



EXPLORING OPPORTUNITIES IN THE CHINESE MARKET FOR SRI LANKA'S EXPORTS (2008-2013)

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EXECUTIVE SUMMARY

It is a known fact that our exports are very much dependant on European and USA markets. His Excellency the president has mentioned in the budget speech 2014 that the Sri Lankan government is willing to encourage our products to reach large markets such as India, Japan, China, Australia, Saudi Arabia, United Arab Emirates, Qatar, Russia, South Africa and Brazil in addition to American and European markets, to create a new wave in export growth. Two market researches have already been carried out by the Sri Lanka Export Development Board to analyse Brazil and South Africa as potential export destinations for Sri Lanka. This analysis is carried out to explore China as a major export destination for Sri Lanka. It is believed that this effort would be useful to all the relevant stake holders to plan their future proceedings.

The **key findings** of this research work are summarized below.

- There is a potential to increase our exports to the Chinese market.
- China's logistic performance is getting closer to the top performer (Singapore) in 2012, which suggests that China is performing well as a trading partner.
- During the period 2008 to 2013, exports to China from Sri Lanka have been increasing consistently. The average rate of growth was about 20%.
- Our exports were growing at a rate of 23% in the Chinese market during 2009. This suggests that Sri Lanka's exports to China haven't been affected during 2009 even though the world financial crisis was prevailing during the same year.
- China's rapidly expanding middle class is expected to increase their spending three times more over the coming years reaching \$6 trillion by 2020 creating huge commercial opportunities for businesses all around the world.
- There is a need to formulate strategies to identify cities in China to determine which markets to enter and how to penetrate them.
- Understanding the Chinese consumer is the key to be successful in the Chinese market.
- Respecting the cultural values of China is critical for any exporter irrespective their size. Like our mother land Sri Lanka, China is a country profoundly unshakable in culture and values with strong admiration to their cultural symbols.

- Our exports are very much low in terms of values. As a result the trade balance has never turned in to Sri Lanka's favour. From 2008 to 2013, Sri Lanka had a continuous deficit in the balance of payment with China.
- 41 major products currently exported to China have more opportunity to expand and further 10 products have been identified as potential exportable products which are not currently being exported to China by Sri Lanka. However those potential products which are exported to other countries are in high demand in China as well.
- Sri Lanka is the second biggest supplier of Black tea to the Chinese market registering a market share of 31.3% in 2012.
- Sri Lanka is the second largest supplier of Solid or cushion tyres (HS 40129090) to China. We have exported about US \$1.3 million worth of Solid or cushion tyres to China in 2012.
- Sri Lanka is the largest supplier of Black tea (fermented) and partly fermented tea to the Chinese market with a market share of 40.5%. Our exports are growing at a rate of 100.5% to the Chinese market and our market share in the Chinese market is increasing.
- For many of the Sri Lanka's products with high potential to expand in the Chinese market are not offered any tariff advantage. Another main issue for our exporters is the language barrier. Most of the documents in China are in Chinese language.

1.0 SIGNIFICANCE OF THE STUDY

China is considered as the biggest emerging market in the world. It is also a member of the BRICS group. As a country, it has attracted many multinational companies from all around the world. According to the World Bank, China's net inflow of Foreign Direct Investments were over US \$ 280 billions which was the highest FDI figure recorded for any country in the year 2011 and it was a 15% increase in comparison to year 2010.

It is a known fact that our exports are very much dependant on European and USA markets. His Excellency the president has mentioned in the budget speech 2014 that the Sri Lankan government is willing to encourage our products to reach large markets such as India, Japan, China, Australia, Saudi Arabia, United Arab Emirates, Qatar, Russia, South Africa and Brazil in addition to American and European markets, to create a new wave in export growth. Two market researches have already been carried out by the Sri Lanka Export Development Board to analyse Brazil and South Africa as potential export destinations for Sri Lanka. This analysis is carried out to explore China as a major export destination for Sri Lanka.

2.0 OBJECTIVE OF THE STUDY

Despite the difficult economic climate existed in Europe and the United States, China's economy has continued to grow well over the last couple of years. A major objective of the EDB is to increase exports to markets other than EU and USA by over 50% by 2015, while consolidating the market position in the EU and USA. Market diversification is significant to reduce sensitivity to demand-side shocks in individual markets. Therefore this study was carried out to fulfill the main objective of exploring opportunities in the Chinese market for Sri Lanka's exports. An attempt has been made to highlight some of the key challenges exporters face when entering the Chinese market and to identify potential products and the main barriers for the Sri Lankan exporters. A detailed analysis about the prevailing tariff rates, etc. in China is also included in this report.

3.0 CHINA COUNTRY PROFILE

China is the biggest trading partner of Sri Lanka in the Asian region. Even before full diplomatic relations were established in 1957, China has been a consistent economic partner of Sri Lanka. Our trade relation with China goes back to centuries. According to many projections and surveys, in less than two decades, China will leave behind America as the top economic power in the globe. China's economic growth rate was 7.8% in 2012 and 7.7% in the 1st quarter 2013. The economic slow down

that took place until the 3rd quarter 2012 was recovered in the 4th quarter. The continuous increase in household consumption has become one of the key driving forces of China's economic growth.

The following table summarizes some of the key Economic, Geographical and Social facts about the China.

Table 1: China Country Profile

Name	People's Republic of China
Capital	Beijing
National Symbol	Dragon
Land Area	9,596,961 km ²
Population (July 2013)	1.35 Billion
Major urban areas - population (2011)	Shanghai 16.57 million Beijing 15.59 million Chongqing 9.40 million Shenzhen 9.00 million Guangzhou 8.88 million
Language	Standard Chinese or Mandarin and other languages
Currency	Chinese Yuan, also known as Renminbi
Total GDP (PPP) (2012)	\$12.61 trillion
GDP - real growth rate (2012)	7.8%
Exchange Rate (2013)	US \$ 1.00 = ¥ 0.17 ¥ 1.00 = Rs. 21.60
Per Capita GDP –PPP current (2012)	US \$ 9,300
Trade (2012)	Exports –\$1.971 trillion Imports – \$1.653 trillion Balance – \$ 0.318 trillion Total Trade – \$ 3.624 trillion
Reserves of foreign exchange and gold (2012)	\$3.341 trillion
Stock of direct foreign investment - at home(2012)	\$1.344 trillion
Inflation (2012)	2.6%

Source: CIA fact book

4.0 ECONOMIC FORECAST FOR CHINA

The following table illustrates some of the key economic indicators and their behavioural pattern forecasted from 2014 to 2017 for the Chinese economy. It can be seen that the Real GDP growth rate is expected to increase keeping the inflation at a low rate around 3.0%. GDP per capita is also expected to rise by 44.5% for the selected time period.

Table 2: Economic Forecast for China

	2014	2015	2016	2017
Real GDP Growth Rate	7.1 %	7.3 %	7.5 %	7.4 %
CPI Inflation	2.9 %	2.9 %	3.0 %	3.0 %
Nominal GDP (US\$ billions)	10,273.5	11,692.2	13,282.4	15,088.4
GDP per capita (US\$ current prices)	7,396.0	8,369.7	9,456.2	10,685.2

Source: Oxford Economics

5.0 LOGISTIC PERFORMANCE OF CHINA

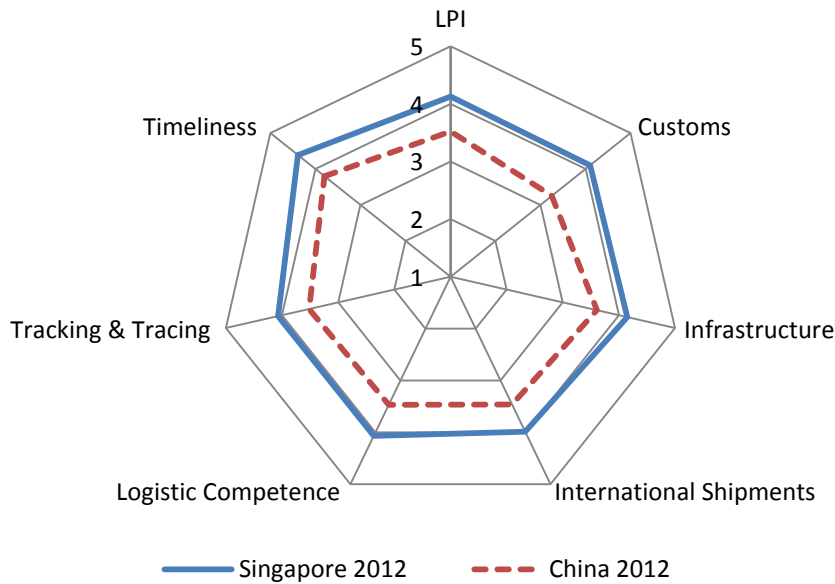
The logistics performance Index (LPI) is the weighted average of the country scores on the following six key dimensions. Each dimension is given a scale from 1 to 5, where 1 represents poor and 5 represents a high performance.

- 1) Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs
- 2) Quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology)
- 3) Ease of arranging competitively priced shipments
- 4) Competence and quality of logistics services (e.g., transport operators, customs brokers)
- 5) Ability to track and trace consignments
- 6) Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

The following radar chart compares the logistic performance of China against the top logistics performer in 2012 (Singapore). It shows that for the selected six dimensions, China's logistic

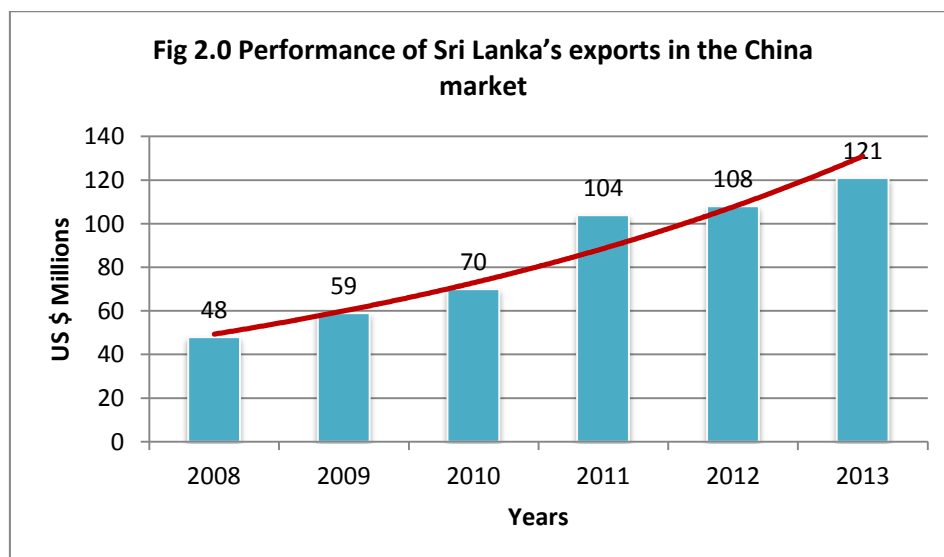
performance is getting closer to the top performer in 2012, which suggests that China is performing well in terms of the key dimensions mentioned above.

Fig 1.0: LPI index – China against the top performer (Singapore) in 2012



6.0 PERFORMANCE OF SRI LANKA’S EXPORTS IN CHINA

The following diagram shows that during the period 2008 to 2013, exports to China from Sri Lanka have been increasing consistently. The rate of growth was about 20%. During 2009 most of the countries experienced a decline in their exports due to the world financial crisis. However our exports were growing at a rate of 23% in the Chinese market and this suggests that Sri Lanka’s exports to China haven’t got affected during 2009 even though the world financial crisis was prevailing during the same year.



7.0 STRATEGIES FOR SRI LANKA TO BE AT A COMPETITIVE EDGE IN THE CHINESE MARKET

According to many projections and surveys, by 2020, over one billion people will enter the world middle class, and 66% of them will be living in emerging markets. Further, China's rapidly expanding middle class is expected to increase their spending three times more over the coming years reaching \$6 trillion by 2020. The end result will be the creation of huge commercial opportunities for businesses all around the world. Therefore Sri Lanka must come up with better marketing strategies to penetrate those markets. Being the biggest emerging market in the world with a population of over 1.3 billion, China's domestic market has become one of the world's largest markets for some sectors. The government of China has adopted policies to encourage cleaner, greener technology. Companies which can produce products in these areas could expect better growth prospects in China. However such companies should be aware of their competitors' clean tech-related strategies to be better able to compete with them.

Marketing campaigns for luxury products with high prices could fail if the prices are set too low. Luxury goods are in high demand in the China market. Rich people are willing to pay more for these goods. If it is too inexpensive, it loses its value and uniqueness making the product common and affordable to everyone. Therefore our exporters should take this fact in to consideration.

7.1 The Importance of marketing strategies focused on cities in China rather than the marketing strategies focused on China market as a whole

As mentioned above, by 2020, over one billion citizens will enter the middle class of China. These people will be settled mainly in city areas creating market segments with specific market attributes. Therefore, there is a need of formulating strategists to identify cities in China to determine which markets to enter and how to penetrate them.

The following diagram shows the seven regional markets in China. The regional boundaries do not reflect the actual geographical demarcations.

Fig 3.0: Seven regional markets in China



Source: Journal of Consumer Marketing

Certain major industries in China are established in different regional areas depending on the comparative advantages that exist in those areas. The following table summarizes the major cities and their industrial orientation in China.

Table 3: Major cities and their industrial orientation in China

Major City	Industrial orientation
Beijing	Communications, IT, electronics
Shanghai	automobile, Petrochemicals, financial, chemicals, pharmaceutical, electronic apparatus
Jiangsu	petrochemicals, auto parts, Chemicals, communications, steel, foods, biomedicine, textiles,
Guangzhou	electronic appliances, Automobiles, apparel, toys, textiles, petrochemicals, chemicals
Zhejiang	textiles, apparel, Light industry, toys, household electrical, furniture, metallurgy, kitchenware, plastics,
Shenzhen	electronics information ,IT, biomedicine, communications, semiconductors,
Shandong	Pharmaceutical, Agricultural, oil & foodstuffs,

8.0 THE RISE OF CHINA'S 2ND AND 3RD TIER CITIES

Cities in China could be categorized as first-tier, second-tier, third-tier and lower cities. First-tier cities mainly include Shanghai, Beijing, Guangzhou and Shenzhen because of their large size and also the fact they have the highest incomes in the country. Studies show that a considerable share of rich consumers who were living in the first-tier cities have migrated mainly to second-tier and also to third-tier cities. These people are now further capable of demanding more consumable products since the cost of living in second- and third-tier cities are lower in comparison to first-tier cities. Therefore rather than formulating strategies to penetrate the Chinese market as a whole, it is very important to formulate strategies to penetrate these cities separately.

Some of the China's first- tier, Second- tier and Third -tier Cities are listed below

Table 4: China's first- tier, Second- tier and Third -tier Cities

First-tier cities in China	Second-tier cities in China	Third-tier cities in China
Shanghai	Chengdu, Sichuan	Changshu, Jiangsu
Beijing	Dalian, Liaoning	Dandong, Liaoning
Guangzhou	Dongguan, Guangdong	Datong, Shanxi
Shenzhen	Nanjing, Jiangsu	Foshan, Guangdong
	Qingdao, Shandong	Jiangmen, Guangdong
	Suzhou, Jiangsu	Jinzhou, Liaoning
	Tianjin	Shantou, Guangdong
	Zhongshan, Guangdong	Wuxi, Jiangsu

Source: Various Chinese sources

9.0 THE IMPORTANCE OF UNDERSTANDING THE CHINESE CONSUMER

A company's marketing strategy is very important to any exporter no matter how big or small they are. An effective marketing strategy should study and evaluate the business and its target audience. Understanding the Chinese consumer is the key to be successful in the Chinese market. There are plenty of instances where many companies failed in formulating correct marketing strategies to cater to China simply because they do not understand the Chinese consumer.

Some of the companies have applied the same marketing campaigns that they have used in another country thinking that it will be applicable to the Chinese market, but this is a precarious situation which is not going to be in favour of the company. Chinese preferences and taste are different to cultures of other countries. China itself has 56 ethnic groups and their market demands differ across regions. The other extreme is that some foreign companies have tried to localize too much and as a result they have failed to maintain their uniqueness. Therefore exporters should find the correct balance within these two extremes to be successful in the China market.

Examples:

- ✓ KFC has become successful in China due to its combination of a wide-ranging chicken menu, such as the introduction of Beijing Chicken roll with sea food sauce which has a similarity to the Beijing duck, a popular traditional Chinese dish.
- ✓ Coke introduced a type of tea to the Chinese market under one of their brand names of Sprite. But the Chinese people did not want to buy it simply because the Sprite customers like to have fun and inspirational drinks. They did not want to buy a traditional drink under the name of Sprite.

Having a Chinese trademark for the exportable product would be advantageous in the China. Some companies have become very successful with their Chinese name, having one that not only phonetically sounds like their original name but also translates well.

Example: Coca Cola's Chinese name which is **Ke Kou Ke Le (可口可乐)**. This means "tasty and joyful in the mouth" which is applicable to the nature of the product and also phonetically sounds like Co ca Co la.

The following table summarizes some of the popular brand names in the world and their Chinese name followed by their connotation in English.

Table 5: Popular brand names in the world and their Chinese name

Original Name of the Product	The Chinese Name of the Product	Connotation of the Chinese name of the product
Honda	Ben Tian	Honda is the surname of it's founder, Soichiro Honda. The Chinese name also means the founder.
Nescafe	Que Chao Ka Fei	The meaning is "Sparrow's nest coffee". This name makes more sense when it is realized that it's parent company is Nestle,
Samsung	San Xing	Meaning "three stars"
Gillette	Ji Lie	Meaning "Lining up of luck"
BMW	Bao Ma	Meaning "a treasured or high valued horse"
Microsoft	Wei Ruan	Meaning "The supremacy of software"

Source: Various Chinese sources

When it comes to the selection of products, Chinese consumers have a wide range of choices. Therefore it is very important for exporters to understand the customer needs and wants very well to survive in the Chinese market. Conducting a detailed market research and also to refer to updated market intelligence reports are crucial in this regard.

Respecting the cultural values of China is critical for any exporter irrespective their size. Like our mother land Sri Lanka, China is a country profoundly unshakable in culture and values with strong admiration to their cultural symbols. The Japanese paint manufacturer "Nippon" once created an advertisement that shows a dragon slipping from one of the pillars in a monastery because of the smooth finish of their paint. Chinese customers reacted negatively because they took it as a sign of China slipping against Japan. If Nippon had known that Chinese consumers are strongly attached to their culture, they would have advertised in a more effective way. Once a company loses its image in China, it is hard to regain it back.

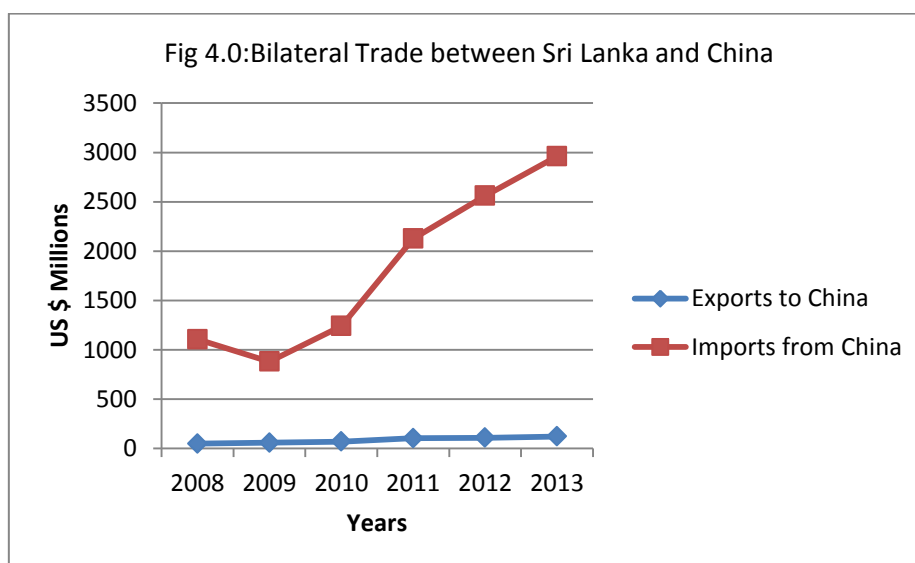
10.0 SRI LANKA’S TRADE BALANCE WITH CHINA

Sri Lanka imports many commodities from China that varies from low technological products to high technological products. Our exports are very much low in terms of values. As a result the trade balance has never turned in to Sri Lanka’s favour. From 2008 to 2013, Sri Lanka had a continuous deficit in the balance of payments. It was only during 2009 that our trade deficit was reduced compared to that of other years. Therefore Sri Lanka must come up with high valued products and better marketing strategies to penetrate Chinese market.

Table 6: Exports and import statistics of Sri Lanka with China

	2008	2009	2010	2011	2012	2013
Exports to China (US \$ Millions)	48	59	70	104	108	121
Imports from China (US \$ Millions)	1,107	881	1,241	2,127	2,562	2,960
Trade Balance (US \$ Millions)	- 1,059	- 822	- 1,171	- 2,023	- 2,454	-2,839

The Following diagram shows the pattern of trade (imports & exports) between Sri Lanka and China. It should be noted that our trade deficit with China is getting wider since 2009 which is not in favour of Sri Lanka.



Source: Sri Lanka Customs data available at the EDB data base

11.0 TOP 25 IMPORTS OF SRI LANKA FROM CHINA

The following table illustrates Sri Lanka's top 25 import commodities and their values from China from 2008 to 2012.

Table 7: Top 25 imports of Sri Lanka from China

HS Code	Product	Imports (US \$ Thousands)				
		2008	2009	2010	2011	2012
600690	Knitted and crocheted fabric of artificial filament	16,924	17,425	35,189	60,731	66,804
551219	Woven fabrics of synthetic staple fibres, containing 85% or more	17,349	15,479	22,982	43,402	54,057
520939	Dyed cotton (85% or more) fabric, weighing >200g/sqm	16,213	11,610	16,905	37,353	53,147
310210	Urea	13,397	12,242	11,588	41,317	47,165
520839	Dyed cotton fabric, weighing >100 g/sqm & =< 200 g/sqm	3,962	10,745	4,737	7,024	45,275
85171220	Other cellular mobile telephones	N/A	1,869	6,130	43,403	42,755
840690	Parts of steam and other vapour turbines	5	10	N/A	64	42,692
600622	Knitted or crocheted fabric of cotton, nes, dyed	24,870	28,073	31,915	44,519	41,719
85176290	Machines for the reception, conversion & transmission or regenerarting of voice etc,	N/A	11,685	6,190	22,605	39,274
310310	Superphosphates	23,222	3,773	8,691	51,585	39,220
860500	Railway/tramway passenger coaches, not self-propelled;	27,993	N/A	N/A	N/A	37,614

HS Code	Product	Imports (US \$ Thousands)				
		2008	2009	2010	2011	2012
840490	Parts of auxiliary plant for use with boilers	N/A	377	N/A	5,117	35,767
851761	Base stations			236	20,120	34,279
85176210	Mackerel (prepard or preserved)	217	116	485	11,307	21,368
69089090	Other tiles, cubes etc (glazed),		4,033	6,183	13,146	20,460
600410	Containing by weight 5% or more of elastomeric yarn but not containing rubber	1,875	1,410	3,117	13,861	19,141
070320	Garlic, fresh or chilled	5,959	9,708	30,840	21,900	17,718
85393110	Energy efficient compact flurosent lamps	N/A	8,346	9,921	21,054	17,667
85030090	Parts for machines 8501 & 8505, nes	N/A	1,774	1,946	1,715	17,663
843351	Combine harvester threshers	N/A	N/A	1,394	18,391	17,523
600632	Knitted or crocheted fabric of synthetic fiberes, dyed	1,041	5,068	7,783	18,054	17,410
87042151	Vehicle with seperate bodies for cabin and cargo	N/A	549	1,982	9,877	17,206
850239	Generating sets,(excl.wind-powered)	255	64	114	199	17,155
860390	Self-propelled railway or tramway coaches, vans and trucks, nes	N/A	N/A	N/A	N/A	16,801
551511	Woven fabrics, <85% polyester staple fibres, with viscose rayon fibres	7,624	6,264	7,083	16,995	16,495

Source: Sri Lanka Customs data available at the EDB data base

12.0 PRODUCTS CURRENTLY EXPORTED TO CHINA FROM SRI LANKA WITH MORE OPPORTUNITIES TO EXPAND

The following table summarizes the position of some selected Sri Lankan products which are currently being exported to the Chinese market. These products are selected since they have more opportunity for expansion in the Chinese market.

Table 8 : Products currently exported to China from Sri Lanka with more opportunity to expand

Product	Total Imports to China in 2012 (US\$ '000)	Exports by Sri Lanka to China in 2012 (US\$ '000)	Share Of Sri Lanka in the Chinese market (%)	Sri Lanka's Rank among the competing countries	Top ten competitors
Raw metress fibre not twisted of coconuts <i>(HS 53050023)</i>	206, 221	11,952	5.80%	3	India ,Viet Nam Thailand, Indonesia ,Brazil Tanzania , Philippines ,Kenya Madagascar, Malaysia
Other Black Tea <i>(HS 09024092)</i>	38, 791	9,471	24.42%	2	India ,Kenya Indonesia ,Viet Nam ,Taipei, Malawi, Myanma, Argentina , Laos Thailand
Raw mixed fibre twisted with coconut coir <i>(HS 53050030)</i>	206, 221	9,658	4.68%	3	India , Viet Nam Thailand , Indonesia , Brazil Tanzania , Philippines , Kenya , Madagascar , Malaysia
T-shirts, singlets and other vests,of other textile materials,knitted <i>(HS 610990)</i>	75, 302	3760	4.99%	9	Portugal , Korea, Italy , China Thailand , Turkey Viet Nam, Cambodia , Indonesia , Morocco
Tobacco, unmanufactured, partly or wholly stemmed or stripped <i>(HS 240120)</i>	1, 178, 259	3372	0.29%	9	Brazil , Zimbabwe America, Argentina , Zambia , Malawi Malaysia , Canada Germany , Korea

Product	Total Imports to China in 2012 (US\$ '000)	Exports by Sri Lanka to China in 2012 (US\$ '000)	Share Of Sri Lanka in the Chinese market (%)	Sri Lanka's Rank among the competing countries	Top ten competitors
Solid o cushiond tires, interchangeable tire treads&tire flaps of rbr (HS 40129010)	29, 168	2286	7.84%	2	America , Taipei Thailand , Korea, Malaysia , Italy Japan , Germany France , Australia
Used or new rags of textile materials, not sorted (HS 631090)	65, 049	2179	3.35%	9	Bangladesh, Cambodia , Taipei, America Viet Nam , Indonesia , Japan Thailand , Korea, Malaysia
Other raw matress fbre twisted of coconuts (HS 53050022)	206, 221	1426	0.69%	3	India , Viet Nam Thailand, Indonesia , Brazil Tanzania, Philippines , Kenya, Madagascar, Malaysia
Womens/girls trousers & shorts,of other textile materials,not knitted (HS 620469)	25, 347	1401	5.53%	24	Italy , China Korea, Turkey Romania, Morocco , France Viet Nam, Bangladesh, Portugal
Other Solid or cushion tyres, tyre tread or tyre flaps (HS 40129090)	29, 168	1297	4.45%	2	America , Taipei Thailand , Korea, Malaysia , Italy Japan , Germany France , Australia
Black tea (fermented) and partly fermented tea, in immediate packing of (HS 09023022)	22, 376	1253	5.60%	1	Taipei, India Poland , America United Kingdom Germany, Malaysia ,Russia New Zealand

Product	Total Imports to China in 2012 (US\$ '000)	Exports by Sri Lanka to China in 2012 (US\$ '000)	Share Of Sri Lanka in the Chinese market (%)	Sri Lanka's Rank among the competing countries	Top ten competitors
Transformers <i>(HS 85043110)</i>	739, 278	1085	0.15%	19	China(Re imports) Japan , Taipei Thailand , Viet Nam , America Philippines Korea, Germany France
Gloves of vulcanized rubber <i>(HS 401519)</i>	86, 034	1063	1.24%	8	Malaysia , Thailand , Viet Nam , Korea Japan , America Taipei, Indonesia Mexico , China(Re imports)
Men's or boys' trousers, breeches, etc, of cotton <i>(HS 620342)</i>	256, 959	1054	0.41%	20	Italy , Romania Bangladesh, Turkey , China Viet Nam , Tunisia Cambodia , India Korea, Japan
Gloves, mittens and mitts, knitted or crocheted <i>(HS 611610)</i>	3, 347	968	28.92%	2	Japan Korea, Malaysia ,China Mexico ,America Viet Nam, Indonesia, Pakistan , Germany
Printed paper or paper board labels of all kinds <i>(HS 48211090)</i>	248, 295	716	0.29%	15	China(Re imports) Japan , America Hong Kong, Taipei, Korea United Kingdom Germany, Thailand , Italy
Dried peppers (excl. crushed or ground) <i>(HS 09041110)</i>	19, 584	561	2.86%	4	Indonesia, Malaysia , Viet Nam , India Austria , Brazil Italy , Singapore Australia , America

Product	Total Imports to China in 2012 (US\$ '000)	Exports by Sri Lanka to China in 2012 (US\$ '000)	Share Of Sri Lanka in the Chinese market (%)	Sri Lanka's Rank among the competing countries	Top ten competitors
Men's or boys' shirts of cotton <i>(HS 620520)</i>	191, 644	367	0.19%	25	Italy , Hong Kong, Turkey , China India , Tunisia Bangladesh, Portugal , Romania , Viet Nam
Women's or girls' blouses, shirts and shirt-blouses <i>(HS 620630)</i>	37, 312	313	0.84%		China(Re imports) India , Italy Bangladesh, Indonesia, Romania , Korea, Morocco , Turkey Viet Nam
Men's or boys' nightshirts and pyjamas of cotton <i>(HS 620721)</i>	1771	359	20.27%	14	Hong Kong, , Viet Nam , China Japan , India France, Bangladesh, Indonesia, Cambodia , Turkey
Titanium ores & Concentrates <i>(HS 26140010)</i>	1, 003, 209	10,115	1.01%	7	Viet Nam, Australia , India Mozambique, Russia, Sierra Leone , South Africa , Indonesia Korea, Madagascar

Source: Sri Lanka customs and ITC data

13.0 PRODUCT WISE ANALYSIS OF SELECTED ITEMS EXPORTED TO CHINA FROM SRI LANKA

A more detailed analysis of products mentioned under the previous section is given below. The products have been listed according to the export values earned by Sri Lanka.

13.1 Raw metress fibre not twisted of coconuts (HS 53050023)

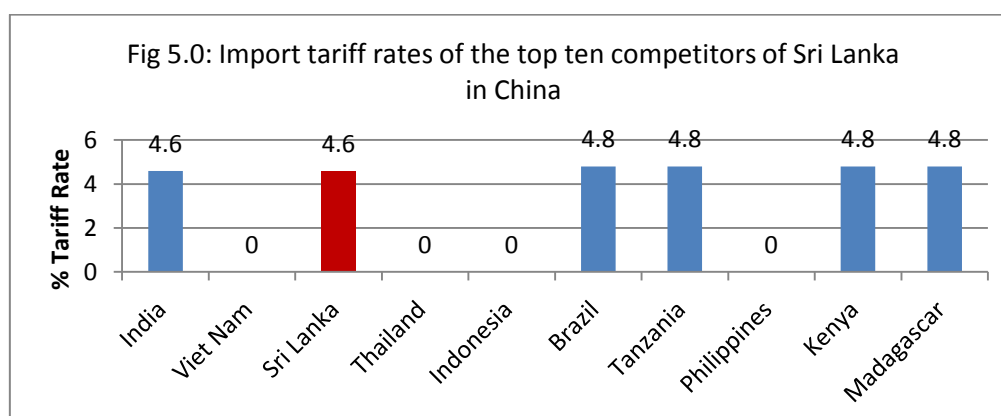
Sri Lanka has exported nearly US \$ 12 million worth of raw metress fibre (not twisted) of coconuts to China, making it the top export product of Sri Lanka to the Chinese market. Sri Lanka managed to register a market share of 5.8% in 2012 in the China market. India is our biggest competitor for this product and held a market share of 28.2% in 2012. The following table illustrates Sri Lanka's share in the Chinese market for this product and for each year from 2008 to 2012.

Table 9: Raw metress fibre not twisted of coconuts (HS 53050023)

	2008	2009	2010	2011	2012	A vg. Growth Rate
Sri Lanka's Exports to China (US \$ thousands)	338	16,240	16,957	20,246	11,952	73.53%
Total Imports to China (US \$ thousands)	63,826	104,264	151,319	209,133	206,221	36%
Sri Lanka's Share	0.53%	15.58%	11.21%	9.68%	5.80%	-

Source: Sri Lanka Customs and ITC data

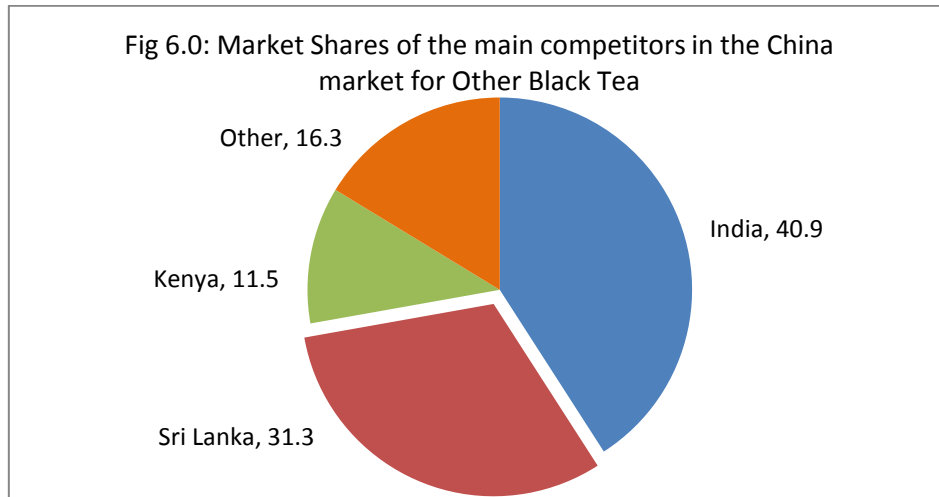
The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x- axis from left to right.



Source: ITC data

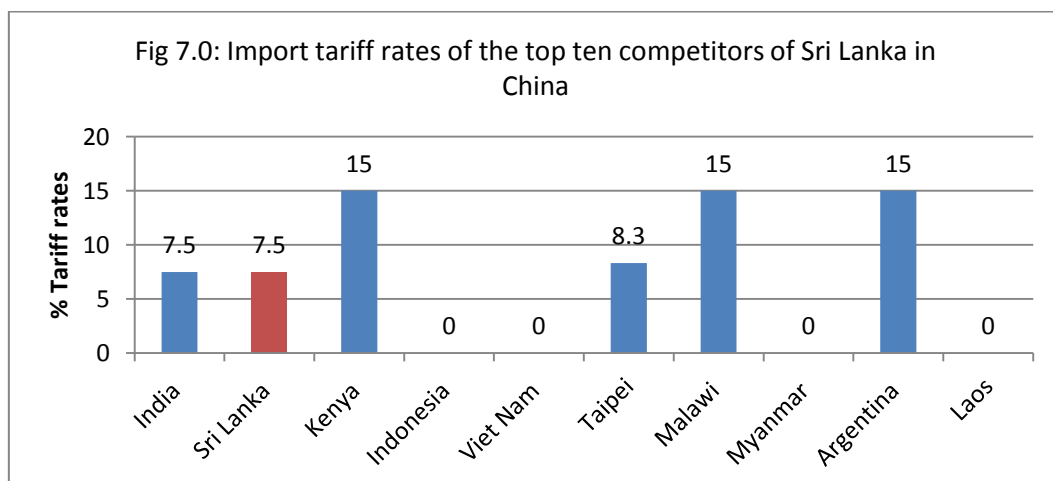
13.2 Other Black Tea (HS 09024092)

Sri Lanka is the second biggest supplier of Black tea to the China market registering a market share of 31.3% in 2012. The following diagram graphically illustrates that India, Sri Lanka and Kenya dominates the China market for this product. India is our main competitor having a market share of nearly 41%.



Source: ITC data

The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x-axis from left to right.



Source: ITC data

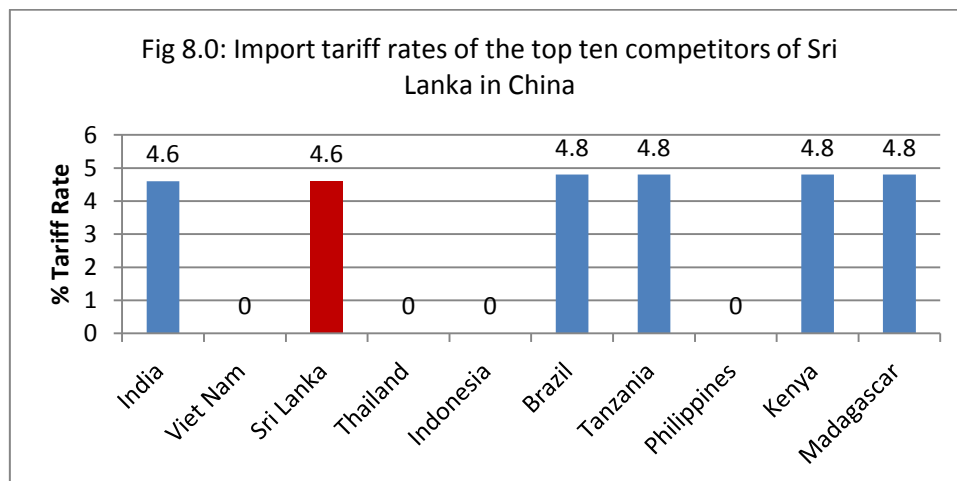
13.3 Raw mixed fibre twisted with coconut coir (HS 53050030)

This is the third biggest export product of Sri Lanka to China. The significant growth of Sri Lanka's market share in the China market for the product reflects the fact that it is well accepted by the consumers in the Chinese market.

Table 10: Raw mixed fibre twisted with coconut coir (HS 53050030)

	2008	2009	2010	2011	2012	A vg. Growth Rate
Sri Lanka's Exports to China (US \$ thousands)		1,174	1,780	2,691	9,658	67.3%
Total Imports by China (US \$ thousands)		104,264	151,319	209,133	206,221	36%
Sri Lanka's Share		1.13%	1.18%	1.29%	4.68%	-

The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x-axis from left to right.



Source: ITC data

13.4 T-shirts, singlets and other vests, of other textile materials, knitted

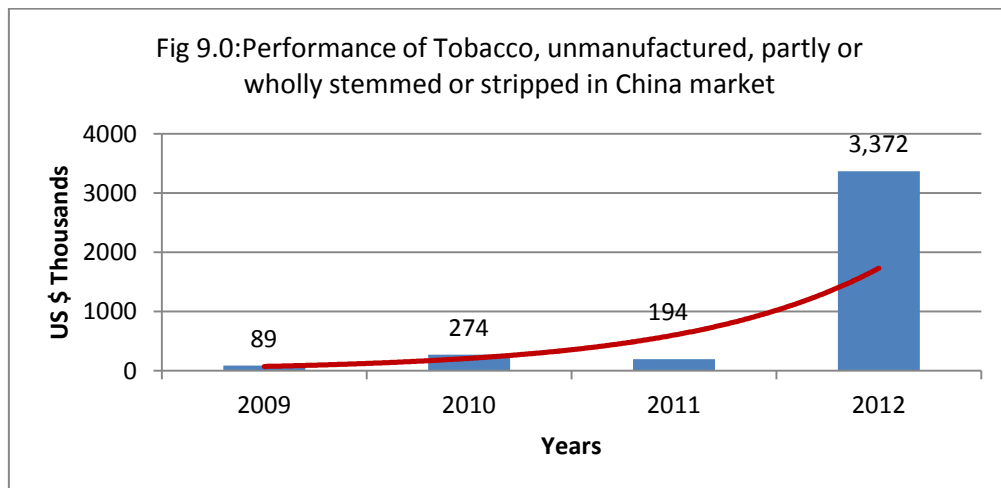
The decline in our market share of this product from 2008 to 2010 successfully recovered in 2011 and currently Sri Lanka holds a market share of nearly 5% in the Chinese market. With a market share of 14%, Portugal has become our main competitor in Chinese market for this product category. Sri Lanka experiences an import tariff rate of 9.3% for this product. However Thailand, Vietnam, Cambodia and Indonesia enjoy a zero tariff rate for this product category. The following table illustrates Sri Lanka's share in the Chinese market and for each year from 2008 to 2012.

Table11: T-shirts, singlets and other vests, of other textile materials, knitted (HS 610990)

	2008	2009	2010	2011	2012	Avg. Growth rate
Sri Lanka's Exports to China (US \$ thousands)	1,431	737	386	2,201	3,760	30.26%
Total Imports to China (US \$ thousands)	40,366	31,949	43,002	71,842	75,302	23%
Sri Lanka's Share	3.55%	2.31%	0.90%	3.06%	4.99%	-

13.5 Tobacco, unmanufactured, partly or wholly stemmed or stripped

Sri Lanka's export of this product has shown a remarkable progress in the Chinese market especially in 2012. The average growth rate of the Sri Lanka's exports of this product is 105.5% which is one of the fastest growing products in the Chinese market. Sri Lanka faces a tariff rate of 10% which is almost the same rate applicable to other competing countries. The following diagram graphically illustrates Sri Lanka's export performance of Tobacco, unmanufactured, partly or wholly stemmed or stripped in the Chinese market.



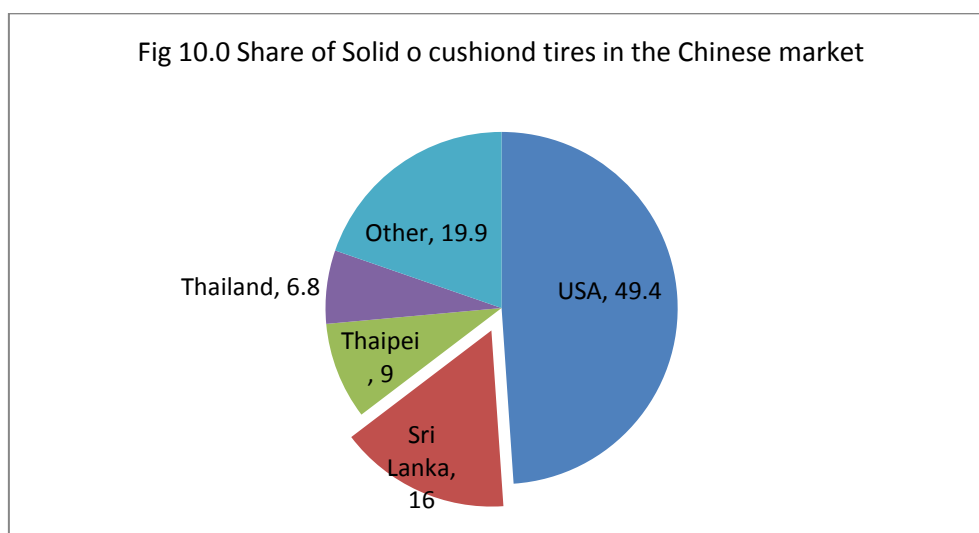
The following table illustrates Sri Lanka's share in the Chinese market for each year from 2008 to 2012.

Table 12: Tobacco, unmanufactured, partly or wholly stemmed or stripped (HS 240120)

	2008	2009	2010	2011	2012	Avg. Growth Rate
Sri Lanka's Exports to China (US \$ thousands)		89	274	194	3,372	105.5%
Total Imports to China (US \$ thousands)	698,633	735,748	693,142	1,009,497	1,178,259	15%
Sri Lanka's Share		0.01%	0.04%	0.02%	0.29%	-

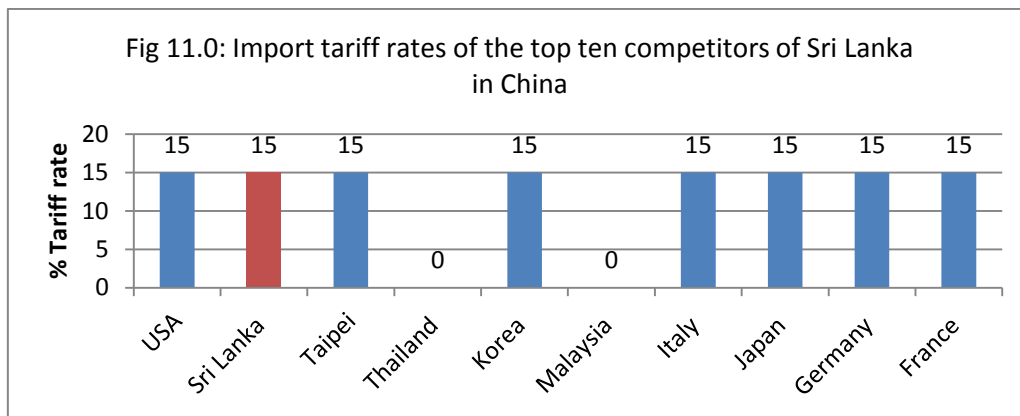
13.6 Solid o cushiond tires, interchangeable tire treads&tire flaps of rbr (HS 40129010)

Sri Lanka has started exporting this product in 2009 and since then our market share was continuously increasing. Currently Sri Lanka has a market share of 16%. Our major competitor is USA. Sri Lanka's export of this product category to China is growing at a rate of 51.8% and total imports to China from the world are growing at a rate of 22%. As a result we are gaining market share in the Chinese market.



Source: ITC data

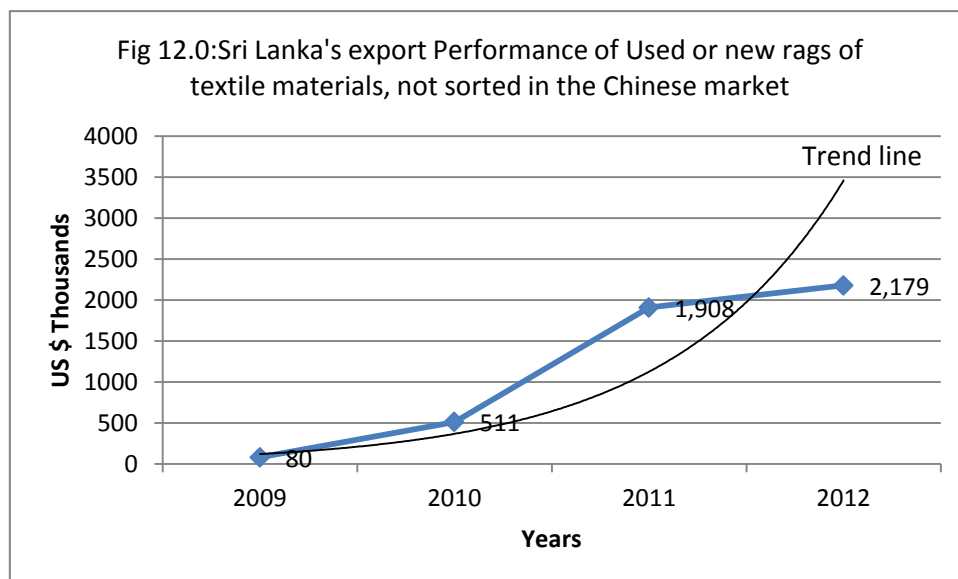
The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x-axis from left to right.



Source: ITC data

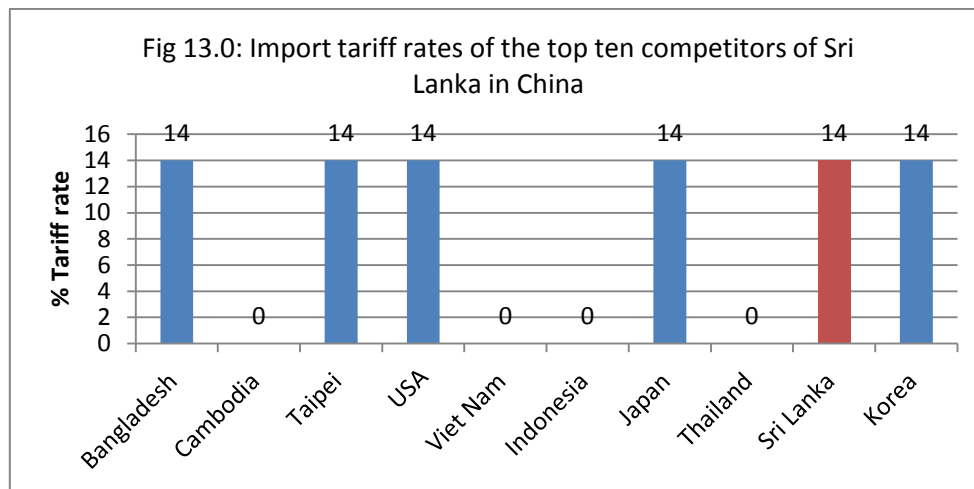
13.7 Used or new rags of textile materials, not sorted (HS 631090)

This is one of the main export products of Sri Lanka to China with a high growth rate recorded in the Chinese market. The average growth rate of this product is 112.30% which is very much above the import growth rate from the world to China. The following diagram illustrates Sri Lanka's export Performance of Used or new rags of textile materials, not sorted in the Chinese market



Source: Customs Data available at the EDB

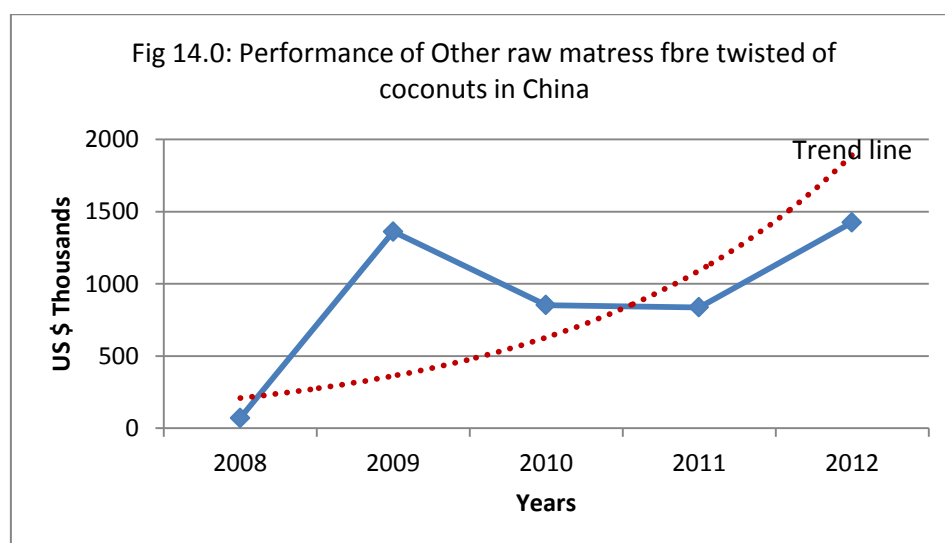
The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x-axis from left to right.



Source: ITC data

13.8 Other raw mattress fibre twisted of coconuts (HS 53050022)

Sri Lanka is the third biggest exporter of this product category to China market. Our export of this product is growing at a rate of 55.01%. India is the main competitor for the product with a market share of 28.2%. Sri Lanka faces a tariff rate of 4.6% for this product but some of our main competitors such as Viet Nam, Thailand, Indonesia and Philippines enjoy a zero tariff rate. The following diagram illustrates the Sri Lanka's export Performance of Other raw mattress fiber twisted of coconuts in China.



Source: Customs data available at the EDB

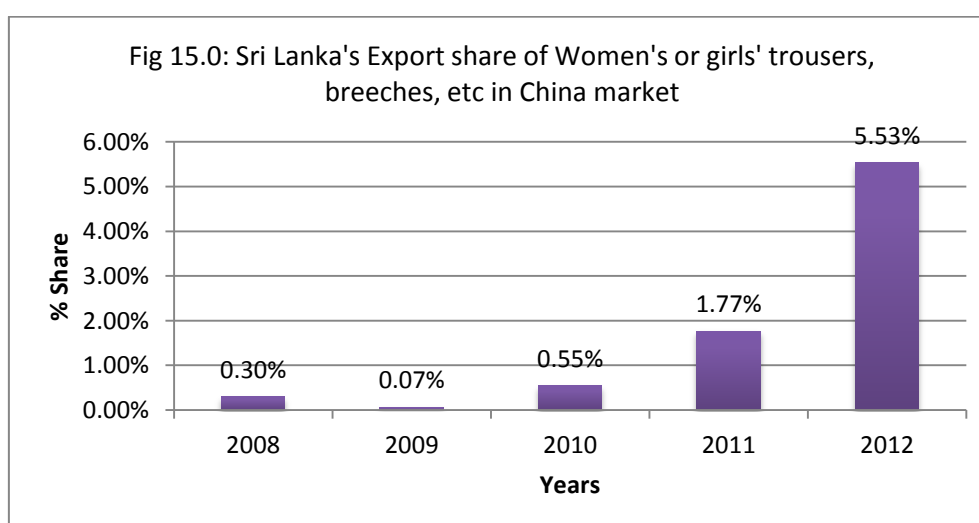
13.9 Womens/girls trousers & shorts,of other textile materials,not knitted (HS 620469)

This is also one of the main export products of Sri Lanka with a high growth rate in the Chinese market. The average growth rate of the product is 127.67% which is very much above the import growth rate from the world to China (46%). Therefore Sri Lanka is gaining a market share for this product category in the Chinese market. Sri Lanka faces a tariff rate of 12% for this product but some of our main competitors such as Viet Nam, Thailand, Indonesia and Philippines enjoy a 0% tariff rate.

Table 13: Womens/girls trousers & shorts,of other textile materials,not knitted (HS 620469)

	2008	2009	2010	2011	2012	Avg.Growth Rate
Sri Lanka's Exports to China (US \$ thousands)	21	4	53	308	1,401	127.67%
Total Imports to China (US \$ thousands)	6,974	6,043	9,708	17,429	25,347	44%
Sri Lanka's Share	0.30%	0.06%	0.55%	1.77%	5.53%	-

The following diagram graphically illustrates Sri Lanka's Export share of Women's or girls' trousers, breeches, etc in the Chinese market. It should be noticed that our market share is growing remarkably.

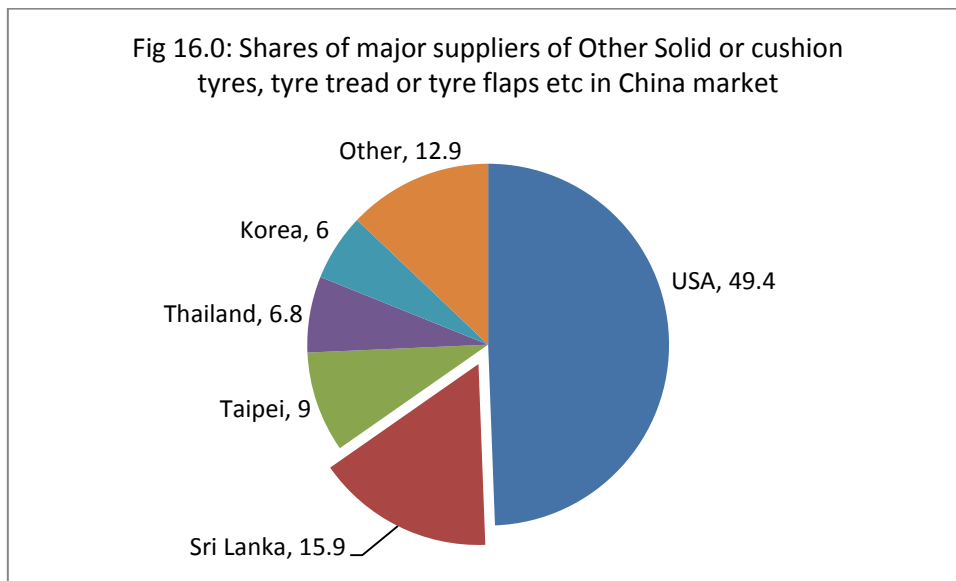


Source: ITC data

13.10 Other Solid or cushion tyres, tyre tread or tyre flaps etc

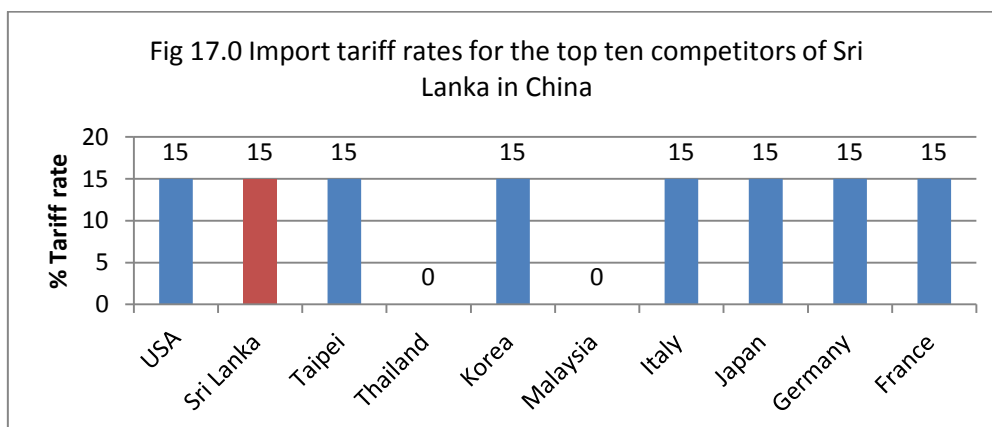
(HS 40129090)

Sri Lanka is the second largest supplier of this product to China. We have exported about US \$1.3 million worth of Solid or cushion tyres to China market in 2012. The following diagram illustrates the export Shares of major suppliers of Other Solid or cushion tyres, tyre tread or tyre flaps etc to the Chinese market. It can be noticed that USA, Sri Lanka and Taipei accounts for nearly 75% of the total exports of this product to the Chinese market.



Source: ITC data

The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x-axis from left to right.



Source: ITC data

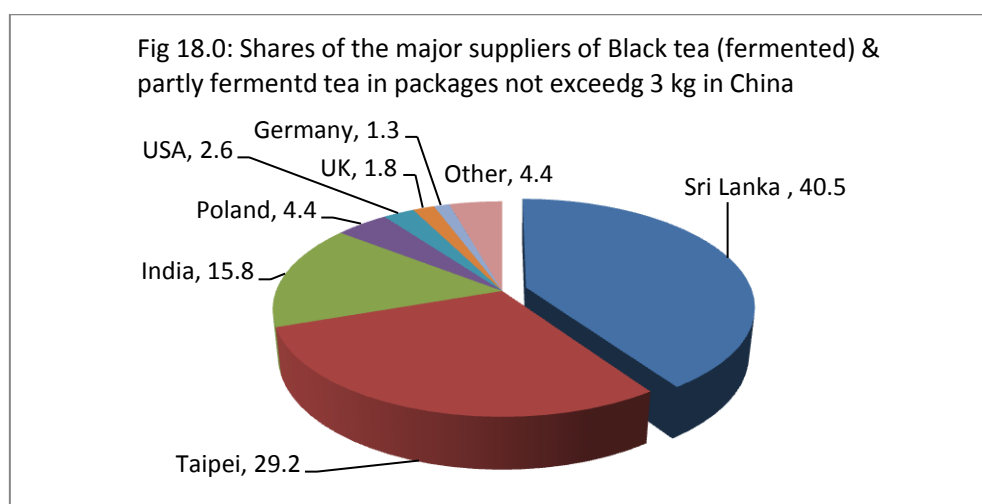
13.11 Black tea (fermented) and partly fermented tea, in immediate packing of a content not exceeding 3 kg (HS 09023022)

Sri Lanka is the number supplier of this product to the Chinese market with a market share of 40.5%. Our exports are growing at a rate of 100.5% to the Chinese market and our market share in the Chinese market is increasing. We are facing a tariff rate of 7.5% in the China market and our top competitors are not offered a lower tariff rate than that. However Malaysia and Singapore are faced with a 0% tariff rate for this product even though they are not among the top 10 competitors of Sri Lanka. The other noticeable fact is that some of our main competitors do not produce tea in their countries. Therefore we should promote our Pure Ceylon Tea Brand name to capture a greater market share in China.

Table 14: Black tea (fermented) and partly fermented tea (HS 09023022)

	2008	2009	2010	2011	2012	A vg. Growth Rate
Sri Lanka's Exports to China (US \$ thousands)		441	1,030	1,179	1,085	49.10%
Total Imports to China (US \$ thousands)	705,385	583,992	688,612	722,246	739,278	03%
Sri Lanka's Share		0.08%	0.15%	0.16%	0.15%	-

The following diagram illustrates the Shares of major suppliers of Black tea (fermented) and partly fermented tea, in immediate packing of a content not exceeding 3 kg in the Chinese market.



Source: ITC data

13.12 Transformers (HS 85043110)

Sri Lanka's exports to China are growing consistently over the selected time period even though China itself is a leading producer of this product. We are facing a tariff rate of 4.3% which is the highest rate imposed on this product. But some of our main competitors such as Viet Nam, Thailand, Indonesia and Philippines enjoy a 0% tariff rate.

The table below illustrates Sri Lanka's share in the Chinese market for each year from 2008 to 2012.

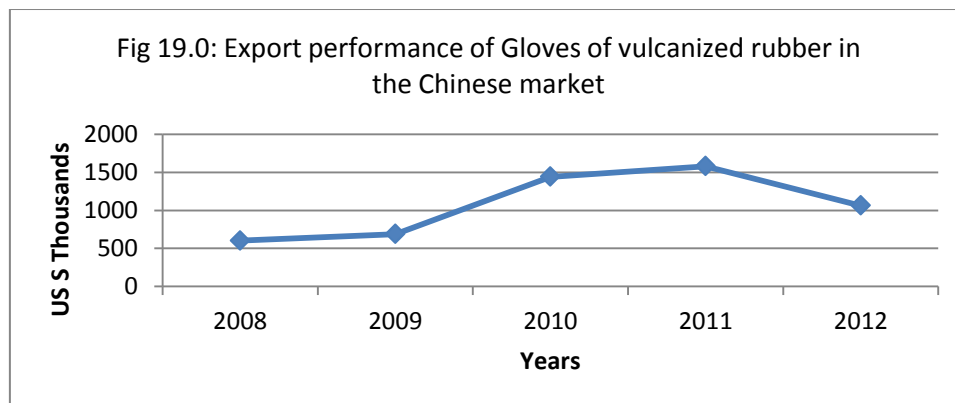
Table 15: Transformers (HS 85043110)

	2008	2009	2010	2011	2012	A vg. Growth Rate
Sri Lanka's Exports to China (US \$ thousands)	N/A	441	1,030	1,179	1,085	28.3%
Total Imports to China (US \$ thousands)	705,385	583,992	688,612	722,246	739,278	0.03%
Sri Lanka's Share	-	0.08%	0.15%	0.16%	0.15%	

13.13 Gloves of vulcanized rubber (HS 401519)

The Chinese demand for this product category is growing at a considerable rate of 32% over the selected time period. Because most of the major manufacturing companies in China use them as safety requisite in their production processes. Sri Lanka's export of Gloves of vulcanized rubber shows a growth over the selected time period. We are facing a tariff rate of 18% which again is the highest rate for this product imposed by China. However some of our main competitors such as Viet Nam, Thailand, Indonesia and Malaysia enjoy a 0% tariff rate.

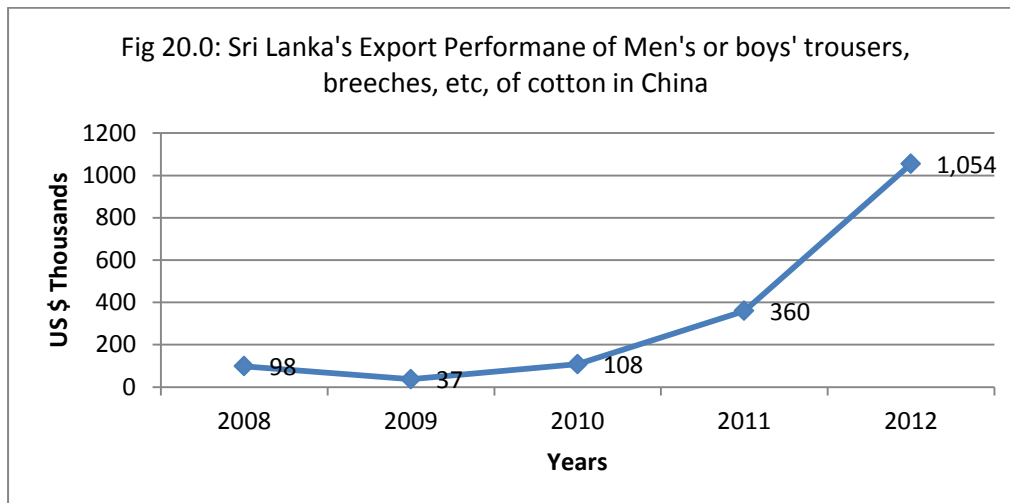
The following diagram graphically illustrates Sri Lanka's export performance of Gloves of vulcanized rubber in the Chinese market from 2008 to 2012.



Source: Customs data available at the EDB

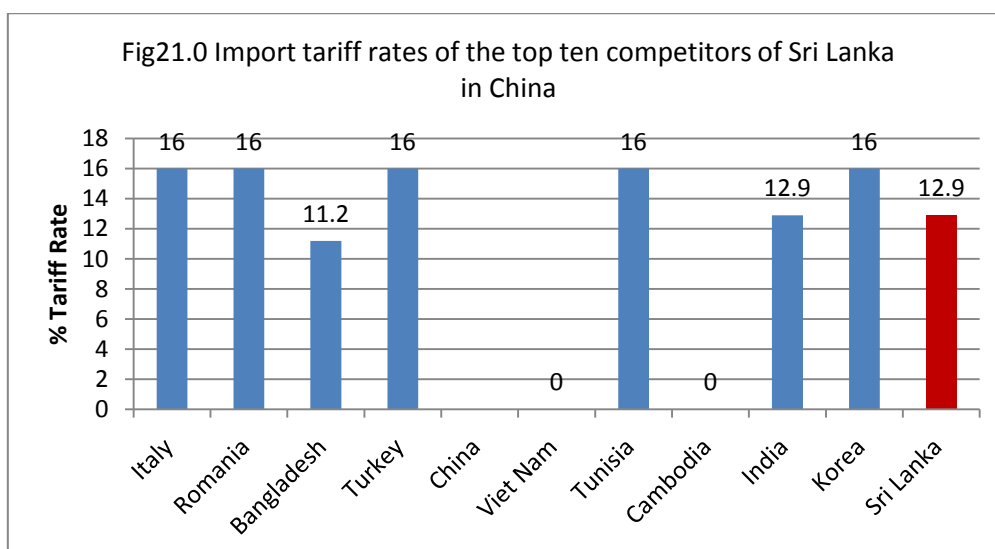
13.14 Men's or boys' trousers, breeches, etc, of cotton (HS 620342)

Sri Lanka has shown a remarkable increase in the export of this product to China over the period 2008 to 2012. The following diagram shows our export Performance of Men's or boys' trousers, breeches, etc, of cotton in China. In 2012 we have exported over US \$ 1 million worth of the product to China.



Source: Customs data available at the EDB

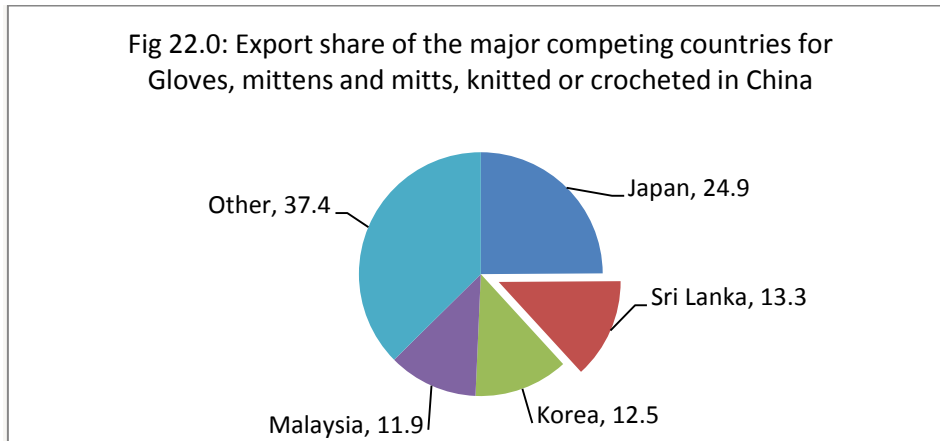
The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x- axis from left to right.



Source: ITC data

13.15 Gloves, mittens and mitts, knitted or crocheted (HS 611610)

Sri Lanka is the second biggest supplier of this product to the Chinese market. Japan, Sri Lanka, Korea and Malaysia dominate the market by accounting for over 60% market share in China. Sri Lanka receives an average unit value of US \$ 20,182 per tonne which is well above the average price registered in the Chinese market for this product. The following diagram illustrates the export Share of the major suppliers of Gloves, mittens and mitts, knitted or crocheted in the Chinese market.

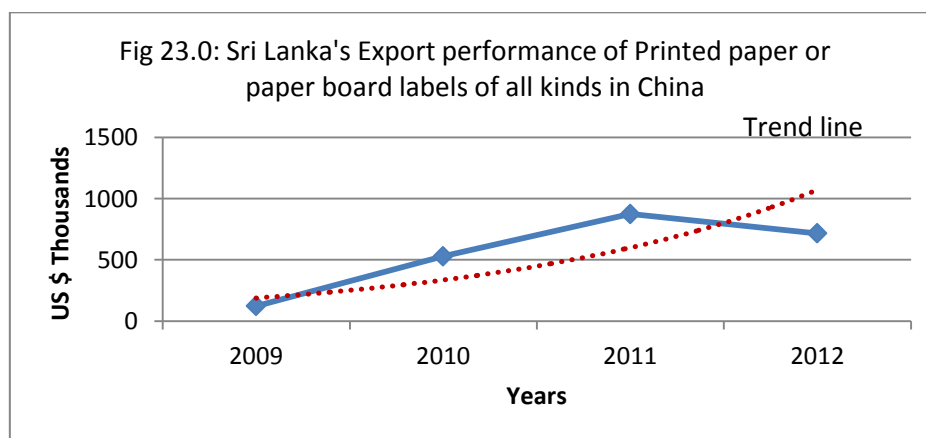


Source: ITC data

We are facing a tariff rate of 14% which is the highest rate for this product. However some of our main competitors such as Viet Nam, Thailand, Indonesia and Malaysia enjoy a 0% tariff rate.

13.16 Printed paper or paper board labels of all kinds (HS 48211090)

Sri Lanka's export of Printed paper or paper board labels of all kinds shows a faster growth rate of 98.50% to China and as a result the product is capturing the Chinese market compared to some of the main competing countries. Currently Sri Lanka has a market share of 0.29%. The following diagram shows our export Performance of Printed paper or paper board labels of all kinds in China.



Source: Customs data available at the EDB

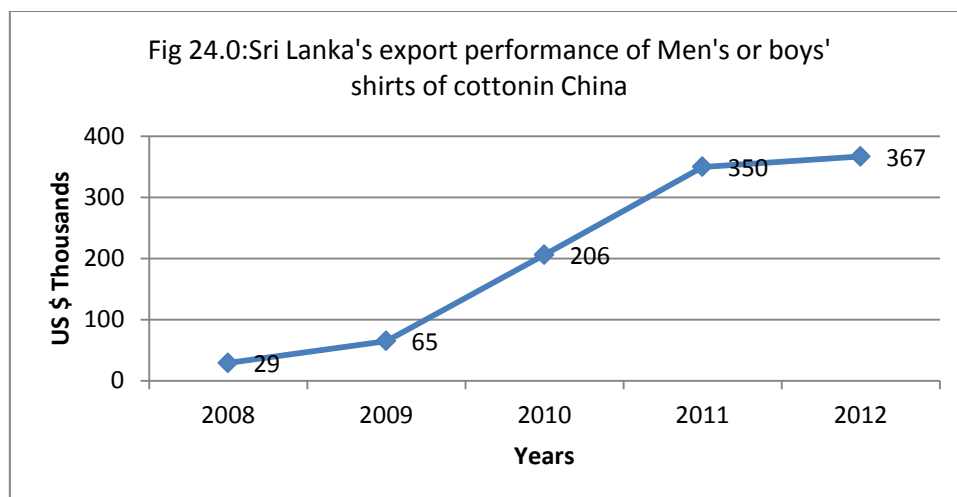
It should be noted that even though our exports show a decline in year 2012, we were able to almost double our exports during 2013 compared to that of 2012. All the main competing countries including Sri Lanka face the same tariff rate of 7.5% excluding Hong Kong which enjoys a 0% tariff rate.

13.17 Dried peppers (excl. crushed or ground) (HS 09041110)

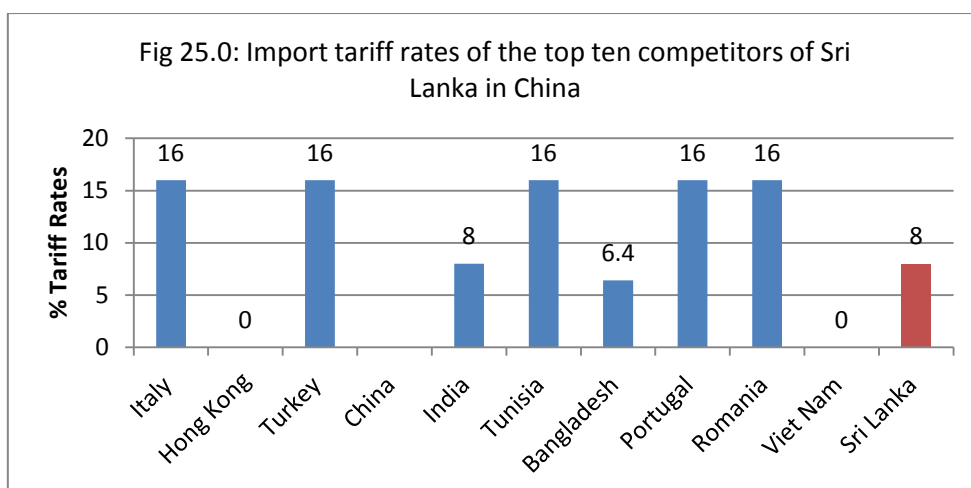
We are a new supplier of dried peppers to the Chinese market. However Sri Lanka has shown a significant improvement within two years as an exporter to the Chinese market for this product. We have captured a market share of 3% and remain as the fourth largest supplier of the product to China. From 2011 to 2012, our exports were growing at rate of 228% from US \$ 171,000 to US \$ 561,000 in absolute terms. Sri Lanka and its main competitors are imposed the same tariff rate of 20% by China for this product category.

13.18 Men's or boys' shirts of cotton (HS 620520)

Our Exports of Men's or boys' shirts of cotton shows a continuous improvement in the Chinese market from 2008 to 2012. It should be highlighted that our exports of this product has been increased by nearly 5 to 6 times by 2013 November compared to that of 2012. This is clearly a positive signal that Sri Lanka is gaining a market share in China and maintaining it's position as a reliable supplier of Men's or boys' shirts of cotton to the Chinese market. The following diagram shows our export Performance of Men's or boys' shirts of cotton in China.



The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x-axis from left to right.



Source: ITC data

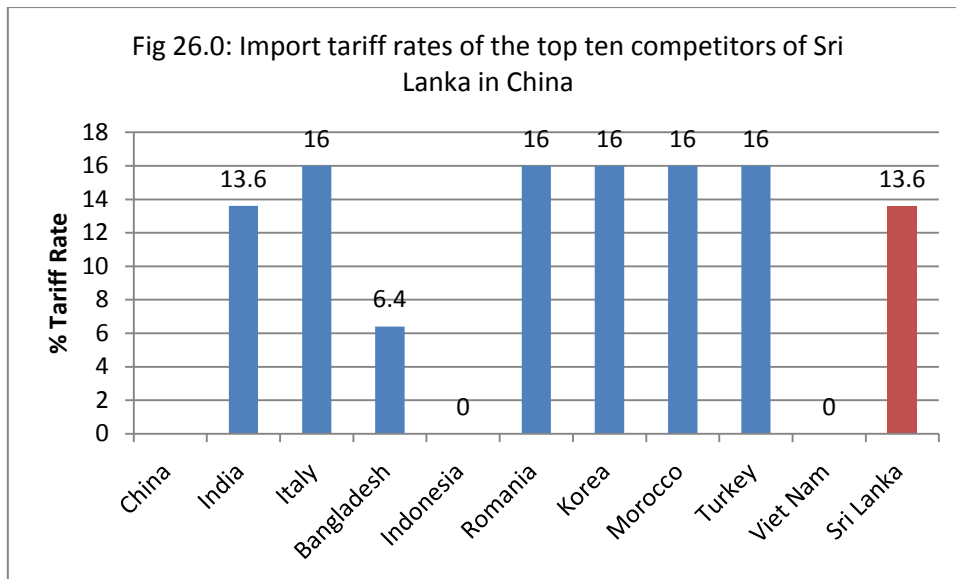
13.19 Women's or girls' blouses, shirts and shirt-blouses (HS 620630)

Sri Lanka has shown a notable increase in the export of this product to China over the period of 2008 to 2012. Our exports of this product were growing at an average rate of 213.76% over the selected time period. We have managed to capture a market share of 0.84% in 2012 compared to a share of 0.05% in 2008. The following table shows our export Performance of Women's or girls' blouses, shirts and shirt-blouses in China.

Table 16: Women's or girls' blouses, shirts and shirt-blouses (HS 620630)

	2008	2009	2010	2011	2012	A vg. Growth Rate
Sri Lanka's Exports to China (US \$ thousands)		9	8	90	313	213.76%
Total Imports to China (US \$ thousands)	18,472	19,976	27,392	35,779	37,312	22%
Sri Lanka's Share		0.05%	0.03%	0.25%	0.84%	-

The following diagram graphically illustrates the import tariff rates imposed on this product for the top ten competitors of Sri Lanka by China. The market shares of the competing countries diminish when moving along the x- axis from left to right.

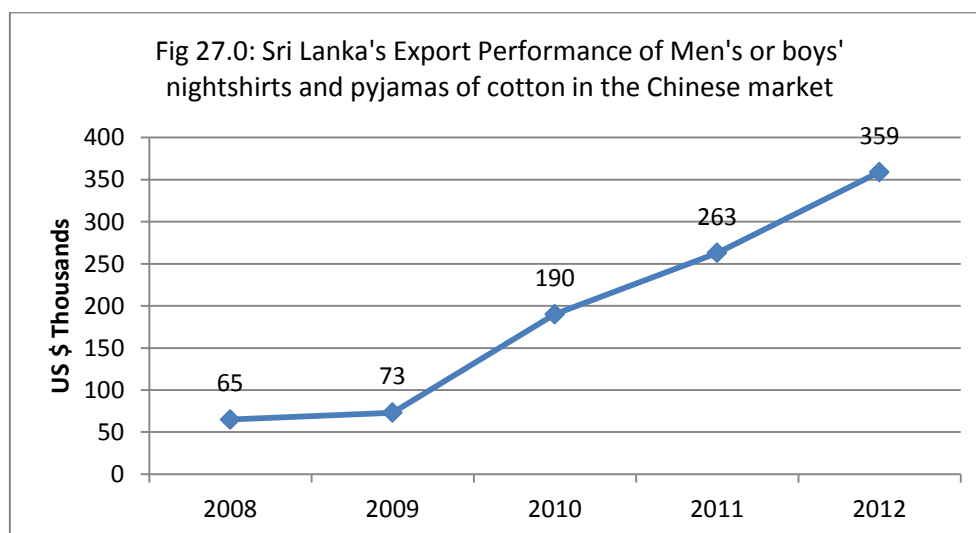


Source: ITC Data

13.20 Men's or boys' nightshirts and pyjamas of cotton (HS 620721)

We have shown a notable increase in the export of this product to China over the period of 2008 to 2012. We are facing a tariff rate of 14% which is the highest rate for this product. However some of our main competitors such as Viet Nam, Thailand, Indonesia and Malaysia enjoy a 0% tariff rate.

The following diagram shows our export Performance of Men's or boys' nightshirts and pyjamas of cotton in China.



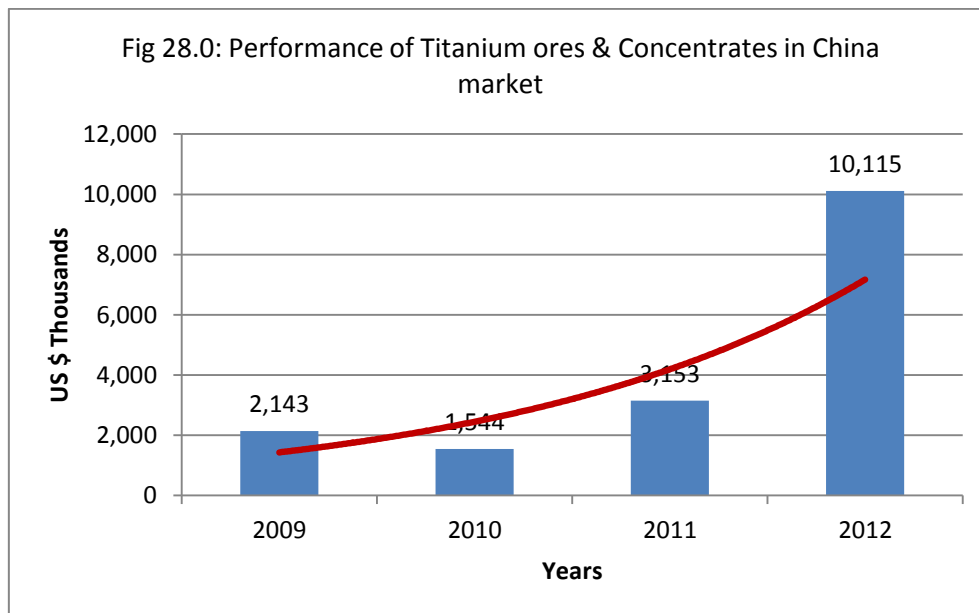
13.21 Titanium ores & Concentrates (HS 26140010)

This is the second biggest export of Sri Lanka to the Chinese market. We had a market share of 1.01% for this product in 2012. However we are losing the market share of the product in China, since the total imports to China from the world is growing at a higher rate (59%) where as our exports are growing at a lower rate of 53.6% in China from 2008 to 2012. On the other hand, this product is exported in a raw form. Sri Lanka should consider adding value to this product to generate more foreign exchange to the country to minimize the deficit in the country's balance of payment.

	2008	2009	2010	2011	2012	A vg. Growth Rate
Sri Lanka's Exports to China (US \$ thousands)	-	2,143	1,544	3,153	10,115	53.6%

Source: Customs data available at the EDB

The following diagram graphically illustrates Sri Lanka's exports to the Chinese Market. It shows a continuous improvement from 2008 to 2012.



Source: Customs data available at the EDB

14.0 OTHER PRODUCTS CURRENTLY EXPORTED TO CHINA WITH MORE OPPORTUNITIES TO EXPAND

The following table summarises a list of other potential products Sri Lanka could export to penetrate the Chinese market.

Table 17: Other products currently exported to China with more opportunities to expand

HS code	Product Name	Total Exports to China in 2012 US \$ '000	Gaining /Losing market share in China	Sri Lanka's Market share in china in 2012	Market share of the Biggest competitor in 2012 (%)	2013 exports US \$ '000
650590	Hats&other headgear	765	Gaining	5.3%	40.3% (china)	N/A
391590	Plastics waste and scrap	748	Gaining	0.02%	15.4 (Japan)	657
151190	Palm oil and its fractions	667	Gaining	0.01%	54.5 (Malaysia)	135
090210	Green tea (not fermented)	576	Gaining	16.1	54.1(Taipei)	890
610469	Womens/girls trousers and shorts	561	Gaining	2.86%	65.5 (Indonesia)	184
620442	Womens/girls dresses, of cotton	539	Gaining	1.82%	19.9 (Italy)	229
401693	Gaskets, washers and other seals	2,145	Gaining	0.2%	25.6 (Japan)	487
610711	Mens/boys underpants and briefs	418	Gaining	2.23%	21.2 (Macao)	377
611692	Gloves, mittens and mitts	351	Gaining	0.5%	46.3 (China)	N/A
871690	Trailer and other vehicle parts	295	Losing since our exports increase slowly	0.60%	31.5 (Germany)	14
251612	Granite, merely cut, by sawing	285	Losing since our exports increase slowly	0.39%	35.8 (India)	796
600690	Fabrics, knitted or crocheted,	250	Gaining	4.40%	40.6 (Japan)	55
401199	Pneumatic tires	37	Losing since our exports increase slowly	0.3%	55.2 (Japan)	1,207

HS code	Product Name	Total Exports to China in 2012 US \$ '000	Gaining /Loosing market share in China	Sri Lanka's Market share in china in 2012	Market share of the Biggest competitor in 2012 (%)	2013 exports US \$ '000
520939	Woven fabrics of cotton	198	Gaining	0.2%	35.3 (china)	N/A
610349	Mens/boys trousers and shorts	167	Gaining	38.22%	45.5 (Italy)	459
610339	Mens/boys jackets and blazers,	130	Gaining	N/A	54.8 (USA)	78
392640	Statuettes and other ornamental articles	113	Gaining	2%	36.6 (china)	N/A
870870	Wheels including parts and accessories for motor vehicles	101	Gaining	0.04%	33.7 (Germany)	225
710391	Rubies,sapphires and emeralds	91	Gaining	0.08%	39.6 (India)	61
611190	Babies garments&clothg accessories	90	Gaining	17.82%	41 (china)	23

Source: Sri Lanka Customs and ITC data

15.0 POTENTIAL EXPORTABLE PRODUCTS TO CHINA MARKET

Following table shows the products which have been identified as potential exportable products to the Chinese market. These products are not currently exported to China by Sri Lanka. Some of these products are exported to China in a very small scale by Sri Lanka. However Sri Lanka exports those products to other countries and these products are well in demand in China as well. These selected products have been showing a positive annual growth in value of total imports to China during the period under review which is illustrated in the following table.

Table 18: Potential exportable products to the Chinese market

HS code	Products	Sri Lanka's exports to the world (US\$ Thousands) In 2012	Total imports to China (US\$ Thousands) In 2012	Annual Growth in value of total imports to China 2008-2012	Tariff Rate applied to Sri Lanka in China
853400	Printed circuits	26,486	14,481,734	10%	0%
854290	Parts of electronic integrated circuits and microassemblies	4,222	1,325,952	-8%	0%
382490	Chemical/allied industry preparations	1,071	6,117,312	22%	0%
071410	Manioc (cassava), fresh or dried, whether or not sliced or pelleted	1,389	1,783,089	42%	8.3%
040221	Milk and cream powder unsweetened exceeding 1.5% fat	47	1,354,897	67%	7%
081090(currently less to China)	Fruits - fresh not specified	1,392	799,966	41%	18.5%
640399(currently less to China)	Footwear, outer soles of rubber/plastics uppers of leather	3,628	650,952	18%	8.5%
392310(currently less to China)	Boxes, cases, crates & similar articles of plastic	890	551,198	6%	7%
080300(currently less to China)	Bananas including plantains, fresh or dried	5,692	365,858	32%	6.9%
701990(currently less to China)	Glass fibres (including glass wool) and articles thereof nes	3,073	313,986	5%	7%

16.0 IMPORT REGULATION IN CHINA

Having a clear understanding about the import regulation in china is vital to the Sri Lankan exporters. Chinese companies willing to engage in importing products to China are required to register with the Ministry of Commerce (MOFCOM) or its authorized local offices. Whereas in the past, few companies were engaged in the importing sector businesses.

Imports to China are classified under three top categories. Namely; Prohibited, Restricted and Permitted.

The permitted category includes most of the products coming in to China, whereas certain goods such as wastes, toxics are coming under the prohibited category. Products under the restricted category are subject to restrictions such as quotas and licenses. The reasons for restricting these products include maintaining state security or public welfare, and protecting exhaustible natural resources.

China charges tariffs on most imports, mainly ad valorem. These tariffs are assessed on the transaction value of the goods, including packing charges, freight, insurance premiums and other service charges incurred prior to the unloading of the goods at the place of destination. Many tariffs have been lowered since China's accession to the WTO. The average tariff dropped from 15.3% in 2000 to 9.8% in 2009.

Value added tax (on almost all products) and consumption tax (on some products) are also assessed at the point of importation. The normal VAT rate ranges from 17% to 13% for certain items. Importers of certain consumer goods (e.g. tobacco, liquor and cosmetics) must pay consumption tax at a rate varying between 1% and 40%.

Free Trade Zones

In China, there are 15 free trade zones (FTZ); these special zones provide exceptions to the usual customs procedures and allow for preferential tariff and tax treatment. All forms of trade conducted between companies in FTZs and areas in China outside the zones are subject to the usual rules that would apply to imports into China.

Export Processing

Special provisions (e.g. refunds of VAT and duty) apply to goods imported under export processing trade arrangements involving manufacturing contracts where all of the manufactured goods are exported. All such arrangements must be approved by MOFCOM or its local offices.

Import Licences

The importation of certain goods requires an import licence. Generally speaking, applications for import licences are submitted to MOFCOM or its authorized local offices. For some goods (e.g. machinery, electrical products), the licence is issued automatically to all applicants and is only used to track imports more accurately. In other cases, approval is not automatic. Such non-automatic import licences are used to control the importation of dangerous goods and to implement tariff rate quotas (i.e. two-stage tariffs, where the right to pay a lower tariff is granted to importers up to a certain total quantity of goods).

The MOFCOM, with other relevant stake holders jointly issue a catalogue of import goods requiring licenses on an annual basis. An import license is generally valid for one year. For 2013, imported goods requiring licenses fall under two categories:

1. Used mechanical and electronic products
2. Substances that deplete the ozone layer

Tariff Rate Quotas (TRQs)

TRQs (i.e. two-stage tariffs, where the right to pay a lower tariff is granted to importers up to a certain total quantity of goods) are in place for wheat, corn, rice, sugar, wool, cotton, certain fertilizers, and wool tops. Chinese companies seeking to import at the lower TRQ tariff rate must apply to MOFCOM for an allocation between October 15 and 30 each year (or for re-allocations of unused TRQ, between September 1 and 15 each year).

Import Inspection/Certification

Complex inspection and certification requirements are in place, requiring certain goods to be inspected on arrival and/or to be accompanied by formal certification recognized by the Chinese government (e.g. CCC and RoHS for electrical goods or pest-free certification for certain agricultural products). Goods that fail to pass the required inspections and/or that are not accompanied by the required certification may be confiscated.

Labelling/Packaging Requirements

China has a range of labelling and packaging requirements in place that are particularly important for consumer goods. In some cases, goods that do not meet these requirements will be refused entry to China.

Currency Controls

Chinese importers may freely convert renminbi (yuan) to foreign currencies for the purpose of imports, but must complete the necessary formalities with the State Administration of Foreign Exchange to demonstrate that all of the foreign currency is being used to fund imports and is not being transferred abroad for other purposes.

China Compulsory Certification (CCC)

Any exporter intends to export products to China; she/he needs to be aware of CCC's coverage and requirements. The CCC (China Compulsory Certification) Mark is a mandatory safety and quality mark for products sold in the Chinese market since May 2002. It is required for products in many groups, divided into 132 product categories in total.

Some of the principal product categories covered by the regulations include:

1. electrical wires and cables
2. switches for circuits, protective installation and connective devices
3. low-voltage electrical equipment
4. small power motors
5. electric tools; welding machines
6. household and similar electrical appliances
7. audio and video equipment (excluding acoustics equipment for broadcasting service)
8. information technology equipment
9. lighting electrical appliances
10. telecommunication terminal equipment
11. motor vehicles and safety parts
12. motor vehicle tires
13. safety glasses
14. agricultural machinery
15. latex products
16. medical devices
17. fire-fighting equipment
18. safety precaution products
19. wireless LAN (local area network) products
20. decoration and fitting products
21. toys

For a comprehensive list of the products covered by the new regulations, please visit www.cnca.gov.cn/. Or visit http://www.ccc-mark.com/list-by-HS-codes-of-products-subject-to-ccc-mark_en_gb.html

17.0 Import Tariff rates applied for Sri Lanka and for it's main competitors by China

Following tables illustrate the import tariff rates applied by the Chinese government for the products selected under section 14.0 (Other products currently exported to China with more opportunities to expand).

17.1 Average tariff applied by China for Hats & other headgear (HS 650590)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 19: Average tariff applied by China for Hats & other headgear (HS 650590)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
China	-	1
Italy	20.7	2
Korea, Republic of	20	3
Viet Nam	0	4
Taipei, Chinese	20.7	5
Sri Lanka	20	6
France	20.7	7
Korea, Democratic People's Republic of	20.7	8
Bangladesh	20	9
Japan	20.7	10

Source: ITC Tariff data

17.2 Average tariff applied by China for Plastics waste and scrap (HS 391590)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 20: Average tariff applied by China for Plastics waste and scrap (HS 391590)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Japan	6.5	1
Hong Kong, China	0	2
United States of America	6.5	3
Germany	6.5	4
Thailand	0	5
Malaysia	0	6
Indonesia	0	7
France	6.5	8
Philippines	0	9
Taipei, Chinese	6.5	10
Sri Lanka	6.5	-

Source: ITC Tariff data

17.3 Average tariff applied by China for Palm oil and its fractions (HS 151190)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 21: Average tariff applied by China for Palm oil and its fractions (HS 151190)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Malaysia	8.7	1
Indonesia	8.7	2
India	8.7	3
Taipei, Chinese	8.7	4
Sri Lanka	8.7	5
Netherlands	8.7	6
Japan	8.7	7
Denmark	8.7	8
Croatia	8.7	9
Korea, Democratic People's Republic of	8.7	10

Source: ITC Tariff data

17.4 Average tariff applied by China for Green tea (not fermented) (HS 090210)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 22: Average tariff applied by China for Green tea (not fermented) (HS 090210)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Taipei, Chinese	10	1
Sri Lanka	7.5	2
United States of America	15	3
Poland	15	4
United Kingdom	15	5
Germany	15	6
Australia	15	7
China	-	8
France	15	9
Singapore	0	10

Source: ITC Tariff data

17.5 Average tariff applied by China for Womens/girls trousers and shorts (HS 610469)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 23: Average tariff applied by China for Womens/girls trousers and shorts (HS 610469)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Turkey	16	1
China	-	2
Italy	16	3
Romania	16	4
Morocco	16	5
Bangladesh	0	6
Cambodia	0	7
Korea, Republic of	12	8
Portugal	16	9
Viet Nam	0	10
Sri Lanka	16	26

Source: ITC Tariff data

17.6 Average tariff applied by China for Womens/girls dresses, of cotton (HS 620442)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 24: Average tariff applied by China for Womens/girls dresses, of cotton (HS 620442)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Italy	16	1
China	-	2
India	16	3
France	16	4
Romania	16	5
Korea, Republic of	16	6
Viet Nam	0	7
Morocco	16	8
Korea, Democratic People's Republic of	16	9
Bulgaria	16	10
Sri Lanka	16	17

Source: ITC Tariff data

17.7 Average tariff applied by China for Gaskets, washers and other seals (HS 401693)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 25: Average tariff applied by China for Gaskets, washers and other seals (HS 401693)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Japan	11.5	1
Germany	11.5	2
United States of America	11.5	3
Korea, Republic of	11.5	4
China	-	5
Taipei, Chinese	11.5	6
Italy	11.5	7
France	11.5	8
United Kingdom	11.5	9
Singapore	0	10
Sri Lanka	11.5	36

Source: ITC Tariff data

17.8 Average tariff applied by China for Mens/boys underpants and briefs (HS 610711)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 26: Average tariff applied by China for Mens/boys underpants and briefs (HS 610711)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Macao, China	0	1
Hong Kong, China	0	2
Cambodia	0	3
Korea, Democratic People's Republic of	14	4
Thailand	0	5
Viet Nam	0	6
Sri Lanka	14	7
India	14	8
Bangladesh	5.6	9
China	-	10

Source: ITC Tariff data

17.9 Average tariff applied by China for Gloves, mittens and mitts (HS 611692)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 27: Average tariff applied by China for Gloves, mittens and mitts (HS 611692)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
China	-	1
Korea, Republic of	14	2
France	14	3
Germany	14	4
Japan	14	5
Korea, Democratic People's Republic of	14	6
United States of America	14	7
United Kingdom	14	8
Taipei, Chinese	14	9
Italy	14	10
Sri Lanka	14	15

Source: ITC Tariff data

17.10 Average tariff applied by China for Trailer and other vehicle parts (HS 871690)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 28: Average tariff applied by China for Trailer and other vehicle parts (HS 871690)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Germany	10	1
United States of America	10	2
Japan	10	3
Taipei, Chinese	10	4
Australia	10	5
Malaysia	0	6
Korea, Republic of	10	7
China	-	8
Belgium	10	9
Austria	10	10
Sri Lanka	10	16

Source: ITC Tariff data

17.11 Average tariff applied by China for Granite, merely cut, by sawing (HS 251612)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 29: Average tariff applied by China for Granite, merely cut, by sawing (HS 251612)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
India	0	1
Brazil	0	2
Saudi Arabia	0	3
Angola	0	4
Norway	0	5
United States of America	0	6
Italy	0	7
Finland	0	8
Australia	0	9
Madagascar	0	10
Sri Lanka	0	18

Source: ITC Tariff data

17.12 Average tariff applied by China for Fabrics, knitted or crocheted, (HS 600690)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 30: Average tariff applied by China for Fabrics, knitted or crocheted, (HS 600690)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Japan	12	1
Italy	12	2
China	-	3
Korea, Republic of	10.2	4
Taipei, Chinese	12	5
Hong Kong, China	12	6
Switzerland	12	7
France	12	8
United Kingdom	12	9
Indonesia	0	10
Sri Lanka	10.2	30

Source: ITC Tariff data

17.13 Average tariff applied by China for Pneumatic tires (HS 401199)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 31: Average tariff applied by China for Pneumatic tires (HS 401199)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Japan	25	1
Malaysia	5	2
United States of America	25	3
China	-	4
France	25	5
Finland	25	6
Taipei, Chinese	25	7
Canada	25	8
Australia	25	9
Germany	25	10
Sri Lanka	25	13

Source: ITC Tariff data

17.14 Average tariff applied by China for Woven fabrics of cotton (HS 520939)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 32: Average tariff applied by China for Woven fabrics of cotton (HS 520939)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
China	-	1
Japan	10	2
Hong Kong, China	0	3
Taipei, Chinese	5	4
Turkey	10	5
Italy	10	6
India	8.5	7
Korea, Republic of	8.5	8
Spain	10	9
Pakistan	0	10
Sri Lanka	8.5	17

Source: ITC Tariff data

17.15 Average tariff applied by China for Mens/boys trousers and shorts (HS 610349)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 33: Average tariff applied by China for Mens/boys trousers and shorts (HS 610349)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Italy	16	1
China	-	2
Viet Nam	0	3
Japan	16	4
Korea, Republic of	11.7	5
Thailand	0	6
Philippines	0	7
Portugal	16	8
Cambodia	0	9
Turkey	16	10
Sri Lanka	11.7	14

Source: ITC Tariff data

17.16 Average tariff applied by China for Mens/boys jackets and blazers, (HS 610339)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 34: Average tariff applied by China for Mens/boys jackets and blazers, (HS 610339)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
United States of America	16	1
Italy	16	2
China	-	3
Turkey	16	4
Malaysia	0	5
United Kingdom	16	6
Korea, Democratic People's Republic of	16	7
Indonesia	0	8
Japan	16	9
Korea, Republic of	11.7	10
Sri Lanka	11.7	31

Source: ITC Tariff data

17.17 Average tariff applied by China for Statuettes and other ornamental articles (HS 392640)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 35: Average tariff applied by China for Statuettes and other ornamental articles (HS 392640)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
China	-	1
Japan	10	2
Taipei, Chinese	10	3
Korea, Republic of	8.3	4
Germany	10	5
United States of America	10	6
France	10	7
Italy	10	8
Hong Kong, China	10	9
Sri Lanka	8.3	10

Source: ITC Tariff data

17.18 Average tariff applied by China for Wheels including parts and accessories for motor vehicles (HS 870870)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 36: Average tariff applied by China for Wheels including parts and accessories for motor vehicles (HS 870870)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
Germany	8.9	1
Japan	8.9	2
Netherlands	8.9	3
Korea, Republic of	8.9	4
France	8.9	5
United States of America	8.9	6
Austria	8.9	7
Czech Republic	8.9	8
Taipei, Chinese	5	9
India	8.9	10
Sri Lanka	8.9	38

Source: ITC Tariff data

17.19 Average tariff applied by China for Rubies,sapphires and emeralds (HS 710391)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 37: Average tariff applied by China for Rubies,sapphires and emeralds (HS 710391)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
India	4	1
Thailand	0	2
Australia	8	3
South Africa	8	4
Madagascar	8	5
Myanmar	0	6
Brazil	8	7
Colombia	8	8
United Republic of Tanzania	8	9
Sri Lanka	4	10

Source: ITC Tariff data

17.20 Average tariff applied by China for Babies garments&clothg accessories (HS 611190)

Following table summarizes the import tariff rates imposed by China for Sri Lanka and for the main competing countries of Sri Lanka. Applied tariff year is taken as 2012.

Table 38: Average tariff applied by China for Babies garments&clothg accessories (HS 611190)

Country	Average tariff applied by China (for HS 530500)	Ranking based on the value of imports by China
China	-	1
Italy	14	2
Korea, Republic of	9.3	3
Spain	14	4
Portugal	14	5
Turkey	14	6
Bangladesh	9.3	7
Sri Lanka	9.3	8
Thailand	0	9
Bulgaria	14	10

Source: ITC Tariff data

18.0 CONCLUSION

China is the biggest trading partner of Sri Lanka in the Asian region. Even before full diplomatic relations were established in 1957, China has been a consistent economic partner of Sri Lanka and our trade relation with China dates back to centuries.

Being the biggest emerging market in the world with a population of over 1.3 billion, China's domestic market has become one of the world's largest markets for some sectors. Sri Lanka stands at the 116th position among all the countries exporting to China registering a total export value of US \$ 108 million in 2012. However Sri Lanka is among the top ten exporting countries for most of the products identified in this analysis as exportable products to China.

This policy analysis focuses on the Chinese economy as a potential export destination for Sri Lanka. After analyzing the Chinese market, it has been identified that 41 products which are being currently exported to China by Sri Lanka are capable of generating higher revenue to Sri Lanka. Even though there is a high demand for these products in China, Sri Lanka has not been able to exploit the full potential due to supply side constraints and also due to trade barriers such as high tariffs as well. Products currently exported to China with more opportunities to expand and potential exportable products to China which are not currently being exported by Sri Lanka to China have also been identified.

18.1 Recommendation

Studies show that a considerable share of rich consumers who were living in the first-tier cities in China have migrated mainly to second-tier and also to third-tier cities. These people are now further capable of demanding more consumable products since the cost of living in second- and third-tier cities are lower in comparison to first-tier cities. Furthermore Chinese preferences and taste are different from other countries. China it self has 56 ethnic groups and their market demands differ across regions. Therefore rather than formulating strategies to penetrate the Chinese market as a whole, it is very important to formulate strategies to penetrate these cities separately.

Marketing campaigns for luxury products with high prices could fail if the prices are set too low. Luxury goods are in high demand in the Chinese market. Rich people are willing to pay more for these goods. If it is too inexpensive, it loses its value and uniqueness making the product common and affordable to everyone.

It is important to conduct awareness programmes about the opportunities available in the Chinese Market to Sri Lankan Exporters and to launch Promotional Campaigns in China. This could be done by the EDB in collaboration with other relevant institutions.

We should work closely with relevant agencies such as Sri Lanka High Commission in China to solve the prevailing issues related to exporters and liaise with the Ministry of External affairs and Department of Commerce to examine the possibility of Preferential Trade access to China.

Major products exported by Sri Lanka to China with potential for further expansion are as follows.

1. Raw mattress fibre not twisted of coconuts *(HS 53050023)*
2. Other Black Tea *(HS 09024092)*
3. Raw mixed fibre twisted with coconut coir *(HS 53050030)*
4. T-shirts, singlets and other vests, of other textile materials, knitted *(HS 610990)*
5. Tobacco, unmanufactured, partly or wholly stemmed or stripped *(HS 240120)*
6. Solid or cushioned tires, interchangeable tire treads & tire flaps of rubber *(HS 40129010)*
7. Used or new rags of textile materials, not sorted *(HS 631090)*
8. Other raw mattress fibre twisted of coconuts *(HS 53050022)*
9. Women's/girls trousers & shorts, of other textile materials, not knitted *(HS 620469)*
10. Other Solid or cushioned tyres, tyre tread or tyre flaps etc *(HS 40129090)*
11. Black tea (fermented) and partly fermented tea, in immediate packing of *(HS 09023022)*
12. Transformers *(HS 85043110)*
13. Gloves of vulcanized rubber *(HS 401519)*
14. Men's or boys' trousers, breeches, etc, of cotton *(HS 620342)*
15. Gloves, mittens and mitts, knitted or crocheted *(HS 611610)*
16. Printed paper or paper board labels of all kinds *(HS 48211090)*
17. Dried peppers (excl. crushed or ground) *(HS 09041110)*
18. Men's or boys' shirts of cotton *(HS 620520)*
19. Women's or girls' blouses, shirts and shirt-blouses *(HS 620630)*
20. Men's or boys' nightshirts and pyjamas of cotton *(HS 620721)*
21. Titanium ores & Concentrates *(HS 26140010)*
22. Hats & other headgear *(HS 650590)*
23. Plastics waste and scrap *(HS 391590)*
24. Palm oil and its fractions *(HS 151190)*
25. Green tea (not fermented) *(HS 090210)*
26. Women's/girls trousers and shorts *(HS 610469)*

27. Womens/girls dresses, of cotton (HS 620442)
28. Gaskets, washers and other seals (HS 401693)
29. Mens/boys underpants and briefs (HS 610711)
30. Gloves, mittens and mitts (HS 611692)
31. Trailer and other vehicle parts (HS 871690)
32. Granite, merely cut, by sawing (HS 251612)
33. Fabrics, knitted or crocheted, (HS 600690)
34. Pneumatic tires (HS 401199)
35. Woven fabrics of cotton (HS 520939)
36. Mens/boys trousers and shorts (HS 610349)
37. Mens/boys jackets and blazers, (HS 610339)
38. Statuettes and other ornamental articles (HS 392640)
39. Wheels including parts and accessories for motor vehicles (HS 870870)
40. Rubies,sapphires and emeralds (HS 710391)
41. Babies garments&clothg accessories (HS 611190)

This analysis has further identified the following 10 product categories. These products are not currently being exported to China by Sri Lanka. Some of theses products are exported to China on a very small scale by Sri Lanka. However Sri Lanka exports those products to other countries and these products are well in demand in China as well.

1. Printed circuits (HS 853400)
2. Parts of electronic integrated circuits and micro assemblies (HS 854290)
3. Chemical/allied industry preparations (HS 382490)
4. Manioc (cassava), fresh or dried, whether or not sliced or pelleted (HS 071410)
5. Milk and cream powder unsweetened exceeding 1.5% fat (HS 040221)
6. Fruits - fresh not specified (HS 081090) (currently less to China)
7. Footwear, outer soles of rubber/plastics uppers of leather (HS 640399)
8. Boxes, cases, crates & similar articles of plastic (HS 392310)
9. Bananas including plantains, fresh or dried HS (080300)
10. Glass fibres (including glass wool) and articles thereof nes (HS 701990)

If supply side constraints to export these products to China could be overcome, China would be a major market to generate more foreign exchange for Sri Lanka. Moreover diversifying our products to China will also reduce the dependency of Sri Lankan exports on EU and USA as well.

It is also suggested that the potential Sri Lankan exporters be identified and be informed about the opportunities in the Chinese market and also give them possible support to enhance their trade with China. Supplying detailed information of our exportable products to potential buyers in China is vital in this regard.

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