

Territorial NEWSLETTER South Asia

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Chairman's Pen

Located in the Indian Ocean, the island state of Sri Lanka is a very important strategic partner for India in the Indo-pacific region. The two countries have historically collaborated in two free trade agreements. They have also partnered in the multi-country economic and strategic forum of BIMSTEC. Being a lower middle income country with impressive human development records, Sri Lanka also promises to be a significantly large market for Indian engineering products especially textile and logistics. Given the importance of this island nation, this issue of the SAARC newsletter looks at the prospects for Indian engineering exporters in Sri Lanka.

I sincerely believe that this edition will be insightful for our members and they will enjoy reading it.

Ravi Sehgal



SAARC Territorial Committee Chairman's Note

Sri Lanka has been a key strategic and trade partner for India in the SAARC region and has also collaborated with the country in multiple forums. Projected as a growing economy, the country also has the potential to become a large market for Indian engineering products. Therefore this issue of the South Asia newsletter presents snippets of India's prospect in Sri Lanka.

Akash Shah Like our previous issues, an analysis of Indian engineering exports for April-Nov 2018 is also presented in this newsletter from both country-wise and DGCI&S panel-wise perspectives. Other sections include trade news on South Asia, upcoming events in South Asian regions and tenders.

I believe our member exporters will find this newsletter helpful in making business decisions.

Basic Facts South Asia

Grouping: South Asia Association for Regional Cooperation

Area: 5,099,611 km²

Population:
1,713,870,000

GDP: US\$ 3.292 trillion

Countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

Climate: The climate of South Asia can be divided into three basic kinds: tropical, dry, and temperate

Natural Resources: Rich agricultural land, minerals, energy resource



Prospects of Indian engineering products in Sri Lanka

1. Sri Lanka: Economic Scenario

Sri Lanka has been labelled as a lower middle-income country in South Asia. As per the Asian Development bank estimates the country grew at 3.2% in 2018 and is expected to grow at 3.8% in 2019. While the country has been mired with 30 years of civil war, since 2009 Sri Lanka's economy has been on steady and moderate growth path a result of peace dividend and a determined policy thrust towards reconstruction and growth. The economy at present is transitioning from a predominantly rural one to a more urbanised one and has made significant progress in terms of socio-economic development of its citizens. Sri Lanka ranks highest among other South Asian countries in terms of human development indicators and at times its ranks are comparable to many middle-income countries.

While Sri Lanka has a promising story of economic revival from decade long civil war, recent World Bank reports finds some challenges in the country's macroeconomic landscape. Low fiscal revenues combined with largely non-discretionary expenditure in salary bill, transfers, and interest payments have constrained critical development spending and squeezed expenditure on health, education and social protection, which is low compared to peer countries. Debt levels are high and the overall debt portfolio indicate some important risks.

2. Bilateral trade and Economic ties between India and Sri Lanka

In terms of merchandise trade, India's total trade with Sri Lanka increased from USD 5.13 billion in 2013-14 to USD 6.17 billion in 2018-19 registering a growth of 3.8%. It is India's 36th largest trading partner globally. India enjoys trade surplus with Sri Lanka.

In terms of engineering trade, India's total trade with Bangladesh stood at USD 2.69 billion in 2018-19, registering a growth of 3.1% over 2013-14 (USD 2.30 billion). It is to be noted here that India's exports to Sri Lanka came down by 3.2% between 2013-14 and 2018-19, however during the same period, India's engineering imports from Sri Lanka although miniscule increased by 42%. As in merchandise trade, in engineering trade too, India enjoys significant trade surplus with Sri Lanka. Ships, boats and floating structures, Motor vehicles and cars, industrial machinery, iron and steel, electrical machinery remained the top items of export to Bangladesh in 2018-19.

The two countries are signatories to two major free trade agreements namely South Asia Free Trade Area (SAFTA) and India-Sri Lanka Free Trade Agreement (ISLFTA). Moreover, the two countries cooperate in the multilateral technical and economic forum named BIMSTEC whose other members include Bangladesh, Myanmar, Nepal, Bhutan and Thailand.

As per the Ministry of External Affairs, Govt of India, India is among the top four investors in Sri Lanka with cumulative investment of USD 1 billion since 2003 to 2017. The investments are in various areas including petroleum retail, IT, financial services, real estate, telecommunication, hospitality & tourism, banking and food processing (tea & fruit juices), metal industries, tires, cement, glass manufacturing, and infrastructure development (railway, power, water supply). It is also mentioned that Indian businesses have witnessed a surge in Sri Lankan investment in the last few years especially in the areas of textiles, tourism and logistics.

3. Further prospects for India in Sri Lanka

Processed food and beverages is one of the fastest growing sectors in Sri Lanka. As per a recent report, the industry had 110 manufacturing and marketing companies in 2016 of which around 40% belonged to the MSME sector. The sector is also a huge employment generator. Growth in this industry has also led to growth of ancilliary sectors such as packaging. Hence there is a considerable scope for food processing machineries and packaging machineries in the country.

Furthermore, Sri Lanka has a well-developed textile industry and is already a key exporters of textile processing machineries from India. More efforts are required to increase exports of textile machineries to Sri Lanka.

Given that it is an island state, there is considerable scope for Indian exporters to collaborate with their Sri Lankan counterparts in the shipbuilding sector.

Trend of India's Engineering Export with the South Asian Nations

India's engineering exports to Top 5 South Asian countries during Apr-Nov 2018
(All values in USD million)

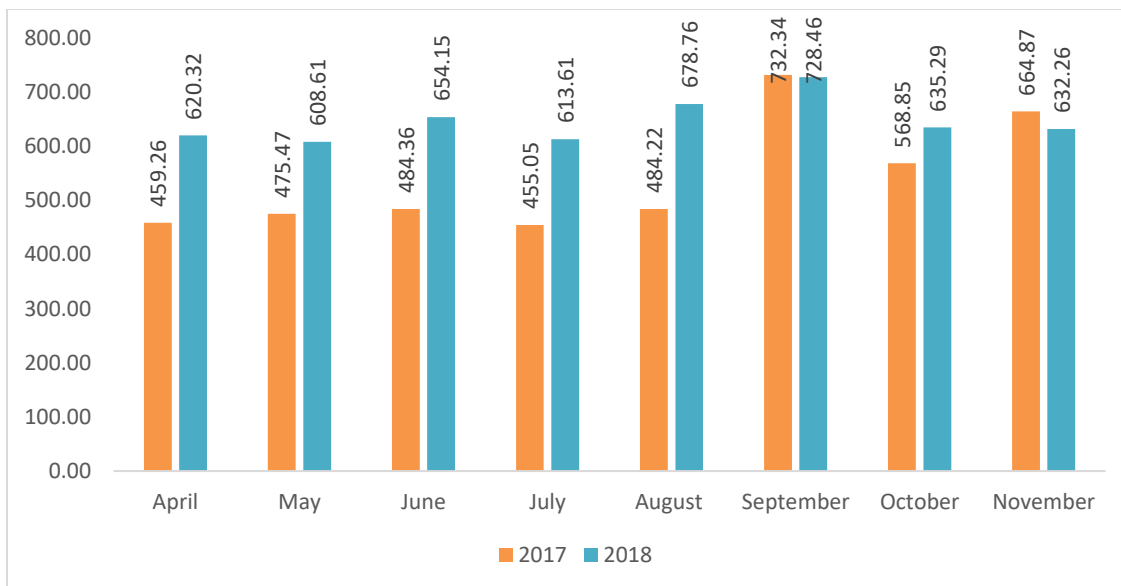
Row Labels	Export in Nov 2017	Export in Nov 2018	Growth (%)	Export in Apr- Nov 2017	Export in Apr- Nov 2018	Growth (%)
NEPAL	247.29	243.74	-1.44%	1543.11	2037.36	32.03%
BANGLADESH	238.08	235.02	-1.29%	1488.99	1807.93	21.42%
SRI LANKA	119.82	102.14	-14.75%	949.94	913.73	-3.81%
BHUTAN	29.55	18.69	-36.76%	132.44	172.17	30.00%
PAKISTAN	15.06	16.13	7.09%	108.51	118.49	9.19%
AFGHANISTAN	10.94	13.19	20.54%	68.23	87.58	28.37%
MALDIVES	4.12	3.35	-18.79%	33.21	34.19	2.94%
SOUTH ASIA	664.87	632.26	-4.91%	4324.43	5171.45	19.59%

Source: DGCIS

During November 2018, engineering exports to South Asia declined by 4.91% over November 2017. Exports to almost all the countries registered negative growth over November 2017 barring Afghanistan which was also the highest gainer (20.54%) and Pakistan (7.09%). Significant year on year decline is witnessed in exports to Bhutan and Sri Lanka. Nepal was again the topmost export destination in the region however there was a year on year decline.

In terms of cumulative figures too Nepal remained the biggest importer of Indian engineering followed by Bangladesh with impressive growth in imports, 32.03% and 21.42% respectively. However, exports to Sri Lanka experienced a drop of 3.81%. All South Asian nations witnessed growth in engineering imports (19.59%) from India during Apr - Nov 2018 over the same period last fiscal.

Month-wise Trend in Total Engineering Export to South Asia (Apr-Nov 2018-19) (Value in USD Million)



Source: DGCIS Data, EEPC Research

Panel-wise trend in engineering exports to South Asia during Apr-Nov 2018

Top 10 engineering panels exported to South Asia during Apr-Nov 2018 are listed below (Value of Exports measured in USD Million)

Panel	Export in Nov 2017	Export in Nov 2018	Growth (%)	Export in Apr- Nov 2017	Export in Apr- Nov 2018	Growth (%)
Iron and Steel	141.05	150.93	7.0%	927.43	1179.65	27.2%
Motor Vehicle/cars	88.38	84.55	-4.3%	503.78	675.94	34.2%
Industrial Machinery	86.08	68.89	-20.0%	545.88	573.97	5.1%
Two and Three Wheeler	65.90	56.53	-14.2%	467.16	492.93	5.5%
Products of Iron	35.61	34.14	-4.1%	228.93	242.15	5.8%
Electric Machinery a	41.18	33.76	-18.0%	199.37	254.79	27.8%
Auto Components/Part	40.21	31.64	-21.3%	294.87	326.11	10.6%
Other Construction M	48.43	29.19	-39.7%	210.67	217.75	3.4%
Ships Boats and Flo	0.07	19.30	27066.4%	157.14	230.12	46.4%
Aluminium and products	26.10	18.17	-30.4%	168.03	206.47	22.9%

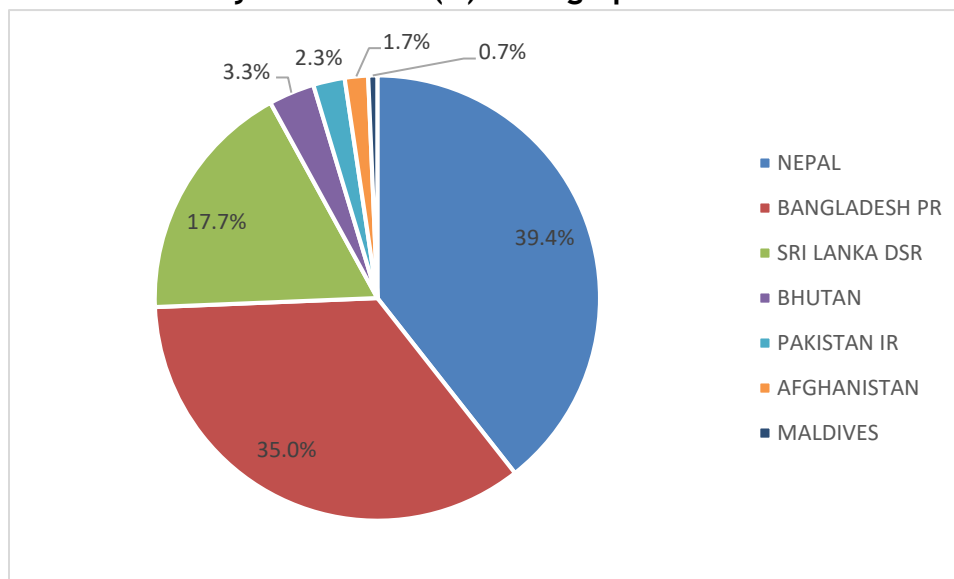
Source: DGCIS

Product group-wise analysis of Indian engineering exports to South Asia showed that 'Iron and Steel' remained the highest exported engineering product group to South Asia in November 2018 followed by Motor Vehicle/Cars, Industrial machinery, Two and three wheelers and Products of iron and steel and. Barring iron and steel and ships boats and floating structures all the top 10 engineering product groups exported to South Asian region recorded year-on-year decline.

On a cumulative basis during April to November of 2018-19, Iron and Steel, Motor Vehicle/cars, Industrial Machinery, Two and three wheelers and Products of iron and steel topped the list of engineering product groups exported to South Asia. Substantial growth was witnessed in Ships, boats and floating structure (46.4%),

Motor Vehicle/cars (34.2%), electric machinery (27.8%) and iron and steel (27.2%). All the top 10 exported panels recorded positive year-on-year growth during Apr - November 2018-19.

Country-wise Share (%) during Apr-Nov 2018-19



Source: DGCIS Data, EEPC Research

Major Importers of India's engineering products to South Asia during Apr-Nov 2018-19

Nepal: Nepal was the largest destination for Indian engineering products among all South Asian nations during Apr - Nov 2018-19 with around 40% share.

Top exported Products: Iron and Steel, Motor Vehicle/cars, Other Construction Machinery, Industrial Machinery, Two and Three Wheelers.

Bangladesh: Second largest importer of Indian engineering products among all South Asian nations during Apr - Nov 2018-19 with over 35% share.

Top exported Products: Iron and steel, Motor Vehicle/Cars, Industrial Machinery, Two & three wheelers and Other construction machinery.

Sri Lanka: Sri Lanka was the third largest export destination for India's engineering exports in the South Asian region during Apr - Nov 2018-19 with a share of 17.7%.

Top exported Products: Two and Three Wheelers, Industrial Machinery, Motor Vehicle/cars, Ships Boats and Floating Structure and Products of Iron and Steel.

Anti-dumping measures

- At present, no anti-dumping case on Engineering product being investigated by Nepal, Bangladesh or Sri Lanka, the top three importers of Indian engineering products in South Asian region, against India as per the WTO website.
- On the other hand the WTO website shows no anti-dumping case is being investigated by India at present on imports of engineering products from those three nations.

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