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Photo by Heather Francis courtesy of foodinjars.com

30

PERCENT

Average tariff on food imports to India

150

PERCENT

Peak tariff on selected food imports to India

0

PERCENT

Tariff on Sri Lankan exports to India

# Exports to India: Putting the “Free” back into the Free Trade Agreement

Sri Lanka’s history with bi-lateral trade agreements demonstrates the need for more careful negotiation. This *Insight* explains how the tariff benefits of the India Sri Lanka Free Trade Agreement (ISFTA) have been outweighed by the existence of non-tariff barriers (NTBs).

Free Trade Agreements (FTAs) are expected to reduce trade barriers and facilitate expansion of trade between the partner countries. Sri Lanka and India entered into a FTA in 1998 and it came into operation in 2000. The India Sri Lanka FTA (ISFTA) eliminated the barriers of import tariffs for a large number of products traded between the two countries. Processed food products are among the products Sri Lanka can export duty free to India. However, despite duty free access, food exports from Sri Lanka

to India have not expanded as expected. This *Insight* suggests that in the case of processed food exports to India, reducing tariff barriers alone is not sufficient and removing Non-Tariff Barriers (NTBs) is equally or more important to facilitate trade.

## WHY FOOD EXPORTS TO INDIA WERE EXPECTED TO SUCCEED

The processed food export sector has high potential to expand to the Indian market under the ISFTA. This is due to the high

taxes on processed food products imported into the country. The average tariff on food imports to India is around 30% and tariffs can go up to 150%. The ISFTA first reduced and then eliminated tariffs for almost all processed food exported from Sri Lanka. Because no other country had these duty free terms at the time, Sri Lanka had a significant competitive advantage in exporting processed food to the Indian market.

The experience of Sri Lankan exporters who ventured into the Indian market, in terms of demand for their products, remains very positive. Both Indian importers and Sri Lankan exporters of food products confirm that consumer demand for Sri Lankan products in the Indian market is high. However, despite the duty free access and high consumer demand for the products, exporting to India has proved challenging

In recent years, India has signed a number of new FTAs with other trading partners. However, in these agreements most processed food products are either in the phase-out list (which means the tariff will be reduced over a longer period of time) or the negative list (which means the products are excluded from the agreement). Hence, Sri Lanka still has a competitive edge over imports from India's new FTA partner countries in terms of tariffs. Exhibit 1 shows the performance of Sri Lanka's processed food exports to the world and to India. Processed food exports to India surged from US\$ 1 million to US\$ 28 million during 2005-2011. However, since then food exports declined to US\$ 7 million by 2014. In comparison, processed food exports to the world grew steadily from US\$ 22.5 million in 2001 to US\$ 178 million in 2011, and then fell slightly to US\$ 175 million in 2014. This is despite not enjoying all the same advantages provided by the ISFTA when exporting to the Indian market. Therefore, it is reasonable to have expected high growth in processed food exports to the Indian market. In contrast, exports to India have failed to sustain the initial surge in growth.

#### NON-TARIFF BARRIERS EXPLAIN THE EXPORT PUZZLE TO INDIA

Given that demand and competitive

### The case of processed food exports to India clearly demonstrates how duty free benefits alone cannot facilitate trade – it is an important but not sufficient condition. The existence of NTBs continues to hamper trade and negate the benefits of duty concessions extended by the ISFTA.

conditions are met, what then explains the discrepancy in the lack of export success for processed food exports from Sri Lanka to India when compared to the rest of the world? Research suggests and exporters confirm that the explanation lies in the existence of Non-Tariff Barriers (NTBs). NTBs are all other types of barriers to trade other than tariff barriers, such as quota restrictions, cumbersome and inefficient border procedures, inconsistent application of rules and regulations and the lack of transparency and accountability; these barriers increase the cost of trading and make imported products uncompetitive vis-à-vis domestic products.

Some of the NTBs encountered by processed food exporters when exporting to India are import permit requirements, cumbersome and inconsistent import procedures, lack of clarity on labelling

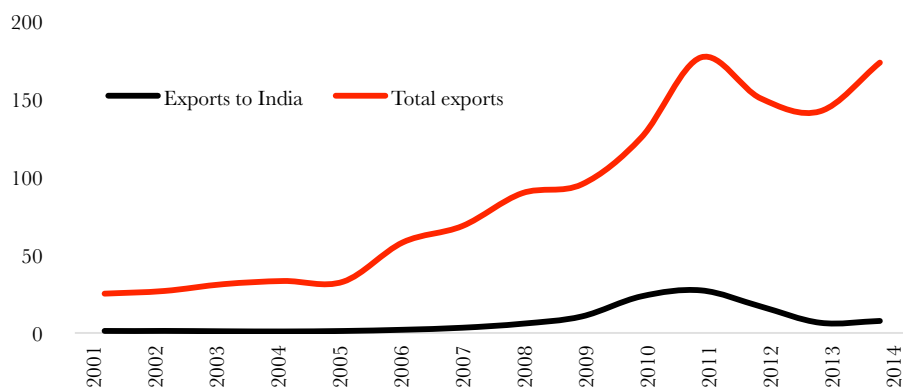
requirements and undue delays and additional costs incurred at the point of import to prove compliance with Indian standards and regulations. Thus despite having duty free access, delays and additional costs make Sri Lankan products uncompetitive in the Indian market. Furthermore, exporters find it difficult to find and retain buyers because of the unpredictability in timing and costing that result from the NTBs.

#### CONCLUSION

The case of processed food exports to India clearly demonstrate how duty free benefits alone cannot facilitate trade. It is an important but not sufficient condition to promote exports. The existence of NTBs continues to hamper trade and negate the benefits of duty concessions extended by the ISFTA.

The lack of provisions within the ISFTA to address the NTBs and the weakness of initiatives by the two Governments to address the problem has made Sri Lankan exporters sceptical about the benefits of further liberalising trade and investment between India and Sri Lanka. As Sri Lanka prepares to negotiate new agreements and expand existing trade agreements, this analysis underscores the need for more reflection and better negotiations. An exclusive focus on eliminating tariff barriers can create expectations of export success that subsequently fail to materialise, unless significant NTBs are also dealt with in the process. ■

**Exhibit 1: Processed Food exports\* from Sri Lanka (US\$ Mn)**



\* Data is for HS Chapter 16-21

Source: www.trademap.org