

II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) General Institutional Framework

1. Sri Lanka, a Commonwealth member, achieved independence on 4 February 1948. The current Constitution of the Democratic Socialist Republic of Sri Lanka, promulgated in 1978, provides for a strong executive President and a democratically elected Parliament. The President's powers include the right to: (i) hold any portfolio in Cabinet; (ii) appoint or dismiss the Prime Minister or any other minister; (iii) preside at ceremonial sittings of Parliament; (iv) summon, prorogue or dismiss Parliament under certain conditions laid down in the Constitution; and (v) submit to a national referendum any Bill or matter of national importance which has been rejected by Parliament. The President is elected for a period of six years by universal adult suffrage and is eligible for re-election; the last elections were held in November 1994.

2. The Cabinet is chaired by the President; Ministers are responsible to both Parliament and the President. The current President holds the portfolios of finance, planning, ethnic affairs and national integration; defence; and Buddhist affairs. Draft legislation is normally worked out within the administration, co-ordinated between the Ministries involved, approved by Cabinet and submitted to Parliament for assent. Members of Parliament may also initiate new legislation.

3. Sri Lanka's current Parliament has 225 members who are elected for six years under a system of modified proportional representation.¹ Following the last election in August 1994, the People's Alliance formed a minority Government on the basis of 105 seats in Parliament, supported by ethnic minority parties.

4. The judicial system consists of the Supreme Court, the Court of Appeal and, operating as Courts of First Instance, the High Court, District Courts, Magistrates' Courts and Primary Courts.² The Chief Justice and all other Judges of the Supreme Court and Court of Appeal are appointed by the President. All Judges of the Courts of First Instance are appointed and controlled by a Judicial Service Commission, comprising the Chief Justice and two judges of the Supreme Court, nominated by the President.

5. A constitutional amendment in 1987 provided for the devolution of certain executive powers to provincial councils, most of which were elected in May 1993.³ However, the councils have no authority in policy areas related to external trade.

6. The Constitution also provides for a Parliamentary Commissioner for Administration (the Ombudsman). He may use informal dispute resolution as an alternative to possibly costly and time-consuming judicial procedures. In 1994, the Government introduced legislation that would strengthen the Ombudsman's position and facilitate access of aggrieved parties.

¹The number of members is determined by a Delimitation Commission appointed by Parliament prior to an election.

²The High Court deals with all criminal cases and the District Courts with civil cases.

³For security reasons, no elections were held in the northern and north-eastern parts of the country.

7. A Constitutional Council, whose composition reflects the balance of power in Parliament, is currently preparing a major amendment to the current Constitution. Proposals under discussion would abolish the current system of executive Presidency and strengthen the rôle of Parliament and its control of Government. Any amendments would need to be approved by a two-thirds majority in Parliament.

(2) Structure of Trade Policy Formulation and Implementation

(i) Government institutions and statutory bodies

8. Within Cabinet, responsibility for main trade-related policies lies with the Minister of Finance and the Minister of External Trade, Commerce and Food. The Minister of Finance is in charge of revenue-related aspects such as tariffs, tariff concessions (waivers and exemptions) and surcharges. While all changes in these areas are ultimately subject to Parliament's assent, surcharges and concessions may be implemented by Ministerial Order and, thus, assented to only after enactment. Further responsibilities of the Minister are listed in Table II.1.

9. Competence for a wide range of non-revenue related measures, such as quantitative restrictions, lies with the Minister of Internal and External Trade, Commerce and Food. His responsibilities include company registration, trade representation overseas, intellectual property rights, competition policy, food supplies and distribution, and export development. Within his portfolio, the Department of Commerce has seven divisions: (i) Multilateral Trade Division, dealing with GATT/WTO issues; (ii) UNCTAD Division; (iii) Commodities Division; (iv) Trade Promotion; (v) Research and Development Division; (vi) Bilateral Trade Division; and (vii) Sri Lanka Overseas Trade Representatives. The Department has posted 20 trade representatives overseas at 18 locations (two officials are based in Geneva and London, respectively).

10. The Export Development Board of Sri Lanka (EDB), a statutory authority, was established in August 1979 to promote and develop exports of goods and services.⁴ The EDB is responsible for the preparation of the National Export Development Plan and, in this context, provides a wide range of export incentives: equity and loan participation for the development of export-oriented companies; direct financial support for the export of selected products; marketing information and assistance; and human-resource development. On request by private exporters, the EDB calculates duty-drawback rates, to be approved by a committee chaired by the Deputy Secretary of the Ministry of Finance (Chapter (IV)(3)(xi)). The governing body of the EDB consists of 12 directors, six of whom are from the private sector. In 1993, 53 per cent of the Board's funds were contributed by the national budget, 45 by a levy (cess) on imports and 2 per cent by other sources.⁵

⁴The Sri Lanka Export Development Act, No. 40 of 1979.

⁵International Trade Centre UNCTAD/GATT (1994).

Table II.1

Main departments and statutory organizations involved in trade policy formulation and implementation, mid-1995

Department/organization	Trade-related functions
Minister of Finance, Planning, Ethnic Affairs and National Integration	
- General Treasury	- Tariff policies (including tariff concessions, surcharges and refunds)
- Department of customs	- Collection of import/export duties
- Department of Excise	- Collection of excise revenue
- Central Bank of Sri Lanka	- Monetary and exchange rate policy (including exchange controls)
- Board of Investment of Sri Lanka	- Investment policies
- Department of External Resources	- Foreign aid and technical assistance
- National Development Bank	- Assistance for small and medium industries
- Development Finance Corporation of Sri Lanka	- ditto -
- Securities and Exchange Commission	- Regulation of stock brokering
- State Gems and Jewellery Authority	- Supervision of gem sector
- Institute of Policy Studies	- Formulation and appraisal of economic policies and strategies
Ministry of Internal and External Trade, Commerce and Food	
- Department of Commerce	- Trade representation abroad, trade information and export promotion
- Department of Import/Export Control	- Quantitative trade restrictions
- Registrar of Patents and Trade Marks	- Trade-related intellectual property rights
- Fair Trading Commission	- Competition policy
- Export Development Board	- Export promotion
- Co-operative Wholesale Establishment	- Import and export trade
- Sri Lanka Export Credit Insurance Corporation	- Export credit and insurance
- Registrar of Companies	- Registration of companies
Minister of Agriculture, Land and Forestry	
- Department of Agriculture	- Agricultural policies
	- Administration of the Plant Protection Ordinance
- Department of Export Agriculture	- Promotion of minor export crops
- Paddy Marketing Board	- Marketing of paddy
- State Timber Corporation	- Protection of timber resources
- National Fertilizer Secretariat	- Monitoring of fertilizer supply
- Agricultural Insurance Board	- Implementation of agricultural insurance
Minister of Fisheries and Aquatic Resources Development	
- Department of Fisheries and Aquatic Resources	- Fishery and aquatic resources policies
- Ceylon Fisheries Corporation	
- Ceylon Fishery Harbours Corporation	
Minister of Industrial Development	
- Industrial Development Board	- Promotion of industries
- Department of Textile Industries	- Regulation of textile industry
- Textile Quota Board	- Administration and management of textile quotas
Minister of Health, Highways and Social Services	
- Directorate of Health	- Policies in the area of health, international quarantine and sanitary regulations
- State Pharmaceutical Corporation	- Pharmaceutical pricing policies
Minister of Irrigation, Power and Energy	
- Department of Irrigation	- Management of major irrigation projects
- Ceylon Electricity Board	- Generation, distribution and marketing of electricity
Minister of Media, Tourism and Aviation	
- Civil Aviation Department	- Civil aviation policies
- Ceylon Tourist Board	- Development of the tourist industry
Minister of Post and Telecommunications	
- Department of Posts	- Post services
- Sri Lanka Telecom	- Telecommunication services
- Office of the Director-General of Telecommunications	- Regulation of telecommunication services
Minister of Transport, Environment and Women's Affairs	
- Department of Motor Traffic	- Regulation of use of motor vehicles
- Sri Lanka Central Transport Board	- Provision of public transport
- Central Environmental Authority	- Environmental policies

Source: WTO Secretariat based on The Gazette of the Democratic Socialist Republic of Sri Lanka, 7 August 1995.

(ii) Advisory and review activities

11. A Tariff Review Committee was established in 1978 to process complaints generated by the switch from licence controls to a mainly duty-based import régime. Following recommendations of the Committee, a first Presidential Tariff Commission (PTC) was appointed in October 1980 to conduct a general review of trade policies and propose a method to evaluate their economic impact. Two further Commissions have been appointed since, with similar mandates, to provide policy guidance.⁶ Their reports were published in full. The main elements are presented in Table II.2, and have mostly been implemented (Chapter V). The Third Presidential Tariff Commission recommended that any successor commission should work closely with, or be integrated in, the Industrialization Commission (currently under the purview of the Ministry of Industry). The Industrialization Commission, chaired by the Secretary of the Ministry of Finance, is mandated to advise the Government on policy measures, plans and programmes for the encouragement and promotion of industry.⁷

Table II.2
Main recommendations of the Presidential Tariff Commissions

First Presidential Tariff Commission (October 1980 - March 1985)	<ul style="list-style-type: none"> - Tariff changes on a large number of items. - Removal of licence control on textile imports. - Maximum nominal rate of protection of 60 per cent, except motor cars, alcoholic beverages and tobacco.
Second Presidential Tariff Commission (December 1985 - November 1991)	<ul style="list-style-type: none"> - Introduction of the Harmonised Commodity Description and Coding System. - Liberalization of main raw materials to produce plastic products. - Introduction of a four-pronged tariff structure with rates of 5, 15, 35 and 50 per cent, or - with the inclusion of surcharges in the tariff system - of 10, 20, 35 and 50 per cent. - Liberalization of exports on introduction of the new tariff structure.
Third Presidential Tariff Commission (May 1992 - December 1994)	<ul style="list-style-type: none"> - Continuation of the prevailing tariff structure (10, 20, 35 and 50 per cent) for at least another year. - Introduction of a pre-shipment inspection scheme provided it is cost effective. - Rationalisation of all duty exemptions and waivers. - Removal of all import and export licensing requirements except those maintained on health, environmental, national security and moral grounds. - Reduction of an additional import tax (Cess) to finance the Export Development Board from 10 to 5 per cent, abolition in due course (Chapter (IV)(2)(i)).

Source: WTO Secretariat based on Presidential Commission on Tariffs and Trade (1994).

12. Research activities of the Institute of Policy Studies (IPS) cover virtually the full range of economic policy making. The IPS is a statutory organization under the auspices of the Minister of Finance; its funding relies mainly on overseas development assistance. Research topics are chosen by the Institute's research staff (13 economists). In 1994, the Institute published policy papers on issues such as economic liberalization and stabilization, privatization and distributional equity, and trends in foreign aid.

13. The private sector's input in the process of policy formulation and implementation is channelled mainly through the Ceylon Chamber of Commerce and the National Chambers of Commerce and

⁶The Third Commission had eight members, chosen from senior civil servants and business representatives, and appointed by the President.

⁷Act No. 45 of 1990.

Industry.⁸ The Chambers comment on government policies on their own initiative and on invitation by the Government, in particular during the preparation of the budget. Following the latest change of Government, the Ceylon Chamber of Commerce suggested regular meetings between the private and public sector; these have now been formalized on a monthly basis. The meetings are chaired by the Secretary of the Ministry of Finance and attended by the Director-General of the Board of Investment (Chapter III); the Director-General of the Inland Revenue Department of the Ministry of Finance; the Controller of the Department of Exchange Control of the Central Bank; the Director of the Department of Commerce; the Chairman of the Export Development Board; the Director-General of Customs; and the Secretary of the Ministry of Industrial Development. The private sector is generally represented by the Ceylon Chamber of Commerce, the National Chambers of Commerce and Industry, and various trade associations. Any other Government organization may be invited depending on the issues under discussion.

(3) Trade Policy Objectives

14. The creation of employment opportunities, improvements in living conditions and acceleration of income growth are among the prime economic policy objectives of the current Government of Sri Lanka.⁹ GDP growth is expected to average 8 per cent over the period 1995 to 2000, while private investment should exceed 30 per cent of GDP, up from some 20 per cent at present. These targets have been inspired by the performance of dynamic east and south-east Asian economies; they presuppose the early restoration of peace throughout the country.

15. The private sector (both domestic and foreign owned) is regarded as the principal engine of growth. The State is to provide a reliable and predictable institutional framework, including transparent rules, impartial legislation and swift enforcement. A small range of basic infrastructural services, where natural monopolies are deemed to exist (e.g. rail transport, electricity and water), are to remain within the public domain. The Government is committed to ensuring the continued provision of basic health, environmental and educational services and supporting socially disadvantaged groups. By contrast, public activities such as telecommunications are earmarked for gradual privatization and deregulation. Major public investments are expected to be financed by Build-Own-Operate (BOO) and Build-Operate-Transfer (BOT) arrangements.¹⁰

16. Trade policy is designed to promote the emergence of internationally competitive activities and facilitate outward-oriented structural adjustment throughout the economy. The Government is supportive of, and seeks to ensure Sri Lanka's integration into, the m.f.n.-based multilateral trading system; recent preferential trading arrangements are considered as complementary. The authorities are confident of the positive impact of the WTO Agreements on market access abroad as well as economic expansion and consumer welfare at home. In keeping with these general objectives, further strides towards tariff reduction and harmonization are envisaged (Chapter (IV)(2)(ii)).

⁸The Ceylon Chamber of Commerce, established in 1839, has around 500 corporate members and covers an additional 2,000 firms through associated institutions. The National Chambers of Commerce and Industry, set-up in 1948, represents generally small- and medium-sized firms. Both Chambers are members of the Federation of Chambers of Commerce; joint membership of both organizations is possible.

⁹Government of Sri Lanka (1995).

¹⁰Ministry of Industrial Development (1995).

17. The Government's commitment to continued trade liberalization is not unqualified. Time-bound surcharges may be used to protect emerging new industries from international price fluctuations and dampen over-reactions in individual markets. Import protection for subsistence farming will remain the main instrument to protect the rural poor; effective protection in this area currently peaks at around 180 per cent (Chapter V).¹¹

(4) Trade Laws and Regulations

18. Sri Lanka's legislation in trade-related areas may date back as far as the 1950s and 1960s. However, liberalization and deregulation policies over the past decade have led to important amendments in areas such as import, export and exchange controls and investment promotion. Table II.3 gives an overview; details are presented in Chapter IV.

19. The WTO Secretariat understands that international treaties and laws are subject to ratification by Government. The resulting international legal obligations cannot be cited directly in Sri Lankan courts; to be applicable, they would need to be incorporated by domestic legislation. For example, draft laws are in preparation to incorporate the provisions of the WTO Agreements on Safeguards, on Implementation of Article VI of the General Agreement (Anti-dumping), and on Subsidies and Countervailing Measures.

Table II.3
Overview of trade-related legislation

Area	Legislation/regulation	Ministry/Institution
Companies registration	Companies Registration Act, No. 17 of 1982	Department of Companies Registration (Ministry of Trade, Commerce and Food)
Customs procedures	Customs Ordinance	Customs Department (Ministry of Finance) and Board of Investment for BOI-approved firms
Customs tariffs	As published in the Gazette from time to time	Customs Department (Ministry of Finance)
Tariff waivers and exemptions	Enacted under Sections 10 and 19A of the Customs Ordinance	Customs Department (Ministry of Finance)
Anti-dumping and safeguard measures	Amendment to the Customs Ordinance 1988	Customs Department (Ministry of Finance)
Export and import cess	Budget Speeches	Customs Department (Ministry of Finance)
Defence levy	Defence Levy Act No. 52 of 1991	Customs Department (Ministry of Finance)
Turnover tax	Budget Speeches	Inland Revenue Department (Ministry of Finance)
Excise tax	Excise Act No. 13 of 1989 as amended in 1993 and 1995	Customs Department (Ministry of Finance)
Other levies and charges	Ordinances issued by the Minister of Finance to be approved by Parliament in retrospect	Ministry of Finance
Import and export control	Imports and Exports (Control) Act, No. 1 of 1969 as amended in 1985 and 1987	Department of Commerce, (Ministry of Trade, Commerce and Food)

Table II.3 (cont'd)

¹¹Presidential Commission on Tariffs and Trade (1994).

Area	Legislation/regulation	Ministry/Institution
Exchange control	Act No. 24 of 15 August 1953	Department of Exchange Control of the Central Bank
Standardization	SLSI Act No. 6 of 1984	Sri Lanka Standards Institution
Government procurement	Public Finance Circular No. 332	Public Finance Department (Ministry of Finance)
Phytosanitary regulation	Plant Protection Ordinance of 1956 as revised in 1960	Ministry of Agriculture
Export promotion	Sri Lanka Export Development Act, No. 40 of 1979	Department of Commerce (Ministry of Trade, Commerce and Food) and Export Development Board
Export insurance and guarantees	Act No. 15 of 1978	Sri Lanka Export Credit Insurance Corporation (SLECIC)
Competition policy	Fair Trading Commission Act, No. 1 of 1987 and subsequent amendments (Industrial Promotion Act No. 46 of 1990 and Fair Trading Commission (Amendment) Act No. 57 of 1993)	Fair Trading Commission
Intellectual property	Code of Intellectual Property Act No. 52 of 1979 as amended by Acts No. 30 of 1989, No. 2 of 1983, and No. 17 of 1990	Registrar of Patents and Trade Marks
Research and development	Parliamentary Act No. 15 of 1955 (established CISIR as an autonomous institution)	Ceylon Institute of Scientific and Industrial Research (CISIR)
Environmental protection	National Environmental (Amendment) Act, No. 56 of 1988	National Environmental Authority
Foreign investment	Greater Colombo Economic Commission Law, No. 4 of 1978 as amended by Acts No. 43. of 1980, No. 21 of 1993 and No. 49 of 1992.	Board of Investment
Consumer policies	Act No. 1 of 1979 as amended by Act No. 37 of 1980 and Act No. 34 of 1992	Consumer Protection Unit (Ministry of Trade, Commerce and Food)
Textiles and clothing	...	Textile Quota Board
Banking	Banking Act No. 30 of 1988	Banking Supervision Department (Central Bank)
Insurance	Insurance Corporation Act of 1961 and Control of Insurance Act of 1962	Controller of Insurance (Ministry of Finance)
Telecommunications	Sri Lanka Telecommunication Act, No. 25 of 1991 (gives the Director-General the power to regulate)	Director-General of Telecommunications (Ministry of Post and Telecommunications)
Aviation	Air Navigation Act No. 15 of 1950 amended by Act No. 20 of 1952	Civil Aviation Department (Ministry of Media, Tourism and Aviation)
Tourism	Tourist Board Act No. 10 of 1966; Tourist Development Act No. 14 of 1968.	Ceylon Tourism Board

Source: WTO Secretariat based on information provided by the Government of Sri Lanka.

(5) Trade Agreements and Arrangements(i) World Trade Organization

20. Sri Lanka ratified the Marrakesh Agreement establishing the World Trade Organization (WTO) on 1 June 1994 to become a founding Member of the WTO on 1 January 1995.¹² Sri Lanka thus assumed the commitments of the Multilateral Agreements on Trade in Goods, the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights. Sri Lanka has bound all tariffs on agricultural items, like all other Members, but retains a relatively low level of bindings in the industrial area (Chapter IV(2)(ii)(d)). It has not signed the Plurilateral Trade Agreements¹³, and does not participate in the GATS negotiations on Basic Telecommunications and on Maritime Transport. As a developing country, Sri Lanka may postpone the implementation of certain WTO Agreements, such as the Agreement on Trade-Related Intellectual Property Rights and the Agreement on Sanitary and Phytosanitary Measures. Table II.4 lists initiatives taken by Sri Lanka under the various WTO Agreements until July 1995.

21. Sri Lanka has justified the use of import restrictions on balance-of-payments grounds during consultations with the Committee on Balance-of-Payments Restrictions. The last full consultation with this Committee was held on 22 June 1971. Consultations under simplified procedures were held every second year from 1973 to 1989 as well as in 1992 and 1994. Following the 1994 consultation, Sri Lanka informed the Committee which products are licensed for balance-of-payments reasons (Chapter IV(2)(ix)).

Table II.4
Actions taken in the context of WTO Agreements, July 1995

Agreement	Action
General Agreement on Tariffs and Trade 1994	- Schedule of Concessions on market access submitted on 14 October 1994 (GATT document G/SP/9, 9 November 1994).
General Agreement on Trade in Services	- Schedule of Specific Commitments submitted in April 1994 (GATT document GATS/SC/79, 15 April 1994).
Agreement on Trade Related Intellectual Property Rights (TRIPS)	- No notification made.
Agreement on Agriculture	- Sri Lanka has informed the WTO Secretariat that it "implemented 99% of its agricultural tariff bindings on 1st January 1995" (GATT document G/AG/W/2, 17 March 1995). - Sri Lanka has bound its agricultural tariffs at 50 per cent.
Agreement on Sanitary and Phytosanitary Measures	- No notification made.

(Table II.4 cont'd)

¹²Cabinet Paper No. 94/280/003 (2), 3 May 1994.

¹³Agreement on Trade in Civil Aircraft, Agreement on Government Procurement, International Dairy Agreement, and International Bovine Meat Agreement.

As a member of GATT 1947, Sri Lanka had observer status under the Tokyo Round Agreements on Technical Barriers to Trade, Subsidies and Countervailing Duties, Customs Valuation, Import Licensing, Civil Aircraft and Anti-Dumping. It did not participate in the Agreements on Government Procurement, on Bovine Meat and on Dairy Products.

Agreement	Action
Agreement on Textiles and Clothing	- Sri Lanka informed the WTO Secretariat on 28 February 1995 that it did not maintain restrictions on textiles and clothing within the meaning of Article 3.1 (GATT document G/TMB/N/75, 28 April 1995).
Agreement on Technical Barriers to Trade	- No notification made.
Agreement on Trade-Related Investment Measures	- No notification made.
Agreement on Anti-Dumping Practices	- Sri Lanka informed the WTO Secretariat on 11 April 1995 that it had no laws or regulations within the meaning of this Agreement (GATT documents G/ADP/N/1 and G/SCM/N/1/LKA/1, both 26 April 1995).
Agreement on Customs Valuation	- Sri Lanka notified the WTO Secretariat on 6 July 1994, specifying the delay of implementation of selected measures of this Agreement (GATT document WT/Let/Rev.1, 2 March 1995).
Agreement on Preshipment Inspection	- No notification made.
Agreement on Rules of Origin	- No notification made.
Agreement on Import Licensing Procedures	- No notification made.
Agreement on Subsidies and Countervailing Measures	- Sri Lanka informed the WTO Secretariat on 11 April 1995 of the absence of laws or regulations within the meaning of the Agreement (GATT documents G/ADP/N/1 and G/SCM/N/1/LKA/1, both 26 April 1995).
Agreement on Safeguard Measures	- Sri Lanka notified the WTO Secretariat on 11 April 1995 that it had no laws within the meaning of Article 12.6 (GATT document G/SG/N/1/LKA/1, 27 April 1995).
Plurilateral Trade Agreements	- Sri Lanka has not signed any of the Plurilateral Trade Agreements.
Waivers granted under Article IX.3 of the WTO Agreement	- Sri Lanka notified the WTO Secretariat on 31 May 1995 that it was in the process of Article XXVIII negotiations with Australia, New Zealand and European Union. Negotiations with the United States will be held shortly. On 3 July 1995 the General Council granted a waiver until 31 December 1995 (GATT document G/C/W/11/Rev.1, 11 July 1995).

Source: WTO Secretariat.

(ii) Preferential trade agreements

22. Sri Lanka participates in three preferential trade agreements: the Global System of Trade Preferences (GSTP), the Bangkok Agreement, and the South Asian Preferential Trading Arrangement (SAPTA).

23. The GSTP and the Bangkok Agreement are intended to promote economic development through trade expansion among members of the Group of 77 and the Economic and Social Commission for Asia and the Pacific. Thirty-seven developing countries participate in the GSTP; six countries make

up the Bangkok Group, joined by six observer countries.¹⁴ The Bangkok group is serviced by a Standing Committee of the participating members.

24. Sri Lanka is a founding member of the South Asian Association for Regional Co-operation (SAARC), established in 1985 and inspired by regional integration initiatives in other parts of the world. The other current SAARC members are Bangladesh, Bhutan, India, Maldives, Nepal and Pakistan. The Heads of State of the member States meet once a year, while meetings of the Council of Ministers may be convened by the SAARC Secretariat on an ad hoc basis. The Secretariat is located in Katmandu, Nepal; the Secretary General was appointed by the Council of Ministers. The rôle of the Secretariat is to co-ordinate and monitor the implementation of SAARC activities and to service the meetings of the Association.

25. Member countries of the SAARC agreed to form the South Asian Preferential Trading Arrangement (SAPTA) in April 1993. SAPTA is based on the principle of overall reciprocity and mutual advantage of the participants; negotiations are to cover all areas of merchandise trade, initially on a product-by-product basis, and take into account the needs of the least-developed members (Bangladesh, Nepal and the Maldives). All concessions are to be incorporated in the national Tariff Schedules and made available to all participants, except for benefits granted exclusively to the least-developed members. Following agreement on initial schedules in April 1995, SAPTA is expected to become effective from 8 November 1995. No timetable has been set for further expansion. Progress will be monitored by a Committee of Participants which is to meet at least once a year. Concessions may be suspended for balance-of-payments reasons, in the event of serious injury, and on the withdrawal of a participating State. Any member may withdraw on six months' notice to the SAARC/SAPTA Secretariat.

26. The SAARC Chamber of Commerce and Industry (SCCI), comprising the Chambers of member countries, held its first meeting in Dhaka in February 1994.¹⁵

27. The Institute of Policy Studies (section (2)(ii)) has recommended that Sri Lanka should consider joining the Asia Pacific Economic Co-operation (APEC), noting that east-Asian newly industrialized countries are a major source of foreign investment and competing countries already participate.¹⁶ The Ceylon Chamber of Commerce shares this view.¹⁷ The Sri Lankan Government has not yet taken a decision in this context.

(iii) Generalized System of Preferences

28. In mid-1995, Sri Lanka qualified for preferential access under the GSP schemes of major developed countries, including the United States, Japan, Australia, Canada, Island, Norway and the

¹⁴Members of the Bangkok Group are: Bangladesh, India, Republic of Korea, Laos, Papua-New Guinea and Sri Lanka; People's Republic of China, Indonesia, Malaysia, Nepal, Thailand and Philippines participate as observers. Presidential Commission on Tariffs and Trade (1994).

¹⁵Institute of Policy Studies (1994).

¹⁶Institute of Policy Studies (1994).

¹⁷Ceylon Chamber of Commerce (1995).

EU. The preferences vary by product and donor country. The EU scheme was revised as of 1 January 1995.¹⁸

(iv) Other agreements and arrangements

29. Sri Lanka participates in a further range of international agreements specifying rights and obligations in trade-, currency- and investment-related areas. For example, Sri Lanka is a founding member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and has entered into 17 protection agreements with foreign countries. It has ratified the Convention on Settlement of Investment Disputes, which provides facilities for arbitration. Sri Lanka is also a member of the Asian Clearing Union (ACU); currency transactions with companies located in ACU member States must be effected in Asian Currency Units or in the currency of the members involved (Table II.5).¹⁹

Table II.5
Trade policies covered by international agreements, other than the WTO

Policy area	Agreement
Trade preferences	Bangkok Agreement, SAPTA (from 8 December 1995), GSTP and some bilateral agreements (Chapter IV(2)(ii))
Standards	The Sri Lanka Standards Institution (Chapter IV(2)(viii)) is a member of the International Standards Organization
Trade controls for environmental reasons	Obligations under the Convention on International Trade in Endangered Species of Flora and Fauna (CITES), the Montreal Protocol and the Basel Convention (Chapter IV(3)(iii))
Investment protection	Sri Lanka is a founding member of the Multilateral Investment Guarantee Agency and has investment protection agreements with 17 countries. Sri Lanka's Constitution provides protection for all investments from countries with whom bilateral treaties have been concluded (Chapter III(4))
Intellectual property rights	Treaty with the United States covering intellectual property rights; Sri Lanka is a member of various international Conventions and Treaties in this area (Chapter IV(4)(ii))
Exchange controls	Sri Lanka is a member of the Asian Currency Union and has accepted the obligations of Article VIII of the IMF Articles of Agreement

Source: WTO Secretariat based on information provided by the Government of Sri Lanka.

30. A new Agreement with the EU on Partnership and Development was signed in July 1994. It grants no trade preferences, but specifies areas for EU development co-operation and extends investment protection to projects originating in the EU.²⁰ Both parties have agreed to encourage, promote and protect investment on a non-discriminatory basis. A bilateral investment treaty with the United States was ratified in April 1993.

¹⁸WTO (1995).

¹⁹IMF (1994).

Other ACU members are: Bangladesh, India, Islamic Republic of Iran, Myanmar, Nepal and Pakistan.

²⁰Areas for expanded co-operation include investment, private sector initiatives, standards, intellectual property, science and technology, agriculture and fisheries, tourism, information, culture and communication, poverty alleviation, environment, human resources development and drug abuse control.