

PERFORMANCE OF THE EXPORT SECTOR OF SRI LANKA 2014

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Contents

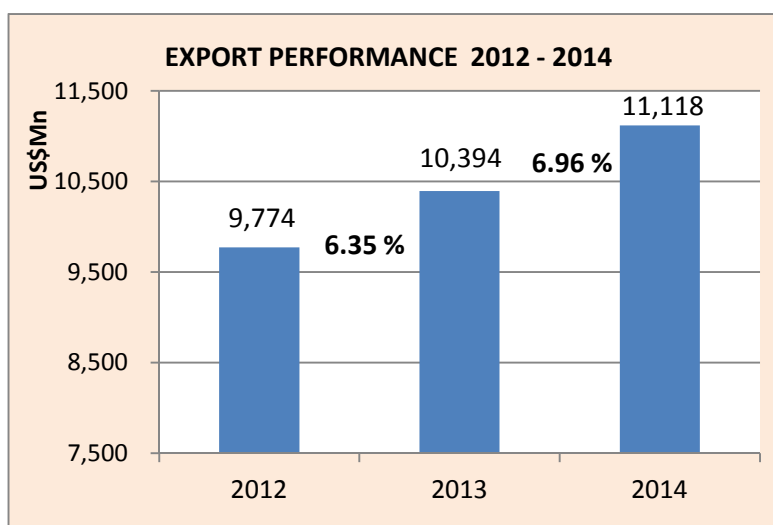
	<u>Page</u>
1] INTRODUCTION	2
2] OVERALL PERFORMANCE OF THE EXPORT SECTOR	2
3] EXPORT PERFORMANCE BY MAJOR CATEGORIES	2
4] COMPOSITION OF EXPORTS IN 2014	3
5] EXPORT PERFORMANCE BY MAJOR PRODUCT SECTORS	4
6] EXPORT PERFORMANCE BY MAJOR MARKETS	10
7] EXPORTS BY REGIONS	10
8] EXPORTS TO EU REGION	11
9] EXPORTS TO USA	12
10] EXPORTS TO INDIA	13
11] EXPORTS TO PAKISTAN	14
12] BALANCE OF TRADE	15
13] CONCLUSION	15

1) INTRODUCTION

Sri Lanka's earnings from merchandise exports for the year 2014, have registered a growth of 6.96 % when compared with export earnings registered during the year 2013, reflecting an improvement in export performance during the period under review.

2) OVERALL PERFORMANCE OF THE EXPORT SECTOR

The graph below indicates the performance of the export sector during the years 2012, 2013 and 2014.



Source: Sri Lanka Customs

It reveals that export earnings increased by 6.96% in 2014 reflecting increases in major categories of exports i.e. the agricultural, Fisheries & industrial sectors. Contributions made by the major categories of exports to the overall performance of the export sector is elaborated in the following section.

3) EXPORT PERFORMANCE BY MAJOR CATEGORIES

Table 1 below gives the export performance of major categories during the years 2012, 2013 & 2014 in US dollar terms.

Table 1 : Export Performance by Major Categories 2012, 2013 & 2014

[US\$ Mn.]

	2012	2013	Growth %	2014	Growth %
Agriculture Exports	2248.33	2479.92	10.30	2698.99	8.83
Fisheries Exports	205.17	244.43	19.14	265.24	8.51
Industrial Exports	7261.94	7597.13	4.62	8067.06	6.19
Total Exports	9773.67	10394.25	6.35	11117.63	6.96

Source : Sri Lanka Customs.

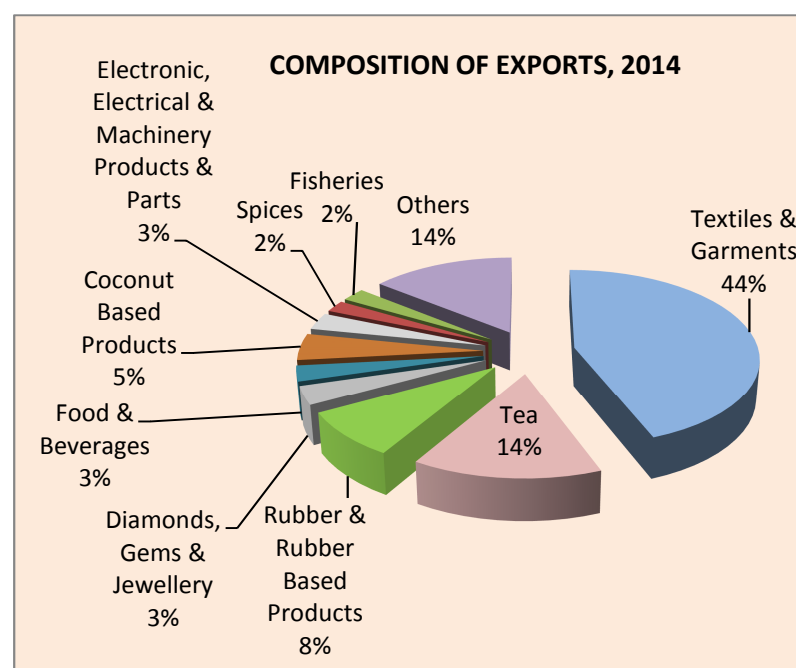
The agricultural exports which accounted for 24% of total export earnings increased by 8.83 % in the year 2014 to US\$ 2698.99 Mn. All major products in the agricultural sector [tea, coconut kernel products & other export crops] except natural rubber and spices recorded substantial increases during this period. Fisheries exports which accounts for 3% of total export earnings recorded a positive growth of 8.51% driven mainly by aquarium fish and fresh fish exports. Other categories of the fisheries sector also recorded positive growth rates.

Industrial exports which accounted for 73% of the total export earnings increased by 6.19 % contributing to the overall positive performance of the export sector. Performance of almost all the product sectors in this category including textile & garments increased during this period.

4) COMPOSITION OF EXPORTS IN THE YEAR 2014

The graph below illustrates the composition of exports at disaggregated level during the period under review. It reveals that nearly 58% of total export earnings of Sri Lanka were derived from two products, namely garments [44%] and tea [14%]. Nearly 80% of the total export turnover came only from 7 products reflecting the lack of diversification of Sri Lanka's export basket.

Considering the adverse effects of high dependency on a few products, it is essential to broaden the export base of Sri Lanka through horizontal diversification i.e. widening the range of exports and vertical diversification of exports at different stages of value addition to capture more value from products that are exported from Sri Lanka.



5) EXPORT PERFORMANCE BY MAJOR PRODUCT SECTORS

Tea

Export of all Tea products increased both in terms of value (5.43 %) and volume (2.35%) during the year 2014. Export of Tea Packets which accounted for 48.54% of total export earnings from the Tea sector increased both in terms of quantity (9.09%) and in terms of value (9.24 %). Export of Bulk Tea which accounted for 49.10 % of the total earnings from this sector decreased in terms of quantity (-3.34%) and increased in terms of value (0.70%). Earnings from export of Bulk Tea and Tea Packets accounted for 97.71% of total earnings from the Tea sector.

Export of Tea Packets to Turkey(47.70 %), Libya (104.13%) increased while exports to Iraq (-18.58%), Russian Federation (-11.57 %), United Arab Emirates (-4.67%) and Syria (-42.46%) dropped in terms of value.

Export of Bulk Tea to Azerbaijan (10.41%), Turkey (48.70%), Japan(5.08%) and United Arab Emirates (15.14%) increased, while exports to Russian Federation(-0.05%), Kuwait (-31.25%), Syria (-31.31%) and Iran (-19.15%) dropped in terms of value.

Natural Rubber

Export earnings from all categories of natural rubber i.e. latex rubber[-5.17%], crepe rubber [-26.16%], sheet rubber [-66.96%] and block rubber [-99.05%] declined during this period contributing to the overall negative performance of natural rubber exports [-36.32%] in the period under review. Export of natural rubber [in value terms] to Japan [-10.77%], India [-32.75%], Pakistan [-59.55%], USA [-38.90%], Malaysia [-81.49%] Germany [-15.96%], China [-38.51%] and Italy [-22.05%] decreased during this period. However exports to Vietnam [5.19%] increased in the year 2014.

Coconut Kernel Products

Export earnings from desiccated coconut [DC] which alone accounted for 61% of the total exports of coconut kernel products increased by 113.18% in the year 2014. Also, volume of DC exported during this period has increased by 72.64%.

Earnings from export of DC to major markets, USA [197.73%], Iran [190.95%], Egypt [115.47%], Pakistan [24.01%] and Saudi Arabia [94.40%] increased during this period. Earnings from export of copra increased by 6172.73% due to increased imports from Pakistan [2977.78%]. Earnings from export of coconut oil and fresh coconut nuts grew by 240.84% and 202.5% respectively during the period under review. Earnings from export of coconut oil to USA increased significantly by 221.41% in the year 2014.

Coconut Fibre & shell based Products

Earnings from coconut fibre based products increased substantially by 19.66% during the year 2014, due to increased exports of bristle fibre [57.24%], mattress fibre [12.11%], coco peat [10.33%], coir yarn [20.17%].

Earnings from coconut shell products increased substantially by 5.27% during the year 2014, due to increased exports of coconut shell charcoal [41.92%]. However, export of coconut shell powder declined by -30% during the period under review.

Export of fibre based products to China rose by 49.73% and export of mixed coir fibre to almost all markets China, United States, Mexico and United Kingdom grew remarkably during this period.

Spices

Export of spices dropped substantially by -28.9% [in value terms] during the period under review due to reduced export of pepper [-45.39%], cinnamon [-0.08%], cloves [-71.99%] and nutmeg & mace [-10.31%]. However earnings from export of and cardamom [76.47%] increased during the year 2014.

Export of pepper which accounted for 36% of total export value of spices declined by 45.39% due to reduced exports to Pakistan [-90.03%] during the period under review. Export earnings from cloves also dropped by 71.99% due to decreased exports to India [-76.85%] during the period under review.

Essential Oils

Earnings from export of essential oils increased by 12.17% due to increased exports to Germany [29.2%], United Kingdom [23.94%] and Spain [112.07%] during the period under review.

Fruits & Vegetables

Earnings from export of fruits increased by 51.83% during the year 2014. Export of fruits to almost all major markets, UAE [72.93%], India [21.67%], Saudi Arabia [54.44%], Qatar [138.25%], Maldives [46.03%] and Germany [40%] increased during this period.

Also earnings from export of vegetables increased by 25.80% in this period. Earnings from export of vegetables to almost all major markets, Maldives [28.05%], U.A.E. [50.15%] and U.K. [32%] grew significantly during this period.

Cut flowers & Foliage

Earnings from this sector increased by 4.87% mainly due to the 8.88% increase of exports to Japan and 48.11% increase to United Kingdom.

Aquarium Fish

Export earnings from aquarium fish increased by 17.1% during the year 2014 due to increased exports to USA [17.07%] and UK [7.14%].

Other Fish Products

Earnings from all categories of this sector, frozen fish [11.05%], prawns [32.84%] and crabs [24.86%] increased during this period due to increased exports to United States & Taiwan.

Diamonds, Gems & Jewellery

Export of diamonds declined by 33.95% while exports of gems and jewellery increased by 34.83% and 3.26% respectively during this period.

Textiles & Garments

Earnings from export of Textile & Apparel which accounted for 43 % of total export earnings of the country during the period under review grew by 9.29%. Earnings from the sub categories within the sector i.e. Apparel (9.77%), Woven Fabrics (0.27%) and Made-Up Textile Articles (14.37%) registered positive growths during the period. However earnings from export of other Textile Articles decreased by 11.74% during the period.

Earnings from export of Textiles & Garments to United States[8.8%], U.K. [1.17%], Belgium [3.67%], Italy [22.47%], France[42.93%] and Netherlands[44.82%] increased, while earnings from its export to Germany[2.02%] and Canada [-2.12%] diminished during the period.

Food & Beverages

Increased export earnings from processed fruits & juices [28.33%], processed food [34.84%], beverages [62.81%] and manufactured tobacco [13.51%] contributed to the overall positive growth of 13.96% reported by the food & beverages sector. Export of processed food to UAE increased from US\$ 8.93Mn in the year 2013 to US\$ 17.31Mn during the year 2014.

Export of beverages to India [40.54%], Maldives [74.31%] and United Kingdom [205.56%] increased [in terms of value] during this period. However Export of confectionary & bakery products to Ghana [-25.31%] declined.

Leather & Leather Products

Increased export earnings from raw hides [80.05%] and leather clothing accessories [7.61%] contributed to the overall positive growth [6.25%] of the leather based exports during this period. Earnings from export of travel goods [-14.35%] declined during the period under review.

Export of leather clothing accessories to Germany [7.14%], USA [118.64%] and Canada (53.89%) increased [in value terms] during this period while export to Japan decreased by 42.86%.

Footwear

Export earnings from footwear increased by 195.76% in the year 2014 due to increased exports to Vietnam [708.90%], China [679.6%] and UK [260.45%].

Wooden Products

Decrease in export earnings from MDF boards [-17.79%] contributed to the overall negative export performance of wooden products [-0.39%].

Paper Products

Earnings from paper products increased by 10.02% during the period under review due to increased export earnings from waste & scrap of paper [24.76%] and books and printed materials [6.94%].

Export earnings from waste & scrap of paper to India [24.56%] and to Pakistan [39.64%] increased substantially during this period contributing to the overall positive performance of the sector. In addition earnings from export of books and printed materials to U.K. [82.76%] and Kenya [28.74%] increased during this period.

Rubber Products

Earnings from exports of Rubber Products have increased by 0.02% during the period under review. Earnings from export of tyres & tubes [2.34%] and Gaskets, washers, seals, etc. of hard rubber [19.64%] increased during this period. However exports earnings from Industrial & surgical gloves of rubber [-9.96%], rubber plates, sheets rods of unhardened rubber [-12.89%] decreased during the year 2014.

Earnings from export of tyres & tubes, which accounted for 65% of total earnings from the rubber product sector, to all major markets i.e. Germany [6.77%], Italy [2.81%] and Canada [7.96%], increased during this period. Earnings from Gaskets, Washers, and Seals etc. of Hard Rubber to United States (18.76%), Germany (37.70%) and France (24.33%) have also increased during the period under review.

Chemical & Plastic Products

Earnings from export of chemical & plastic products increased by 25.60% during this period due to increased exports of organic Chemicals [57.58%], inorganic Chemicals [23.10%], pharmaceutical Articals [71.21%], tanning & paints etc. [96.30%], plastic products [17.32%], perfumes & cosmetic products [41.28%] and washing preparations [79.62%], during the period under review.

Non-Metallic Mineral Products

Ceramic & porcelain Products

Export earnings from ceramic & porcelain products increased by 2.18% due to increased earnings from exports of Wall Tiles (10.05%) and Tableware & Kitchenware (0.7%), Earnings from export of Tableware & Kitchenware to Japan (22.7%), UK (17.56%) and United Arab Emirates (13.51%) increased, while earnings from its exports to United States (-23.03%) had diminished. Earnings from export of Wall Tiles to Australia (5.79%), Maldives (76.79%) and Canada (7.94 %) have increased.

Natural sands, articles of stone and Other non-Metallic Mineral Products

Export earnings from Natural Sands, Articles of Stones and Other Non Metallic Mineral products increased by 5.2 % during the period under review.

Increase in earnings from export of these products to China (48.99%), Japan (6.87%) and United States (16.07%) were registered while exports to India (-3.99 %) and Singapore (-1.39%) have decreased.

Base Metal Products

Earnings from export of Base Metal Products increased by 5.17% during the period under review due mainly to a increase in earnings from export of Structure of Iron & Aluminum [83.51%] and Nails, screws, Bolts & Nuts of Metal nes (26.67%). However export of Refined Copper & Lead Alloys (-26.10%) decreased during the period under review.

Earnings from export of Refined Copper & Lead Alloys and Standard Wire of Aluminum, Copper & Iron to India have dropped by 10.46% and 30.83% respectively. Earnings from export of Tools, Implements, and Cutlery & Parts to Germany (20.42%) and India (107.14%) have increased. Earnings from export of Scrap of Ferrous, Aluminum, Copper & Other Metals have dropped mainly due to a drop in exports of these products to India (-73.71%).

Electronic, Electrical and Machinery Parts

Earnings from exports of Electronic, Electrical and Machinery Parts increased by 9.94% during the period under review. The positive performance was mainly led by increased earnings from Switches, Lamp Holders Boards & Panels (39.91%), Discharge lamps (34.05%) and Insulated wires & cables (2.27%).

Exports of Switches, Lamp Holders Boards & Panels to Switzerland (47.94%), and India (162.5%) have increased during the period under review.

Transport Equipment and parts

Earnings from export of Bicycles (Not Motorized) to India (109.51%), Poland (132.77%) and the Netherlands (194.74%) have increased during the period under review. Earnings from export of Motor Vehicles & Parts to Australia (-36.01%), Germany (-17.82%) and United States (-49.80%) have decreased while export of these products to Bangladesh (1271.43%) has increased.

Boat Building

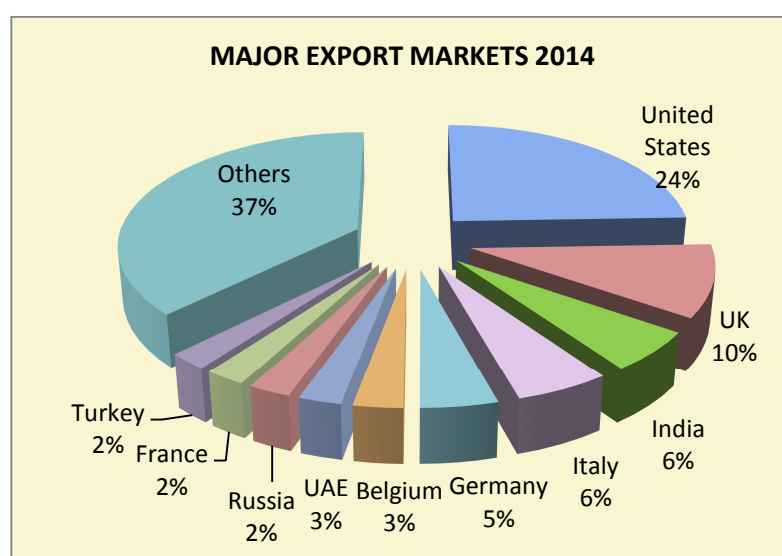
Export earnings from boat building have increased by 5.2 % during the period under review. The positive performance of the sector was mainly driven by a 100% increase in exports to Singapore.

Toys Games & Sport Requisites

Earnings from exports of Toys Games & Sport Requisites to Germany (24.02%), United States (36.34%) and United Kingdom (25.29%) increased while exports to Austria (-11.17%) and India (-9.76%) diminished

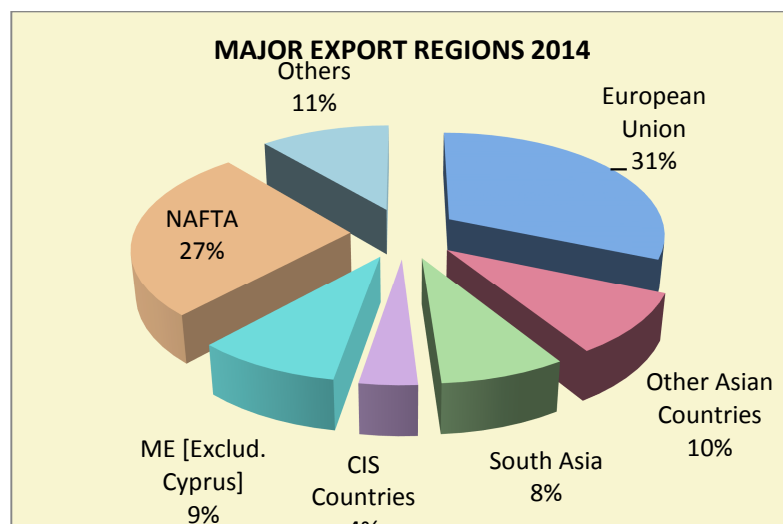
6) EXPORTS TO MAJOR MARKETS

The figure below presents the composition of our products in major markets during the year 2014. It shows that USA which absorbed 24% of our total exports (in US \$ terms) continues to be the leading destination for Sri Lanka's products, followed by UK (10%), India (5%), Italy (6%), Germany (5%), Belgium (3%), UAE (3%), Russia (3%), France (2%) and Turkey (2%) absorbing shares as indicated within parenthesis.



7) EXPORTS BY REGIONS

The graph below illustrates the export performance of Sri Lanka in major regions during year 2014. It shows that 31% of the total export earnings of Sri Lanka were derived from European Union member countries [EU] while 27% of total exports were derived from North American Free Trade Area [NAFTA] dominated by the USA, during the year 2014. [Product wise analysis for key markets is given in the following sections].



Middle East countries which are the main export market for Sri Lankan tea has absorbed 5% [in terms of value] of our total exports.

Despite the Free Trade Agreements with India and Pakistan Sri Lanka's exports to South Asian countries remained low at 8% while exports to other Asian countries accounted for 10% of total exports of Sri Lanka. Export to CIS countries which are our key importers of tea absorbed only 3.18% of our total exports in the year 2014.

8) EXPORTS TO EU REGION

The table below presents Sri Lanka's exports to EU region which absorbed nearly 31% of total exports [in value terms] of Sri Lanka.

Table 2 : Exports to EU Region 2012 -2014

US\$ Mn

Product	2012	2013	Growth %	2014	Growth %
Apparel	1,851.04	1,959.45	5.86	2,165.33	10.51
Pneumatic & Retreated Rubber Tyres & Tub	201.98	201.09	-0.44	208.07	3.47
Frozen Fish	44.01	88.91	102.02	89.95	1.17
Tea Packets	75.10	82.21	9.47	89.12	8.41
Industrial & Surgical Gloves of Rubber	66.62	67.72	1.65	67.15	-0.84
Diamonds	240.60	202.52	-15.83	54.00	-73.34
Tea in Bulk	40.01	43.31	8.25	50.10	15.68
Gaskets, Washers, Seals etc. of Hard Rubber	45.05	43.03	-4.48	48.18	11.97
Manufactured Tobacco	36.88	39.20	6.29	47.16	20.31
Desiccated Coconut	18.00	17.74	-1.44	40.22	126.72
Others	529.21	533.4	0.79	630.09	18.13
Total	3,148.51	3,278.58	4.13	3,489.39	6.43

Source: Sri Lanka Customs

Nearly 80% of our total export earnings derived from EU region was from only eight products and garments alone accounted for nearly 62 % of our total export earnings derived from EU region. Garment exports to EU region registered a growth of 10.51% during the period under review. Except Diamonds, all major products exported to EU, performed well in that market.

9) EXPORTS TO USA

The table below gives the export performance of our products in the USA market which accounted for 24% of the total export earnings of Sri Lanka during the year 2014 .USA which is a major constituent of the NAFTA region also absorbed nearly 91% of our total exports to this region.

Nearly 73% of earnings from total exports to USA were derived only from one single product i.e. garments. Exports of garments to USA increased by 8.76% contributing to overall positive growth of 9.14% in the USA market.

Table 3 : Exports to USA 2012 - 2014

US\$ Mn

Product	2012	2013	Growth %	2014	Growth %
Apparel	1,517.24	1,829.69	20.59	1,989.98	8.76
Pneumatic & Retreated Rubber Tyres & Tubes	187.14	198.20	5.91	191.99	-3.13
Industrial & Surgical Gloves of Rubber	44.73	44.29	-0.98	43.35	-2.12
Gems	15.07	30.86	104.78	33.49	8.52
Other Electrical & Electronic Products nes	18.41	27.54	49.59	31.47	14.27
Gaskets, Washers, Seals etc. of Hard Rubber	25.00	26.22	4.88	31.14	18.76
Activated Carbon	29.16	30.97	6.21	27.21	-12.14
Sacs & Bags of Plastics	20.07	22.27	10.96	25.38	13.96
Tea Packets	15.28	18.45	20.75	23.05	24.93
Coconut Oil	5.89	6.54	11.04	21.02	221.41
Others	236.80	257.19	8.61	301.83	17.36
Total	2,114.80	2,492.23	17.85	2,719.91	9.14

Source: Sri Lanka Customs.

Except for earnings from tyres & tubes [-3.13%], industrial & Surgical Gloves [-2.12%] and Activated Carbon [-12.14%] exports of other products to USA increased during this period. Increased export earnings from apparel [8.76%], gems [40.84%], plastic products [13.96%] and articles of hard

rubber [18.76%] contributed to the overall positive performance of Sri Lanka's exports in the USA market.

10) EXPORTS TO INDIA

The table below gives the export performance in the Indian market by major products during the year 2014. Exports to India which accounted for 4.6% of the total export earnings of Sri Lanka increased by 14.85%

Nearly 60% of earnings from total exports to India were derived only from ten products.

Table 4 : **Exports to India 2012 - 2014**

US\$ Mn

Product	2012	2013	Growth %	2014	Growth %
Arecanuts	3.62	16.56	357.46	64.34	288.53
Petroleum Products	11.73	5.34	-54.48	53.21	896.44
Pepper	35.25	44.93	27.46	50.70	12.84
Animal Feed	61.45	48.31	-21.38	45.67	-5.46
Apparel	38.77	34.20	-11.79	34.61	1.20
Waste & Scrap of Paper /Paper Boards	22.45	24.39	8.64	30.38	24.56
Boat Building	26.32	52.92	101.06	29.42	-44.41
Woven Fabrics	19.72	21.18	7.40	26.28	24.08
Insulated Wires and Cables	34.10	33.90	-0.59	24.79	-26.87
Other Electrical & Electronic Products nes	11.16	8.75	-21.59	20.96	139.54
Others	305.47	253.38	-17.05	244.28	-3.59
Total	570.05	543.86	-4.59	624.65	14.85

Source: Sri Lanka Customs.

Except for export of Insulated Animal Feed [-5.46%], Boat Building [-44.41%] and Insulated Wires and Cables [-26.87%], export of other major products to India grew during this period.

11) EXPORTS TO PAKISTAN

The table below illustrates the export performance of our products in the Pakistan market which absorbed 0.7% of the total exports of Sri Lanka in the year 2014.

The table indicates that earnings from exports to Pakistan dropped by 10.71% during the period under review. 62% of earnings from total exports to Pakistan were derived from only 10 products and most of them are in primary form. This reflects that Sri Lanka has not yet geared itself to exploit the full potential in the Pakistan market utilizing the Pakistan-Sri Lanka Free Trade Agreement [PSFTA].

Table 5 : **Exports to Pakistan 2012 - 2014**

US\$ Mn

Product	2012	2013	Growth %	2014	Growth %
Desiccated Coconut	4.53	9.83	117.00	12.19	24.01
Betel Leaves	5.03	10.56	109.94	10.46	-0.95
MDF Boards	7.66	9.76	27.42	7.74	-20.70
Lentils	0.57	0.09	-84.21	2.77	2977.78
Copra	0.02	3.09	15,350.00	2.66	-13.92
Other Textile Articles nes	1.86	1.72	-7.53	2.58	50.00
Crepe Rubber	3.27	2.43	-25.69	2.46	1.23
Processed Food	0.46	0.22	-52.17	2.24	918.18
Other Electrical & Electronic Products nes	0.01	0.08	700.00	1.80	2150.00
Woven Fabrics	2.36	1.27	-46.19	1.71	34.65
Others	56.96	44.08	-22.61	27.62	-37.34
Total	82.74	83.12	0.46	74.22	-10.71

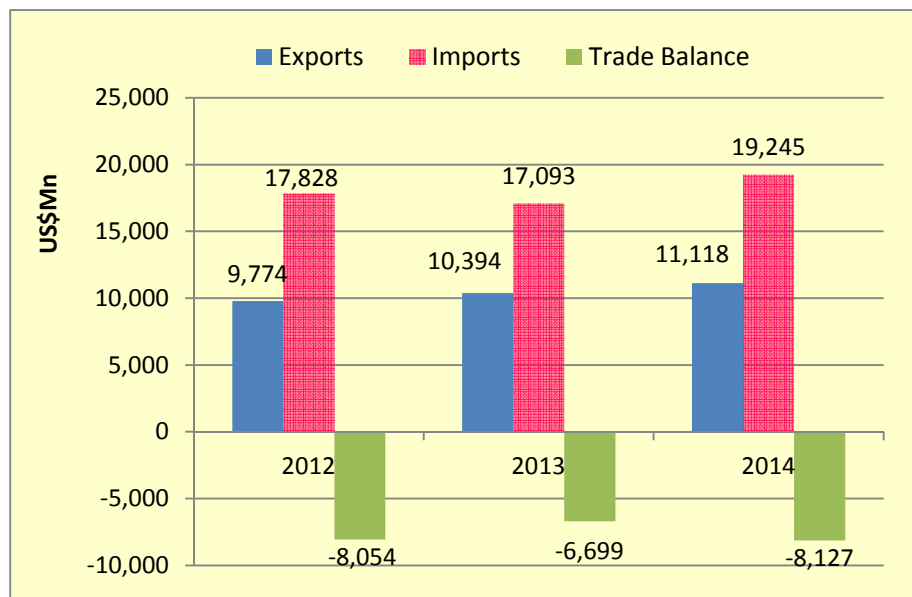
Source: Sri Lanka Customs.

The table shows that export earnings from betel leaves [-0.95%], MDF Boards [-20.70%] and Copra [-13.92%] declined substantially during this period.

However, earnings from export of desiccated coconut [24.01%], Lentils [2977.78%] and Other Textile Articles nes [50 %] have shown increases during this period.

12) BALANCE OF TRADE

Sri Lanka's external trade during the years 2012, 2013 & 2014 is illustrated in the following graph.



Source : Sri Lanka Customs.

The graph reveals that earnings from exports and expenditure on imports increased by 6.96% and 12.59 % respectively in 2014 compared with the performance during the year 2013. The trade deficit increased by 21.32% during the year 2014 compared with 2013.

13) CONCLUSION

According to the International Monetary fund (IMF), global growth increased broadly as expected to 3.75 % in the third quarter of 2014, up from 3.25 % in the second quarter. Specifically, the recovery in the United States was stronger than expected, while the performance in all other major economies, most notably Japan fell short of expectations.

In the *euro area*, growth in the third quarter of 2014 was modestly weaker than expected, largely on account of weak investment, and inflation. Growth in China declined in the third quarter of 2014, and leading indicators point to a further slowdown. This will have important regional effects spread across emerging Asia. In *India*, the growth forecast is broadly unchanged.

Boosted by lower oil prices, the global growth is projected to increase by 3.5% and 3.7% in 2015 and 2016 respectively. In USA growth is projected to exceed 3% in 2015-16 mainly driven by favorable domestic conditions. Euro area is expected to witness a weaker than expected growth which is projected to be around 1.2% in 2015 and 1.4% in 2016.

Positive growth projections have been indicated for our key markets in 2015 and the outlook for the year appears to be favourable for our exports. However, it is important to adopt measures for improving productivity and competitiveness of our products while addressing other demand and supply side constraints to face challenges in the international market in order to sustain the growth momentum witnessed so far and achieve the national export targets in future.