to do business, Singapore carried perfect scores in the areas of policy towards foreign investment and foreign trade and exchange controls– simply due to its technological readiness, its government policies to develop technology infrastructure and its start-up ecosystem. The Government was a major pioneer in rolling out high-technology solutions throughout public services (Chong, 2023).

The newly gazetted Economic Transformation Bill by the Sri Lankan Government aims to foster a more competitive, export-driven economy through various measures. It proposes the establishment of an Economic Commission to streamline economic activities and trade, along with specialized bodies like the Office for International Trade, National Productivity Commission, and Sri Lanka Institute of Economics and International Trade. These bodies will focus on promoting foreign investment, developing industrial zones, enhancing productivity, and providing economic expertise. The policy addresses key areas such as debt management, agricultural modernization, import-export regulations, and economic governance, paving the way to set a favorable climate for Sri Lanka to welcome RCEP.

The Office for International Trade, established by the Economic Transformation Bill, is a crucial step for Sri Lanka to effectively negotiate complex trade agreements like RCEP. These agreements are essential for Sri Lanka to integrate into regional value chains, driving trade in the modern world context. Sri Lanka's isolation from these chains has largely hindered its trade and export growth. Alongside expanding export markets through trade agreements, it is imperative to enhance domestic competitiveness and productivity to enhance supply capacity and withstand global competition. Successive governments of Sri Lanka failed to drive growth through building economic competitiveness. As a result, growth required stimulus through fiscal expansion and monetary loosening, which largely contributed to these viscous macroeconomic cycles. Sri Lanka's inward turn as an economy which was marked by rising tariffs, hindered exports and trade as a proportion of GDP, and diminished competition. RCEP presents an opportunity to attract these vital inward investments, particularly in export-oriented sectors like manufacturing, services, and agriculture. Moreover, according to Hausmann (2008) and Rodrik (2016), the economic benefits through export diversification could be further strengthened when concerted policies are brought in place to address common structural challenges such as infrastructure, human capital, financial development and macroeconomic stability.

Additionally, instead of implementing broad and unfocused industrial policies, adopting a more targeted approach holds imperative. The economic benefits of export diversification are found to be relatively larger in diversification limited to a small number of large industries than in diversification to a wide range of industries (Lee & Zhang, 2019). Therefore, as discussed earlier in this paper, by adapting the "Parsimonious Industrial Policy Approach," the country could concentrate its resources on specific industries that match its existing capabilities. This well focused strategy can maximize the benefits that Sri Lanka gain by joining the RCEP.

Annexes

Annex I: Year of Ratification of RCEP Member States and Partners, by effective date of participation

Member State/Partner	Signatory	Ratification	Effective Date
Philippines	15-Nov-20	03-Apr-23	02-Jun-23
Indonesia		03-Nov-22	02-Jan-23
Myanmar		04-Aug-21	01-May-22
Malaysia		17-Jan-22	18-Mar-22
Republic of Korea		03-Dec-21	01-Feb-22
Brunei		11-Oct-21	01-Jan-22
Cambodia		15-Oct-21	01-Jan-22
Lao People's Democratic Republic (Lao PDR)		26-Oct-21	01-Jan-22
Singapore		09-Apr-21	01-Jan-22
Thailand,		28-Oct-21	01-Jan-22
Vietnam		29-Oct-21	01-Jan-22
Australia		02-Nov-21	01-Jan-22
China		15-Apr-21	01-Jan-22
Japan		25-Jun-21	01-Jan-22
New Zealand		02-Nov-21	01-Jan-22

Source: Compiled by Author based on data from various mainstream press articles and inter-governmental sources

Annex II: Sri Lanka's Relationship with RCEP Member States

Country	Exports (%)	Imports (%)	Tourism (%)	Foreign Employment (%)	Trade Balance (US$ Thousands)
Australia	1.99%	1.05%	4.33	0.04	72,644
Brunei	0.00%	0.01%	<0.01	0.01	-2,331
Cambodia	0.03%	0.02%	0.04	<0.01	781
China	1.98%	20.36%	4.78	<0.01	-3,269,916
Indonesia	0.38%	1.93%	0.17	0.03	-285,789
Japan	1.77%	1.54%	1.26	1.45	-40,368
Laos	0.00%	0.00%	0.01	<0.01	-490
Malaysia	0.52%	5.02%	0.72	0.62	-802,149
Myanmar	0.02%	0.04%	0.08	<0.01	-4,185
New Zealand	0.23%	1.02%	0.52	0.16	-147,931
Philippines	0.08%	0.18%	0.30	<0.01	-19,873
Singapore	1.09%	4.20%	0.61	0.97	-588,764

Rep. of Korea	0.65%	1.38%	0.49	3.02	-154,635
Thailand	0.45%	1.75%	0.35	0.02	-244,884
Vietnam	0.36%	1.48%	0.16	0.02	-209,507
Total	**9.55%**	**39.98%**	**13.82**	**6.34**	**-5,442,184**

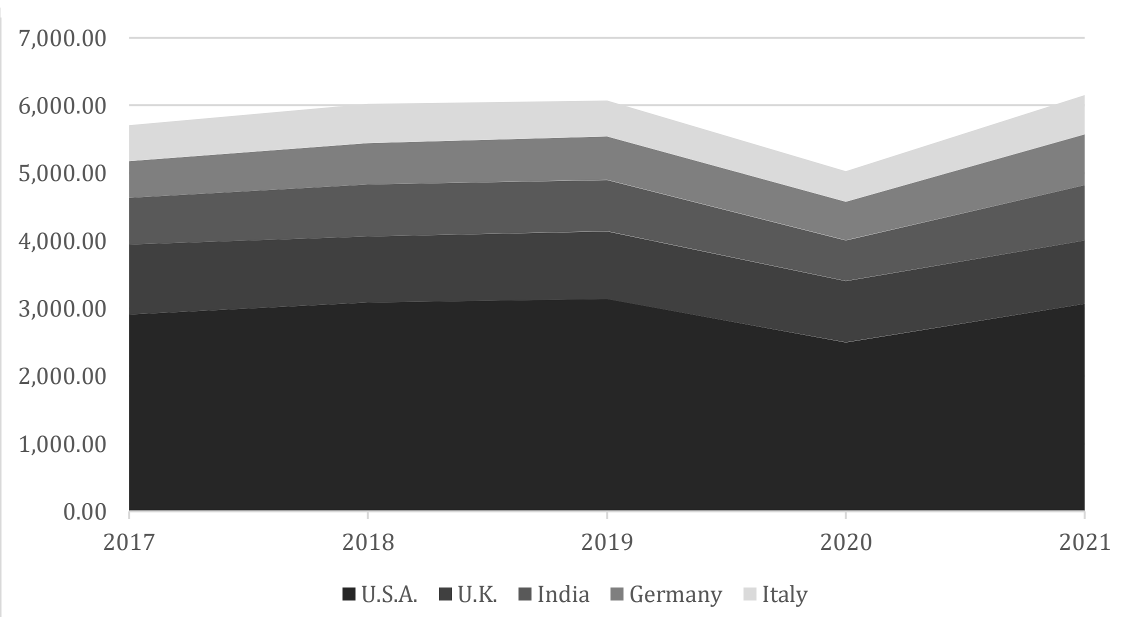
Source: Developed by Timothy Shankar (2023) for LKI based on data from WITS; Sri Lanka Tourism Development Authority (SLTDA); Sri Lanka Bureau of Foreign Employment
Notes: Data are based on the year 2022

Annex III: Sri Lanka's Exports under Preferential Trade 2017-2021 (Value in US$ Mn.)

Preference	2017	2018	2019	2020	2021
EU GSP	2,473.91	2,659.42	2,766.32	1,906.99	2,402.12
Other GSP	1,420.46	1,306.78	1,302.95	1,818.22	1,955.45
ISFTA	442.14	481.27	489.56	358.43	525.85
APTA	150.79	155.85	179.27	204.67	238.61
SAFTA	41.08	35.34	55.89	42.25	101.64
GSTP	81.2	92.65	80.71	89.54	91.82
PSFTA	60.33	50.72	60.76	52.96	62.25
SAPTA	4.49	3.52	1.75	0.78	1.42
Without preferences	6,736.83	6,863.52	6,827.24	5,412.47	6,869.83
Total exports	11,411.23	11,649.07	11,764.45	9,886.31	12,248.99

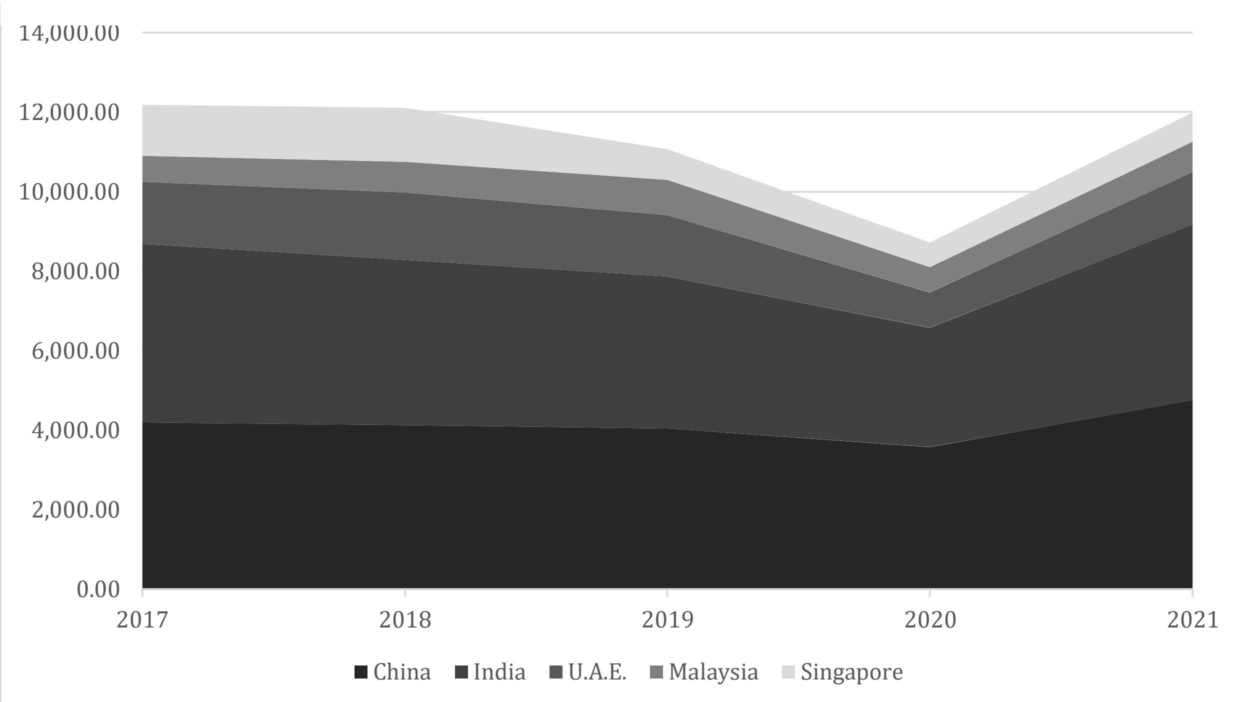
Source: Department of Commerce

Annex IV: Sri Lanka's Top 5 Major Export Destinations (US$ Mn.)



Source: Developed by Author based on data from Department of Commerce

Annex V: Sri Lanka's Top 5 Import Sources (US$ Mn.)



Source: Developed by Author based on data from Department of Commerce

Annex VI: Exports vs Imports under ISFTA

	Exports (US$ Mn.)			Imports (US$ Mn.)			Imports/Exports Ratio under the ISFTA
Year	Total Exports to India	Exports under ISFTA	Utilization rate (% under ISFTA)	Total Imports from India	Imports under ISFTA	Utilization rate (% under ISFTA)	
2001	70.12	15.9	23	601	113.1	19	7.11
2002	168.81	114.2	68	834	81.7	10	0.72
2003	241.14	238.8	99	1076	150.4	14	0.63
2004	385.49	339.9	88	1342	394.7	29	1.16
2005	559.21	543	97	1,399.43	246.2	18	0.45
2006	494.06	431.1	87	1,822.07	459.3	25	1.07
2007	516.4	398.2	77	2,785.04	385.3	14	0.97
2008	418.08	309.3	74	3,006.93	541.4	18	1.75
2009	324.87	218.5	67	1,709.93	371.7	22	1.70
2010	466.6	358.4	77	2,546.23	573.7	23	1.60

2011	521.59	391.5	75	4,349.43	579.6	13	1.48
2012	566.37	379.5	67	3,517.23	156.4	4	0.41
2013	543.37	368.8	65	3,092.67	393.4	13	1.07
2014	624.81	375.8	60	3,977.76	540.1	14	1.44
2015	643.03	407.28	63	4,273.30	253.3	6	0.62
2016	551.2	375.25	68	3,827.50	186.7	5	0.50
2017	689.48	442.29	64	4,495.99	257.04	6	0.58
2018	768.71	483.48	63	4,158.18	246.87	6	0.51
2019	759.37	489.89	64	3,830.82	198.74	5	0.41
2020	602.32	358.43	59.51	3,002.09	158.58	5.28	0.44
2021	815.79	525.85	64.46	4,421.35	208.94	4.73	0.40

Source: Sri Lanka Customs and Department of Commerce

Annex VII: Sri Lanka's Trade with Pakistan 1995-2021

	Exports (US$ Mn.)			**Imports (US$ Mn.)**			**Imports/Exports Ratio under the PSFTA**
Year	**Total Exports to Pakistan**	**Exports under IPSFTA**	**Utilization rate (% under PSFTA)**	**Total Imports from Pakistan**	**Imports under PSFTA**	**Utilization rate (% under PSFTA)**	
1995	43.2	n/a	n/a	52.4	n/a	n/a	n/a
2000	29.59	n/a	n/a	68.61	n/a	n/a	n/a
2005	43.02	n/a	n/a	115.56	n/a	n/a	n/a
2010	60.45	n/a	n/a	282.11	n/a	n/a	n/a
2015	73.1	58.84	80.5	297.41	42.76	14.4	0.73
2016	63.8	51.52	80.8	304.33	20.72	6.8	0.40
2017	74.01	60.33	81.5	350.11	15.81	4.5	0.26
2018	75.94	50.72	66.8	428.55	41.24	9.6	0.81
2019	81.53	60.76	74.5	369.78	23.91	6.5	0.39
2020	74.27	52.96	71.3	324.26	10.81	3.3	0.20
2021	91.86	62.25	67.7	394.36	12.32	3.1	0.20

Source: Department of Commerce

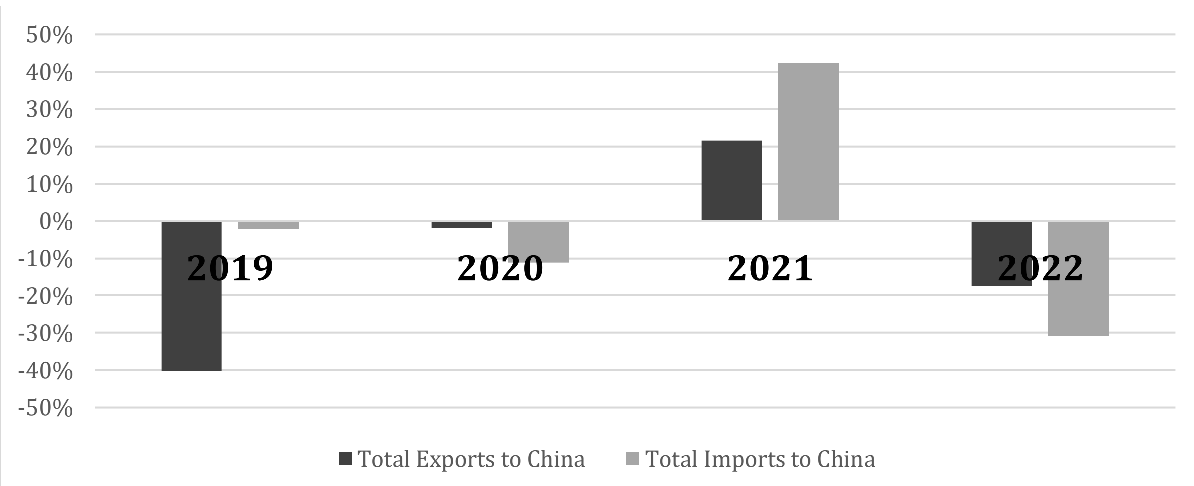
Notes: Data on Sri Lankan imports and exports under the PSFTA were only available from 2015-2021

Annex VIII: Sri Lanka's country wise exports and imports under APTA (Values in US$ Mn)

Country	2017		2018		2019		2020		2021	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
China	117.47	22.72	122.01	17.93	137.34	19.79	159.20	20.44	184.49	24.12
Rep. of Korea	30.52	0.10	32.54	0.03	38.77	-	41.79	0.00	50.66	0.03
India	2.59	0.33	1.03	0.04	2.42	0.06	1.89	0.07	1.22	0.07
Bangladesh	0.21	-	0.27	-	0.75	0.04	1.80	-	2.24	-
Laos	-	-	-	-	-	-	-	-	-	-
Total	150.79	23.15	155.85	18.00	179.27	19.88	204.67	20.51	238.61	24.22

Source: Department of Commerce

Annex IX: Annual Growth of Exports and Imports to/from China



Source: Author's calculation using data from Ministry of Trade Sri Lanka and ITC

Annex X: Utilization under EU GSP+

Year	Total export to EU, € million	GSP+ eligible, € million	GSP+ used, € million	Share GSP+ in total, %	GSP+ utilisation rate, %
2019	2,267	1,920	1,168	84.7	60.8
2020	2,064	1,753	1,106	84.9	63.1
2021	2,545	2,136	1,414	84.0	66.2
2022	3,146	2,659	1,749	84.5	65.8

Source: Department of Commerce

Annex XI: Tariff margins of top 10 exports from Sri Lanka under GSP+ in comparison to the Standard GSP and MFN tariff rates

HS Code	Product Description	MFN Tariff Rate (%)	GSP+ Tariff Rate (%)
61	Knitted and Crocheted Apparel	8.9-12%	0%
62	Woven Apparel	8.9-12%	0%
40	Rubber & Articles	0-4.5%	0%
3	Seafood	7.5-18%	0%
87	Vehicles other than railway	1.7-15%	0%
85	Electronic machinery & equipment	2.1-3.7%	0%
21	Miscellaneous edible preparations	0-14%	0%
63	Other made-up textile articles	2-12%	0%
95	Toys games and sports items	1.7-4.7%	0%
64	Footwear	3.5%-17%	0%
61 & 62	Apparel and Clothing	11.6%	0%
9	Coffee, tea, mate and spices	7.1%	0%
24	Tobacco and manufactured tobacco substitutes	22.8%	0%
3	Fish and crustaceans	12.3%	0%
64	Footwear etc.	10.2%	0%
7	Edible vegetables	10.8%	1.5%
20	Preparation of vegetables, fruits	33.8%	3.3%
15	Animal or vegetable fats or oils	7.1%	0.4%
6	Live trees and other plants, bulbs, roots	6.3%	0%
69	Ceramic products	4.9%	0%
40	Rubber and articles	4.3%	0%
57	Carpets and other textile floor covering	7.6%	0%
44	Wood and articles of wood	4.3%	0%
71	Natural or cultured pearls, semi-precious stones	3.1%	0%

Source: Author's compilation using the data from ITC, UNIDO and EU Union

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