FTA FOCUS
Sri Lanka – A Sustainable Renaissance

September 2017
Sri Lanka: Significant achievements, but progress must continue

I lived in Sri Lanka throughout the 1990s, when I headed up a number of manufacturing sites and met many dedicated, hard-working people. I also appreciated the country’s natural beauty and used my leisure time wind surfing on its glorious beaches. Therefore, it is a country that will always have a special place in my heart.

Unfortunately, it is also a country that suffered greatly under a civil war that still had a decade to run when I left, and one that was hit by the devastating tsunami of December 2004. Despite those trials and tribulations, Sri Lanka has not only endured but has prospered.

In August 2010, because of human rights shortcomings, the EU removed Sri Lanka’s GSP+ status. Since its election in 2015, the new government has made significant progress towards correcting the policies of the previous administration, reaffirming its democratic principles, and improving human rights. As a result, in May 2017, the EU reinstated its GSP+ status.

However, although I welcome this development and the increased market access to the EU it will bring, it is critical that Sri Lanka delivers on its commitments. The reinstatement of GSP+ was conditional upon assurances by the country of continued, and rapid, improvement concerning human rights. All efforts must be targeted towards accelerating progress and maintaining momentum without lagging behind. Sri Lanka should not risk the consequences of having GSP+ revoked once again. I can only hope and urge the country to continue with concrete progress so that Sri Lanka will once again shine as the “Pearl of the Indian Ocean”.

Christian Ewert
FTA Director General

RECENT HISTORY

After the Napoleonic Wars, the country fell under British rule until 1948 and was called Ceylon until 1972 when it was re-named Sri Lanka and became a republic. Tensions between the Sinhalese and Tamil communities had been growing since independence, resulting in a civil war that ran until 2009. Sri Lanka is now developing its economy and rebuilding after the conflict, and significant progress has been made since the new government was elected in January 2015.

DID YOU KNOW THAT SRI LANKA...

• Is the world’s second largest exporter of black tea and top exporter of cinnamon? Sri Lanka exports 19% of the global value of tea, fetching the world’s highest average prices per/kg, and 33% of the global cinnamon output.

• Is a leader in sustainable energy? The country’s electricity is hydro powered – an impressive 48% in 2015.

• Is the oldest democracy in Asia? Under British rule, the Donoughmore Constitution established general elections with adult universal suffrage in 1931.

• Has the highest literacy rate in South Asia? At 93%, the literacy rate in Sri Lanka is far above the global average of 86%.

• Had the first democratically elected woman as head of government? Sirimavo Bandaranaike, the first female Prime Minister in the world, was elected in 1960.

• Held a UN High-Level Representation? Dr. Gamani Corea was third Secretary General of the United Nations Conference on Trade and Development (UNCTAD).

• Boasts several UNESCO world heritage sites? Sri Lanka has eight sites including the following: Anuradhapura, the Central Highlands of Sri Lanka, Kandy, Galle, the Golden Temple of Dambulla, Polonnaruwa, Sigiriya, and the Sinharaja Forest Reserve.

• Has a blue whale colony? South Sri Lanka is one the world’s top spots for seeing blue whales.

• Is a major power in cricket? The national team won the World Cup in 1996, has won the Asia Cup five times, and holds the record for the highest innings in test cricket (952/6d).

Gross National Income (GNI) Per Capita (current US$)

Data Source: World Bank, 2016
Sustainability in the Business Sector

Sri Lanka’s industry has proven a long-term business partner for European retailers. FTA has been active in the country for many years promoting sustainable values, most notably through:

- **Business Social Compliance Initiative (BSCI):**
  The BSCI Code of Conduct aims at setting out the values and principles that BSCI participants strive to implement with their business partners along their supply chains. There are currently 1,37 Sri Lankan producers in the BSCI system.

- **Stakeholder Engagement:**
  FTA engages with relevant stakeholders in Europe and South Asia to tackle the most pressing labour issues in the country.

- **Business Environmental Performance Initiative (BEPI):**
  BEPI recently launched tools to improve chemical management and reduce the supply chain environmental risk for its member companies.

On 20 October 2016, FTA also co-hosted a breakfast meeting with the Prime Minister, and on 3-4 October 2017 held the first regional FTA Symposium in Colombo.

REMAINING CHALLENGES

While Sri Lanka is in many respects a development success, more efforts are needed to address two of the major issues:

- **Conciliation:** The consequences of the internal conflict are still perceptible and the wounds of the bloody confrontation are healing slowly. The ability to participate in society and have access to trusted grievance mechanisms are central in this respect. The Government of Sri Lanka’s initiative to ensure a stable transitional justice system, consistent with the Human Rights Commission’s resolution and public consultations have been very positive to date.

- **Durable growth:** The country has to engage in additional structural reforms to enhance the economic performance of the domestic industry in a sustainable manner and ensure equal development in all regions and the inclusion of all citizens.

**SUSTAINABLE POLICIES – RECENT SUCCESSES IN SRI LANKA**

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<td>Signing of International Conventions</td>
<td>Sri Lanka is party to a large number of international conventions and treaties. The most recent are the ‘International Convention for the Protection of All Persons from Enforced Disappearance’, which was ratified in May 2016, and the ILO Employment Policy Convention 1964 (No. 122), ratified on 3 February 2016.</td>
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<td>Freedom of Expression</td>
<td>In January 2015, the new government effectively abolished surveillance and censorship of media and civil society groups.</td>
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<td>Tackling Corruption is a Key Priority</td>
<td>The ‘Committee Against Corruption’ (CAC) was established in early 2015 to tackle cases of corruption and fraud at all levels from the previous regime to today.</td>
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<td>Constitutional Reform to Reinforce Democracy</td>
<td>The 19th amendment has been adopted by Parliament in April 2015 to dilute executive presidential powers and set up independent commissions, notably on human rights and corruption.</td>
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<td>Successful Reform of Fishery Sector</td>
<td>The EU rewarded Sri Lanka’s policy reforms in the fishing sector [e.g. improvements regarding the legal framework, control and traceability systems, and sanctions] by delisting it from the list of non-cooperating third countries in fighting Illegal, Unreported &amp; Unregulated (IUU) fishing on 22 June 2016.</td>
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<td>Strong Social Performance in Textile and Apparel Sector</td>
<td>The number of manufacturers in the textile and apparel sector in Sri Lanka is smaller than other Asian sourcing countries; however, the social performance of these manufacturers has been consistently better.</td>
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<td>Domestic Industry Sets High Standards</td>
<td>The business organisation ‘Joint Apparel Association Forum’ (JAAF) developed the ambitious programme ‘Garment without Guilt’ back in 2006. Sri Lanka is a leading destination for the ethical sourcing of many products.</td>
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<td>Increasing Transparency in Government Procurement</td>
<td>Sri Lanka’s National Procurement Commission (NPC) was established in 2016 under the 19th Amendment to the Sri Lankan Constitution. This is the principal authority for the governance of all government procurement.</td>
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<td>Strong NGO Network</td>
<td>Most internationally operating NGOs are present and active in Sri Lanka. In total, there are 1,465 registered NGOs in the country.</td>
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Sources: European Commission, UN, Sri Lankan Government

“**Efforts are now being made to shape reconciliation in such a way that it is irreversible and sustainable**”

German Chancellor, Angela Merkel, February 2016
Message from the Hon. Minister Malik Samarawickrema

The European Union has remained Sri Lanka’s number one export market for decades. The EU’s imports from Sri Lanka during 2016 were at €2.5 billion, which accounted for 27% of Sri Lanka’s total exports. With the concrete measures taken by the Government of Sri Lanka, the country is pursuing the EU GSP+ benefits by engaging in a close and productive dialogue with the European Union.

Sri Lanka firmly believes that the GSP+ trade preferences will have a positive impact on the growth and diversification of exports from Sri Lanka to the EU, and contribute to the creation of sustainable jobs in Sri Lanka. Especially for a country like ours, where the domestic market is small, exports are an important engine of growth and innovation, and allows domestic producers to benefit from economies of scale.

Additionally, with the ongoing efforts by the Government of Sri Lanka to introduce trade policy reforms and improve the ease of doing business, we are keen to attract export-oriented European investment into Sri Lanka. Exports and FDI are two main pillars of the country’s new economic growth orientation, and we look forward to partnering with European firms to help us achieve our goals.

Malik Samarawickrema
Minister of Development
Strategies and International Trade

SRI LANKA’S APPLICATION FOR GSP+

Sri Lanka formally applied for GSP+ at the end of June 2016. On May 2017, the EU approved its application and GSP+ was reinstated.

WHAT ARE THE CONSEQUENCES?

- The reinstatement of GSP+ means better market access to the EU and is a powerful development instrument. Between July 2005 and August 2010, when it previously had GSP+ preferences, garment exports to the EU rose by 13% annually. Without GSP+ the growth dynamic slowed dramatically.
- The impact on European industry will be minimal. EU imports from Sri Lanka account for only 0.2% of the total share of imports to the EU. Granting more favourable trade conditions to the country will not shift this proportion dramatically. In addition, Sri Lanka principally competes with other Asian sourcing markets – not with European high-end manufacturers.
- The improvements that allowed GSP+ to be reinstated must continue. The European Parliament only approved the EU Commission’s proposal to reinstate GSP+ upon assurances that Sri Lanka will continue to make improvements to human rights, and that the EU Commission will closely monitor the situation. Sri Lanka must continue to show progress or calls for the removal of GSP+ will come again.

GSP+: HOW DOES IT WORK?

The decision to grant GSP+ is based on technical criteria:

- The candidate must be a GSP beneficiary country.
- The country must be considered vulnerable.
- It must have ratified 27 core international conventions.
- It must maintain the ratification and ensure effective implementation.
- It must accept to cooperate with EU monitoring.

For its assessment, the EU relies on independent conclusions and recommendations of the conventions’ monitoring bodies, such as UN or ILO. Policy, geostrategic and trade considerations are not relevant.

FOREIGN TRADE ASSOCIATION (FTA)

The Foreign Trade Association (FTA) is the leading business association of global commerce that promotes the values of international trade and sustainable supply chains. Uniting over 2,000 retailers, importers, brands, and national associations, FTA improves the political and legal framework for trade in a sustainable way. FTA provides the Business Social Compliance Initiative (BSCI) to support participants to improve working conditions in factories and farms worldwide. It also provides the Business Environmental Performance Initiative (BEPI) to facilitate improved environmental performance in global supply chains.

FTA in Numbers

- 2,000+ member companies
- Over €1 trillion combined annual turnover
- 5 million employees
- 15 national associations
- 43 countries

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