Conceptual Roadmap on Building an Export-Oriented Industrial Corridor

Executive Summary

Background and Strategic Rationale

The Sri Lankan economy is firmly on a path towards sustainable growth, showing encouraging signs of recovery after recently facing severe fiscal challenges and a sovereign default. For its continued development, expanding access to overseas markets remains a vital avenue. The country possesses several compelling strengths for this purpose, including a strategic geographic location with direct access to key global trade routes and enriched resources that require value addition. It also benefits from Free Trade Agreements (FTAs) with several countries, including India, as well as regional arrangements with other important markets. Moreover, Sri Lanka is supported by a low-cost, skilled, and adaptive workforce, well known for its dexterity in producing precision electrical and electronic components, with productivity levels comparable to other competitive manufacturing hubs. Taken together, these advantages offer strong prospects for Japanese companies seeking to enhance efficiency and diversify their global operations.

At the same time, neighbouring India, as the biggest opportunity, is undergoing rapid economic expansion, establishing itself as one of the world's largest and fastest-growing markets. Its integration into global supply chains is deepening, and its significance as an export-oriented industrial hub in the Global South continues to rise. India is actively seeking to reduce its import dependence on a single-source country, promoting initiatives such as "Make in India" and Production Linked Incentive (PLI) schemes to boost domestic manufacturing. Moreover, the Indian government is actively restructuring its supply chains to avoid over-reliance on specific countries, driven by national security considerations, which creates new business opportunities. Recent trends in the global restructuring of supply chains and diversification of production sites and markets have led many companies to focus their interest on India. Japan, too, views this Indian Ocean region as a new global manufacturing base and a crucial access point to the broader Global South, including Africa.

Against this backdrop, the Conceptual Roadmap proposes the establishment of an export-oriented industrial corridor. This corridor is envisioned as a geographically defined area connecting India and Sri Lanka, designed as a complementary collaboration among Sri Lanka, India, and Japan. It aims to create a seamless flow for technology, and investment, thereby fostering an industrial hub for global export by deeply integrating Sri Lanka into global supply chains, primarily centered on India. This initiative is expected not only to accelerate economic growth in both Sri Lanka and India but also to create new business opportunities and enhance competitiveness for Japanese companies operating in both nations, as well as for those considering future expansion into the region.

Sri Lanka deeply values its longstanding and trusted partnership with Japan, as well as Japan’s well-established relationships with both Sri Lanka and India. Within the framework of this Conceptual Roadmap, the Government of Japan, through its external trade organization,

JETRO, is uniquely positioned to act as a trusted intermediary and facilitator for technical cooperation and investment. This would involve promoting the upscaling of Sri Lankan primary industries and encouraging value addition to its natural resources. Simultaneously, as the sole diplomatic and commercial bridge, Japan will initiate all future dialogue and collaboration with the Government of India. Japan would identify opportunities to broaden India's manufacturing capacity within global value chains. This key initiative is designed to link Sri Lankan value-added intermediate goods and components directly to India's final products. Japan's support in encouraging Indian engagement in this new roadmap would be instrumental in laying the groundwork for effective coordination

Beyond this initial intermediary role, Japan's continued contribution is seen as vital for the corridor's success. This includes exploring opportunities for attracting Japanese foreign direct investment, facilitating technical knowledge transfer, and supporting the development of critical industrial infrastructure. This initiative represents a complementary collaboration aimed at creating a fluid movement of technology, and investment. Its purpose is to deeply integrate Sri Lanka into global supply chains, with India as the primary destination.

Overview of the Industrial Corridor and Target Sectors

This Conceptual Roadmap is grounded in a detailed analysis of Indian import demand and Sri Lankan supply capabilities. The preliminary analysis focused on India's import dependencies and government-supported industries, while assessing Sri Lanka's existing global exports, competitive manufacturing products, and potential for leveraging underutilized domestic raw materials. This process identified three primary target sectors: Electrical & Electronic Components, Mineral Resources, and Agricultural Resources.

Based on this preliminary analysis, the following five target products were identified for Sri Lankan companies to integrate into global supply chains, where they either possess existing capabilities or can bridge gaps with Japanese technical and investment assistance: Home Appliances (e.g., air conditioners), Automotive Parts, Semiconductor Fillers, Solar Panels, and EV Batteries.

Successful implementation of this initiative requires addressing a series of systemic challenges, categorized as "hard" and "soft" issues.

The hard issues include logistical inefficiencies such as delays and high costs in transporting goods to and from Colombo Port due to capacity limitations and inadequate road/rail connectivity, various energy constraints, and high mineral processing inefficiencies. The implementation plan will be proposed for addressing these issues involves expanding and modernizing port facilities, improving national transport networks, enhancing energy infrastructure to ensure reliability and affordability, and establishing dedicated industrial processing zones with mutually beneficial royalty structures.

The soft issues include regulatory complexity from burdensome and complex approval processes that require streamlined dialogue and digital solutions for regulatory clarity, a recognized gap in mutual understanding and awareness between Sri Lankan and Indian business and regulatory practices, and investment policy gaps that highlight the need for comprehensive investment incentive schemes to attract domestic and foreign capital, and for

streamlined certification processes to facilitate smooth trade. The path forward requires fostering better communication among public and private stakeholders, enhancing regulatory transparency through digitalization, and implementing targeted incentive frameworks to attract and retain the necessary capital and expertise for the corridor's success.

The estimated economic impact upon the realization of this initiative is substantial for Sri Lanka, with positive effects projected across all its regions. Compared to a scenario where the initiative is not realized, it is projected to increase Sri Lanka's GDP by 9.3% in 2030, stemming from increased trade and enhanced supply chain integration as the aforementioned issues are resolved. This initiative is also expected to have a positive economic impact on India, projected to increase its GDP by 1.28% in 2030. Overall, these significant economic benefits for both nations are anticipated through the comprehensive improvements and opportunities fostered by the corridor's realization.

Future Steps for Realizing the Initiative

It is noteworthy that many infrastructure-related projects are already being actively addressed by the Sri Lankan government. To further address domestic issues and create a conducive environment for the corridor, the economic policy dialogue platform will be re-established with aligned policies of the new Government of Sri Lanka. A critical component of this roadmap involves establishing dedicated platforms for dialogue and collaboration among key stakeholders.

First, Business Forums could be organized between Chambers of Commerce from Sri Lanka, India, and Japan. These forums, initially government-led to ensure active participation, would serve as a crucial platform for private companies to identify and articulate all issues they face, categorizing them into those resolvable at the business level and those requiring government intervention. The primary output of these forums would be a comprehensive report detailing the issues that require government action.

Secondly, a Trilateral Working Group is proposed to be established to foster trade by strengthening supply chains among Sri Lanka, India, and Japan with facilitation by the Ministry of Economy, Trade and Industry (METI) of Japan and the Japan External Trade Organization (JETRO). This Working Group would be consisted with high-level government officials from the three countries. Its purpose would be to facilitate discussions on implementing the proposed conceptual roadmap, which seeks to integrate regional strengths and accelerate Japanese, Sri Lankan, and Indian investment, recognizing the region's potential as a major export-oriented industrial hub with a resilient supply chain. The main agenda could include the key aspects of this conceptual roadmap including industrial cooperation, and overall direction. Meetings could be held around once a year or more, if necessary.

Thirdly, structured bilateral meetings could be convened between Sri Lanka and India, and between Sri Lanka and Japan, respectively. To ensure continuous alignment and preparation for the tripartite meeting, biannually, bilateral meetings between Sri Lanka and Japan or Sri Lanka and India could be held. The purpose of these meetings would be to coordinate positions, share information, and discuss existing proposals and prepare new joint proposals for the tripartite discussions, ensuring a unified and effective approach. In these bilateral

forums, the issues aligned in the tripartite meeting would be discussed in detail. Each country would prioritize these issues and deliberate on specific solutions.

Conclusion

This Conceptual Roadmap charts a strategic pathway for Sri Lanka and Japan to deepen their long-standing partnership by leveraging Sri Lanka's geographical proximity and Japan's technological expertise and investment opportunities. Through this cooperation, Sri Lanka can transform its raw material base into higher-value products, while Japan can strengthen its role as a trusted partner in fostering sustainable and inclusive growth.

Building on this bilateral foundation, it benefits Sri Lanka to leverage its geographical proximity and capabilities and resources-availability to integrate into the rapidly expanding Indian and broader global supply chains. By systematically addressing identified challenges through targeted policy interventions, infrastructure development, and coordinated dialogue, this export-oriented industrial corridor will unlock significant economic benefits. It promises to advance prosperity not only for Sri Lanka and Japan, but also for India and the wider region enhancing resilience, competitiveness, and shared opportunities in global trade.

Conceptual Roadmap Credits

Ministry of Economy, Trade and Industry
Japan External Trade Organization

Conceptual Roadmap on Building an Export-Oriented Industrial Corridor

September, 2025

METI
Ministry of Economy, Trade and Industry

JETRO
Japan External Trade Organization

NRI

Agenda

- Background
- Target Sectors for the Conceptual Roadmap
- Global Supply Chain for Sri Lanka to enter
- Issues, Current Projects, and Solution Ideas to realize the Economic Corridor
- Economic Effect of the Conceptual Roadmap
- Next Steps

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Background

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- Issues, Current Projects, and Solution Ideas to realize the Economic Corridor
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Background | Summary

This Conceptual Roadmap proposes an economic corridor initiative to integrate Sri Lanka, leveraging its strategic strengths and recovering economy, into India's rapidly expanding global supply chains, aiming for mutual economic growth and benefits for Japanese companies.

- The Sri Lankan economy is firmly on a path towards sustainable growth, showing encouraging signs of recovery after recently facing severe fiscal challenges and a sovereign default. For its continued development, expanding access to overseas markets remains a vital avenue. The country possesses several compelling strengths for this purpose, including a strategic geographic location with direct access to key global trade routes and enriched resources that require value addition. It also benefits from Free Trade Agreements (FTAs) with several countries, including India, as well as regional arrangements with other important markets. Moreover, Sri Lanka is supported by a low-cost, skilled, and adaptive workforce, well known for its dexterity in producing precision electrical and electronic components, with productivity levels comparable to other competitive manufacturing hubs. Taken together, these advantages offer strong prospects for Japanese companies seeking to enhance efficiency and diversify their global operations.

- At the same time, neighbouring India, as the biggest opportunity, is undergoing rapid economic expansion, establishing itself as one of the world's largest and fastest-growing markets. Its integration into global supply chains is deepening, and its significance as an export-oriented industrial hub in the Global South continues to rise. India is actively seeking to reduce its import dependence on a single-source country, promoting initiatives such as "Make in India" and Production Linked Incentive (PLI) schemes to boost domestic manufacturing. Moreover, the Indian government is actively restructuring its supply chains to avoid over-reliance on specific countries, driven by national security considerations, which creates new business opportunities. Recent trends in the global restructuring of supply chains and diversification of production sites and markets have led many companies to focus their interest on India. Japan, too, views this Indian Ocean region as a new global manufacturing base and a crucial access point to the broader Global South, including Africa.

- Against this backdrop, the Conceptual Roadmap proposes the establishment of an export-oriented industrial corridor. This corridor is envisioned as a geographically defined area connecting India and Sri Lanka, designed as a complementary collaboration among Sri Lanka, India, and Japan. It aims to create a seamless flow for technology, and investment, thereby fostering an industrial hub for global export by deeply integrating Sri Lanka into global supply chains, primarily centered on India. This initiative is expected not only to accelerate economic growth in both Sri Lanka and India but also to create new business opportunities and enhance competitiveness for Japanese companies operating in both nations, as well as for those considering future expansion into the region.

Sri Lanka has started emerging from the economic crisis with 5% GDP growth rate in 2024 with stabilising inflation and business operations

GDP[1]
$98.96 bn

GDP Growth
5.0%

Per Capita GDP[1]
$4,515.6

Annual FDI Inflows[1]
$761.1 mn

GNDI[1]
$102.99 bn

HFCE[1]
$68.04 bn

Population
21.9mn

Unemployment Rate
~5%

Median Age (2023)
33.0 years

Urbanization Level
~19%

Adult Literacy Rate (2022)
92%

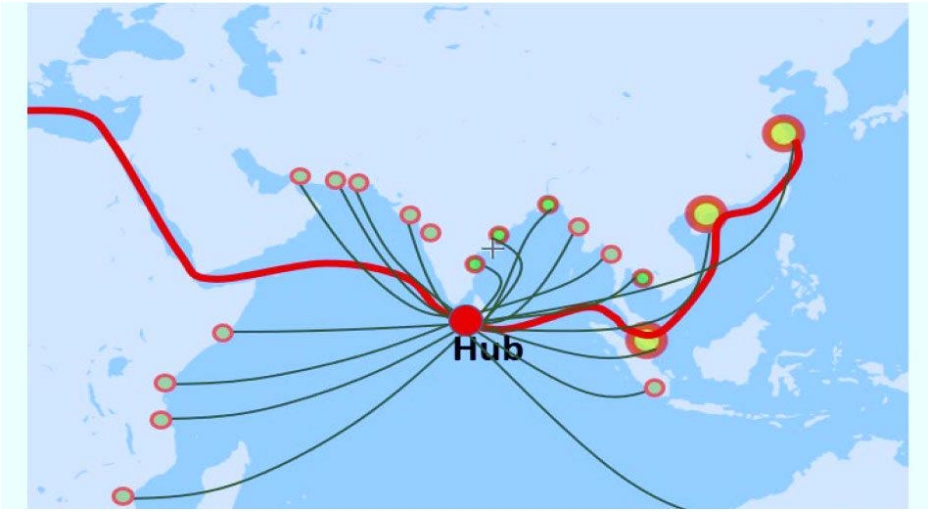
Annual Inflation[2]
1.2%

1. All financials are represented at 'Current Prices' | 2. Annual Inflation refers to annual percentage change in Average Consumer Prices
GNDI stands for Gross National Disposable Income; HFCE stands for Household Final Consumption Expenditure

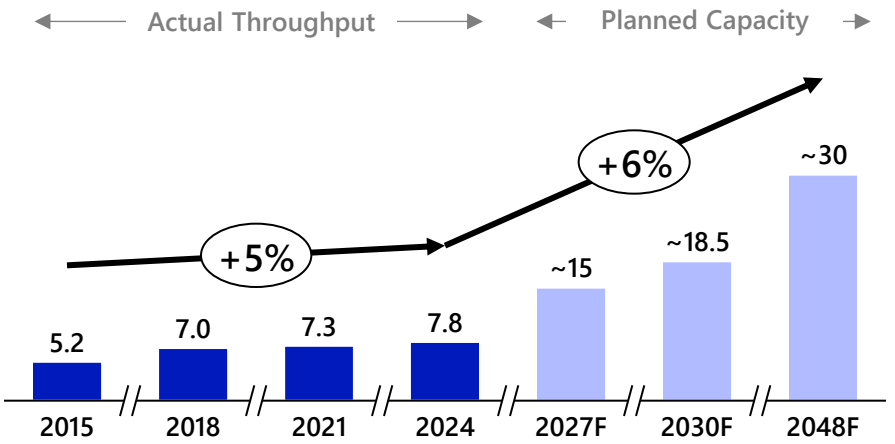
Source: World Bank, UNCTAD, Sri Lanka Government

The Colombo Port is strategically located, connecting major trade routes, and acting as transshipment hub for the Indian subcontinent, with expansion plans to meet the demand

Colombo Port Overview and Future Plans



Colombo Port Cargo Handling (In Million TEUs)



Key Features of the Port

1. **Strategic Location**: Situated just 10 nautical miles off the busy East-West shipping route, making it a natural maritime hub
2. **High Transshipment Capacity**: The Port of Colombo alone handles over 75% of its container volume as transshipment
3. **Deep-Water Terminals**: Can accommodate ultra-large container vessels that cannot call at most Indian ports
4. **Established Hub-and-Spoke Model**: Functions effectively as a hub for deep-sea vessels to offload containers, which are then fed to Indian ports
5. **Geographical Positioning**: Indian ports are farther off the main East-West shipping route, increasing travel time and costs for direct calls

Port Expansion Plans

1. Upon completion of the **East Container Terminal** and **West Container Terminal I** expansions, total port capacity is expected to reach ~**15 million TEUs by 2027**
2. Further, West Container Terminal II is expected to add additional ~3.5 Million TEUs by 2029-30
3. A larger-scale **North Port Development** comprising multiple container terminals is in the early planning stage, expected to proceed **post-2030, and increase the capacity to ~30 Million TEUs by 2048** with the operation of 3 additional terminals

Source: Sri Lanka EDB, Press Articles

Non-exhaustive

Sri Lanka | Global Trade Access

Sri Lanka has preferential access to the Indian Subcontinent and key global markets like Japan and EU through Free Trade Agreements, regional and GSP agreements

Agreement type with SL: ★ FTA ■ Regional ⬟ GSP[1] and equivalent

■ Asia-Pacific Trade Agreement (APTA) (1976)

- **Members:** Bangladesh, China, India, South Korea, Laos, Mongolia
- **Boost trade** among major Asia-pacific economies with **positive list** covering **10,461 products**
- **DVA > 45% or RAC > 60%** (full cumulation basis) with a **10% concession for LDCs** (Sri Lanka is not an LDC)

■ South Asia Free Trade Agreement (SAFTA) (2006)

- **Members:** Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan
- Promoting **regional trade among SAARC nations** by **tariff reduction and eventual elimination**
- **DVA of at least 40% (for India and Pakistan), 35% for Sri Lanka and 30% for LDCs**

★ Indo-Sri Lanka FTA (2000)

- Promote trade via **negative list type FTA**
- Duty-free access on **4,000+ products**
- Domestic value addition in Sri Lanka must be at least **35% of FOB**, or **25% for goods utilising Indian imports to SL**

⬟ Developing Countries Trading Scheme with the UK (2023)

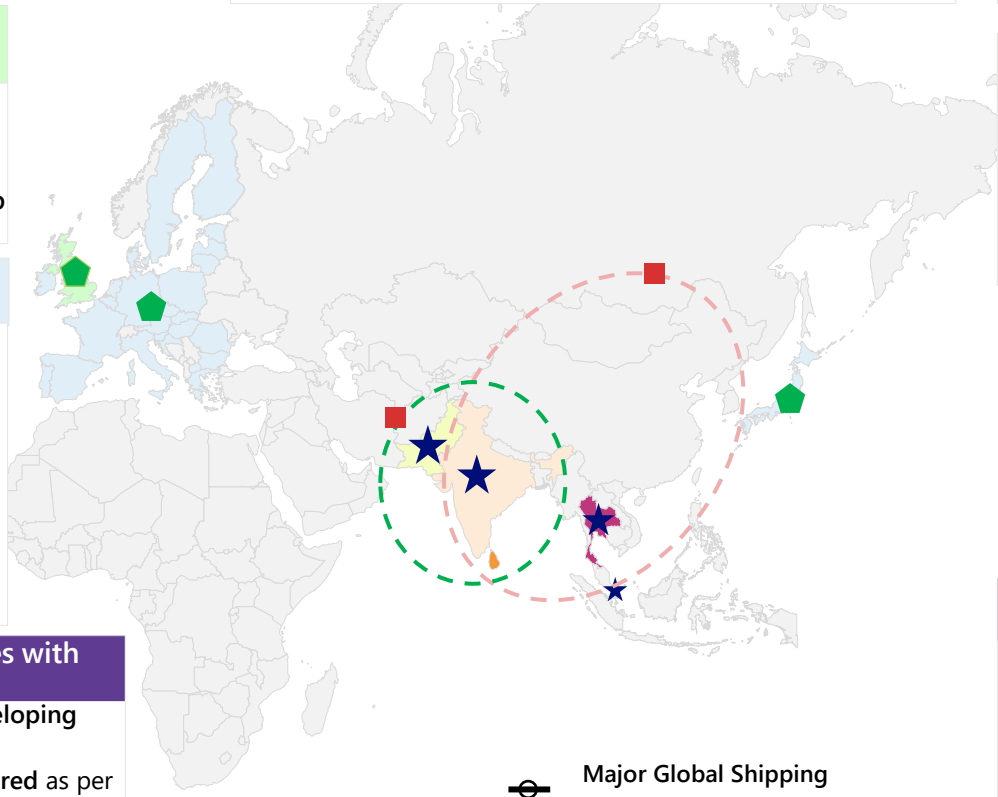
- Sustainable growth by integration of the developing nations into global economy
- Duty-free **access for 7,000+ products**(HS6)
- **Thresholds vary by product**; often allow **up to 75% non-originating content**

★ Pakistan-Sri Lanka FTA (2005)

- Trade via **reciprocal tariff concessions**
- Duty-free access for **4,500+ products**
- Minimum DVA: **35% of FOB**, or **25% under cumulative rules**, provided total value addition is at least **35%**

⬟ GSP with the EU (2017) and Japan (1971)

- Promote **sustainable development and poverty reduction** for developing nations
- **EU: 6200+ tariff lines** covered
- **Japan: 3,700+ tariff lines** covered across agriculture and industry with largely duty-free access
- Goods must be **wholly obtained** or satisfy **sufficient working or processing** under **product-specific origin rules**



★ Sri Lanka Singapore FTA (2018)

- Covers trade of **goods and services, investment, IP, e-commerce** and more
- **80% of tariff lines** with customs duties to be **phased out over 15 years** for goods
- **35%<DVA/CVA or a change at HS4 level**

Global System of Trade Preferences with UNCTAD (1989)

- Develop trade among the **42 member developing nations** in the Global South
- **Positive list** of products: **651 products covered** as per Sri Lankan government
- **DVA > 50%** or **RAC > 60%**

★ Sri Lanka-Thailand FTA (2024*)

- Boost trade of **goods, investment, tourism, and other services**
- Commitment to bring **85% of products to zero tariffs**
- **40% < DVA or a change at HS4 level**

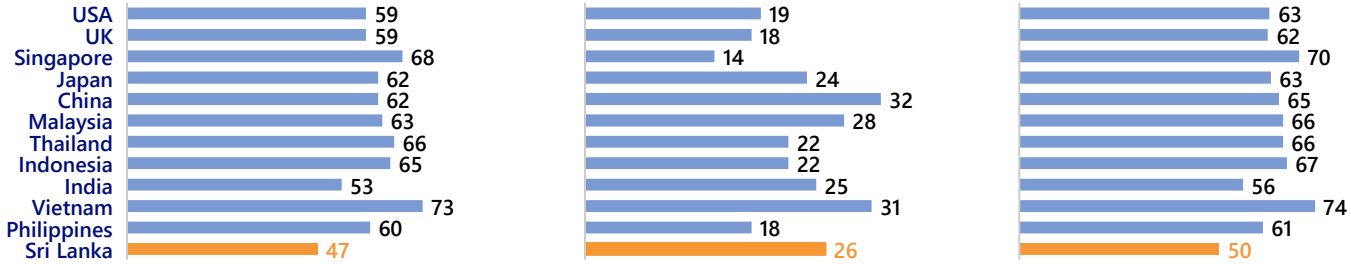
Major Global Shipping Routes in Indian Ocean

Source: International Trade Portals, Sri Lanka Department of Commerce

* Sri Lanka-Thailand FTA has not launched thus signing year is mentioned not launch year

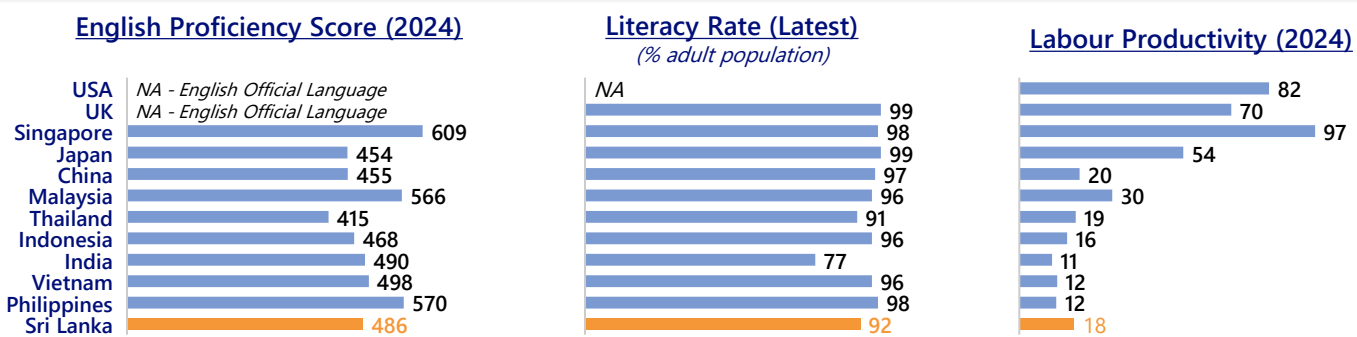
Sri Lanka has access to high quality low-cost manufacturing workforce, actively engaged in employment in industrial jobs

Workforce Size/ Availability



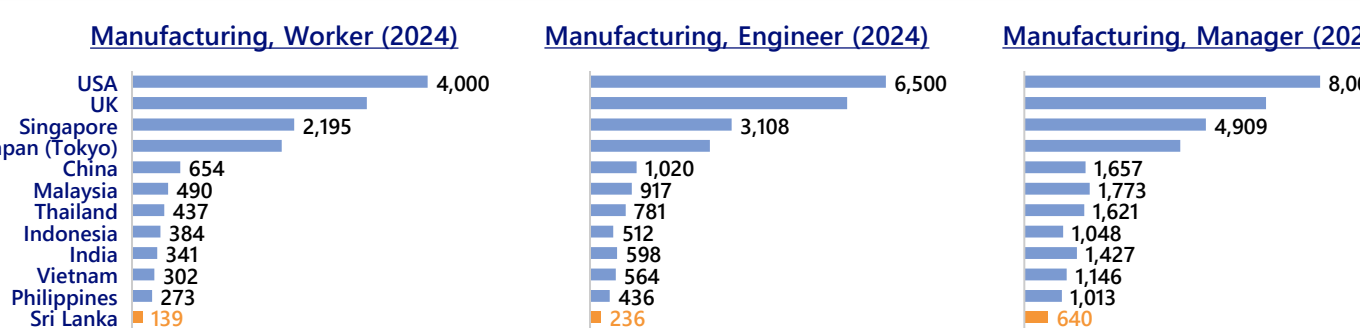
- While employment ratio in Sri Lanka is comparatively lower, the **employment in industry % is among the highest**
- It adds~**30,000 graduates & 100,000 vocationally trained workers annually**

Workforce Quality



- Sri Lanka's **English proficiency is at par with South-East Asian and Asian countries**, while **labor productivity rate is higher than most nations**

Labor Cost *(Monthly, USD)*

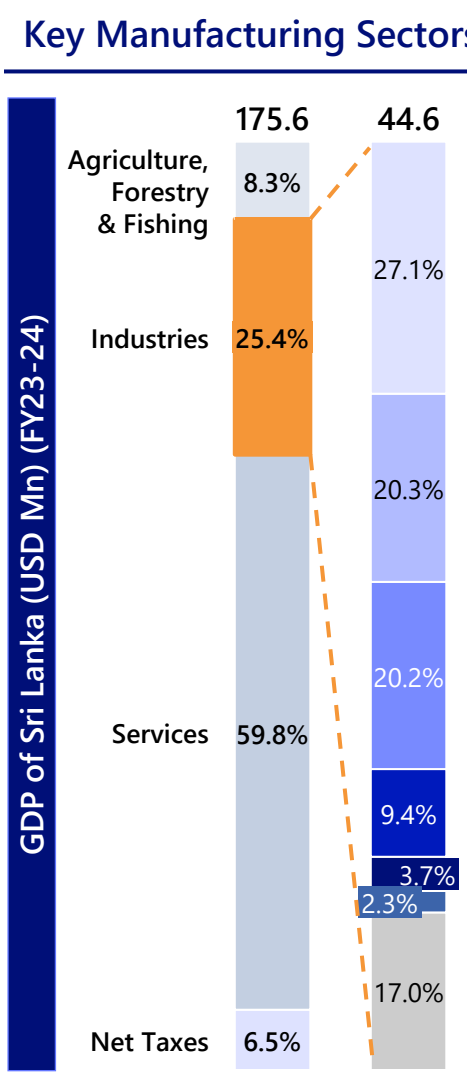


- Sri Lanka has the **lowest wage rates for manufacturing across levels like worker, engineer & manager**

Source: JETRO, Ilostat, World Bank, EF English Proficiency Index

Sri Lanka has access to high quality resources of minerals and natural rubber; however, limited value addition is being done domestically increasing scope for foreign investment

Key Manufacturing Sectors of Sri Lanka



The foods and textiles industry of Sri Lanka are relatively matured sectors in Sri Lanka, with high globally competitiveness

Construction is primarily a domestic industry with limited export orientation

Minerals Industry

	Current Status	Future Targets/Projections
Geographic Footprint	Active graphite output zones in **Bogala, Kahatagaha**, major **beach mineral sands at Pulmoddai** for heavy minerals and **high-purity white silica sand** at **Puttalam district**	**Expand quartz and graphite exploration zones** and permit issuance to boost production zones
Production	Current output of graphite and quartz is restricted with **graphite at 2500 MT** and only **one operational quartz vein mine**	**Increase quartz and graphite export earnings** from $11.7Mn and $7.8Mn to **$30Mn each by 2029** (as per Institution of Engineers Sri Lanka)
Value Addition	**Minimal local processing;** most graphite and quartz are **exported in raw or concentrated form (semi-processed)**	**Quartz for solar PV, optical applications; graphite-based carbon brushes** and more to be explored via proposed laboratories

High-quality minerals are available in Sri Lanka, but limited value addition is being done in Sri Lanka currently

Chemicals industry is nascent causing Sri Lanka to majorly rely on imports for consumption

Rubber Industry

	Current Status	Future Targets/Projections
Area under Cultivation	**Total plantation ~115,300 ha** of which ~89,600 ha is in mature plantations	Major plan underway to **boost rubber production by 60%** using higher latex-yielding varieties and boosting cultivation
Production	SL rubber products manufacturing is strong with **robust export growth** but faces **supply challenges due to climate-dependence, cost competition, and export volatility**	Govt. targets a **gross industry turnover** of $4bn of which **rubber products manufacturing sub-sector amounts to $3.6bn (90%) by 2026**
Value Addition	Industry is currently focused on **low value low risk products** such as **plates and sheets of vulcanized rubber**, **solid tyres, and** gaskets and seals	Double export income to $2 Bn by 2030 by **increasing value addition to rubber exports** by establishing dedicated parks to **attract FDI in manufacturing and R&D**

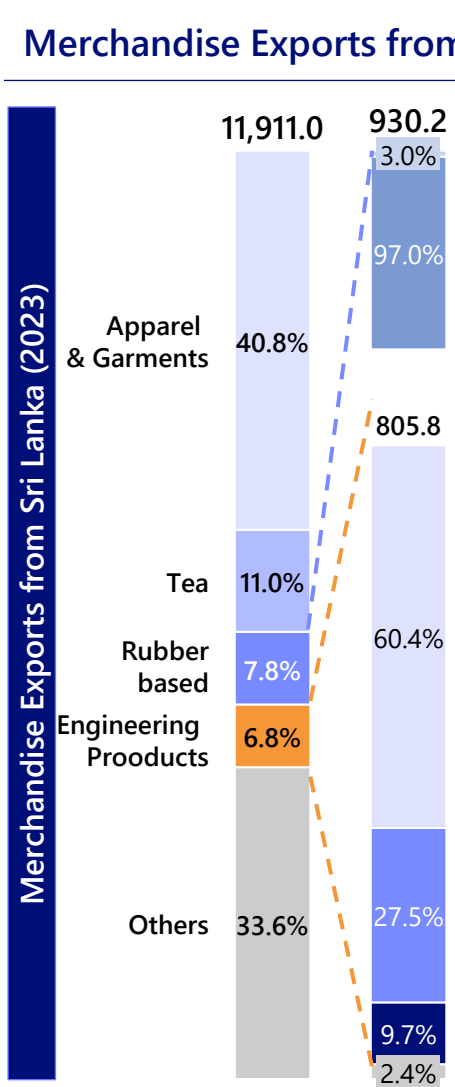
Sri Lanka has an established rubber industry exporting large quantities of tyres and gloves but it still lacks the capability to work with synthetic composites

Note: Others include manufacturing and repair of machinery and equipment, manufacturing of electricity, gas, steam, coke and refined petroleum products, metals, paper, furniture industries among others

Source: World Bank, Consolidated Media Reports, Central Bank of Sri Lanka

From an export standpoint, rubber finished products and engineering products including electronic and transport component emerge as top sectors fit for global competition

Merchandise Exports from Sri Lanka (USD Mn)



Natural Rubber is a raw material and thus not a relevant for this study

Rubber Finished Products

	Current Status	Future Targets/Projections

Key Products	• **Industrial products**
	  • pneumatic tires (~63.5%)
	  • gaskets, washers, seals (~6.1%), etc.
	• **Medical goods**, such as surgical gloves (~24%)
	• **Consumer goods**, including rubber plates and sheets rods of vulcanized or unhardened rubber (~2.8%)
		• Innovation through sustainable "green" rubber products
		• Further specialty production of medical and automotive rubber components like protective barrier solutions and 3D modelled molded rubber components

Electronics & Machinery

	Current Status	Future Targets/Projections
Overview	Industry stands out as a "**Design-to-Delivery" hub**, with current focus on manufacturing /assembly based on imported material due to **absence of raw input items domestically**	Electrical and Electronic manufacturing sector exports **expected to see a growth of 15% reaching USD 500 million in 2025**
Key Products	• **Wires and Cables (16.7%)** • **Switches Boards and Panels (13.7%)** • **Electric Transformers (~5.6%)** • **Printed Circuit Board (Nascent Stage) (2.0%)**	• Specialized **low volume, high value circuits** • Components of **resistor, capacitor, inductor** • Electromechanical components, **transformers, switches, relays and interconnection devices**

Transport Equipment

	Current Status	Future Targets/Projections
Overview	Industry houses around 50 manufacturers with the **SOP of 2021 central to boosting local production, export performance**	Aims to increase component export revenue to **$1bn from the current $200mn**, creating **additional 45,000 jobs**
Key Products	Sector focuses on manufacturing and exporting components such as **motor vehicles & parts (80.9%), non motorized bicycles (9.2%) and more**	High-value EV parts (**wire harnesses, electrical systems**), advanced safety / mechanical components (**airbags, gearboxes, suspension**), and **next-gen batteries and sensors**

Boatbuilding industry is at a very nascent stage from a component exporter perspective

Rubber Industry has achieved significant manufacturing expertise but at a smaller scale and with minimal R&D capabilities

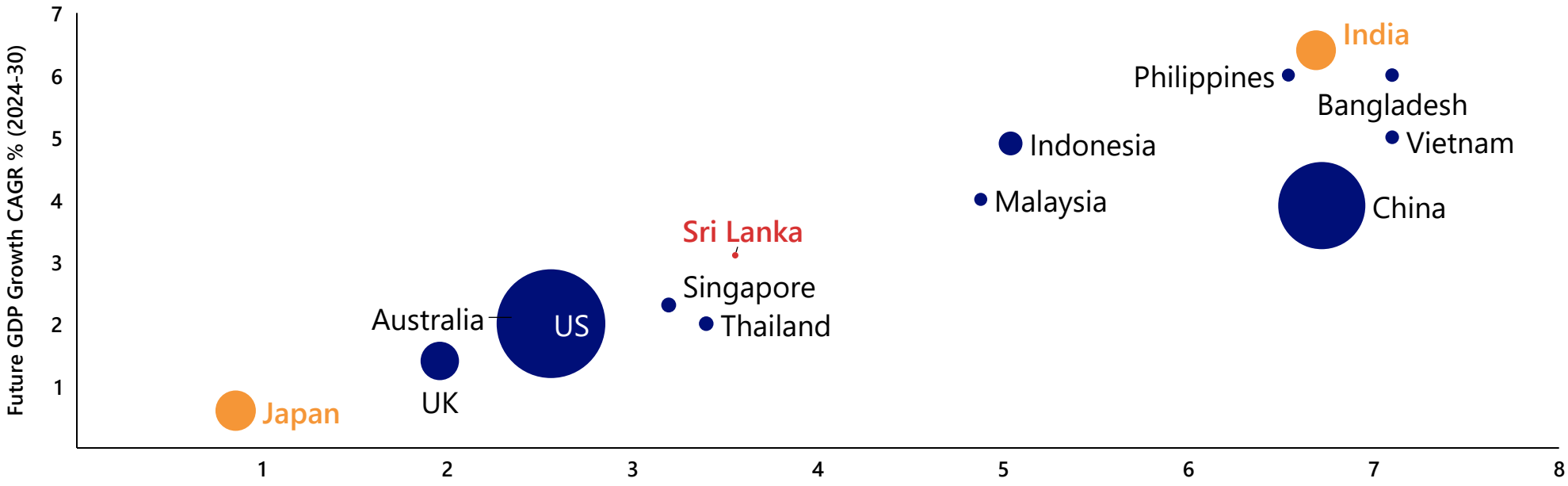
Capability to product niche high quality electronic components leveraging cost-competitive and skilled labor

Skilled and experienced workforce supported by govt. policies ensures long term growth of auto components manufacturing

Source: World Bank, EDB

Sri Lanka's economy is currently small, with a GDP growth rate of 3.6% over 2014-19; future growth potential is also expected to be more than developed countries

Comparison of GDP and GDP Growth with Sri Lanka



Note: 2014-19 growth rate considered in order avoid disruptions due to COVID pandemic and Sri Lanka's economic crisis post 2019

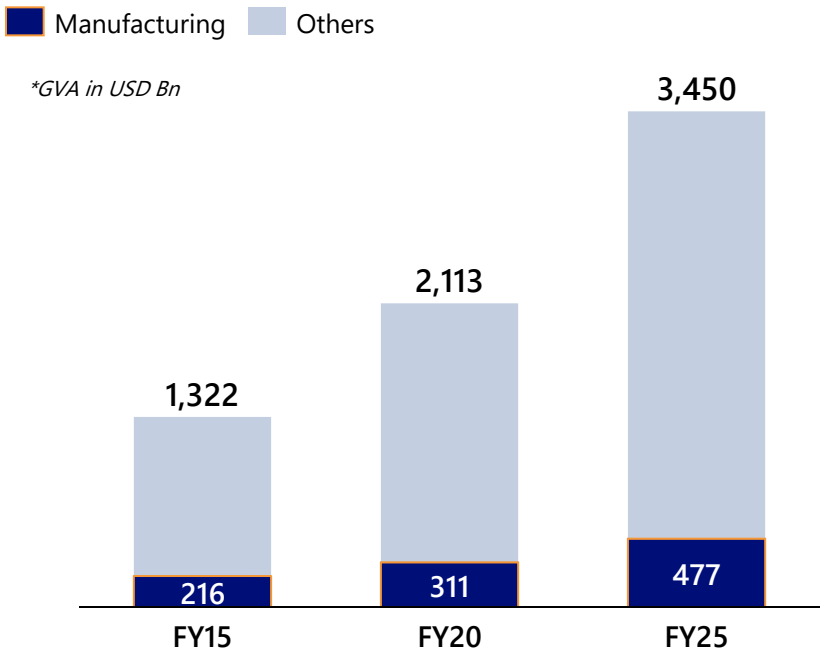
Sri Lanka's Economic Potential

- Sri Lanka's grew at growth rate of 3.6% from 2014-19, post which the economy was disrupted due to the COVID pandemic and the economic crisis. **Sri Lanka has started recovering with policy support**. Sri Lanka's **GDP growth CAGR for 2024 to 2030 is expected to be 3.1%**
- By leveraging India's economic growth, **Sri Lanka's incorporation into India-centric supply chain for components supply with Japan's support will help accelerate Sri Lanka's economic growth**

Source: IMF

India's manufacturing sector contributes 13-14% to its GDP, with the govt. aiming to increase it to 23% in next two decades, through schemes like PLI

India's Growing Manufacturing Market



- India **aims to nearly double the share of manufacturing in GDP to 23% in next two decades** aiming to create jobs & drive economic growth
- PLI schemes, tax breaks, & eased regulations make manufacturing more attractive and cost-competitive
- Through this schemes India **focuses on boosting production through 14 sunrise sectors which are labor intensive and have high employment potential**

Key Growth Drivers for India

India **in the past has strongly served as a service provider** for overseas businesses, but **has been rising rapidly as a manufacturing hub in the last decade**, raising interest from global companies to set up manufacturing base in India

Govt. Incentives	• India's **Production Linked Incentive (PLI) schemes, tax breaks, & eased regulations** make manufacturing more attractive and cost-competitive
Market Size & Demand	• A **large and growing domestic market** enables scale and justifies localization for multinational brands
Abundant & Skilled Labor	• **Abundant skilled labor and world-class engineering talent** support advanced manufacturing, especially in electronics, automotive, and chemicals
Geopolitical Alignment	• India's **stable political environment and alignment with major economies** with strategic trade location foster a pro-business climate for domestic & foreign investment

Source: NITI Ayog, PIB India

India is strongly integrated in the global supply chain but is dependent on import for various products, with rising efforts to reduce that dependence

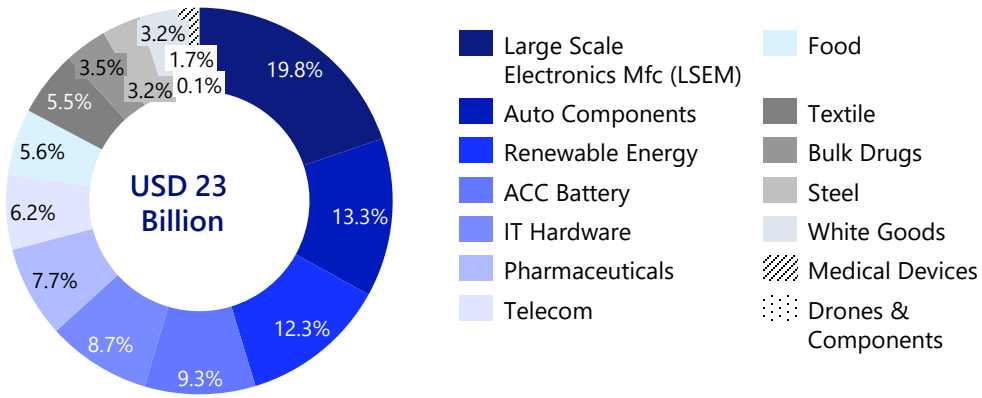
India's Dependence on Imports & Areas for Growth

	Electronic Components	Industrial Equipment	Active Pharma Ingredients	Renewable Energy Devices
Key segments				
Key Countries	China	Taiwan	USA	Malaysia	Germany

- India **continues to rely heavily on few countries** for key high-economic-interest imports across sectors with some diversification towards East Asian and Western economies for advanced needs.
- Strategic **initiatives like focus on domestic manufacturing are underway to reduce import dependence** in these areas, but import remains the leading source for all four sectors as of 2025
- India has also **been inviting foreign players to manufacture in India and create employment opportunities**

Indian Govt. Boosting Domestic Manufacturing

Indian govt. has been heavily investing in creating policies and schemes like Production Linked Incentive (PLI) Scheme to promote manufacturing in India. Below is allocation of PLI Outlay across the 14 different sectors till Nov, 2024:



- **National Manufacturing Mission**: Announced in the Union Budget 2025-26, this mission covers small, medium, and large industries to further the "Make in India" agenda. It focuses on improving ease and cost of doing business, building a future-ready workforce
- **Production Linked Incentive (PLI) Scheme**: PLI remains the cornerstone policy with a large outlay of ₹1.96 trillion ($23 billion) allocated to incentivize high-tech and labor-intensive sectors.

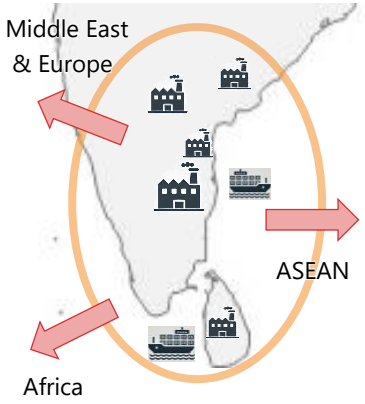
Source: PIB India, Press Articles

Industrial Corridor Plan

Based on these circumstances, a plan to create an export-oriented industrial corridor between Sri Lanka and India is proposed.

- **India** is gaining strategic importance as **an export-oriented industrial hub** for the Global South and the world backed by its geographical advantages, huge local market, and existing industrial ecosystem.
- **Sri Lanka**, with high-skilled workforce and natural resources, has **strengths in producing cost-competitive precise parts and components**, which are essential for India to diversify its supply chain while reducing its dependence on a certain country.
- **Japan** sees the region as **a new global production base** and will expand investment to strengthen its global supply chain and cultivate **access to the Global South** incl. Africa.
- **By integrating the strengths of the two regions** and **accelerating Japanese and Indian investment there**, the region could be **one of the world's largest export-oriented industry hub with a resilient supply chain**.

India and Sri Lanka Export-oriented Industrial Corridor ~India, Sri Lanka and Japan Trilateral Cooperation~



India

- Many manufacturing companies, including Japanese firms, already have production activities in the region. (automobiles, motorcycles, home appliances, air conditioners, pharmaceutical companies, etc.)
- The strategic importance of the region as an export-oriented industrial cluster has been increasing due to its geographical advantages.
- On the other hand, key components such as electronic parts and APIs are dependent on a country.

Investment ⇩ ⇧ Supply key components

Sri Lanka

- Sri Lanka has a layered educated skilled workforce and MSMEs, which produce cost-competitive components and materials, based on 5S/KAIZEN.
- Sri Lanka could strengthen its production capability of key components and parts and contribute to building the resilient industrial ecosystem by receiving investments from Japan and India.
- In addition, it will accelerate the expansion of access from the Port of Colombo to the rest of the world.

Investment ⇦

Investment ⇦

Japan

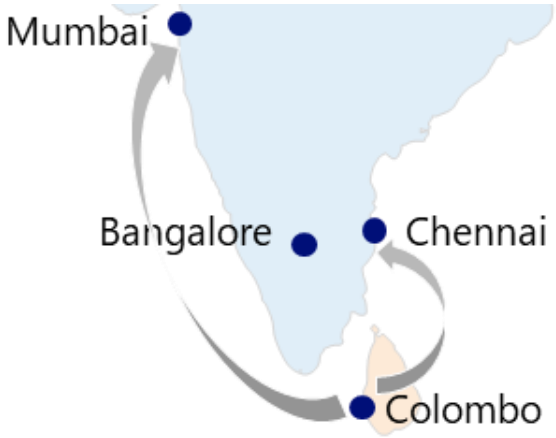
- Japan sees the region as a new global production base and will expand investment to strengthen its global supply chain.
- To develop access from India to the Global South incl. Africa.

Export to the Global South and the world

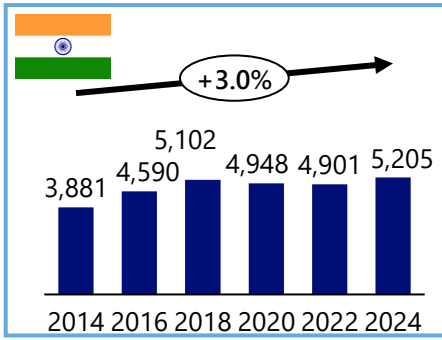
Impacts for Japanese Companies

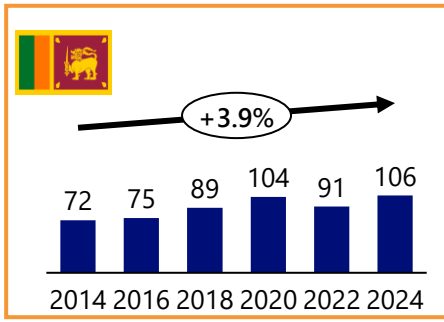
Growing economic presence of Sri Lanka will help Japanese companies in Sri Lanka and India to realize resilient supply chain and global business strategies

Presence of Japanese companies

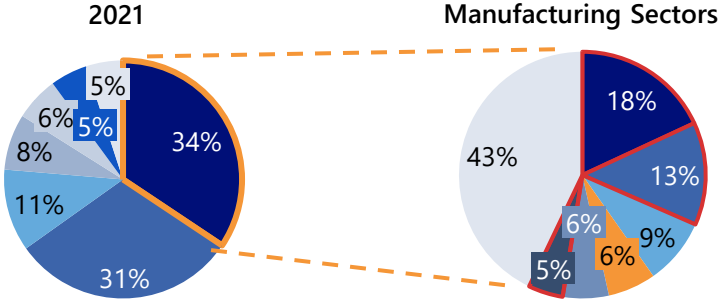


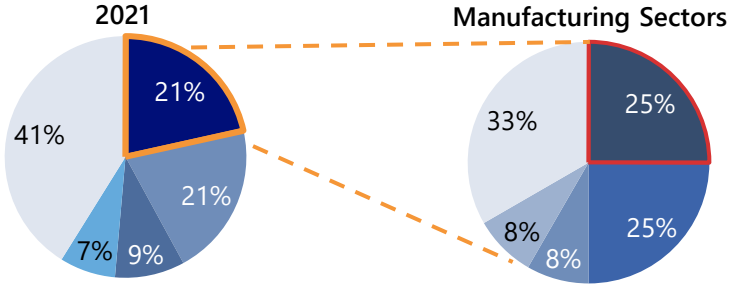
Japanese Companies' Locations





Japanese companies by Sectors





Business Sectors Manufacturing | Finance & insurance | Wholesale & retail | Transportation & postal services | Services | ICT | Construction | Accommodation & food services | Others

Manufacturing Sectors Transport Equipment | Electric Machine | Chemical Industry | Rubber | Production Use Machinery | Electronic Item | Ceramic and Stone Product | Others

Benefits for Japanese Companies from growing presence in Sri Lanka

1. **Supply Chain Resilience:** Diversifying supply chains to Sri Lanka helps Japanese companies reduce supply chain risk. Sri Lanka complements India-centric supply chains, enhancing regional integration.
2. **Emerging Market Potential:** Expanding into Sri Lanka offers Japanese firms high-growth opportunities in a developing market with affordable, skilled, English-speaking labor. Together with India, Sri Lanka can serve as a new export-oriented hub for Japanese companies' global strategies.
3. **Geostrategic Assurance:** Strengthening Sri Lanka's economy enhances its resilience and strategic role in the Indian Ocean, helping secure Japan's maritime supply chains

Source: Ministry of Foreign Affairs, Japan, JETRO

Agenda

- Background
- **Target Sectors for the Conceptual Roadmap**
- Global Supply Chain for Sri Lanka to enter
- Issues, Current Projects, and Solution Ideas to realize the Economic Corridor
- Economic Effect of the Conceptual Roadmap
- Next Steps

Target Sectors for the Conceptual Roadmap | Summary

This Conceptual Roadmap identifies key sectors (Electrical & Electronic Components, Mineral Resources, Agricultural Resources) and products (Home Appliances, Automotive Parts, Semiconductor Fillers, Solar Panels, EV Batteries) for global supply chain integration, by matching Indian demand with Sri Lankan capabilities.

- This Conceptual Roadmap is grounded in a detailed analysis of Indian import demand and Sri Lankan supply capabilities. The preliminary analysis focused on India's import dependencies and government-supported industries, while assessing Sri Lanka's existing global exports, competitive manufacturing products, and potential for leveraging underutilized domestic raw materials. This process identified three primary target sectors: Electrical & Electronic Components, Mineral Resources, and Agricultural Resources.

- Based on this preliminary analysis, the following five target products were identified for Sri Lankan companies to integrate into global supply chains, where they either possess existing capabilities or can bridge gaps with Japanese technical and investment assistance: Home Appliances (e.g., air conditioners), Automotive Parts, Semiconductor Fillers, Solar Panels, and EV Batteries.

Focus sectors are being identified based on India's missing capabilities, Sri Lanka's existing and potential capabilities, and focus of multilateral discussions

1. India's Missing Capabilities

A. India's Import Data Analysis

(i) Identification of key import sectors where dependence on imports is high and product manufacturing complexity is low
(ii) Check specific products in these sectors with high import dependence and low product complexity

B. India's Manufacturing Focus (PLI)

(i) Identification of key focus sectors by the Govt. of India for manufacturing promotion
(ii) Analysis of industries where PLI is not being successful, and understand supply chain challenges

2. Sri Lanka's Capabilities

A. Sri Lanka's Existing capabilities

(i) Analysis on key export items by Sri Lanka to the world, and identifying export items where share of exports to India is low
(ii) Identifying the key items manufactured by existing Japanese companies in Sri Lanka

B. Sri Lanka's Potential Capabilities

(i) Key focus areas of the government for export promotion
(ii) Areas/ Sectors where relevant policy support is being offered through financial/ non-financial incentives

3. India and Sri-Lanka Collaboration with Japanese manufacturing capabilities

Future/ potential areas of collaboration in multilateral discussions between India, Sri-Lanka and Japan

India's Missing Capability and Future Growth Industries

India has high import-dependence for sector like electronics, auto components, textiles, pharmaceuticals, etc., and is trying to boost domestic manufacturing with PLI Scheme

High Import- Dependent Products of India

Key Product Groups* (>100 Mn Trade Value Products)

1 Electronic, Machinery & Precision Items	Electric Circuits	Mechanical and Thermal Equipment Components
	Communication apparatus components	Audio Device Components
	Transformers	Electric Motors
	Lighting Appliances parts	Solar Module Components
	Electrical Inductors	Magnets
2 Chemical Products	Antibiotics	Amino Alcohols
	Heterocyclic Compounds	Non-Metallic Minerals
	Acids	Metallic Minerals
3 Base Metals and Products	Iron and Steel Articles	Aluminum Articles and Structures
4 Textile & Textile Articles	Synthetic Yarn	Synthetic Fabric
5 Mineral Products	Glass and Products	Magnesite Products
	Industrial Ceramics	
6 Plastic, Rubber, & Products	Polymers	Low Viscosity Plastic
7 Railways, Automotive products/ parts	Railways Locomotives Parts	

*Top 6 Digit HSN codes for intermediate goods with high import dependence & low product complexity

Source: UN Comtrade, PIB

Key Future Focus Manufacturing Sectors in India

Production Linked Incentive (PLI) Scheme: Launched in 2020, the PLI Scheme is a flagship initiative to transform India into a competitive global manufacturing hub. It aims to strengthen domestic production capabilities, reduce import dependence in critical sectors, attract large-scale investments, and promote sustainable, export-oriented growth. The scheme currently targets 14 strategic sectors:

Sectors under PLI	Budget *(INR Tn, till 2024)*	Key Challenges in Achieving PLI objectives
Mobile Manufacturing & Specified Electronic Components	386.5	• High import dependency on components & limited domestic production of semiconductors, displays and camera modules
Automobiles & Auto Components	259.4	• Lacking high-tech components (like sensors, ECUs), synthetic rubber • EV battery and chip supply dependent on imports
Renewable Energy and Solar PV	240.0	• Heavy import dependence on wafers; domestic polysilicon and ingot manufacturing yet to scale.
Advanced Chemistry Cell (ACC) Battery	181.0	• Absence of upstream raw material sources (lithium, cobalt, nickel) • Import dependence for battery cell inputs like anode-grade graphite
Electronic/Technology Products	170.0	• PLI uptake low outside mobiles, import-dependent for semiconductors, high-tech rubber components, etc.
Critical Key Starting Materials/Drug Intermediaries & API	150.0	• High setup costs and regulatory compliance burdens • Import dependence for petrochemical feedstocks and fermentation-based precursors
Telecom & Networking Products	121.9	• R&D capability gaps, import dependence for semiconductor
Food Products	109.0	• Fragmented value chains, gaps in cold-chain/ logistics infrastructure
Textile Products: MMF segment & technical textiles	106.8	• Stiff competition from countries like Vietnam, Bangladesh • Lack of large-scale synthetic fiber players
Pharmaceuticals Bulk Drugs	69.4	• Import-dependency for intermediates; high R&D cost
Specialty Steel (SS)	63.2	• High logistics costs, lack of advanced alloy production capabilities
White Goods (ACs and LEDs)	62.4	• Import-dependent for core components (compressors, motors, Ics, PCB drivers) and rubber parts (grommets, gaskets, mounts); lacks design capability for miniaturization and efficiency
Manufacturing of Medical Devices	34.2	• Lack of standardisation, shortage of electronic components, cleanroom-grade rubber components, stringent regulations
Drones & Drone Components	1.2	• Stiff competition from Indian assemblers who import components, dependency on imported motors/sensors, flight control systems

Sri Lanka's Strength and Future Growth Industries

Sri Lanka has strength in exports of rubber, electronic components and mineral products, primarily for basic items; the government is focused on expanding local value addition

Key Existing Export Sectors of Sri Lanka

Key Product Groups* (>10 Mn Trade Value Products)

1	Plastic, Rubber and products	Automobile Tyres	Polymers
		Vulcanised Rubber	Plastic products
		Rubber Sheets/ Strips	
2	Electronic, Machinery and Precision Items	Heavy Machinery Components	Mechanical & Thermal Equipment Component
		Switches, Boards and Panels	Electric Circuits
		Communication apparatus components	Electrical Capacitors
		Insulated Electrical Conductors	
3	Apparel/ textiles industry is relatively mature industry; high import dependence for inputs		
4	Mineral Products	Petroleum	Glass and Products
		Zirconium	
5	Chemicals exports focused on activated carbon, which is not import dependent in India		
6	Base Metals and Products are primarily imported products with minimal processing in Sri Lanka		
7	Railways, Automotive products/ parts is focused on Aircraft components and Chassis exports currently		

*Top 6 Digit HSN codes for intermediate goods with low share of exports to India

Source: UN Comtrade, BOI, Press Articles

Key Future Focus Manufacturing Sectors in Sri Lanka

Board of Investment Focus Industries for Investment

Auto Components
- Wiper blades
- Clutches and parts
- Gear boxes, Suspension systems
- Safety airbags with inflator system
- Safety seat belts
- Electrical lighting/ signal equipment
- Steering wheels
- Drive-axles with differential

Food Processing industry is not being considered due to focus on intermediate products in the Conceptual Roadmap

Apparel/ textiles industry is relatively mature industry; high import dependence for inputs

Electrical & Electronic Components
- Printed Circuit Boards: Manufacturing, Assembling, Component Manufacturing (Conductors, Resisters, etc.)
- Solar Panel Assembling, Component Manufacturing
- Polysilicon Manufacturing

Pharmaceuticals Industry is very nascent in Sri Lanka, with limited domestic back-end industry

Sector-specific Policies Released

National Mineral Policy (2023)

- The National Mineral Policy (2023) promotes **sustainable mining, local value addition, and downstream processing of minerals** such as graphite, Silica, ilmenite, zircon, etc.

Sector-specific Manufacturing Zones Planned

Automotive Assembly/ Manufacturing

Rubber Products

- **Budget 2025 earmarks SLR 1,500 million for a dedicated industrial zone for automobile manufacturing/ assembly and rubber manufacturing**
- **It aims to position Sri Lanka as a competitive player in the export market for automobile components and rubber products**

Chemical Industry is very nascent in Sri Lanka, with high import dependence

India's Missing Capability and Sri Lanka's Capability

Focus sectors are being identified based on India's missing capabilities and Sri Lanka's existing and potential capabilities

High-Import Dependent Sectors	High growth manufacturing sectors
1 Electronic, Machinery & Precision Items	Mobile Manufacturing & Specified Electronic Components *(Semiconductors)*
	Electronic/Technology Products
	Manufacturing of Medical Devices
	White Goods (ACs and LEDs)
	Drones & Drone Components
2 Chemical Products	Critical Key Starting Materials/Drug Intermediaries & API
3 Base Metals and Products	Specialty Steel (SS)
4 Textile & Textile Articles	Textile Products: MMF segment & technical textiles
5 Mineral Products	Mobile Manufacturing & Specified Electronic Components *(Semiconductors)*
	Advanced Chemistry Cell (ACC) Battery
	Renewable Energy and Solar PV
6 Plastic, Rubber, & Products	White Goods (ACs and LEDs)
	Automobiles & Auto Components
	Manufacturing of Medical Devices
7 Railways, Automotive products/ parts	Automobiles & Auto Components

Existing Export Sectors	Potential Export Sectors
1 Plastic, Rubber and products	Auto Components *(BOI)*
	Rubber Products *(Dedicated Manufacturing Zone)*
	Electrical & Electronic Components *(BOI)``
2 Electronic, Machinery and Precision Items	Auto Components *(BOI)*
	Electrical & Electronic Components *(BOI)*
	Rubber, Automotive *(Dedicated Manufacturing Zone)*
3 Textiles & Articles	Apparel/ textiles industry is relatively mature industry; high import dependence for inputs
4 Mineral Products	Minerals Products *(National Mineral Policy, 2023)*
	Auto Components *(BOI)*
	Electrical & Electronic Components *(BOI)*
	Rubber Products, Automotive *(Dedicated Manufacturing Zone)*
5 Chemical Products	Chemicals/ Pharmaceuticals Industry is very nascent in Sri Lanka, with limited domestic back-end industry
	Pharmaceuticals *(BOI)*
	Chemicals *(Dedicated Manufacturing Zone)*
6 Base Metals Products	Base Metals and Products are primarily imported products with minimal processing in Sri Lanka
7 Auto products/ parts	Focused on Aircraft components and Chassis exports currently

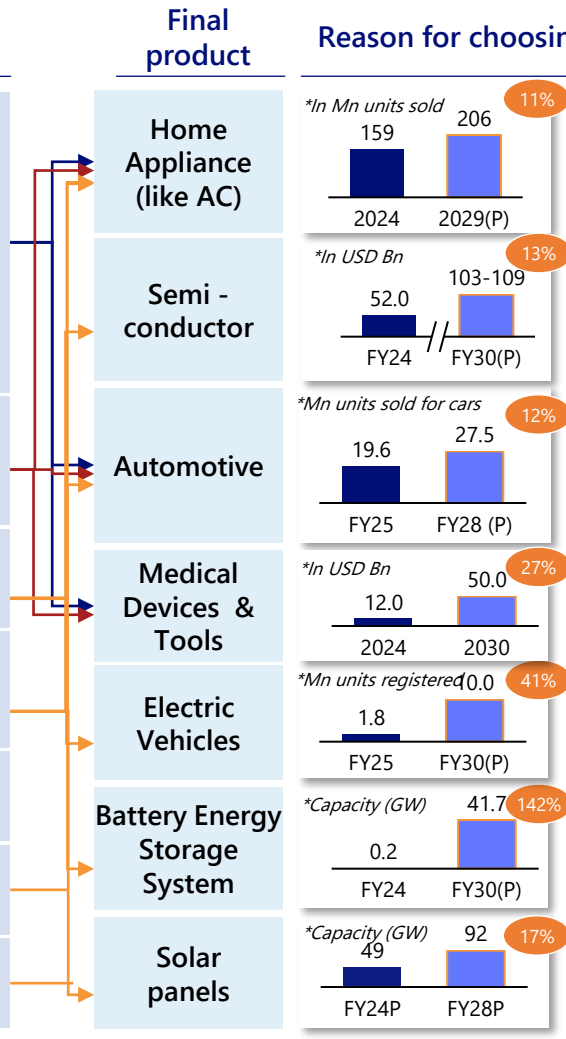
Target sectors for Conceptual Roadmap are Electronic/electric items, Mineral products, & Agri Resources, basis Sri Lanka's cost & quality advantage and India's high import dependence

	Manufacture in Sri Lanka		Manufacture in India
	Raw Materials	**Intermediate goods**	**Final Product**
Electronic and Electric Items	• Most of the key raw materials are imported by Sri Lanka	• **Capacitors, power circuits** • **Wiring Harness, PCB Assembly** • Medical device components • Optical communication components • Fiber scopes • Lenses for optical equipment • LCDs/OLED materials	• **Home appliances (e.g., air conditioners)** • **Automobiles** • Medical Devices • Submarine cables • Cameras, microscopes • Smartphones and other LCDs/OLED
Mineral product	• **Natural graphite** • **High-purity silica** • Industrial Minerals (Kaolin/ Feldspar/ Zircon) • Ilmenite/ Rutile • Rare Earth Minerals (Monazite, Apatite-Phosphate Rock)	• **EV/ BESS batteries materials** • **Semiconductor filler** • Friction Linings • Lubricants • Carbon Brushes • Titanium • Ceramic substrates • Paints and surface coatings • Magnets	• **Electric Vehicles (EVs)** • **Battery Energy Storage Systems (BESS)** • **Solar Panels** • **Home appliances (e.g., air conditioners)** • **Automobiles** • **Semiconductors** • Aircraft • Rocket
Agricultural resources	• **Natural rubber**	• **Tyres, and wheel rubber components** • **Engine and suspension mountings** • **Seals, hoses & fluid connectors** • **Seating and cabin rubber parts** • Medical device components	• **Automobiles** • **Home appliances (e.g., air conditioners)** • Medical Devices

Target Sector | India's Missing Capability and Sri Lanka's Capability

Final products are chosen for their strong current and future demand potential, or their upcoming growth driven by government focus, all indicating significant future growth

Target sector	Sri Lanka's capability	Reason for choosing these capabilities	Final product	Reason for choosing final product
Electronic & Electric Items	Connectors, Cables & Passive Components	• Sri Lanka has **existing capabilities in electronic component manufacturing/ assembly of passive electronic components and wiring harness assembly** • While Sri Lanka is dependent on import for raw materials, its **strong port connectivity offers a cost advantage** • Skilled workforce in Sri Lanka enable high **high-quality output**	Home Appliance (like AC)	• **Rising demand in India** • 60-70% **components like PCBs, resistors, capacitor are still imported** • Leading players like Haier, Daikin, Llyods are expanding capacity
	Electronic Assemblies & Modules		Semi - conductor	• **High dependence on imports** • **Strong govt. push (PLI + $USD 9.5 bn outlay) for local production** • Key players like Tata, Micron, Renesas **ramping up fabs and packaging units**
Agri - cultural resources	Rubber Products	• **Sri Lankan rubber is renowned worldwide** for its **superior qualities** making it especially preferred for manufacturing high-end products like medical gloves and solid tires,	Automotive	• **High future growth potential with low existing car penetration of 3.3%** • India **imports key electronic advanced components** (capacitors, sensors, etc.),
Mineral Product	Vein Graphite	• One of the few countries in world to **produce ultra-high grade natural vein graphite commercially**	Medical Devices & Tools	• **High growth industry** driven by healthcare & diagnostics growth • **70-80% dependence on imports**, especially for **electronic components & consumables**
	High purity silica	• It has **very low levels of contaminants making it highly desirable for industrial applications** like semiconductor, glass, solar panels etc.	Electric Vehicles	• **Strong govt. push** with plans to have 30% of EV penetration by 2030 • High import dependence for batteries • EV OEMs are **planning local manufacturing**
	Industrial Minerals (Kaolin/ Feldspar/ Zircon)	• Sri Lanka's **Kaolin and feldspar has uniquely high brightness and whiteness** • **Zircon is considered of high purity**	Battery Energy Storage System	• **Govt. push through PLI & Viability Gap Funding** to tackle high import dependence for rare earth metals • **Reliance, Adani** placing focus on BESS
	Illmenite/ Rutile	• Sri Lanka has **abundant beach mineral resources** • These are **titanium-bearing heavy minerals**	Solar panels	• **High growth potential** with key players like Tata, Waaree, **to produce solar cells** • **High import dependence for components like** cells, wafers and polysilicon
	Rare Earth (Monazite, Apatite-Phosphate Rock)	• Sri Lanka has **reserves of minerals with rare earth elements**, which are critical in the production of magnets		



Agenda

- Background
- Target Sectors for the Conceptual Roadmap
- **Global Supply Chain for Sri Lanka to enter**
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- Next Steps

This Conceptual Roadmap suggests examples of second/ intermediate goods that can be made in Sri Lanka to participate in the supply chain of final good manufacturing in India

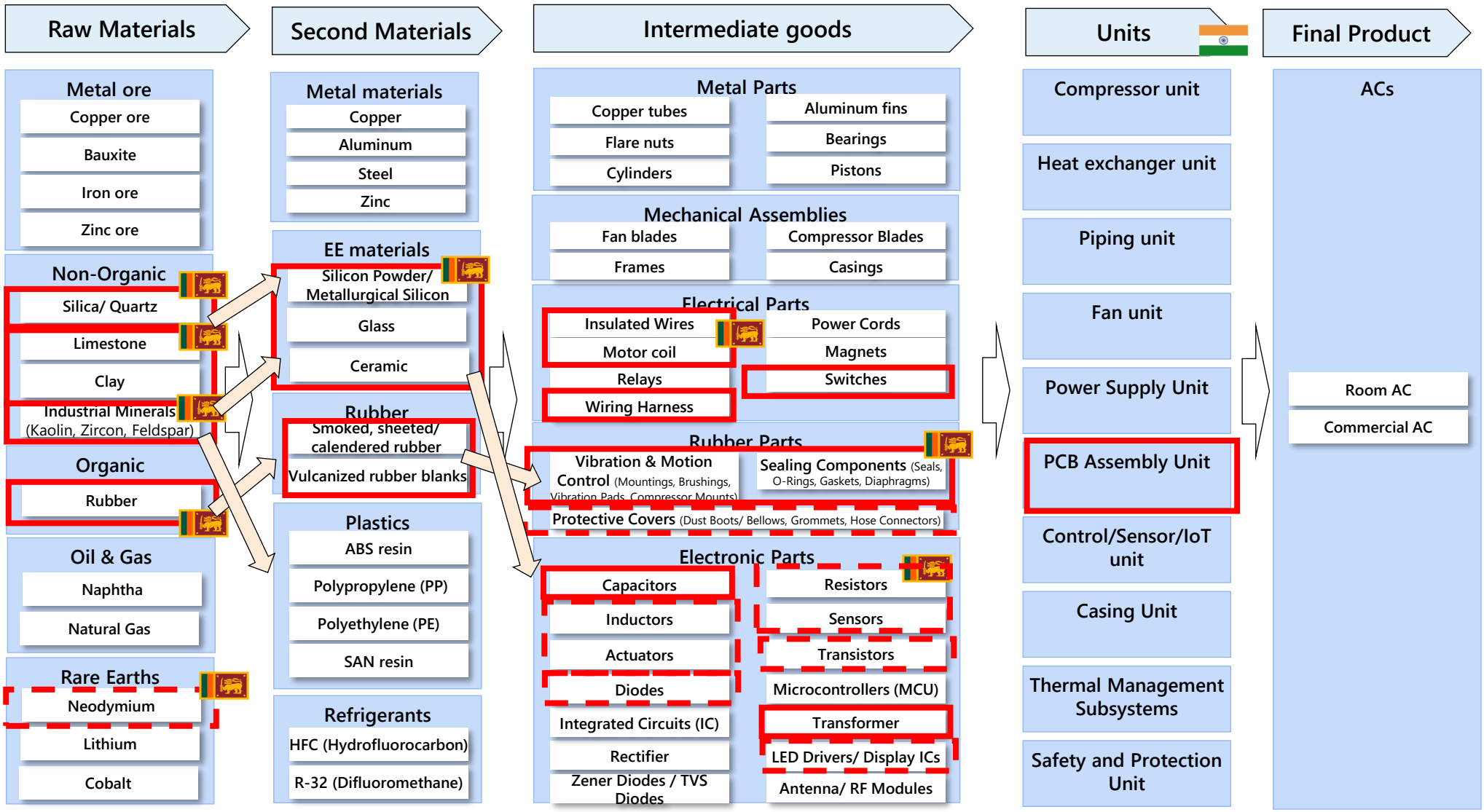
- The Conceptual Roadmap highlights examples of products in the value chains of the selected final products, where Sri Lanka can participate due to existing or potential strengths.
- Sri Lanka's strengths like availability of high-quality minerals (like vein graphite and silica), established rubber and rubber products industry and high-quality & economical electronic products manufacturing/ assembly, can be leveraged to further manufacture value-added second materials and intermediate goods in Sri Lanka for exporting to India.
- India has a growing focus to develop reduce import dependence concentration on 1-2 countries by developing domestic/ alternate supply chains for existing segments like home appliances, automotives and medical devices, and by finding the right supply chain partners for emerging segments like Semiconductors, Solar Panels and EV batteries. Sri Lanka's timely action can help serve these missing links for India.
- Technology and investment partnerships would be required to develop these potential capabilities in Sri Lanka.

Non-exhaustive

Global Supply Chain | Home Appliances | AC

Sri Lanka's strength in the air conditioner supply chain allows it to manufacture & supply several key components & materials

Existing Capability | Potential Capability

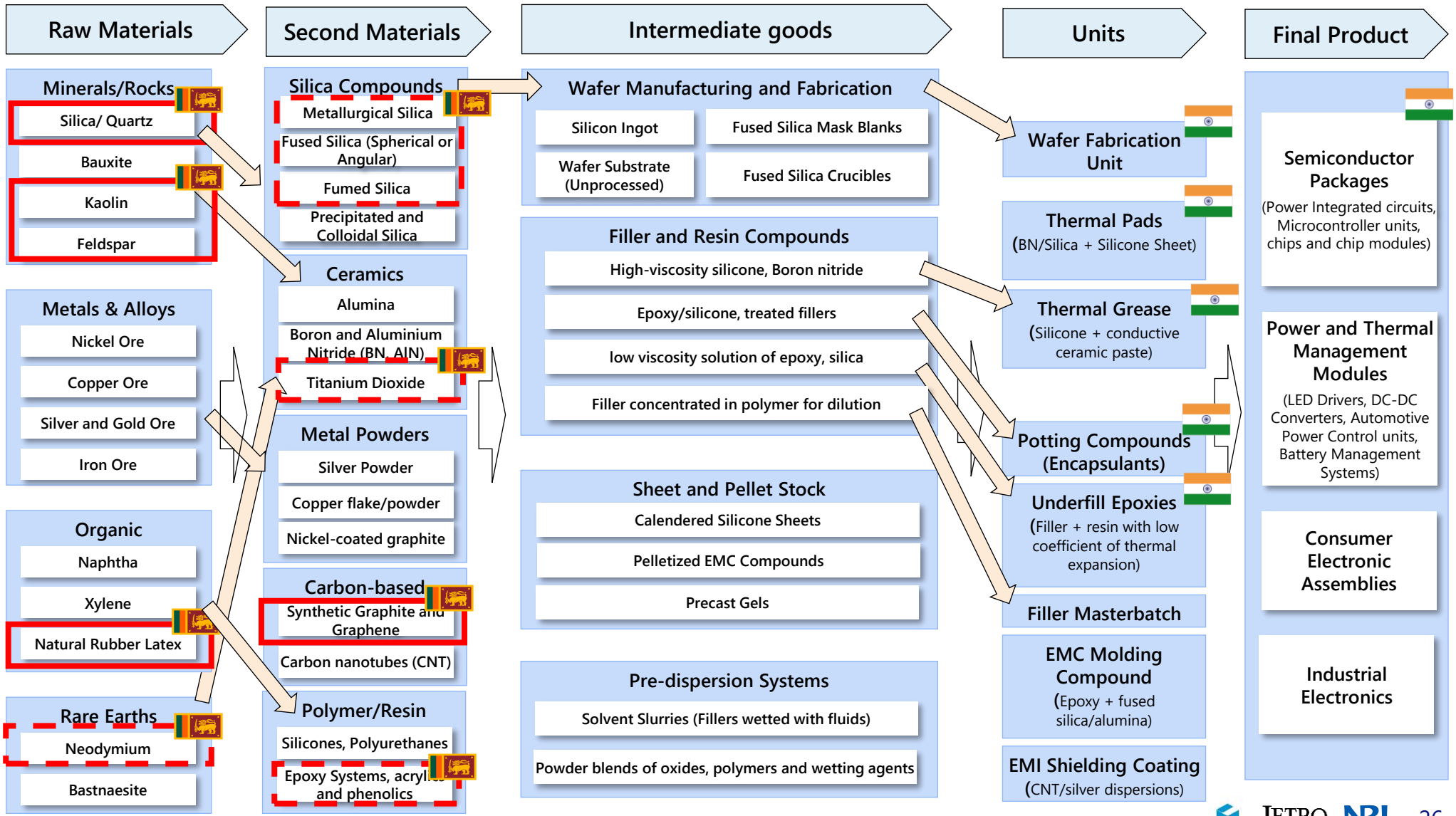


Non-exhaustive

Global Supply Chain | Semiconductor Fillers

Sri Lanka's pure minerals can serve as an entry point into semiconductor fillers; challenge remains limited production in India

Existing Capability | Potential Capability

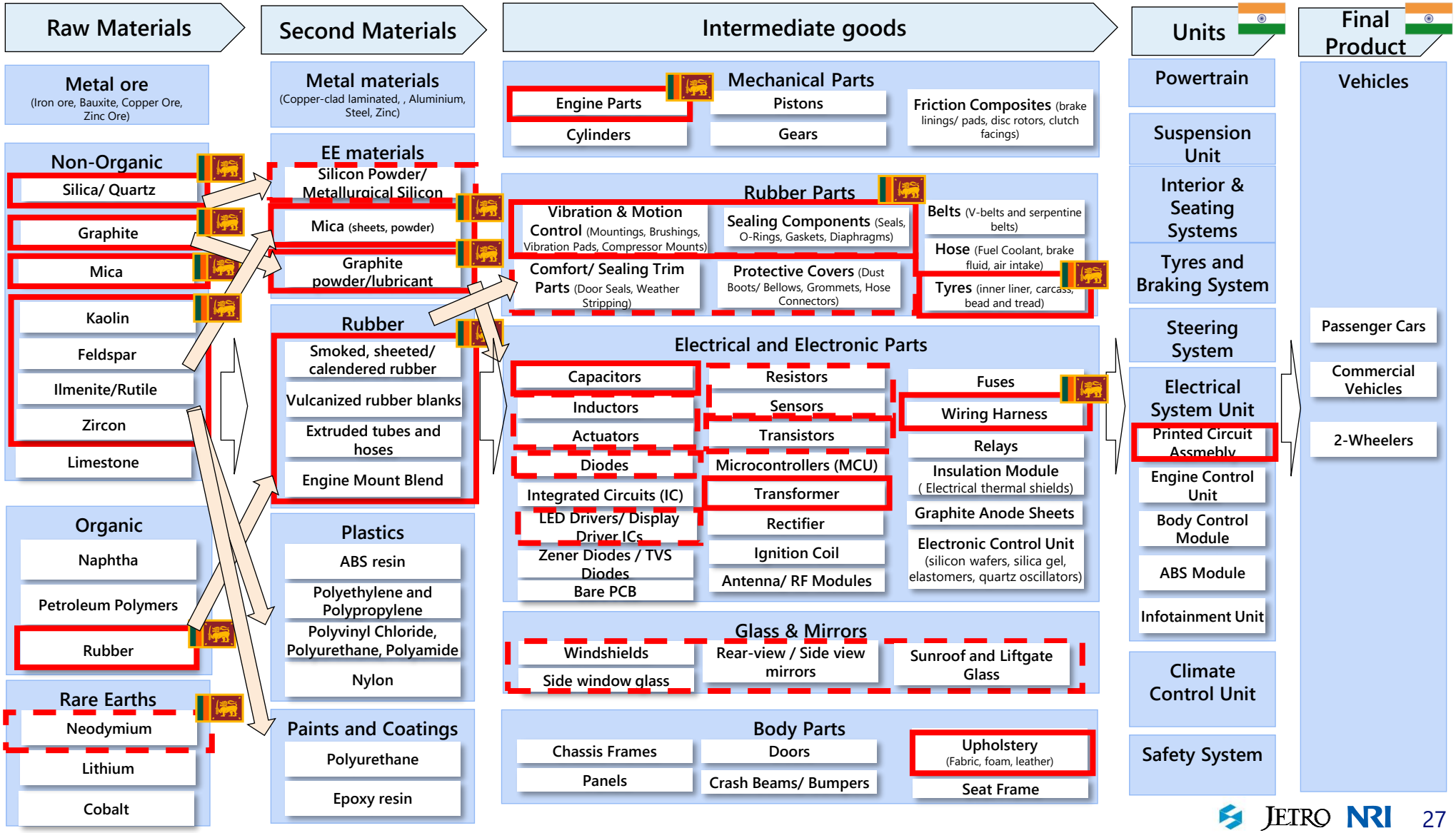


Non-exhaustive

Global Supply Chain | Automotive Components

Sri Lanka's strength in the automotive supply chain allows it to manufacture and supply several key components and materials.

Existing Capability | Potential Capability

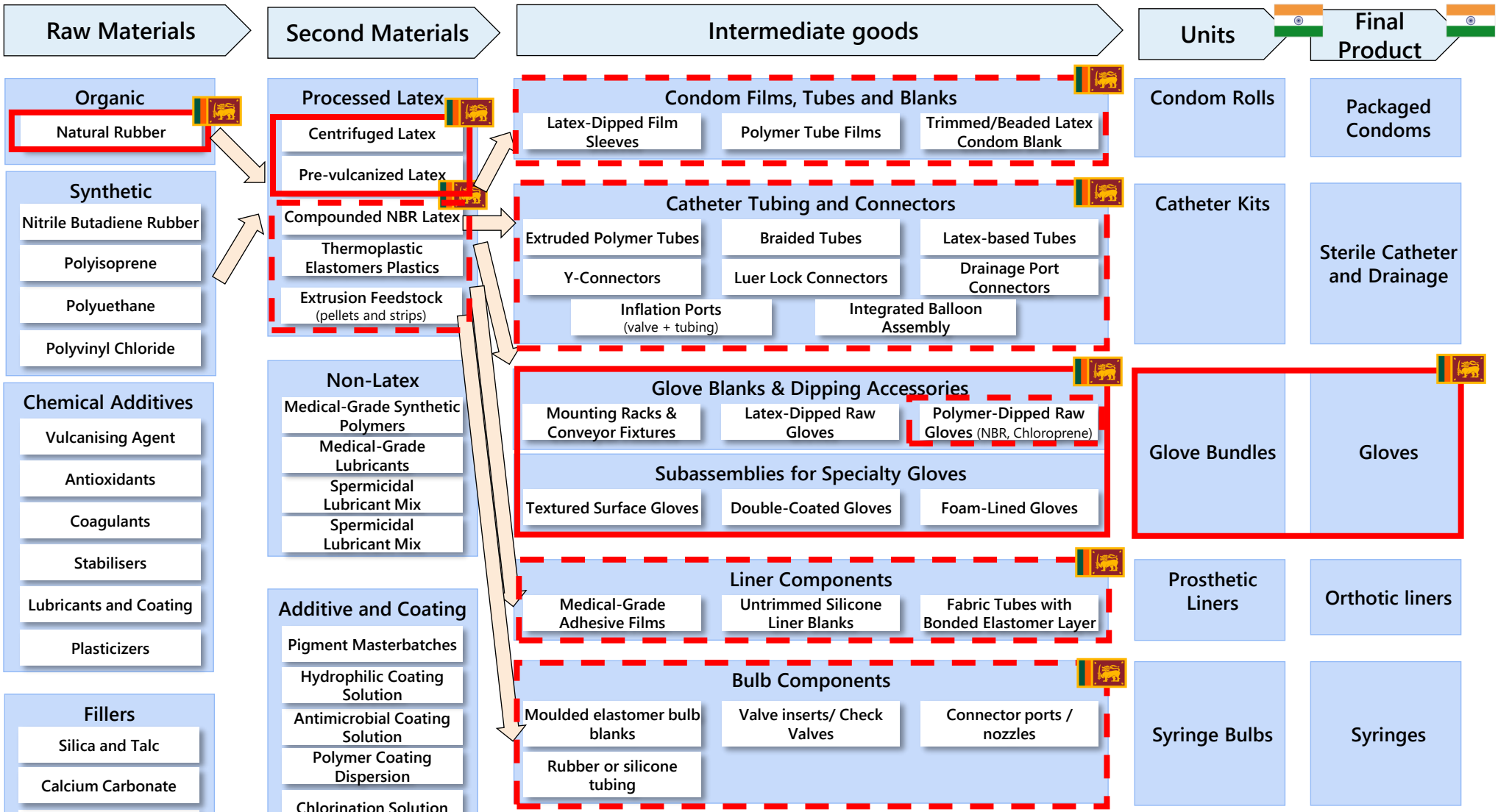


Non-exhaustive

Global Supply Chain | Consumable Medical Devices

Sri Lanka can leverage established rubber industry to diversify into high value rubbers segments for medical consumables

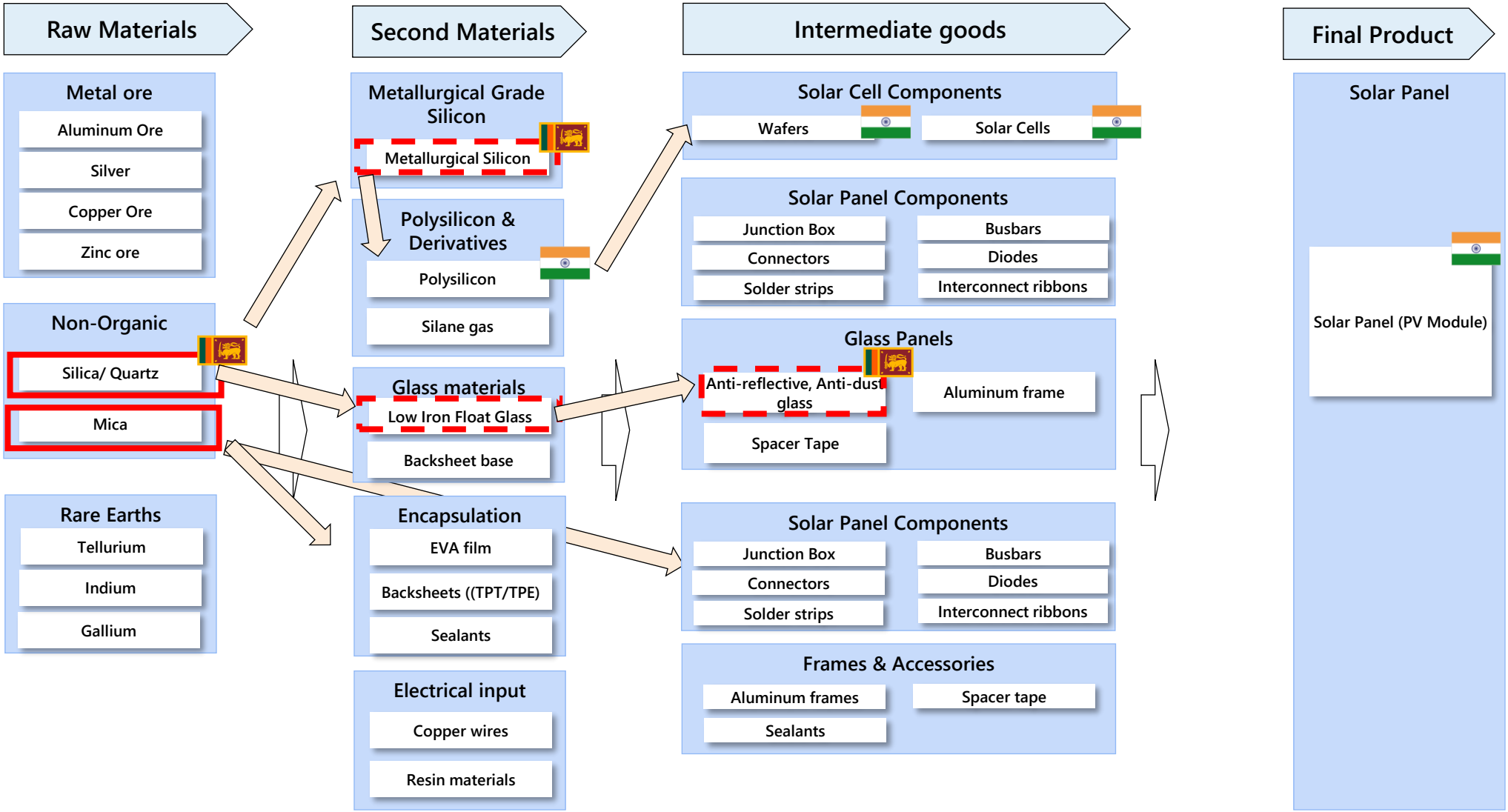
Existing Capability | Potential Capability



Global Supply Chain | Solar Panel

Sri Lanka's high quality silica can be leveraged for supply to solar wafer manufacturers in India, anti-reflective anti-dust glass can also be explored

Existing Capability | Potential Capability



Non-exhaustive

Global Supply Chain | EV Battery

Sri Lanka's high-quality vein graphite can be leveraged to make battery anode materials for supply to cell manufacturers in India for EV and BESS

Existing Capability | Potential Capability

Raw Materials

Metals
- Copper
- Nickel
- Cobalt
- Manganese
- Aluminum
- Zinc, Tin
- Iron Ore

Non-Organic
- Graphite
- Silica/ Quartz

Non-Metallic Minerals
- Phosphorus

Oil & Gas
- Naphtha
- Natural Gas

Rare Earths
- Lithium

Second Materials

Anode Material
- Spherical Graphite
- Hard Carbon
- Silicon Oxide (SiOx) Additive

Cathode Material
- Lithium Iron Phosphate (LFP)
- NMC Precursor (Ni-Mn-Co blends)

Battery Chemicals
- Lithium carbonate/hydroxide
- Nickel sulfate
- Cobalt sulfate
- Manganese sulfate

Polymers/ Binders
- Polyvinylidene Fluoride (PVDF)
- Polyethylene (PE)
- Polypropylene (PP)
- Epoxy Resin

Electrolyte Salts
- Lithium Hexafluorophosphate
- Lithium Tetrafluoroborate ($LiBF_4$)

Intermediate goods

Electrode Components
- Anode
- Cathode

Electrolyte Formulations
- Blended solvents
- Additives

Other Cell Components
- Separator Film
- Aluminum Foil
- Copper Foil
- Pouch/Cylinder/ Prismatic Casing
- Tinned Copper Wires
- Nickel Tabs / Strips
- Fuses / Circuit Breakers
- Busbars
- Connectors
- Terminals
- Adhesive Tapes
- Aluminum Laminates
- Steel Shells

Units

Cells
Cylindrical Cells, Prismatic Cells, Pouch Cells

Battery Module Assemblies

Battery Pack Assemblies

Thermal Management System
Cooling Plates, Heat Spreaders, Gap Fillers

Battery Management System
Battery Monitoring ICs, Sensors, Wiring Harness

Final Product

- Passenger EVs
- Electric Two-Wheelers
- Electric Three Wheelers
- Energy Storage Systems (ESS)

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Realizing this initiative requires overcoming various infrastructure and soft issues

- Successful implementation of this initiative requires addressing a series of systemic challenges, categorized as “hard” and “soft” issues.
- The hard issues include logistical inefficiencies such as delays and high costs in transporting goods to and from Colombo Port due to capacity limitations and inadequate road/rail connectivity, various energy constraints, and high mineral processing inefficiencies. The implementation plan will be proposed for addressing these issues involves expanding and modernizing port facilities, improving national transport networks, enhancing energy infrastructure to ensure reliability and affordability, and establishing dedicated industrial processing zones with mutually beneficial royalty structures.
- The soft issues include regulatory complexity from burdensome and complex approval processes that require streamlined dialogue and digital solutions for regulatory clarity, a recognized gap in mutual understanding and awareness between Sri Lankan and Indian business and regulatory practices, and investment policy gaps that highlight the need for comprehensive investment incentive schemes to attract domestic and foreign capital, and for streamlined certification processes to facilitate smooth trade. The path forward requires fostering better communication among public and private stakeholders, enhancing regulatory transparency through digitalization, and implementing targeted incentive frameworks to attract and retain the necessary capital and expertise for the corridor's success.

Issues

Listed here are issues that needs to be solved to realize the economic corridor

Issues each target sector face when exporting to India

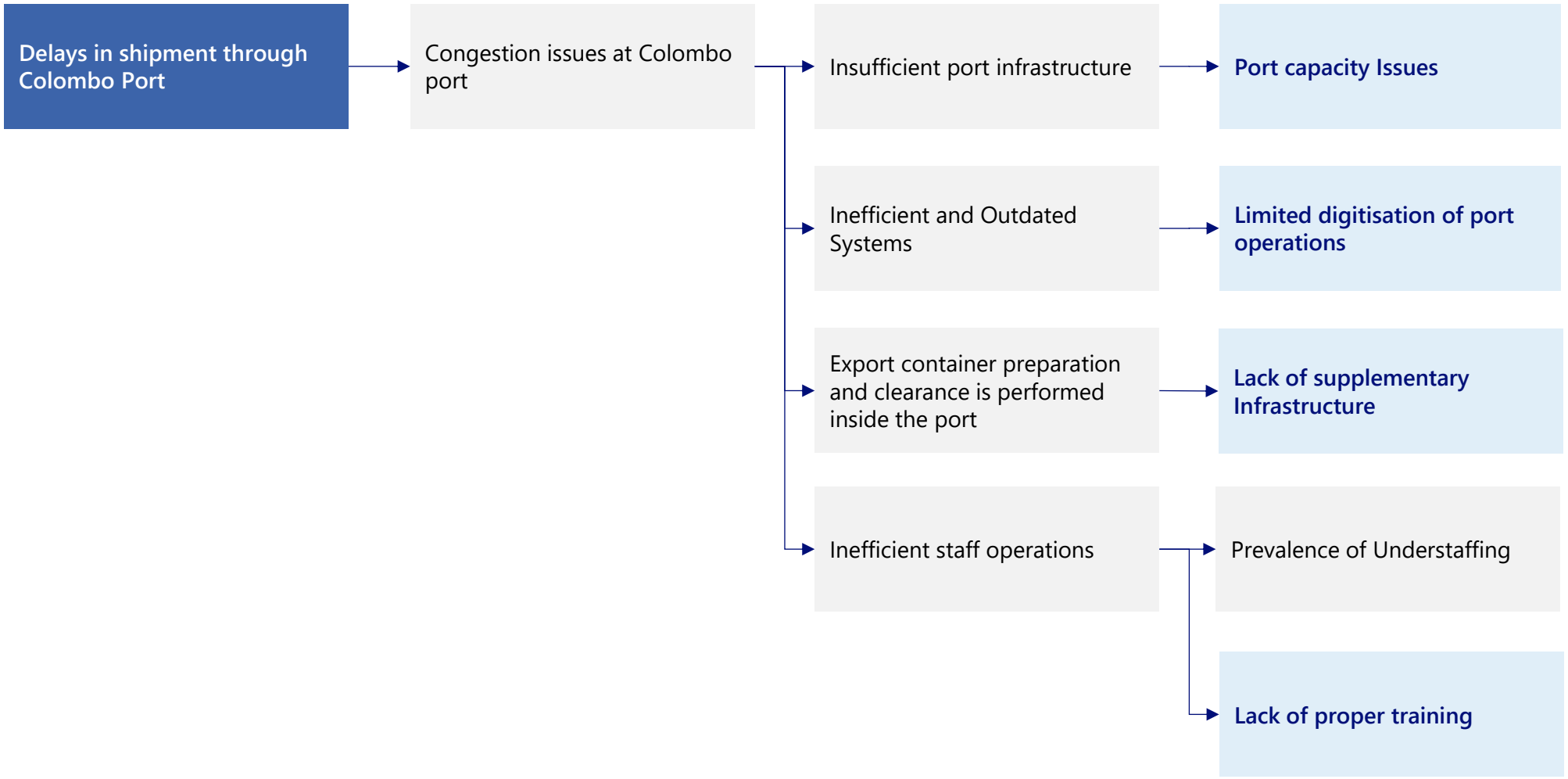
In Sri Lanka | In India | In other country

	Collecting raw materials	Processing raw materials / Production of intermediate goods		Domestic Transportation	Sri Lanka Customs/ Export process	International transportation	India Customs/ Import Process	Domestic Transportation	Production of final goods
Electrical and electronic components	• Highly dependent on imports • High tax on imported raw materials	• Huge workforce migration • Fluctuating electricity supply with rising cost • Rising minimum wages • High corporate tax • Lacks the technology to make value-added products • Inconsistency in govt. policies such as change in taxes, tariffs/ para-tariffs, business regulations, etc.		• High cost and time for transporting to Colombo Port due to weak road connectivity and unavailability for alternate modes of cargo transportation	• Lack of digitisation of processes requiring manual documentation and risk of corruption • Lack of skilled workforce • Application of Ports and Airports Development Levy (PAL) for imported goods in some cases for exporting companies, despite being eligible for tax exemption • No clear standards for Country of Origin classification by Sri Lanka	• Delays in shipment through Colombo Port due to insufficient port and supplementary infrastructure, and lack of digitisation	• Need 35% Value add to be approved for FTA, India specific certifications are needed		• Components need to be price competitive • Govt. focus on making components locally • Stringent vendor onboarding criterial from by OEM
Mineral Product	• Challenges in accessing minerals due to complex and inefficient processes for obtaining licenses, short validity, etc.		• High investment is needed • Lacks proper environmental guidelines • Lacks R&D labs				• Need 35% Value add to be approved for FTA, India specific certifications are needed		• Stringent vendor onboarding criterial from by OEM • Difficult to change supplier for high-end use in products like semiconductors, solar panels
Natural resources (Rubber components)	• Not self-sufficient in meeting rubber demand • Import dependent for other raw materials						• India specific certifications are needed • Inspection of each container to avoid import of restricted rubber tyres		• Components need to be price competitive to India/ existing imports • Govt. focus promoting domestic manufacturing of components • Stringent vendor onboarding criterial from by OEM

Source: Industry Discussions

Exporters face delays in shipment through Colombo Port due to capacity issues, limited digitization of operations, lack of supporting infrastructure & inefficient HR operations

Issue Breakdown



Source: Industry Discussions

Possible solution ideas for key issues related to delays in shipment through Colombo Port

Issue and Solution Ideas

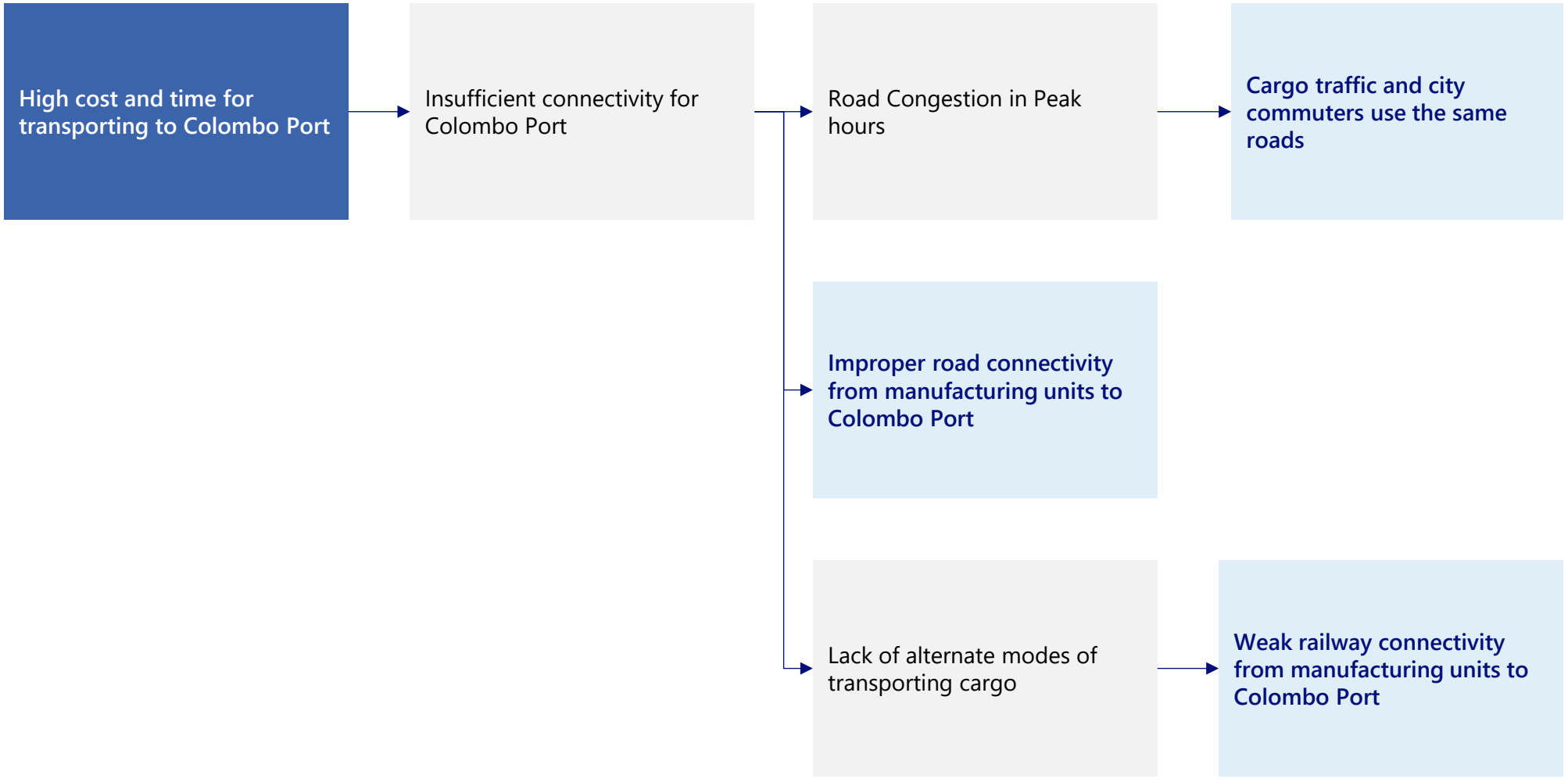
Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
Medium	Port Capacity Issues	• Facing delays in container and vessel movements for imported products in the Colombo Port • Less-than-Container (LCL) cargo handling is inefficient with old infrastructure, equipment and processes • Customs clearance process is inefficient and requires manual intervention and physical discussions with officers • No single-window system for managing and tracking shipments, documentation, clearances, etc. • All processes like consolidation, shipment preparation, customs clearance, etc. related to the export needs to be conducted inside the port leading to congestion within the port • Inefficiencies from workforce in ports and customs • Lack of visibility in cargo movement	• **Expanding port capacity**	• Constructing new terminals or expanding existing terminals
			• **Improvement in port roads**	• Widening of internal port roads
			• **Modernisation of equipment & machinery**	• Modernised cranes/ forklifts, automated gates
High	Limited digitisation of port operations		• **Integrated Digital system**	• Single window clearance, berth allocation & scheduling, yard management system, etc.
			• **Digital truck appointment and tracking systems**	• Digitalised system to ensure effective booking and cargo tracking
Medium	Lack of supplementary Infrastructure		• **Inland Container Depot**	• For consolidation, preparation and pre-arrival custom clearance
Medium	Lack of proper training		• **Sharing of knowledge and best practices**	• Benchmark successful countries and collaborate for training and best-practices

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions

Source: Industry Discussions

High cost and time for transporting to Colombo Port is incurred due to high traffic, improper road and railway connectivity from industrial areas to the port

Issue Breakdown



Source: Industry Discussions

Possible solution ideas for key issues related to high cost and time for transporting to Colombo Port

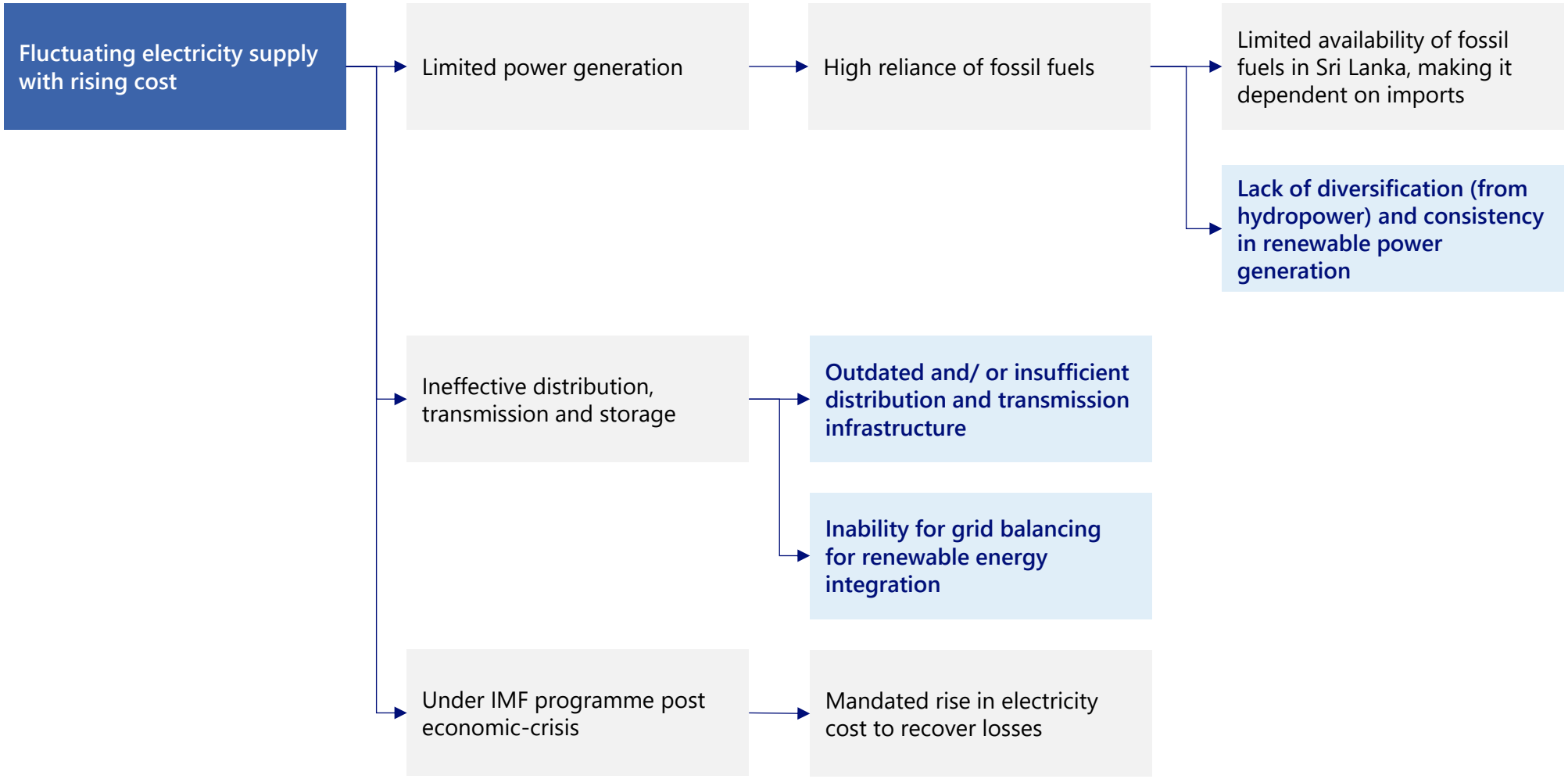
Issue and Solution Ideas

Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
High	Cargo traffic and city commuters use the same roads	• Traffic jams, especially in the peak hours of 4 PM- 7 PM, leads to significant delay in cargo movement and high costs • Direct road connectivity from manufacturing units/ industrial zones to the port is not available, with issues like poor road condition, roads moving through town/ city roads, and single lane roads, contribute to inefficiencies and delays • High cost of transportation from the mining/ mineral processing areas to the expressways	• **Promote off-peak hours cargo movement**	Automated trucking system with slot-based scheduling and off-peak discounts
			• **Build new expressways/ highways**	• Connecting the Colombo Port and key industrial zones and mineral processing units
Medium	Improper road connectivity from manufacturing units to Colombo Port		• **Upgradation/ construction of arterial roads**	• To connect Industrial zones/ mineral processing units with the expressways/ highways
Medium	Weak railway connectivity from manufacturing units to Colombo Port	• Industry does not have any alternate modes of transporting cargo, with the existing rail infrastructure not being adequate in terms of connectivity from industrial zones to ports • Even the existing railway lines are outdated/ unsuitable for handling cargo	• **Direct rail freight connectivity**	• Connect rail with terminal inside Colombo Port connecting rail service from key Industrial Zones
			• **Upgradation and modernization of existing railway lines**	• Capacity improvements, Electrification, digitized traffic control & signalling, rail siding for cargo loading/ unloading

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions
Source: Industry Discussions

The electricity supply is unstable with rising cost resulting from insufficient renewable energy diversification, outdated infrastructure and limited grid balancing capability

Issue Breakdown



Source: Industry Discussions

Possible solution ideas for key issues related to fluctuating electricity supply with rising cost

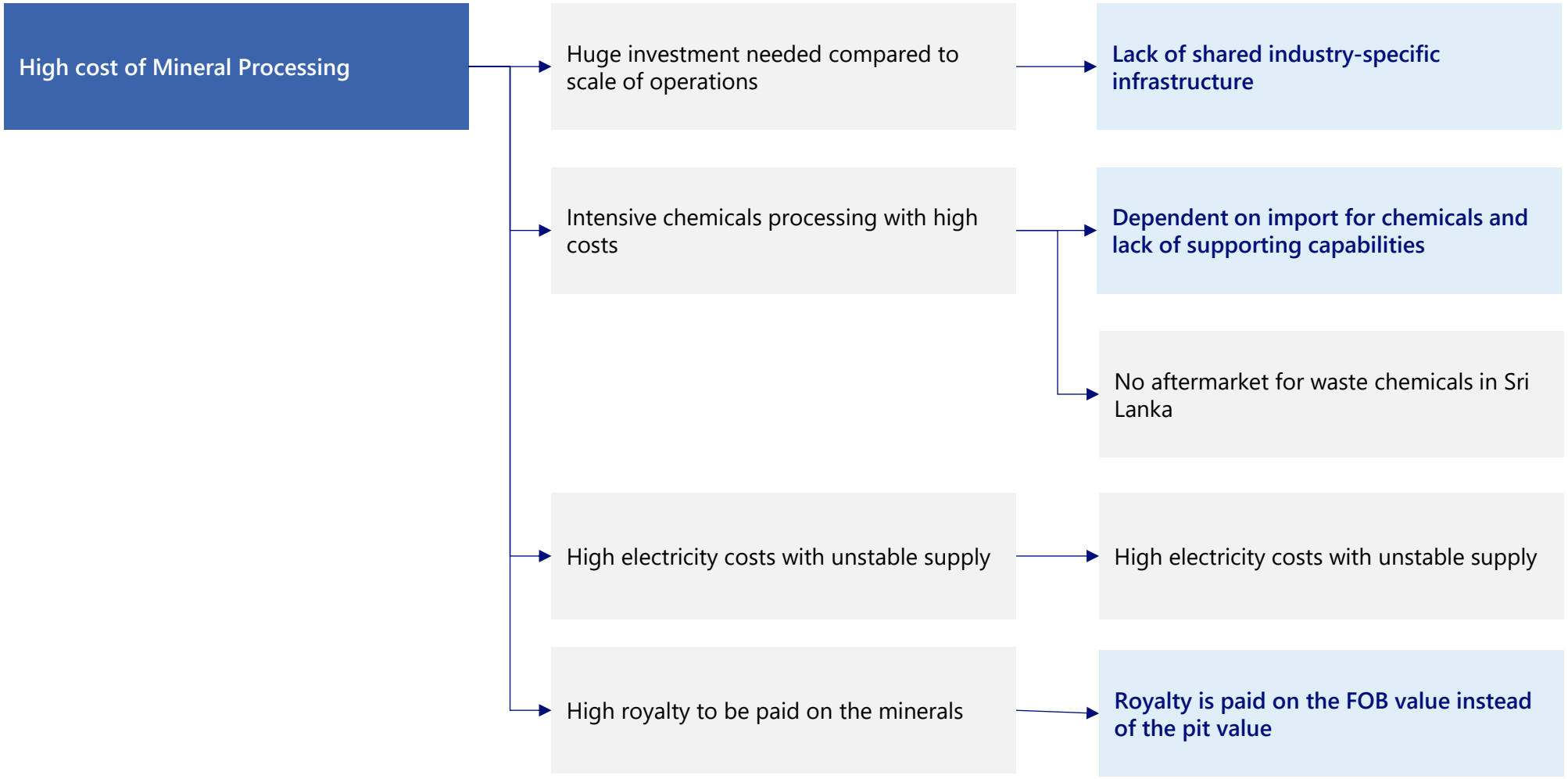
Issue and Solution Ideas

Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
High	Insufficient renewable energy diversification	• Sri Lanka's cost of electricity is constantly rising, driven by the IMF programme to help Sri Lanka recover from the recent economic crisis • The increased cost is affecting all manufacturing companies, and making Sri Lanka less cost competitive • The situation of electricity supply making it challenging and expensive to operate value-added processing with intensive energy needs, such as mineral processing	• **Expansion and diversification of renewable energy generation**	• Scale up utility solar power and wind farms • Develop hybrid solar–wind–hydro plants to optimize energy balance • Boost small & micro-hydro
High	Outdated and/ or insufficient distribution and transmission infrastructure		• **Strengthening of the transmission infrastructure**	• Expansion of transmission infrastructure • Grid automation with SCADA and real-time monitoring systems
Medium	Inability for grid balancing for renewable energy integration		• **Grid integration and storage systems for renewable energy**	• Implementation of Battery Energy Storage Systems (BESS), hydro-pumped storage

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions
Source: Industry Discussions

Mineral processing is not cost effective due to import dependence and lack of after-market for chemicals, lack of shared infrastructure and high cost of electricity & royalty

Issue Breakdown



Source: Industry Discussions

Possible solution ideas for key issues related to high cost of mineral processing

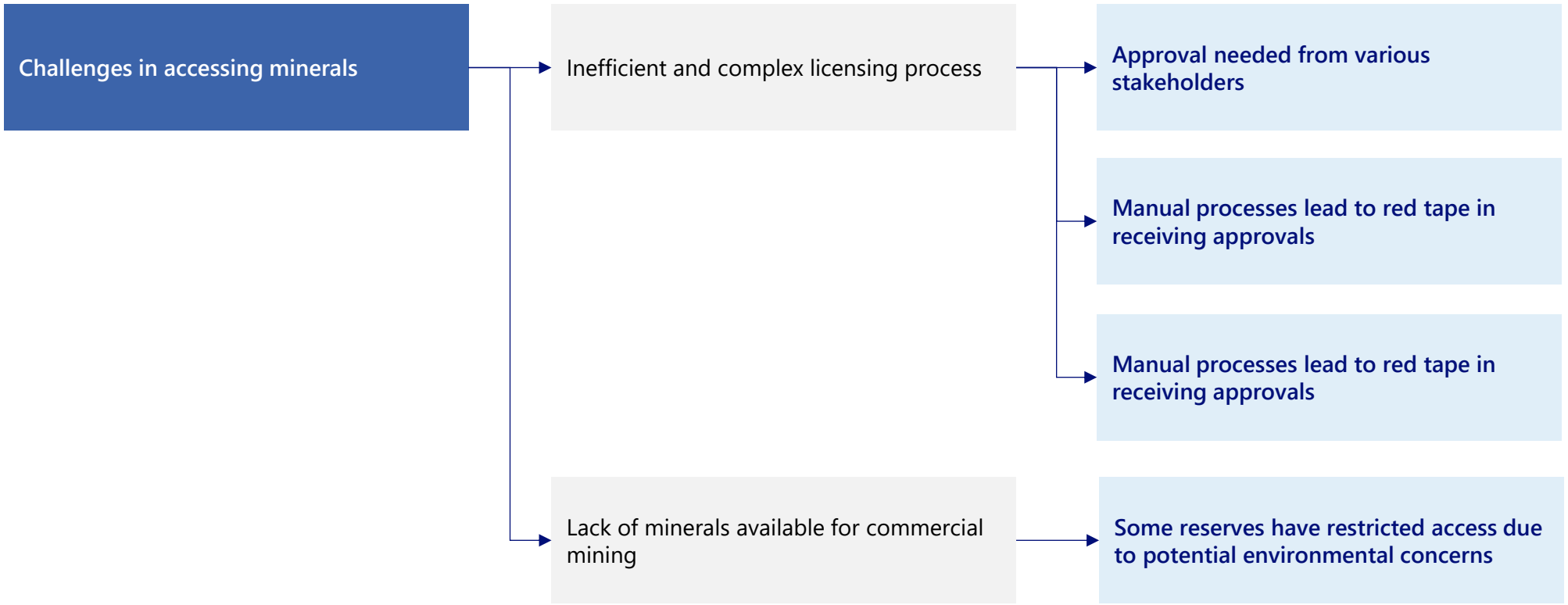
Issue and Solution Ideas

Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
High	Lack of shared industry-specific infrastructure for minerals processing	• Mineral processing requires huge investment for long run. To attract foreign investor, dedicated zones can help build confidence in government intent, and reduce investments needed • R&D infrastructure is not strong, with reliance on foreign labs for new developments	• **Dedicated Mineral Processing Zone**	• Dedicated Mineral Processing Zone, with stable electricity supply, strong port connectivity and R&D labs
Medium	Dependent on import for chemicals and lack of supporting capabilities	• Sri Lanka's chemical industry is very nascent. Key chemicals needed for processing needs to be imported, leading to increased costs • Lack of proper infrastructure for chemical imports like vessels, storage facility • Limited availability of skilled technicians with experience in chemical handling		• Integration of chemical processing in the dedicated mineral zone
			• **Import duty exemption**	• Duty exemption on imported chemicals for mineral processing
Medium	Royalty is paid on the FOB value instead of the pit value	• Royalty is paid on FOB value compared to global standard of paying on pit value. It leads to increased cost, making exports less competitive	• **Charge royalty as per the international standards**	• Benchmark global regulations and best practices for setting the local regulations

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions
Source: Industry Discussions

Another issue for mineral processing is reliable access to minerals due to complex mining regulations, short license validity and restricted access

Issue Breakdown



Possible solution ideas for key issues related to access to minerals

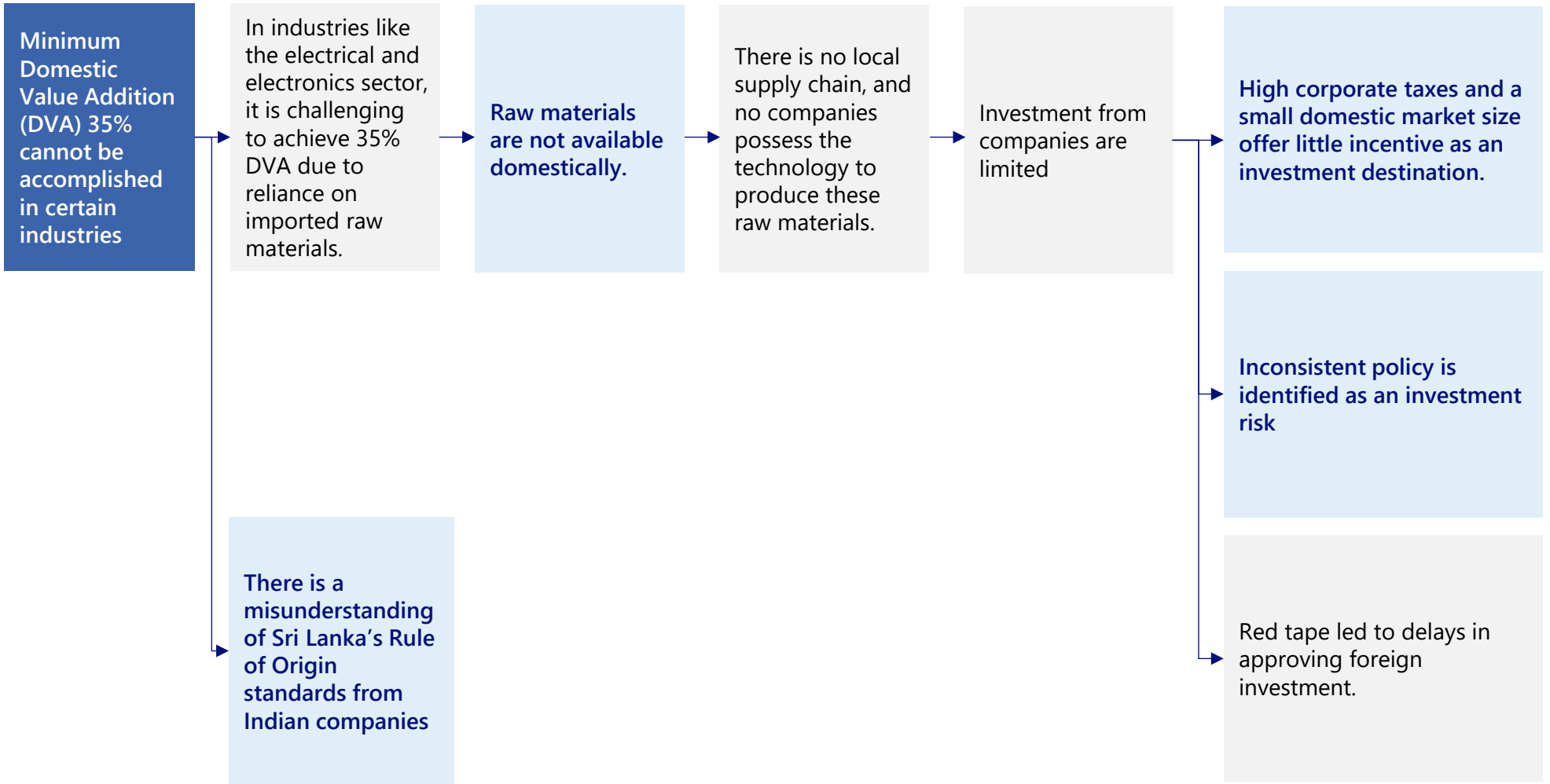
Issue and Solution Ideas

Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
Medium	Approval needed from various stakeholders	• Mining requires licensing at each stage from exploration to export, with various stakeholders involved in each step of the process • Inefficient and complex licensing process makes it difficult to get the license	• **Single window clearance with digitalized processes for licensing and renewals**	• Single-window resolution with online documentation for mining licenses across all the steps
High	Manual processes lead to red tape	• Manual processes for licensing as well as renewal leads to red tape and delays		
High	License validity is of short duration and the criteria is not well-defined	• License validity for mining could be as short as 1 year • License validity varies across players, with lack of pre-defined assessment criteria • Shorter period licensing deters long term investment in processing due to risk of reliable and continuous access to minerals	• **Standardised criteria for license validity, with possibility for long term licenses**	• Benchmark global standards for license renewal process and duration
Medium	Some reserves have restricted access due to potential environmental concerns	• Various mines are not accessible/ commercially accessible due to habitation of people/ animals nearby or due to being reserved under forest reserves	• **Explore possibility of opening more reserves with limited impact**	• Objectively assess the environmental and economic impact of opening up more mines • Further exploration to identify mines

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions
Source: Industry Discussions

High reliance on imported raw materials and lack of investment from foreign companies makes it difficult for companies to achieve 35% DVA

Issue Breakdown



Possible solution ideas for key issues related to reliance on imported materials

Issue and Solution Ideas

Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
High	Raw materials are not available domestically, so certain industries rely on imported materials.	• Industries like the electrical and electronics sector, which rely on imported raw materials not available in Sri Lanka, primarily conduct assembly processes domestically. • With these processes alone, it is challenging to achieve 35% value addition. • Despite having competitive products that could be exported to India, the inability to utilize the FTA leads to tariffs, often making it difficult to compete on cost. *(June 2025, Chamber of Commerce Sri Lanka)*	• **Reduction of DVA percentage on specific products**	• Reduce the DVA criterion from current 35% to 25% for specific products (such as electronics)
			• **Relaxation of DVA with Indian input**	• Reduce the minimum DVA in Sri Lanka to 15~20% from 25% for products with Indian input
			• **Add "OR" option for DVA and Change of Tariff Heading (CTH)**	• Establish "OR" option between "DVA 35%" and "CTH 4-digit"
			• **Strengthen the Accumulation Rules to Full Accumulation**	• Introduce "Full Accumulation," where if "originating goods" produced in India are used as raw materials in Sri Lanka, those Indian originating goods are treated as if they were produced in Sri Lanka for the purpose of calculating Sri Lankan value addition.

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions
Source: Industry Discussions

Possible solution ideas for key issues related to reliance on imported materials

Issue and Solution Ideas

Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
High	**There is a misunderstanding of Sri Lanka's Rule of Origin standards from Indian companies**	• The standards from Sri Lanka regarding Rules of Origin is unclear which makes it difficult to confirm whether FTA conditions are met. *(Indian Company)*	• **Development of Detailed Guidelines**	• Develop detailed and specific guidelines regarding the Rules of Origin under the ISFTA • Publish FAQs that provide concrete answers to common questions companies may have (e.g., how specific processing steps affect origin criteria, how to handle raw materials from multiple countries).

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions

Source: Industry Discussions

Possible solution ideas for key issues related to low investment from companies

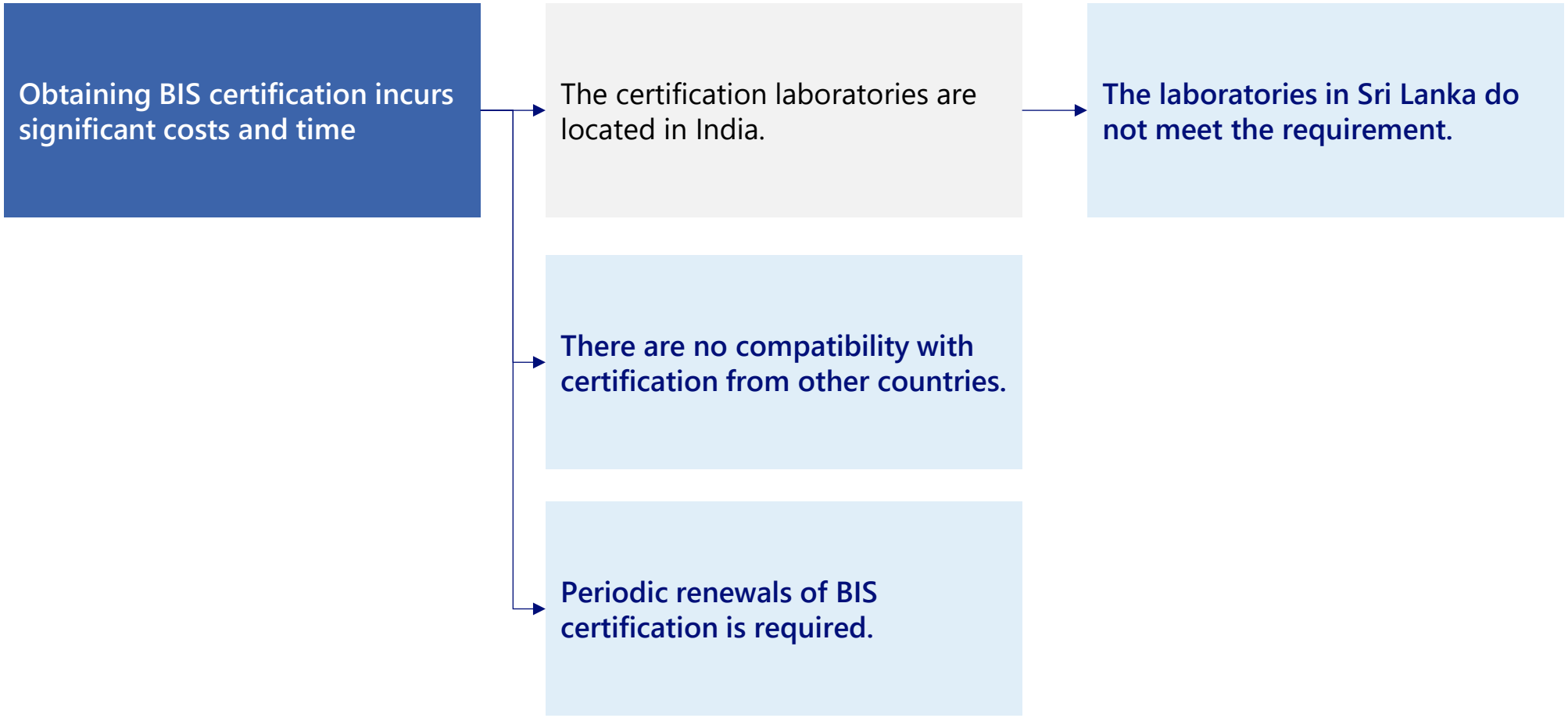
Issue and Solution Ideas

`	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
High	**High corporate taxes and a small domestic market size offer little incentive as an investment destination.**	• Post the economic crisis, Sri Lanka is under recovery program by IMF, which is leading to rising costs of business operation due to increase in corporate tax *(June 2025, Ministries of Sri Lanka)* • When considering about extending to Asian markets, limited market size makes it deprioritize than other countries *(June 2025, Indian company)*	• **Introduce Corporate tax benefits**	• Reduced tax rates or introduce tax holiday which exempts corporate income tax for a specific period • Deduct tax for profits reinvested domestically • Deduct tax for research and development expenses
			• **Exemption / Reduction of import duties**	• Exemption or significant reduction of customs duties on imported machinery, raw materials, and components.
			• **Development of SEZ with regulatory relaxation**	• Develop dedicated zones where certain regulations for the specific industry is eased
			• **Capital incentives**	• Develop capital incentives such as renting land for low cost

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions
Source: Industry Discussions

The cost and time to get BIS certification is due to the lack of testing centers within Sri Lanka and incompatibility with other certifications

Issue Breakdown



Possible solution ideas for key issues related to certification

Issue and Solution Ideas

Priority	Issue	Comments from industries / Evidence	Solution idea	Solution idea description
High	The laboratories in Sri Lanka do not meet the requirement.	• Sri Lanka has been negotiating with BIS, but they have not approved Sri Lankan laboratories. *(June 2025, Ministries of Sri Lanka)* • Although BIS states the criteria for BIS certifications labs outside India, they have not approved any yet.	• **Check with BIS on precise requirements for BIS certification labs**	• Discuss with BIS on government level, about the precise criteria and possibilities of approving BIS certification labs outside India
High	There are no compatibility with certification from other countries.	• BIS certification has no compatibility with other certifications including global certifications	• **Introduce Mutual Recognition Agreement (MRA)**	• Introduce MRA between Sri Lanka and India so acquiring certification in Sri Lanka would be enough for domestic companies to export to India
Low	Periodic renewals of BIS certification is required.	• For automotive parts, certification from the Automotive Research Association of India (ARAI) is required, and annual renewal is demanded. (*June 2025, Automotive Parts Manufacturers' Association*) • Although tests are not required when renewing the certification, the cost is still high which hinders exports to India. (*June 2025, Sri Lanka Exporters Association*)	• **Align the frequency of certification renewals with international certification schemes.**	• For some BIS certifications that currently require more frequent renewals, aligning their renewal frequency with international certification schemes will lead to reduced costs for businesses.

Note: The solution ideas are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions
Source: Industry Discussions

Agenda

- Background
- Target Sectors for the Conceptual Roadmap
- Global Supply Chain for Sri Lanka to enter
- Issues, Current Projects, and Solution Ideas to realize the Economic Corridor
- **Economic Effect of the Conceptual Roadmap**
- Next Steps

Resolving some key issues is expected to have a strong positive impact on Sri Lanka with 9.3% growth in GDP along with 1.3% growth in India's GDP by 2030

- The estimated economic impact upon the realization of this initiative is substantial for Sri Lanka, with positive effects projected across all its regions.
- Compared to a scenario where the initiative is not realized, it is projected to increase Sri Lanka's GDP by 9.3% in 2030, stemming from increased trade and enhanced supply chain integration as the aforementioned issues are resolved.
- This initiative is also expected to have a positive economic impact on India, projected to increase its GDP by 1.28% in 2030. Overall, these significant economic benefits for both nations are anticipated through the comprehensive improvements and opportunities fostered by the corridor's realization.

Scenarios for Economic Simulation

The economic simulation is conducted based on 2 scenarios- (1) As is scenario, hard issues resolved and (2) Conceptual Roadmap Implementation Scenario

■ The analysis is conducted based on two scenarios, and by using the IDE-GSM (Geographical Simulation Model)

Conditions for Economic Simulation

Scenario 1 **As-Is Scenario**	Expected growth in exports from Sri Lanka to India without Conceptual Roadmap Implementation
Scenario 2 **Conceptual Roadmap Implementation Scenario** A + B	Expected growth in exports from Sri Lanka to India if both the hard and soft issues identified in the Conceptual Roadmap are resolved

Issues to be Resolved

A — Hard Issues

Lack of supplementary Infrastructure	• Improvement of land transport between Colombo and Colombo Port • Improvement of land transport between Kandy and Colombo • Improvement of sea transport between Colombo Port and Chennai Port • Productivity improvement
Cargo traffic and city commuters use the same roads`	
Insufficient renewable energy generation	
Outdated and/ or insufficient distribution and transmission infrastructure	
Lack of shared industry-specific infrastructure for minerals processing	

B — Soft Issues

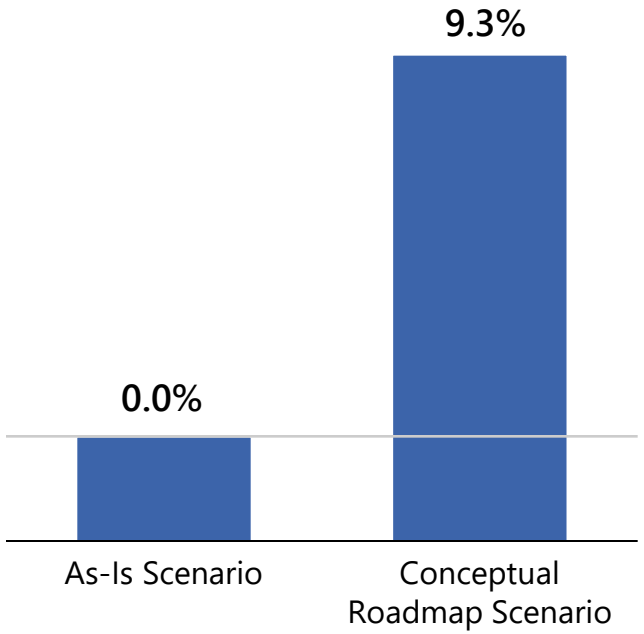
Limited digitisation of port operations	• Further improvement of productivity • Reduction of non-tariff barriers between Sri Lanka and India
License validity is of short duration and the criteria is not well-defined	
Raw materials are not available domestically	
High corporate taxes and a small domestic market size offer little incentive as an investment destination	
The laboratories in Sri Lanka do not meet the requirement	
Periodic renewals of BIS certification is required	

Note: The solutions are for consideration purposes. There is currently no commitment from any stakeholder to incorporate these solutions

Economic Effect of the Conceptual Roadmap

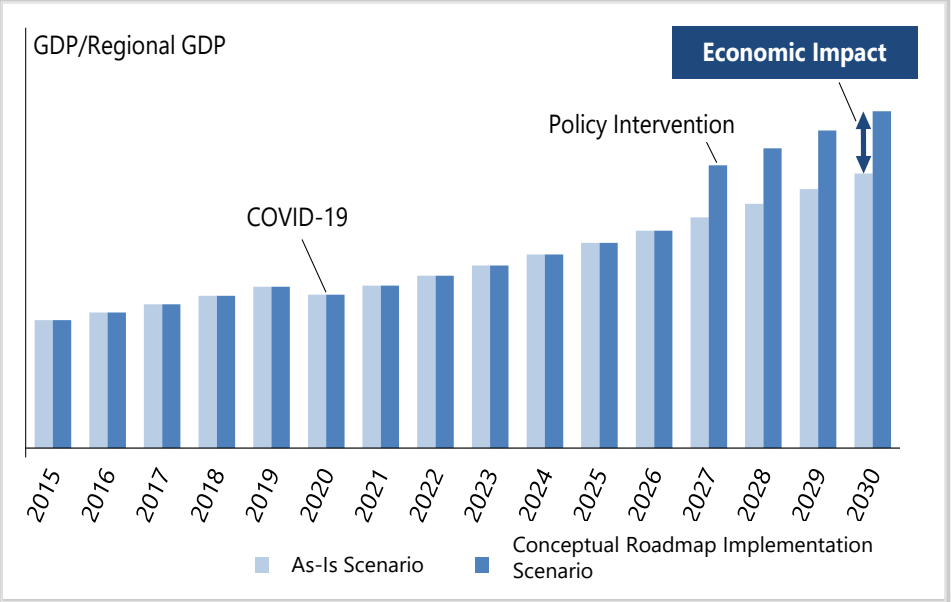
The estimated economic impact upon the realization of this initiative is expected to be 9.3% growth in Sri Lanka's GDP by 2030

Economic Impacts on Sri Lanka's GDP (2030)



Resolving the issues is expected to have significant positive impact on Sri Lanka's economy, with ~9.3% growth in GDP by 2030

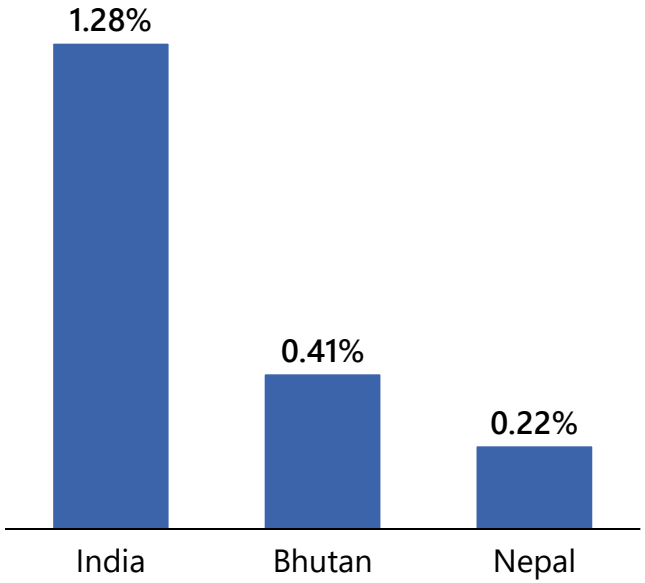
Economic Impact diagram

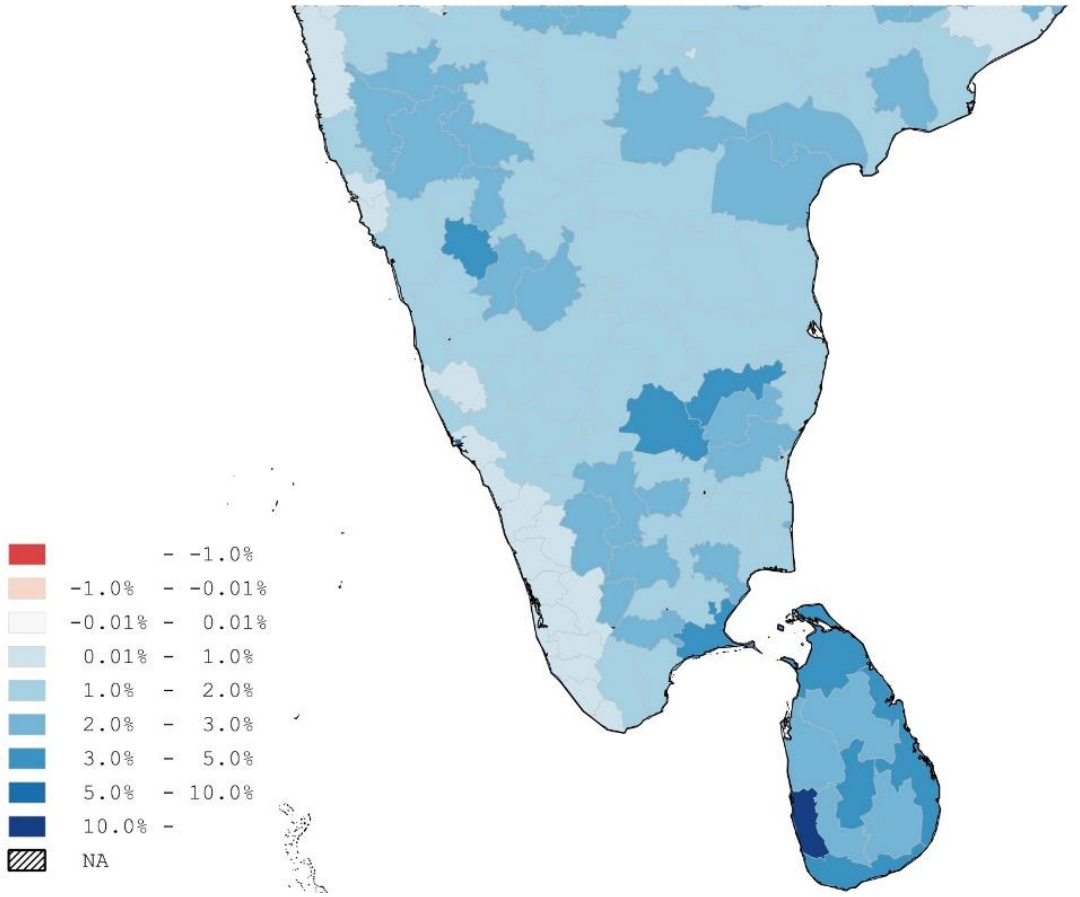


Note: Economic impact is calculated based on the differences between the As-Is scenario GDP and Conceptual Roadmap Implementation Scenario

Along with Sri Lanka's economy, the Conceptual Roadmap is expected to have positive economic impact on India and other regional countries

Economic Impact on India and other Regional Countries by 2030





Resolving the issues will benefit all regions of Sri Lanka and have a positive impact on India as well

Agenda

- Background
- Target Sectors for the Conceptual Roadmap
- Global Supply Chain for Sri Lanka to enter
- Issues, Current Projects, and Solution Ideas to realize the Economic Corridor
- Economic Effect of the Conceptual Roadmap
- **Next Steps**

Establishing dedicated platforms, including a Tripartite Business Environment Improvement Committee and Business Forums, is crucial for fostering stakeholder dialogue, addressing business issues, and promoting collaboration

- Many infrastructure-related projects are already being actively addressed by the Sri Lankan government. A critical component of this roadmap involves establishing dedicated platforms for dialogue and collaboration among key stakeholders. However, there are few things that could be organized.
- First, Business Forums could be organized between Chambers of Commerce from Sri Lanka, India, and Japan. These forums, initially government-led to ensure active participation, would serve as a crucial platform for private companies to identify and articulate all issues they face, categorizing them into those resolvable at the business level and those requiring government intervention. The primary output of these forums would be a comprehensive report detailing the issues that require government action.
- Secondly, a Trilateral Working Group is proposed to be established to foster trade by strengthening supply chains among Sri Lanka, India, and Japan with facilitation by the Ministry of Economy, Trade and Industry (METI) of Japan and the Japan External Trade Organization (JETRO). This Working Group would be consisted with high-level government officials from the three countries. Its purpose would be to facilitate discussions on implementing the proposed conceptual roadmap, which seeks to integrate regional strengths and accelerate Japanese, Sri Lankan, and Indian investment, recognizing the region's potential as a major export-oriented industrial hub with a resilient supply chain. The main agenda could include the key aspects of this conceptual roadmap including industrial cooperation, and overall direction. Meetings could be held around once a year or more, if necessary.
- Thirdly, structured bilateral meetings could be convened between Sri Lanka and India, and between Sri Lanka and Japan, respectively. To ensure continuous alignment and preparation for the tripartite meeting, biannually, bilateral meetings between Sri Lanka and Japan or Sri Lanka and India could be held. The purpose of these meetings would be to coordinate positions, share information, and discuss existing proposals and prepare new joint proposals for the tripartite discussions, ensuring a unified and effective approach. In these bilateral forums, the issues aligned in the tripartite meeting would be discussed in detail. Each country would prioritize these issues and deliberate on specific solutions.

Next Steps

To realize the economic corridor, continued public-private sector discussion between the three countries to solve the issues are important

Issues (Hard and Soft)

- Port related issues
- Road related issues
- Electricity related issues
- Mineral processing and regulation related issues
- FTA related issues
- Certification related issues

Next Steps

Current Projects
(Listed in previous pages)

Planned Projects by Sri Lankan Government

Public and Private Sector Discussions between 3 countries

- Business Forum between Chambers of Commerce of three countries
- Trilateral Working Group
- Bilateral Meetings

Next Steps

Multiple projects for capacity expansion are planned to tackle the challenge of port capacity issues, along with possibility for internal roads improvement for Colombo Port

Ongoing/ Upcoming Projects | Delays in Shipment through Colombo Port

Issue	Solution idea	Existing projects and activities	Current Status and Timeline (2025 2026 2027 2028 2029 2030)
Port Capacity Issues	• **Constructing new terminals or expanding existing terminals**	• East Container Terminal Phase 2 Development (i) Civil Project (ii) Equipment project (iii) Terminal operating System	*61% of the project is completed by 31.07.2025*
		• West Container Terminal – I Development	*Started operation of 600m quay wall with yard facilities. Full length of the quay wall (1400m) & completion of capital dredging targeted by Feb 2026*
		• West Container Terminal – II Development	*Detail design work began in April 2025, expected to complete by 2027* — *After this, procurement and western breakwater extension will follow*
		• Colombo North Port Development Project	*Development approval is in progress. Further as per requirements, additional studies will be initiated during 2025-2027*
		• Other Ports: Trincolmalee, KKS, Galle, Thalaimannar	*Guide plan is being prepared for the Trincomalee port land. India-Sri Lanka signed MOU for KKS and is under study. The Galle Port Development Project is under approval, while for Thalaimannar, land and sea limits are declared and a desktop study is underway*
	• **Improvement in port roads:** Widening of internal port roads	• Project for widening of Port Internal Roads	*Will be implemented based on the outcome of the studies incorporated in the WCT II study*
	• **Modernisation of equipment & machinery:** Modernised cranes/ forklifts, automated gates		

Source: Sri Lanka Government

Next Steps

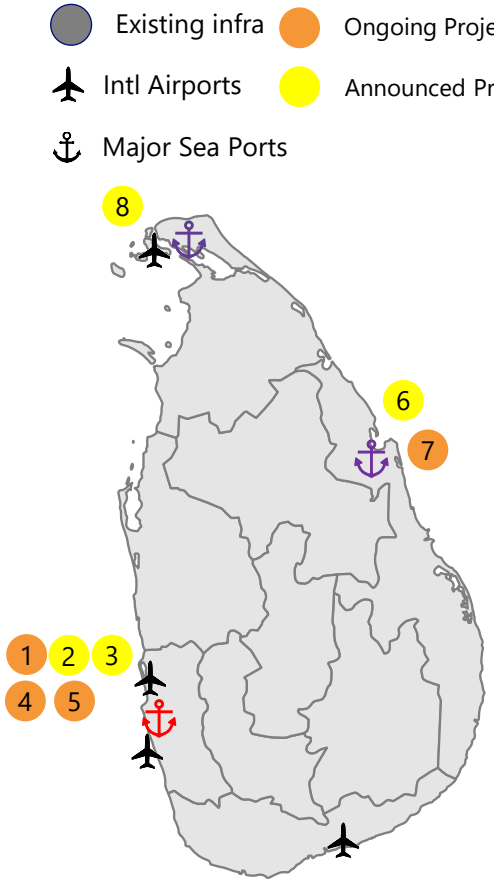
Further, various initiatives are planned for digitisation of port operations to streamline the export-import process in Sri Lanka

Ongoing/ Upcoming Projects | Delays in Shipment through Colombo Port

Issue	Solution idea	Existing projects and activities	Current Status and Timeline (2025 2026 2027 2028 2029 2030)
Limited digitalisation of port operations	• **Integrated Digital system:** Single window clearance, berth allocation & scheduling, yard management system, etc.	• Terminal Operating System (N4)	*N4 TOS is under implementation for ECT*
		• Vessel Scheduling Optimization	*Vessel scheduling optimization under discussion*
		• Electronic Data Interchange (EDI)	*EDI already in operation but limited to selected functions*
		• Port Community System (PCS)	*Cabinet paper for scope change approval has been submitted: PCS Phase I is targeted by 2026*
		• National Single Window	*Pilot initiatives ongoing. Steering Committee & Project Implementation Committee appointed under Secretary to the Treasury-MOF*
		• Yard Management Systems	*Yard management is partially manual*
	• **Digital truck appointment and tracking systems:** Digitalized system to ensure effective booking and cargo tracking	• Electronic Cargo Tracking System	*Procurement process to be initiated*
Lack of supplementary Infrastructure	• **Inland Container Depot:** For consolidation, preparation and pre-arrival custom clearance	• ASYHUB Project (Phase III)- standardised digitised system for customs (developed by UNCTAD)	
Lack of Proper Training	• **Sharing of knowledge and best practices:** Benchmark successful countries and collaborate for training and best-practices		

Source: Sri Lanka Government

Colombo port East terminal is being expanded; Colombo port road widening, development of Colombo WCT and North Port are significant projects



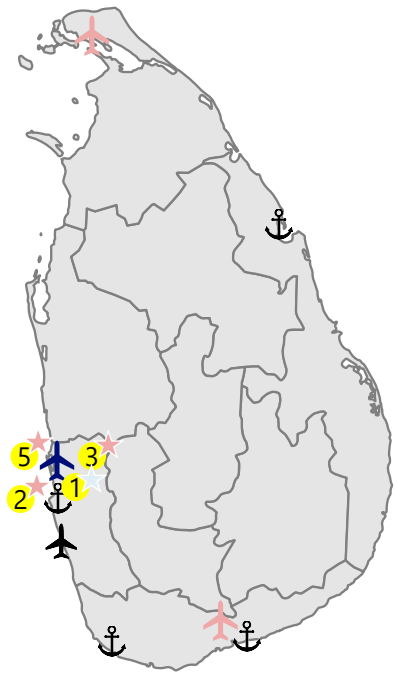
	Name	Location	Scale	Players Involved	Timelines	Significance
1	Colombo Port - East Container Terminal Phase 2	Colombo Port	72 ha	Access Engineering, China Harbour Engineering Company	2016-2025	Development project to increase accommodating capacity of carriers
2	Colombo Port - Extension of Breakwater for West Container Terminal - II (WCT-II)	Colombo Port	1200m-1400m quay wall	Requested Expression of Interests (EOI)	2025-2030 (Announced)	Enables a deep-water container terminal and set ground-work for WCT II
3	Consultancy Service for Feasibility study for the Colombo North Port Development Project	Colombo Port	N/A	Private Public Partnership is expected	Feasibility study submitted in 2024	It is planned to develop Colombo North Port after completion of projects in Colombo port. Partners yet to be decided.
4	Colombo Port - South Asia Commercial and Logistic Hub (SACLH)	Colombo Port	storage capacity of 530,000 m^3	China Merchants Port Holdings, SLPA, Access Engineering	2023-2025 (Ongoing)	Expected to become the largest logistics complex in South Asia
5	Colombo Port - Widening of Port Internal Roads	Colombo Port	N/A	SLPA	2020-2024	Internal road construction at Colombo port
6	Trincomalee Port Development Projects	Trincomalee Port	N/A	India, Sri Lanka, UAE	Tripartite agreement announced in April 2025	As the outcome of India-Sri Lanka summit in April 2025, tripartite agreement to develop the port as energy hub was announced
7	Development work at the Port of Trincomalee	Trincomalee Port	N/A	SLPA	2023-Ongoing	May increase the strategic importance of Trincomalee Port
8	Kankasanthurai (KKS) Port Development	Kankasanthurai (KKS) Port	N/A	SLPA, India	Consultant work initiated in 2020	Indian government confirmed to provide a full grant

Note: Projects from South and South-east Colombo are not included as they are not in the focus region

Current Projects to solve the issues | Ports

Sri Lanka is planning to decongest Colombo Port through digital systems like Port Community System and through logistics hubs for efficient cargo handling and clearance

Existing infra
Ongoing Projects
Intl Airports
Announced Projects
Major Sea Ports



ExIm Bank India
JICA
World Bank
ADB
China
AIIB
Sri Lanka / Others

Name	Location	Scale	Players Involved	Timelines	Significance
1 Kerawalapitiya customs inspection yard	Kerawalapitiya	Process up to 200 containers simultaneously	SLPA, ADB	Planning Stage	Redirects customs clearance off-site to decongest port and speed up cargo flow
2 Bloemendhal Logistics Park	Colombo Port	NA	SLPA	Planning Stage	Enhance warehousing, consolidation, and value-added cargo handling near port
3 Internal Container Dry port	Veyangoda	NA	Sri Lankan government	Planning Stage	Long-term solution to move customs inland, ease port congestion, expand rail-connected capacity
4 Colombo Port Digitisation Project	Nation-wide	USD 1.67 Mn	SLPA	2016-	Includes National Single Window System (NSW), Truck Appointment System, E-Cargo Tracking System, Port Community System (PCS), Yard Management Systems, Electronic Data Interchange (EDI), Terminal Operating System
5 Advanced scanning systems	Port of Colombo and Bandaranaike International Airport	USD 3.33 Mn	Sri Lankan Government	Planning Stage	Modernizing scanning aims to reduce delays, improve cargo flow, and enhance security at Sri Lanka's key entry ports.

1 USD = 300 SLR

Note: Projects from South and South-east Colombo are not included as they are not in the focus region

Source: Government websites, News Articles

Next Steps

Various projects for development of expressways and connecting roads/ bridges are planned to improve the road connectivity in Sri Lanka, to improve the transit time

Ongoing/ Upcoming Projects | High Cost and Time for Transporting to Colombo Port

Issue	Solution idea	Existing projects and activities	Current Status and Timeline (2025 2026 2027 2028 2029 2030)
Cargo traffic and city commuters use the same roads	• **Promote off-peak hours cargo movement:** Automated trucking system with slot-based scheduling and off-peak discounts		
	• **Build new expressways/ highways:** Connecting the Colombo Port and key industrial zones and mineral processing units	• Central Expressway Project (CEP)	
		(i) CEP 1	*Ongoing negotiation on the outstanding bills and renegotiate the agreement to adjust the contractual terms relating to the exchange rate*
		(ii) CEP 3 (Pothuhara to Rambukkana)	*Ongoing, current physical progress is ~68%*
		(iii) CEP 3 (Rambukkana to Galagedara)	*Land acquisition in progress (95% completed), seeking funding for project*
		(iv) CEP 4	*Cabinet approval received to recommence land acquisition work*
		• Ruwanpura Expressway Project	*Project was terminated by contractor in the process of dispute resolution*
		• Elevated Highway project: New Kalani Bridge to Athurugiriya	*Presently suspended due to fail on EIA from Rajagiriya to Athurugiriya section*
		• Marine Drive Coastal Road Project: Dehiwala to Panadura	*Reactivated Feasibility study*
		• Kandy Multimodal Transport Terminal Development Project	*Ongoing, current physical progress ~31%*

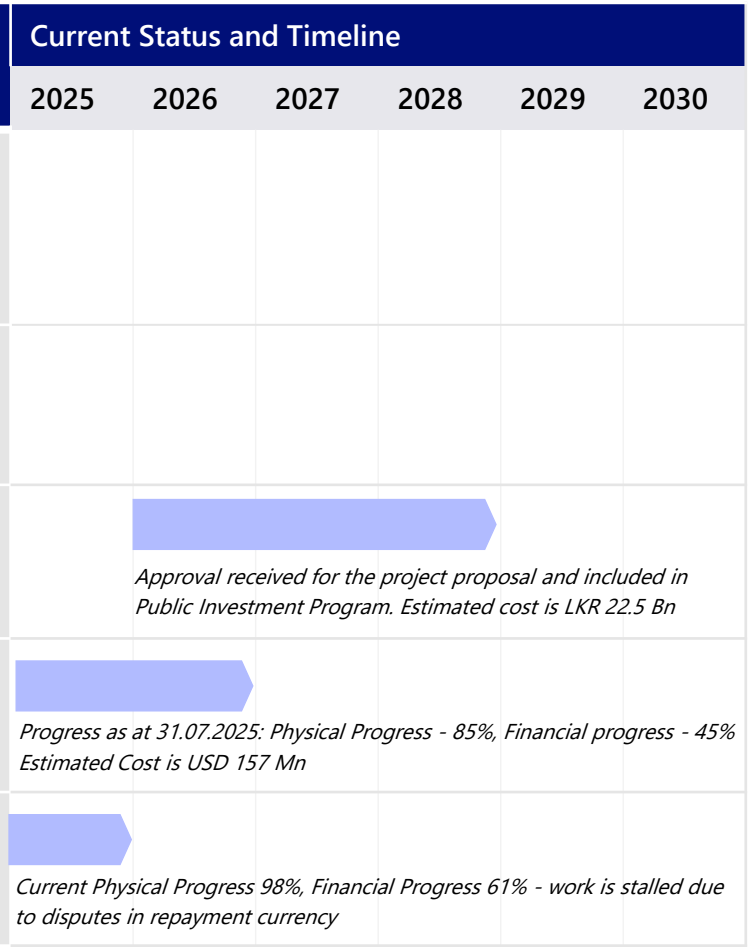
Source: Sri Lanka Government

Next Steps

Further, upgradation of railways lines is taking place across Sri Lanka to improve its efficiency

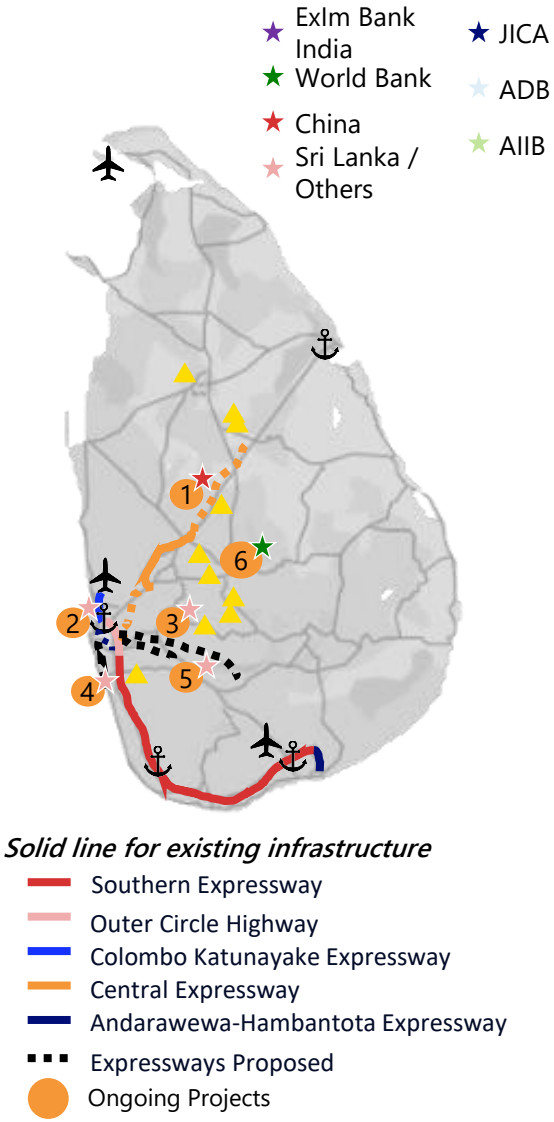
Ongoing/ Upcoming Projects | High Cost and Time for Transporting to Colombo Port

Issue	Solution idea	Existing projects and activities	Current Status and Timeline
Improper road connectivity from manufacturing units to Colombo Port	• **Upgradation/ construction of arterial roads:** To connect Industrial zones/ mineral processing units with the expressways/ highways		
Weak railway connectivity from manufacturing units to Colombo Port	• **Direct rail freight connectivity:** Connect rail with terminal inside Colombo Port connecting rail service from key Industrial Zones		
	• **Upgradation and modernization of existing railway lines:** Capacity improvements, Electrification, digitized traffic control & signalling, rail siding for cargo loading/ unloading	• Double tracking: Plogahawela-Kurunegala line	*Approval received for the project proposal and included in Public Investment Program. Estimated cost is LKR 22.5 Bn*
		• Railway Efficiency Improvement Project in and around Colombo by ADB	*Progress as at 31.07.2025: Physical Progress - 85%, Financial progress - 45% Estimated Cost is USD 157 Mn*
		• Upgradation of Railway Line from Maho – Omanthai	*Current Physical Progress 98%, Financial Progress 61% - work is stalled due to disputes in repayment currency*



Source: Sri Lanka Government

Multiple projects had been announced in the last decade, but have been on-hold/ suspended due to financial & political reasons

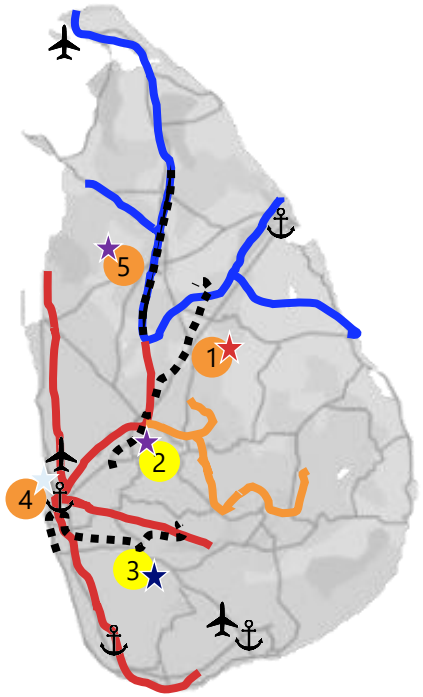


	Name	Location	Scale	Players Involved	Timelines	Significance
1	Central Expressway Project	Pothuhera to Galagedara (Kadawatha to Dambulla full scope)	32.5km (137 km entire project)	Section I is being constructed by a Chinese company, other section raised interest from Japanese & UK-based entities	2020-2028 (Ongoing)	One of the most promising projects spanning more than 137km, funded by EXIM Bank of China
2	Port Access Elevated Highway	Colombo	5.3km	China Civil Engineering Construction Corporation	2019-2026 (On Hold)	Direct link to city centre & port from Colombo Katunayake Expressway
3	Ruwanpura Expressway Project	Western Province with the Sabaragamuwa Province	73.9km	Local contractors including Maga Engineering	2021-2024 (On Hold)	One of the longest Chinese funded stalled project currently backed by Govt. of Sri Lanka
4	Marine Drive Coastal Road from Dehiwala to Panadura	Colombo-Galle	7.9km	Road Development Authority, Ministry of Highways (with direct labor)	2003-2021 (Suspended after 6 stages)	Stands as the longest running development project, still incomplete
5	Elevated Highway from New Kalani Bridge to Athurugiriya	Orugodawatta - Athurugiriya	31.7km	China Harbour Engineering Company	2017-2025 (Ongoing)	To improve connectivity
6	Kandy Multimodal Transport Terminal Development Project	Pan Sri Lanka	NA	World Bank, Ministry of Highways	2020 - 2027	Enhance accessibility, efficiency, and safety for public transport users

Note: Projects from South and South-east Colombo are not included as they are not in the focus region

Source: Road Development Authority, The Morning Times, Other Media Articles

Multiple projects were announced for railways development, however, some of them are currently on hold; ADB is involved in overall railway line efficiency enhancement projects



Solid line for existing infrastructure

- Colombo Operating Line
- Nawalpitiya Operating Region
- Anuradhapura Operating Region
- Lines Proposed
- Ongoing Projects
- Announced Projects

	Name	Location	Scale	Players Involved	Timelines	Significance
1	Railway Line from Kurunegala to Habarana	Kurunegala to Habarana	81km	CECB (Consultant, Sri Lanka) , China State Construction Engineering Corporation (CSCEC)	2018 (Suspended)	Funded by Exim Bank of China; One of the largest scale among stranded projects
2	Double tracking Plogahawela - Kurunegal railway line	Plogahawela – Kurunegal	22km	CECB (Consultant, Sri Lanka), Exim Bank India	in 2025 (Announced)	Funding support by Govt. of India
3	Establishment of Light Rail Transit System in Colombo - Tranche 1	Colombo	75km	CPCS (support in bid invitiation and partner identification process)	2020-2025 Expected (Suspended)	Project cancellation announced by Government of Sri Lanka
4	Sri Lanka : Railway Efficiency Improvement Project	Pan railway infrastructure in and around Colombo	152 km	ADB, Ministry of Transport, Sri Lanka Railways	2019 - 2027	Support immediate improvements in the operation, maintenance, safety, skills development, and implementation capacity
5	Upgradation of Railway Line from Maho - Omanthai	Maho-Omanthai	128	Exim Bank of India, CECB (Consultant, Sri Lanka)	2019-ongoing	Major rehabilitation of Northern Line, enhancing Colombo–Jaffna connectivity

- Exim Bank India
- World Bank
- China
- Sri Lanka / Others
- JICA
- ADB
- AIIB

Note: Projects from South and South-east Colombo are not included as they are not in the focus region

Source: Ministry of Transport, Highways, Ports & Civil Aviation, Department of Railway, Media Articles

Next Steps

Multiple projects are planned to expand renewable energy generation across Hydro, wind, solar and biomass, to reduce dependence on fossil fuels for energy needs

Ongoing/ Upcoming Projects | Fluctuating Electricity Supply with Rising Cost

Issue	Solution idea	Existing projects and activities		Current Status and Timeline
				2025 2026 2027 2028 2029 2030
Lack of diversification (from hydropower) and consistency in renewable power generation	• **Expansion and diversification of renewable energy generation:** Expansion of renewable energy generation; Develop hybrid solar–wind–hydro plants to optimize energy balance; Boost small & micro-hydro	**Hydro**	• 31 MW Moragolla Hydro Power project (ADB)	*Under construction*
			• 46 MW from mini hydro projects island wide	*Various projects under construction and preconstruction phase, awarded to private investors*
		Wind	• 100 MW wind at Mannar and Puttalam areas	*Various projects under construction and preconstruction phase, awarded to private investors*
			• 100 MW Wind at Mullikulama	*By private investors, currently under Procurement stage.*
			• Over 600 MW capacity projects identified in Mannar, Pooneryn, Veravil, Karachchi	*Planned for private investments. Most projects are possible only after transmission infrastructure upgraded. Expected to commission by 2034*
		Solar	• Over 650 MW capacity projects island wide	*Various projects under construction and preconstruction phase, awarded to private investors*
			• 100 MW Solar Project at Siybalanduwa	*By private investors, under construction phase*

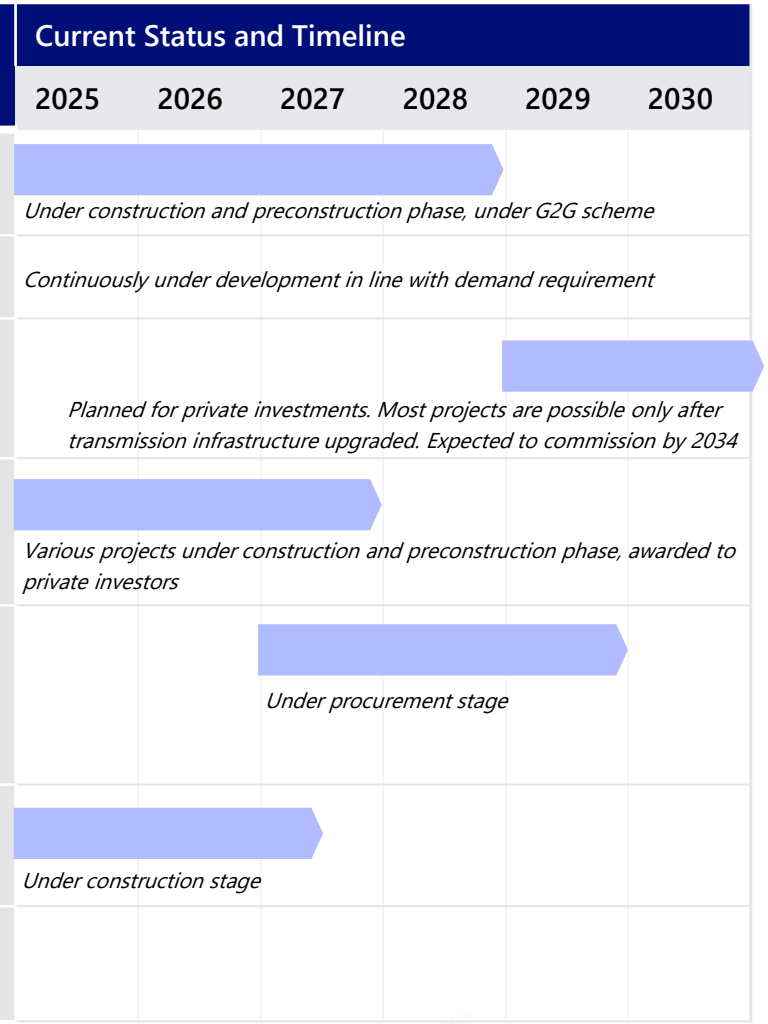
Source: Sri Lanka Government

Next Steps

Further, various initiatives are being undertaken for strengthening the transmission infrastructure of Sri Lanka for improving distribution efficiency

Ongoing/ Upcoming Projects | Fluctuating Electricity Supply with Rising Cost

Issue	Solution idea	Existing projects and activities		Current Status and Timeline
Lack of diversification (from hydropower) and consistency in renewable power generation	• **Expansion and diversification of renewable energy generation:** Expansion of renewable energy generation; Develop hybrid solar–wind–hydro plants to optimize energy balance; Boost small & micro-hydro	**Solar**	• 50 MW Solar Project at Sampoor from CEB NTPC	*Under construction and preconstruction phase, under G2G scheme*
			• Absorption of rooftop solar projects	*Continuously under development in line with demand requirement*
			• Over 500 MW capacity projects identified island wide	*Planned for private investments. Most projects are possible only after transmission infrastructure upgraded. Expected to commission by 2034*
		Biomass	• 18 MW from biomass and waste projects awarded to private investors under feed in tariff scheme	*Various projects under construction and preconstruction phase, awarded to private investors*
Outdated and/ or insufficient distribution and transmission infrastructure	• **Strengthening of the transmission infrastructure:** Expansion of transmission infrastructure; Grid automation with SCADA and real-time monitoring systems	• Power System Reliability Strengthening (CEB, ADB) to construct grid substations, Transmission lines and Renewable Energy Control Desk at National System Control Centre		*Under procurement stage*
		• National Electricity Transmission and Distribution Network Improvement and Efficiency Improvement Project (JICA)		*Under construction stage*
		• New Habarana to Kappalthurai to Sampoor Transmission Development expected from AIIB loan Assistance		



Source: Sri Lanka Government

Next Steps

Further, various initiatives are being undertaken for strengthening the transmission infrastructure of Sri Lanka for improving distribution efficiency

Ongoing/ Upcoming Projects | Fluctuating Electricity Supply with Rising Cost

Issue	Solution idea	Existing projects and activities	Current Status and Timeline
Outdated and/ or insufficient distribution and transmission infrastructure	• **Strengthening of the transmission infrastructure:** Expansion of transmission infrastructure; Grid automation with SCADA & real-time monitoring systems	• 220kV Second Underground Cable from Kerawalapitiya to Colombo L Grid Substation from AIIB loan Assistance	
		• Secure, Affordable, and Sustainable Energy for Sri Lanka (World Bank)	
		○ Vavuniya Grid Substation 220kV development ○ Northern 400kV Transmission Network ○ Norochcholai – Wariyapola 220kV Transmission Line ○ Pannipitiya-Panadura T- Matugama 132kV Transmission Line with 2xZebra ○ Samanalawewa-Embilipitiya 132kV Transmission Line with Zebra ○ New Laxapana - Balangoda 132kV Transmission Line with Zebra ○ Dehiwala - Ratmalana 132kV Underground Cable	*Under project planning stage, financing not yet secured. Expected to be completed by 2034*
		○ Installation of STATCOM at Padukka 220kV GSS ○ Installation of 75 MVA Synchronous Condenser Units at Mannar & New Habarana ○ Installation of STATCOM at New Kolonnawa 132kV GSS ○ Installation of 125 MVA Synchronous Condenser Unit at N Collector	*Under project planning stage, financing not yet secured. Expected to be completed by 2030*
		• Grid connectivity project with India	*Joint technical team study completed, with technical and financial terms under review. This will be submitted to Joint Working Group*

2025 2026 2027 2028 2029 2030

Source: Sri Lanka Government

Next Steps

Projects are also planned/ announced for grid integration through Battery Energy Storage systems and pumped storage power plants in Sri Lanka

Ongoing/ Upcoming Projects | Fluctuating Electricity Supply with Rising Cost

Issue	Solution idea	Existing projects and activities	Current Status and Timeline (2025 2026 2027 2028 2029 2030)
Inability for grid balancing for renewable energy integration	• **Grid integration and storage systems for renewable energy:** Implementation of Battery Energy Storage Systems (BESS), hydro-pumped storage	• 5 MW/10 MWh BESS at Hambantota from Korean Grant	*Under construction*
		• 100 MW/100 MWh BESS at Kolonnawa from ADB loan Assistance	*Under procurement stage. Tender is yet to be floated*
		• 160 MW/640 MWh BESS at 16 scattered locations in the island from private investments	*Under procurement stage. Tender has now been floated for 160 MW on IPP (Independent Power Producer) basis*
		• 100 MW/400 MWh BESS at southern region	*under project planning stage, expected to be procured through private investments*
		• 600 MW pumped storage power plant at Maha, business model yet to be decided	*Detail design and environmental approvals to be completed, expected to complete design and EIA by 2028 and commissioning by 2034*

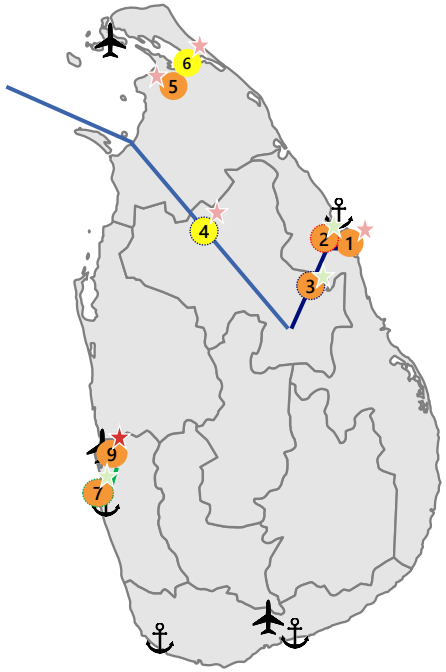
Source: Sri Lanka Government

Current Projects to solve the issues | Power and Electricity

Sri Lanka has many power generation and transmission projects being built by the local government, companies and in some cases being funded by foreign entities and banks

Note: Projects from South and South-east Colombo are not included as they are not in the focus region; Various projects are marked on the map, but key projects in terms or size or significance are included in the table

Ongoing
Announced/ Stalled
Intl Airports
Major Sea Ports



6. Transmission line to Kappalthurai
7. Transmission Line to Habrana
10. Indo Lanka Electricity Grid
24. Kerawalapitiya – Port Transmission Line

ExIm Bank India
JICA
World Bank
ADB
China
AIIB
Sri Lanka / Others

	Name	Location	Scale	Players Involved	Timelines	Significance
1	Sampur Solar Power	Trincomalee	135 MW	JV between CEB and NTPC (Indian PSU)	2023 – 2027	• Indian investment
2, 3	Transmission line to Habarana and Kappalthurai	Trincomalee	116 km	JV between CEB and NTPC (Indian PSU)	2023 – 2027	• Indian investment • Improved Transmission infra
4	Indo-Lanka Electricity Grid Link	New Habarana	360 km	CEB and Power Grid Corporation India	2025 – 2034	• Cross-country transmission linkage
5	Poonakary Lake Solar Farm	Poonakary (Pudumurippu) Lake	700 MW	United Solar Group, SunPower Consortium	2023 – 2027	• Largest FDI in the renewable sector in Sri Lanka
6	Pooneryn wind project	Kilinochchi	400 MW	Board of Investment	Announced	• Largest announcement of a hybrid project
7	Kerawalapitiya – Port 2nd Transmission Line Project	Gampaha	15.6 km	CEB, AIIB	2024 – 2026	• Power supply to upcoming Colombo port city
8	Power System Reliability Strengthening Project (PSRSP)	Across Sri Lanka	NA	CEB, Lanka Electricity Company Ltd	2024 -	• Nationwide transmission infra improvements
9	Kerawalapitiya Hendala Power Plant	Gampaha	700 MW	CEB, Chinese government	2020-	• Waste to Energy plant to generate power for port city
10	National Electricity Transmission & Distribution Network Improvement	Across Sri Lanka	NA	Ministry of Power and Energy, JICA	2015-2026 (Ongoing)	• Aims to stabilize electricity supply nationwide
11	AI-Powered Microgrids	Across Sri Lanka	NA	Ministry of Power and Energy, ADB	2023-2026 (Ongoing)	• Aims seamless integration of distributed RE systems in the distribution network
12	Promoting Increased RE Deployment, Energy Efficiency & Power System Resilience	Across Sri Lanka	NA	Ministry of Power and Energy, ADB	2021-2026 (Ongoing)	• Aims to increase RE deployment and improve energy efficiency

Source: Government websites, BOI, News

Next Steps

Sri Lanka is actively promoting its potential for value addition in the minerals segments, with various PPP projects planned, and revival of a chemical zone being considered

Ongoing/ Upcoming Projects | High cost of Mineral Processing

Issue	Solution idea	Existing projects and activities	Current Status and Timeline (2025 2026 2027 2028 2029 2030)
Lack of shared industry-specific infrastructure for minerals processing	• **Dedicated Mineral Processing Zone**: Dedicated Mineral Processing Zone, with stable electricity supply, strong port connectivity and R&D labs	• Value addition project being planned for: (i) Phosphate- PPP with Lanka Phosphate Ltd. (ii) Mineral Sand- PPP with Lanka Mineral Sands Ltd. (iii) Graphite- PPP with Kahatagata Graphite Lanka Ltd.	*The Expression of Interest (EOI) for phosphate was published in Aug 2025, and he EOI opening is in Oct 2025. For Mineral Sand and Graphite, the cabinet paper is being drafted to call an EOI*
Dependent on import for chemicals and lack of supporting capabilities	• **Integration of chemical processing in the dedicated mineral zone**	• Plan announced to develop Paranthan chemical zone	*Board of Investment (BOI) is undertaking the necessary steps*
		• Establish a Cuastic Soda Plant at Paranthan – Paranthan Chemicals Company Limited	*The land survey has been completed, and the consent of the Land Commissioner General has been granted to conduct the EIA. The cabinet paper is being drafted to select a suitable investor for the proposed project*
		• Identification of best practices	*This Ministry is in the process of identifying best practices for the use of chemical in the mineral industry.*
	• **Import duty exemption:** Duty exemption on imported chemicals for mineral processing		
Royalty is paid on the FOB value instead of the pit value	• **Charge royalty as per the international standards:** Benchmark global regulations and best practices for setting the local regulations		

Source: Sri Lanka Government

Next Steps

Further, Sri Lanka is planning to improve the documentation processes to improve ease of doing business for minerals sector, along with speeding up exploration of new mines

Ongoing/ Upcoming Projects | Challenges in Accessing Minerals

Issue	Solution idea	Existing projects and activities	Current Status and Timeline (2025 2026 2027 2028 2029 2030)
Approval needed from various stakeholders Manual processes lead to red tape	• **Single window clearance with digitalized processes for licensing and renewals**: Single-window resolution with online documentation for mining licenses across all the steps	• Single-window clearance and digital licensing/ monitoring system	 *Currently under development*
License validity is of short duration and the criteria is not well-defined	• **Standardised criteria for license validity, with possibility for long term licenses:** Benchmark global standards for license renewal process and duration	• Licenses offered on a case-to-case basis, based on the existing reserves in the mines, companies experience, etc.	*Willing to offer up to 10 years of license tenure, depending on the available reserves*
Some reserves have restricted access due to potential environmental concerns	• **Explore possibility of opening more reserves with limited impact:** Objectively assess the environmental and economic impact of opening up more mines; further exploration to identify mines	• Actively speeding up research to identify more reserves	

Source: Sri Lanka Government

Next Steps

The issues related to the terms of Domestic Value Addition criteria and rules of origin concerns are under discussion with India, along with the FTA extension negotiations

Ongoing/ Upcoming Projects | Minimum DVA 35% cannot be Accomplished in Certain Industries

Issue	Solution idea	Existing projects and activities	Current Status and Timeline
Raw materials are not available domestically, so certain industries rely on imported materials.	• **Reduction of DVA percentage on specific products**: Reduce the DVA criterion from current 35% to 25% for specific products (such as electronics) • **Relaxation of DVA with Indian input:** Reduce the minimum DVA in Sri Lanka to 15~20% from 25% for products with Indian input • **Add "OR" option for DVA and Change of Tariff Heading (CTH):** Establish "OR" option between "DVA 35%" and "CTH 4-digit" • **Strengthen the Accumulation Rules to Full Accumulation:** Introduce "Full Accumulation," where if "originating goods" produced in India are used as raw materials in Sri Lanka, those Indian originating goods are treated as if they were produced in Sri Lanka for the purpose of calculating Sri Lankan value addition	• The Rules of Origin regime under ISFTA is currently being reviewed under Economic and Technology Cooperation Agreement (ETCA) negotiations. ETCA is considered to be an extension to ISFTA • The Two countries have already concluded 14th round of negotiations	2025 2026 2027 2028 2029 2030 The issues related to the rules of origin criteria of ISFTA will continue to be discussed at the ETCA negotiations In the meantime, it is suggested that these issues also be considered at the proposed Trilateral Working Group

Source: Sri Lanka Government

Next Steps

Further, the Department of Commerce is undertaking various steps to spread awareness around Rules of Origin for Sri Lanka exporters

Ongoing/ Upcoming Projects | Minimum DVA 35% cannot be Accomplished in Certain Industries

Issue	Solution idea	Existing projects and activities	Current Status and Timeline
			2025 2026 2027 2028 2029 2030
There is a misunderstanding of Sri Lanka's Rule of Origin standards from Indian companies	• **Development of Detailed Guidelines**: Develop detailed and specific guidelines regarding the Rules of Origin under the ISFTA; Publish FAQs that provide concrete answers to common questions companies may have (e.g., how specific processing steps affect origin criteria, how to handle raw materials from multiple countries).	• The preferential rules of origin applied by Sri Lanka under all Free and Preferential Trade Agreements (ISFTA, PSFTA, SAFTA, APTA, GSTP) are very clearly mentioned in the Department of Commerce (DOC) website https://www.doc.gov.lk/index.php?option=com_content&view=article&id=43&Itemid=154&lang=en • DOC has organized numerous in-house seminars, workshops, and on-site awareness programs on Rules of Origin	*Department of Commerce can arrange awareness programs upon request*
High corporate taxes and a small domestic market size offer little incentive as an investment destination	• **Introduce Corporate tax benefits** : Reduced tax rates or introduce tax holiday which exempts corporate income tax for a specific period; Deduct tax for profits reinvested domestically; Deduct tax for research and development expenses	• Currently, tax deductions/ Holidays are granted only under the provisions of Strategic Development Projects (SDP) Act- large, nationally important projects	
	• **Exemption / Reduction of import duties:** Exemption or significant reduction of customs duties on imported machinery, raw materials, and components	• Most of the raw materials and machinery are low & zero taxes	

Source: Sri Lanka Government

Next Steps

BOI has established various SEZs for attracting investments in Sri Lanka, enabling relaxed requirements and ease of operations

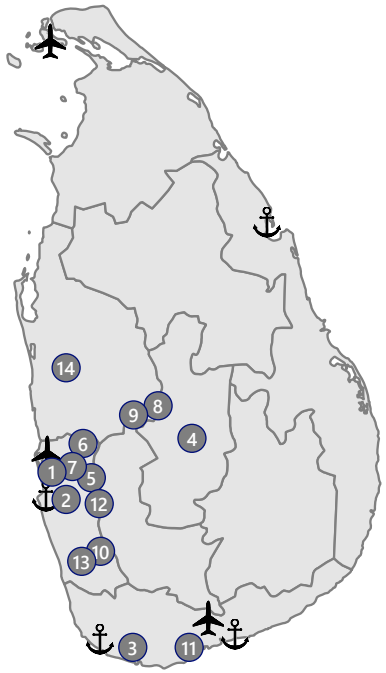
Ongoing/ Upcoming Projects | Minimum DVA 35% cannot be Accomplished in Certain Industries

Issue	Solution idea	Existing projects and activities	Current Status and Timeline					
			2025	2026	2027	2028	2029	2030
High corporate taxes and a small domestic market size offer little incentive as an investment destination	• **Development of SEZ with regulatory relaxation:** Develop dedicated zones where certain regulations for the specific industry is eased	• Presence of BOI Zones and Colombo Port City (under construction)	*Further incentives can most likely be discussed/ implemented only after the IMF bailout period ends*					
	• **Capital incentives:** Develop capital incentives such as renting land for low cost							

Source: Sri Lanka Government

Various export and industrial zones are present in Sri Lanka to develop manufacturing and leverage its strategic geographic location

Existing infra
Ongoing Projects
Intl Airports
Announced Projects
Major Sea Ports



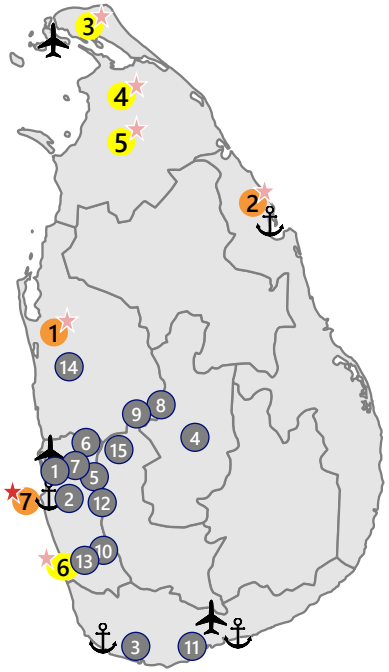
ExIm Bank India
JICA
World Bank
ADB
China
AIIB
Sri Lanka / Others

	Name	Location	Scale	Players Involved	Timelines	Focus/Significance
1	Katunayake EPZ	Gampaha district	514 acres	BOI, Sri Lanka	1978	• Proximity to Colombo • Oldest EPZ in SL
2	Biyagama EPZ	Gampaha district	451 acres	BOI, Sri Lanka	1985	• Proximity to Colombo • Apparel and rubber
3	Koggala EPZ	Galle district	227 acres	BOI, Sri Lanka	1991	• Focus on apparel and automotive parts
4	Kandy IP	Kandy district	189 acres	BOI, Sri Lanka	1994	• Focus on apparel, and electronic boards
5	Wathupitiwala EPZ	Gampaha district	110 acres	BOI, Sri Lanka	1999	• Proximity to Colombo • Green industrial hub
6	Mirigama EPZ	Gampaha district	261 acres	BOI, Sri Lanka	1998	• Proximity to Colombo • Focus on minerals and apparel
7	Malwatta EPP	Gampaha district	31 acres	BOI, Sri Lanka	1998	• Compact EPZ close to colombo port and expressway
8	Mawathagama EPZ	Kurunegala District	54 acres	BOI, Sri Lanka	1999	• Low water & energy industries
9	Polgahawela EPZ	Kurunegala District	65 acres	BOI, Sri Lanka	2000	• Companies in apparel, automotive assembly and PVC
10	Horana EPZ	Kalutara District	388 acres	BOI, Sri Lanka	1999	• Diverse industries present
11	Mirijjawila IP	Hambantota District	566 acres	BOI, Sri Lanka	1999	• Cement, Steel plants and petrochemical refinery
12	Seethawaka EPZ	Colombo District	431 acres	BOI, Sri Lanka	1999	• Proximity to Colombo • Focus on apparel, rubber and mineral industries
13	Wagawatta IP & IZ	Kalutara District	301 acres	BOI, Sri Lanka	NA	• Diverse industries present
14	Bingiriya EPZ (Ph. 1)	Kurunegala District	158 acres	BOI, Sri Lanka	2023	• Major expansion underway

Source: Government websites, BOI, News Articles

Upcoming industrial zones are around Colombo or towards the North, while a dedicated Mineral processing zone is not yet announced

Existing infra
Ongoing Projects
Intl Airports
Announced Projects
Major Sea Ports



	Name	Location	Scale	Players Involved	Timelines	Focus / Significance
1	Bingiriya Export Processing Zone	Kurunegala District	1441 acres	BOI, Sri Lanka	2017 -	• Major govt. focus to make this one of the largest EPZs in SL
2	Trincomalee Industrial Zone	Trincomalee District	600 acres	BOI, Sri Lanka	2023 -	• Energy Hub being developed by UAE and India in zone
3	Kankesanthurai (KKS) Industrial Zone – Jaffna	Jaffna District	NA	BOI, Sri Lanka	2025 -	• KKS port is being redeveloped with support from India
4	Paranthan Chemical Industrial Zone	Kilinochchi District	NA	BOI, Sri Lanka	2024 - 2026	• Dedicated zone for chemical manufacture
5	Mankulam Industrial Zone	Mullaitivu District	NA	BOI, Sri Lanka	2024 - 2027	• Stimulate economic growth in North SL
6	Milleniya Export Processing Zone (EPZ)	Kalutara District	400 acres	BOI, Sri Lanka	NA	• Proposed EPZ along an expressway • Light engineering and auto assembly
7	Colombo Port City	Colombo District	665 acres (269 ha)	JV of China Harbour Engineering and Sri Lankan government	2019 - 2040	• SEZ near Colombo port of Sri Lanka • Chinese investment

ExIm Bank India
JICA
World Bank
ADB
China
AIIB
Sri Lanka / Others

Note: Projects from South and South-east Colombo are not included as they are not in the focus region

Source: Government websites, BOI, News Articles

Export Incentives Provided in Sri Lanka

Board of Investment (BOI) is Sri Lanka's national agency which facilitates FDI with various activities involving financial and non-financial support

The Board of Investment of Sri Lanka (BOI)

BOI

The Board of Investment (BOI) was incorporated in 1978, constituted with a mandate to function as the focal point for investment promotion to both foreign and local export-oriented investors (at least 80% of sales through exports)

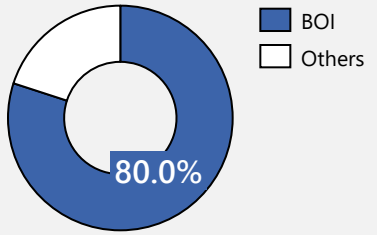
Roles of BOI

- Attract investments to the Government's priority sectors
- Acts as the first point of contact for investors who intend to set up projects in high value-added sectors in Sri Lanka
- Provide assistance to investors throughout the project cycle
- Develops Export Processing Zones with infrastructure facilities

BOI's Records

BOI Contribution on National Export Performance

National Industrial Export (2022)



Export Processing Zones
- 17 EPZs exist, with 15 operating at full capacity

# of Firms
- About 1,500 companies operate under the BOI regime

BOI Projects Categorizations

Category	BOI's Support	Relevant regulation	
		Eligibility	Relevant Regulation
Projects operating under Sec.17 of the BOI Law	Granting exemptions from laws related to fiscal concessions	• **The minimum investment threshold of US$ 3 Mn upwards** can enjoy special incentives in the form of enhanced capital allowances • Projects with investments of over USD 50 Mn will be granted PAL and CESS exemptions during the Project Implementation period • This can either be a 100% foreign investment or a joint venture investment with local collaboration • Proposed foreign investments should be effected from funds remitted through an Inward Investment Account (IIA).	• Under Sec.17 of the BOI Law, BOI is empowered to approve projects and enter into agreements with enterprises granting exemptions from laws • Target of exemptions includes Customs Ordinance, subject to fulfillment of the investment threshold or any other specified requirement
Projects operating under Sec.16 of the BOI Law	Support without any fiscal concessions (Under Normal Law of the Country)	• The **minimum investment threshold is US$ 250,000** can enjoy incentives • This can either be a 100% foreign investment or a joint venture investment with local collaboration • Proposed foreign investments should be effected from funds remitted through an Inward Investment Account (IIA).	• BOI facilitates the entry of foreign investment without any fiscal concessions • BOI's support includes: Entry of foreign investment, Set up a new company with foreign shareholding, Transfer/issue new shares in an existing non-BOI company to foreign investors, Issuing visa recommendations.

Sources: Board of Investment of Sri Lanka

For projects operating under Sec 17, BOI offers financial Incentive for export from Sri Lanka for tax exemptions and custom duty exemption, and Enhanced Capital Allowance

Projects under Section 17 of BOI Law- Financial Incentive for Export from Sri Lanka (1/2)

Type	Incentive	Definition	Relevant regulation	
			Target	Relevant Regulation
Tax/ Duty Exemption	Customs Duty	Custom duty is exempted for export, applicable to all industries	Capital Goods	**Export oriented**: Exempted for capital goods (Plant, machinery & equipment) for the life-time of the project and construction items during project implementation period (PIP) **Non export oriented**: duty is exempted for capital goods (Plant, machinery & equipment) and construction items during project implementation period (PIP)
			Raw Material	**Export oriented**: Exempted for life-time of the project **Non export oriented**: N/A
	Port & Airport Levy (PAL)	Levy is exempted for export of target products	Capital Goods	**Export oriented/Non export oriented**: Exempted for capital goods (Plant, machinery & equipment) and construction items during PIP for enterprises with a capital investment not less than US$ 50 Mn
			Raw Material	**Export oriented**: Exempted for life-time of the project, if export oriented **Non export oriented**: N/A
	CESS	CESS tax is exempted for target products	Capital Goods	**Export oriented/Non export oriented**: Exempted for capital goods (Plant, machinery & equipment) and construction items during PIP for enterprises with US$ 50 Mn. or above investment
			Raw Material	**Export oriented**: Exempted for life-time of the project **Non export oriented**: N/A
Reduction/ Exemption/ Deferment	Value Added Tax (VAT)	VAT is reduced/exempted/deferred for target industry	Capital Goods	<Within zones*1>Exempted for Capital Goods <Outside zones>Deferred for Capital Goods - During project implementation period, further deferred for Plant, Machinery and Equipment for Life-time of the project
			Raw Material	<Within zones>Exempted for Raw Materials, Life-time of the project <Outside zones>Deferred for Raw Materials, Life-time of the project Special Exemptions for importation of raw materials by Garment and Fabric manufactures for Life-time of the project

Source: Board of Investment of Sri Lanka

For projects operating under Sec 17, BOI offers financial Incentive for export from Sri Lanka for tax exemptions and custom duty exemption, and Enhanced Capital Allowance

Projects under Section 17 of BOI Law- Financial Incentive for Export from Sri Lanka (2/2)

Type	Incentive	Definition	Relevant regulation		
			Target	Relevant Regulation	
Allowance	Enhanced Capital Allowance (ECA)	ECA is granted to a person (an individual or entity) in addition to the normal depreciation allowance, targeting persons who make new investments and expansions of existing projects in Sri Lanka.	Total Investment made **>3 and ≤ 100 (USD Mn)**	<Applicable ECA> Northern Province: **200%** Other than Northern Province: **100%** Period for Deducting Unrelieved Losses: 10 years	Depreciable Assets: • Class 1: computers and data handling equipment together with peripheral devices. • Class 2: buses and minibuses, goods vehicles, construction and earthmoving equipment, heavy general purpose or specialised trucks, trailers and trailer-mounted containers, plant and machinery used in manufacturing. • Class 3: railroad cars, locomotives, and equipment, vessels, barges, tugs, and similar water transportation equipment, aircraft, specialised public utility plant, equipment, and machinery, office furniture, fixtures and equipment, any depreciable asset not included in another class. • Class 4: buildings, structures and similar works of a permanent nature. • Class 5: intangible assets, excluding goodwill. Class 6: Milking machines with latest technology, used to manufacture local liquid milk related products
			Total Investment made **>100 and ≤ 1,000 (USD Mn)**	<Applicable ECA> Northern Province: **200%** Other than Northern Province:**150%** Period for Deducting Unrelieved Losses: 10 years	
			Total Investment made **>1,000 (USD Mn)**	<Applicable ECA> Northern Province: **200%** Other than Northern Province: **150%** Period for Deducting Unrelieved Losses: 25 years	

Exemption of income tax on Employment Income of expatriates during the ECA:
During the period covered by the ECA, the employment income of the company's expatriate employees is entitled to a 0% rate, where: 1) The company has incurred more than US$ 250 Mn on depreciable assets in Sri Lanka, for the period in which that payment is made, out of profits sheltered by ECA allowance, or for 5 years from the commencement of commercial operations, whichever is higher. 2) The number of expatriate employees at any time during that period does not exceed twenty

Note: *[1] Zone referes to Katunayake EPZ, Biyagama EPZ, Koggala EPZ, Kandy IP, Wathupitiwala EPZ, Malwatta EPP, Mirigama EPZ
Source: Board of Investment of Sri Lanka

For export encouragement in Sri Lanka, Commercial Hub Regulation enables custom exemption for specific investors located in target industrial zones

Projects under Section 17 of BOI Law- Exemptions under Commercial Hub Regulation

Eligible Activities	Minimum Investment (USD Mn)	Annual Re-export/ Export turnover (USD Mn)	Location			
			Free Port (Colombo / Hambantota)	Bonded Area KEPZ/ KGEPZ/BIA	Specified Bonded Area (MRIA/ MIrijjawila)	Outside Free Port/ Bonded Area
Entrepot Trading - An import, minor processing and re-export - Any manufacturing activity for export as defined in the principle act and established in a Specified Bonded Area.	5 (50% in fixed assets within 12 months)	20 (over a period of 5 years)	✓ ✓	✓ -	- ✓	- -
Off-shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka	1 (40% in fixed assets within 12 months)	10 (over a period of 5 years)	-	-	-	✓
Front-end services to clients abroad			-	-	-	✓
Headquarter Operations of leading buyers for the management of the finance supply chain and billing operations			-	-	-	✓
Logistic services such as bonded warehouse or in the case of operation of multi-country consolidation in Sri Lanka	3 (30% in fixed assets within 12 months)	15 (over period of 5 years)	✓	✓	-	-

KEPZ- Katunayake Export Processing Zone, KgEPZ- Koggala Export Processing Zone, BIA- Bandaranayake International Airport, MRIA – Mattala Rajapakse International Airport

Notes:

- At least 65% of total Investment to be from foreign sources including transfers from any approved Foreign Exchange Account.
- No approval will be granted for logistic services to any re-export business/activities or transshipment related to; - Spices and allied products namely pepper, arecanuts, nutmeg, mace, tamarind, cinnamon, clove, ginger, turmeric, and cardamom - Waste and /or processing of waste or resource recycling business
- Enterprises referred to the commercial hub regulations are subject to the restrictions and prohibitions imposed in Schedule B to the Customs ordinance.
- If any enterprise established in a specified bonded area, and if more than 65% of the domestic demand for such goods/product is being met out of imports to the country, 40% of the annual re-export turnover (ex-factory value) of the enterprise is allowed for domestic sale for a maximum period of 08 years on annual reconciliation basis. Above concession is limited to; any auto fuels, liquid petroleum gas, propane, butane, and fertilizer or any other goods as approved by the Cabinet of Ministers & subject payment of applicable taxes/ duties on goods released to the local market.
- Any enterprise that fails to reconcile the value of sale to the domestic market during a year with its export turnover on an annual basis, shall be allowed to carry forward that unreconciled value of domestic sales during the initial 4 years from the date of first commercial sale.
- Any goods/product brought for re-export, should not be warehoused or stored for more than 18 months, if stored more than 18 months, will be ordered to send within 30 days from the completion of such 18 months

- The commercial hub regulations were introduced to facilitate entrepot trade, offshore business, front end services, headquarter operations, and logistic services by declaring free ports and bonded areas, which are legally excluded from Sri Lanka customs' territory
- Establishment of commercial hubs in Sri Lanka allows global stakeholders to import various raw materials or finished goods excluding restricted items through green channel with minimum intervention of Sri Lanka customs enabling a smooth movement of products ranging from simple storage, and value-added solutions to manage complex supply chain operations in a regional or global scale

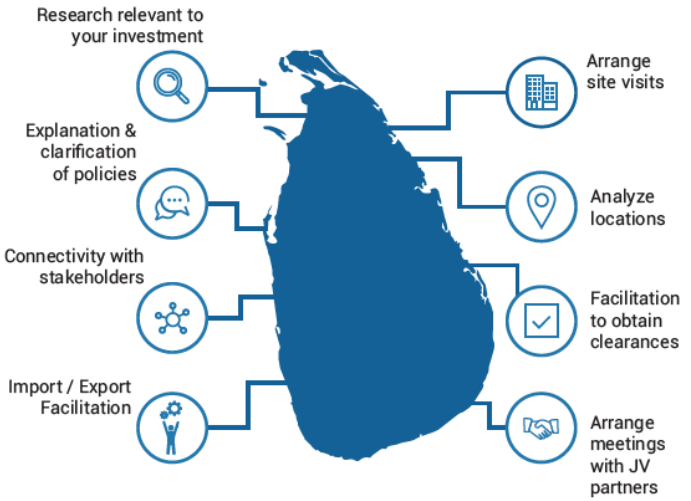
Source: Board of Investment of Sri Lanka, The Embassy of Sri Lanka in Tokyo

For export encouragement in Sri Lanka, non-financial incentives such as 100% foreign ownership, repatriation of earning, and BOI facilitation are available

Projects under Section 17 of BOI Law- Non Financial Incentives for Export

Topic	Regulation/Incentives
Foreign Ownership	100% foreign ownership permissible for the investors • **Automatic route:** Up to **40%** foreign ownership in many sectors without further approval • **Above 40%:** BOI can approve **up to 100%** in specific sectors with secondary/government approvals.
Approval Process	• **Initial engagement:** Prospective investors meet all relevant BOI officials in one sitting • **Screening & coordination:** BOI uses the Investor Facilitation Coordination (IFC) mechanism, chaired by the Secretary to the Treasury,to resolve inter-agency issues • **Timeline:** 3–4 weeks if no major issues.
Repatriation of Earnings	All income, proceeds on sale of the investments can be repatriated through an Inward Investment Account (IIA) of the Investor
Visa Recommendation	5 years Long term Residence Visa for Investor, Spouse & Dependents

BOI Facilitation



- BOI offers non-financial incentives/benefits, such as foreign ownership permission, repatriation of earnings, and VISA recommendation, for those involving in investment and exports in Sri Lanka with the aim of promoting export from Sri Lanka
- With the purpose of promoting and attracting Foreign Direct Investment in Sri Lanka, BOI facilitates various business activities of stakeholders across the nation, including investor matchmaking, explanation of policies, and researches.

Source: Board of Investment of Sri Lanka

BOI offers incentives of custom duty exemption targeting non-BOI companies or Section 16 BOI enterprises that may enter into Section 17 in specific sectors

Incentives for Non-BOI / Sec. 16 Projects entering BOI regime

Incentives	
Category	**Incentives for Non-BOI / Sec. 16 Projects entering BOI regime**
BOI's Support	Target enterprises shall be eligible for exemptions from Customs Duty for project related items
Eligibility	• Existing non-BOI companies or Section 16 BOI enterprises that may enter into Section 17 Agreement with BOI are eligible for this scheme • The facility is also available for transfer of shares by a local shareholding to a foreign shareholder subject to provisions of the Land (Restrictions on Alienation) Act, No. 38 of 2014

Industrial Sectors applicable for Concessions

Sector	Qualifying Criteria		Concessions Under BOI Law
	Investment	Qualifying Criteria	
Manufacturing for Export	US$ 250,000 additional investment and Investments already made + Additional new investment should exceed US$ 500,000	Not less than 80% of output	Exemptions from Customs Duty on project related items (Capital & Raw Materials)
Export of Services	US$ 250,000 additional investment and Investments already made + Additional new investment should exceed US$ 500,000	Not less than 70% of output	
Infrastructure			
Hotel	US$ 5 Mn of additional investment in hotel or related activity Or Construct minimum of 50 additional rooms		Exemptions from Customs Duty on Capital/ Construction items during project implementation period
Mixed Development	US$ 5 Mn of additional investment for a new location/building/infrastructures		
Transfer of local shareholding of a Private company to a foreign shareholding			
Manufacturing for Export	Minimum value of share transfer: US$ 1 Mn	Not less than 80% of output	Exemptions from Customs Duty on project related items (Capital & Raw Materials)
Hotels under construction	Minimum value of share transfer: US$ 5 Mn		Exemptions from Customs Duty on Capital/ Construction items during project implementation period
Mixed Development project under construction	Minimum value of share transfer: US$ 5 Mn		

- BOI offers incentives of custom duty exemption targeting existing non-BOI companies or Section 16 BOI enterprises that may enter into Section 17 Agreement with BOI
- Export, infrastructure, transfer of local shareholding of a Private company to a foreign shareholding are eligible areas for this BOI incentives

Source: Board of Investment of Sri Lanka

Sri Lanka Customs offers bonded operation facilities for exporters of products with limited processing or assembly, targeted primarily for the export markets

Bonded Schemes Offered by Sri Lanka Custom

Content	• **Bonded operation** is a major scheme under Custom Economic Procedures (CEP) offered by Sri Lanka custom • The scheme facilitates import of goods without payment of fiscal levies and deposit in a bonded warehouse for a certain period of time until placing them under a different Customs Procedure
Common Operation	• Manufacture in Bond (Apparel, Motor vehicles) • Duty Free Shops • Supply of Ship Stores • Sugar and Rice Bonds • Clearance of Express Cargo Bonds (Courier) • Unaccompanied Personal Baggage (UPB) Bonds • Bunker Trade

Inward Processing Schemes (1/2)

Incentive	Definition /Objective	Relevant regulation		
		Eligibility	Target Products	Relevant Regulation
TIEP-I SCHEME	Facilitates the import of goods for manufacturing, processing or assembling for export on conditional relief from payment of import Duties and Taxes	Direct /indirect /deemed exporters	• Raw-materials, Components and Parts which will be incorporated in the exported product • Parts for assembly of the product to be exported • Consumables such as Catalysts, Accelerators, Processing Chemicals, Lab Chemicals, Research Chemicals, and Retarders of chemical reaction to be used in the product to be exported • Packing material including labels, stickers and tags to be used for packing the export products, raw materials for the manufacture of such packaging material and export catalogues and brochures	• At import, all fiscal levies, except for VAT, are suspended and debited against security deposited in the form of Bank Guarantees or Corporate Bonds to cover the unpaid (suspended) import levies. • VAT is deferred at import for those registered under the VAT Deferred Payment Facility and the same is settled against exports on VAT Credit Vouchers issued by the Department of Inland Revenue. • On proof of export, credits are granted on security, replenishing the quantity of inputs again importable under the same

Source: Sri Lanka Customs

Sri Lanka Customs offers bonded operation facilities for exporters of products with limited processing or assembly, targeted primarily for the export markets

Inward Processing Schemes (2/2)

Incentive	Definition /Objective	Relevant regulation		
		Eligibility	Target Products	Relevant Regulation
TIEP-IV/V SCHEMES	Facilitates the import of **Capital and Intermediate Goods** used for the manufacture of products and services for export, on whole or partial exemption of Customs Duties and Levies	Direct/indirect/deemed exporters who are **exporting over 50% of the volume** of their annual production	• Capital goods directly Involved in production process : Machinery, Equipment, Accessories etc. • Intermediate Goods which are considered essential to the manufacturing process (excluding raw materials) : Appliances, devices, supporting equipment such as air conditioners, computers, electricity generators etc. • Spare parts of project plants • Transport equipment and handling equipment which are used in the production process exclusively in the factory premises or place of production • Breeding stocks for agricultural projects	• 100% exemption of Customs Duty • VAT is deferred against Security deposited with Customs • General approval for a period of one year from date of approval • Ports and Airport Levy (PAL) and Nation Building Tax (NBT) is payable
INFAC SCHEME	Provided for Non-BOI apparel industries to import raw materials and accessories under duty free basis and manufacture and export	• Registered exporters who uses imports to manufactures for export by a registered manufacturer • Registered textile fabric/ yarn/ thread manufacturers/ processors • Providers of services such as washing plants, embroidery services, screen printing	• Textile and apparel industry-related machinery, equipment, parts • Inputs including raw materials and accessories • Packaging materials *Subject to conditions laid down by the Secretary to the Treasury*	• 100% exemption of Customs Duty

Source: Sri Lanka Customs

Next Steps

Sri Lanka is under discussion with India to resolve BIS certification challenges, as part of FTA negotiations; India has agreed to start a pilot with 1-2 product categories

Ongoing/ Upcoming Projects | Obtaining BIS Certification Incurs Significant Costs and Time

Issue	Solution idea	Existing projects and activities	Current Status and Timeline
The laboratories in Sri Lanka do not meet the requirement	• **Check with BIS on precise requirements for BIS certification labs**: Discuss with BIS on government level, about the precise criteria and possibilities of approving BIS certification labs outside India	• Negotiation with India for accepting accredited labs in Sri Lanka, starting with 1–2 product categories	*During FTA negotiations in January 2024, India side agreed to visit few Sri Lankan Accredited laboratories and based on their recommendation to accept tests reports from those accredited laboratories* *Discussion with BIS on government level could be a solution in the absence of FTA discussions not going forward* *SLSI (Sri Lanka Standards Institution) and BIS signed an MoU earlier, but the MoU only covers voluntary certifications (non-mandatory). If a product is under mandatory Indian government certification, the MoU does not apply* *However, during subsequent FTA negotiations, India side agreed that for 1–2 product categories, SLSI certification will be accepted by BIS, and vice versa. This is a pilot step towards mutual recognition*
There are no compatibility with certification from other countries	• **Introduce Mutual Recognition Agreement (MRA):** Introduce MRA between Sri Lanka and India so acquiring certification in Sri Lanka would be enough for domestic companies to export to India		
Periodic renewals of BIS certification is required	• **Align the frequency of certification renewals with international certification schemes:** For some BIS certifications that currently require more frequent renewals, aligning their renewal frequency with international certification schemes will lead to reduced costs for businesses.		

2025 2026 2027 2028 2029 2030

Source: Sri Lanka Government

Next Steps

Business Forum, Trilateral Working Group and Bilateral Meetings are proposed to form a structured process to identify, align, and resolve issues, advancing the economic corridor

	Business Forum	Trilateral Working Group	Bilateral Meetings
Main Goal	Identify and share on-the-ground issues/opportunities on trade and investment	Align understanding on government-resolvable issues	Prioritize and deliberate on specific solutions mainly on trade and investment matters
Main participants	Private companies, Chambers of Commerce	High-level government officials (SL, IND, JPN)	Government officials (SL-IND, SL-JPN)
Key Output	Report of government-resolvable issues	Aligned understanding of issues, Action plan direction	Prioritized solutions, Concrete action plans
Primary Focus	Practical business challenges, opportunities	Policy alignment, Strategic direction	Detailed problem-solving, Implementation planning
Initiator / Lead	Chambers of Commerce of each country (initially government led)	Governments (SL, IND, JPN)	Governments (SL-IND, SL-JPN)

Next Steps

Business Forum Between Chambers of Commerce of Each Country serves as a platform to directly gather and share specific, on-the-ground business needs, issues, and opportunities that may not be fully captured by government-level discussions.

- For the realization of the economic corridor initiative, active business engagement from the private sector is indispensable, alongside inter-governmental cooperation.
- It also promotes direct networking and collaboration among companies, accelerating the creation of new business opportunities and entry into supply chains.

Business Forum Between Chambers of Commerce of Sri Lanka, India and Japan

Goal	• To identify and share specific, on-the-ground issues and opportunities in the business environment related to the economic corridor initiative. • To promote direct networking and business collaboration among companies from Sri Lanka, India, and Japan. • To explore business-led solutions for identified issues that can be resolved at the business level.
Agenda	• **Sharing and Discussion of Sector-Specific Issues and Opportunities:** Share and discuss specific issues and business opportunities related to supply chain entry, raw material procurement, technical cooperation, and market access. Conduct presentations of success stories and ideation sessions for problem-solving. • **Business Matching Session**: Dedicated time for participating companies to seek business partners and engage in concrete business discussions. • **Organization of Recommendations for the Trilateral Working Group**: Systematizing issues and recommendations discussed at the forum in a format suitable for reporting to the Committee.
Potential Members	• Chambers of Commerce from Sri Lanka, India, and Japan, and industry associations for the target sectors.
Schedule Idea	• First meeting to be conducted within 2025

Next Steps

Trilateral Working Group will serve as a platform to accelerate the realization of the economic corridor initiative between Sri Lanka and South India

Trilateral Working Group

Goal	• Promote Conceptual Roadmap Implementation: To facilitate the concrete implementation of the "Export-oriented Industrial Corridor." • Align Understanding on Issues: To align understanding among the three countries regarding issues that require government resolution, as identified in business forums and other platforms.
Discussion Agenda	• **Conceptual Roadmap Concept**: Discussion regarding the overall concept and vision defined in the Conceptual Roadmap. • **Key Aspects of Industrial Cooperation**: Identification and discussion of important matters concerning overall industrial cooperation among India, Sri Lanka, and Japan. • **Direction for Overall Conceptual Roadmap**: Providing guidance and reaching consensus on the overall direction for the implementation and progress of the Conceptual Roadmap. • **Reporting and Alignment on Business Environment Issues**: Receiving reports on business environment issues raised by the business forum that require government resolution and discussing them to align understanding among the three countries. • **Agreement on Next Action Plan**: Agreeing on an action plan for issues where understanding has been aligned, including specific matters to be discussed in bilateral meetings and subsequent steps.
Potential Members	• **Government Officials**: High-ranking officials with policy-making authority related to the economic corridor initiative from relevant ministries in each country will participate. This will facilitate swift decision-making on discussed issues and enhance the feasibility of policy recommendations.

Next Steps

These bilateral meetings serve to discuss in detail the issues aligned in the trilateral forum, aiming to develop specific solutions and formulate action plans for their implementation

■ The bilateral meetings will leverage existing bilateral dialogue frameworks where applicable.

Bilateral Meeting

Goal	• **Deepen Issue Discussion**: To conduct more detailed discussions on issues aligned in the trilateral meeting. • **Consider Solutions and Prioritize**: To consider specific solutions for each issue and determine their priorities. • **Formulate Implementation Plans**: To develop concrete action plans for implementing the decided solutions. • **Strengthen Bilateral Cooperation**: To further strengthen bilateral economic cooperation through the resolution of specific issues.
Discussion Agenda	• **Review of Trilateral Meeting Agreements**: Confirmation of the list of issues aligned in the trilateral meeting and sharing of detailed background information. • **Detailed Discussion per Issue:** In-depth discussions on prioritized issues from technical, economic, and legal perspectives. • **Proposal and Evaluation of Concrete Solutions:** Presenting multiple solution proposals for each issue and evaluating their feasibility, cost-effectiveness, and impact. • **Prioritization and Decision of Solutions**: Deciding on the solutions to be implemented and setting their priorities based on evaluation. • **Formulation of Action Plans**: Developing action plans that specify concrete steps, responsible agencies, timelines, and necessary resources for implementing the decided solutions. • **Monitoring Progress and Setting Future Agenda:** Discussing mechanisms for regularly monitoring the progress of formulated action plans and identifying items for discussion in subsequent meetings.
Potential Members	• Working-level officials and experts from relevant ministries related to the issues aligned in the trilateral meeting.

Conclusion

This Conceptual Roadmap outlines a strategic path for Sri Lanka's integration into global supply chains, promising mutual economic benefits for Sri Lanka, India, and Japanese partners by resolving key issues

- This Conceptual Roadmap lays out a strategic pathway for Sri Lanka to leverage its geographical proximity and capabilities to integrate into the rapidly expanding South Indian and broader global supply chains.
- By systematically addressing identified issues through targeted policy interventions, infrastructure development, and enhanced bilateral cooperation, this export oriented industrial corridor initiative promises to unlock significant economic benefits for Sri Lanka, India, and international partners, including Japanese companies operating in both countries, fostering sustainable growth and regional prosperity.

Consultations with Sri Lanka Government

The Conceptual Roadmap was developed after multiple rounds of discussion with a panel of representatives from various government departments and ministries of Sri Lanka

Sl. No.	Date	Participants	Agenda

1	9th May, 2025	• **Sri Lanka Presidential Office Panel**
		  • Chaired by: Mr. Russel, Aponsu, Senior Additional Secretary to the President (Finance & Economic Affairs)
		  • Participating Ministries/ departments: Ministry of Trade, Commerce, Food Security and Cooperative Development (MTCFSCD), Ministry of Industry and Entrepreneurship Development (MIED), Department of Trade and Investment Policies (DTIP), Department of Commerce (DoC), Export Development Board (EDB), Board of Investment (BOI) , and more
		• **Japanese Participating Organizations**
		• Ministry of Economy, Trade and Industry (METI) (New Delhi Office), Japan External Trade Organization (JETRO) (Colombo Office), Embassy of Japan in Sri Lanka (EOJ), Japan International Cooperation Agency (JICA) (Sri Lanka Office)
			• Introduction of the idea of the Conceptual Roadmap to create an economic corridor between Sri Lanka, India and Japan

2	12th June, 2025	• **Sri Lanka Presidential Office Panel**
		  • Chaired by: Mr. Russel, Aponsu, Senior Additional Secretary to the President (Finance & Economic Affairs)
		  • Participating Ministries/ departments: MTCFSCD, MIED, DTIP, DoC, EDB, BOI, and more
		• **Japanese Participating Organizations**
		• **METI** (New Delhi Office), **JETRO** (Colombo Office), **EOJ, JICA** (Sri Lanka Office), **Nomura Research Institute (NRI)** (India Office)
			• Discussion on the idea of the Conceptual Roadmap to create an economic corridor between Sri Lanka, India and Japan
			• Discussion on the initial thoughts of priority sectors for the economic corridor

3	25th July, 2025	• **Sri Lanka Presidential Office Panel**
		  • Chaired by: Mr. Russel, Aponsu, Senior Additional Secretary to the President (Finance & Economic Affairs)
		  • Participating Ministries/ departments: MTCFSCD, MIED, DTIP, DoC, EDB, BOI, and more
		• **Japanese Participating Organizations**
		• **METI** (Southwest Asia Office and New Delhi Office) **JETRO** (Colombo Office), **EOJ, JICA**(Sri Lanka Office), **The Japan-Sri Lanka Business Cooperation Committee** (International Division), **NRI** (India Office)
			• Discussion on the shortlisted priority sectors for the economic corridor
			• Discussion on the key issues faced by the exporters in Sri Lanka and potential solutions

4	22nd August, 2025	• **Sri Lanka Presidential Office Panel**
		  • Chaired by: Mr. Russel, Aponsu, Senior Additional Secretary to the President (Finance & Economic Affairs)
		  • Participating Ministries/ departments: MTCFSCD, MIED, DTIP, DoC, EDB, BOI, and more
		• **Japanese Participating Organizations**
		• **METI** (Southwest Asia Office and New Delhi Office) **JETRO** (Colombo Office), **EOJ, JICA**(Sri Lanka Office), **NRI** (India Office)
			• Discussion on the final draft of the Conceptual Roadmap
			• Discussion of current and future actions planned by the Sri Lanka government to manage the issues identified in the Conceptual Roadmap

Appendix

Appendix

Model of the IDE-GSM

A.1. The model [1]

- For the simulation analysis, we created an economic dataset at the subnational level covering 170 countries/economies and 3,303 subnational regions. This dataset includes regional-level GDP (regional GDP) data for the agricultural sector, mining sector, five manufacturing subsectors, and the service sector for 2015, based primarily on official statistics from the respective countries. The five manufacturing subsectors were food processing, garments and textiles, electronics and electricity (E&E), automotive, and other manufacturing industries. When a country lacks subnational GDP data by industry, we use national and regional GDP data along with industrial surveys/censuses to divide the GRDP into finer subsectors.
- The dataset used in the simulation included a total of 20,195, categorized as follows: land routes (12,947), sea and inland waterways (1,361), air routes (2,671), railway routes (3,141), and high-speed railway routes (75). The route data comprised the starting and ending cities, distances between cities, and the quality of the route, indicated by the speed of the vehicles running on the route.

1 This section is a modified version of Gokan et al. (2024).

Appendix

Model of the IDE-GSM

A.1.1. Economic model

- The economic model structure in the IDE-GSM closely aligns with the framework outlined in Chapter 16 of Fujita, Krugman, and Venables (1999), based on Dixit and Stiglitz (1977). However, the model has been adjusted to ensure consistency with the dataset. Specifically, our model provides detailed elaboration of the agricultural and mining sectors. Furthermore, it allows for industry selection among the eight industries and the choice of labor location among the regions within a country.
- The dataset provides the numbers of regions and countries. To specify industry k, we represent agriculture, mining, automotive, E&E, garments and textiles, food processing, other manufacturing, and services as k = 1, 2, 3, …, 8 in the following equations. Each consumer possesses a unit of labor and additional units of land. The land in a region is allocated and equally distributed among the population. The exogenous share of land in production is designated for agriculture, whereas the remaining share is allocated to mining.

Model of the IDE-GSM

A.1.2. Consumer behaviour

- Every consumer has the same Cobb–Douglas taste for the eight composite indices of consumption: agriculture, mining, automotive, electronics, textiles, food, other manufacturing, and services. Each industry's composite index is a subutility function defined over the varieties of goods within that industry and follows a constant elasticity of substitution (CES) function. The consumption of each variety in an index is determined by minimizing the expenditure on that variety, subject to the CES function. The price index of the composite index is defined so that the expenditure on the varieties equals the product of the price index and the amount of the composite index. The composite index is derived by maximizing utility within budget constraints. Income, which consists of wage income and land rent, is used solely to purchase eight types of goods. By substituting the calculated amounts of the composite index for a type into the derived consumption of each variety within that type, the demand for each variety is determined.
- We assume the use of iceberg transport technology. The amount produced at the factory gate is equal to the transport cost multiplied by the demand from consumers and firms. During transportation, some of the produced amount is lost, so the amount produced exceeds the actual demand. The delivered price is calculated as the mill price multiplied by the transport costs.

Model of the IDE-GSM

A.1.3. Production

- We assume that all products serve both final consumption and as intermediate inputs. Labor is utilized across all industries, whereas the land is used specifically for agriculture and mining. These eight industries are categorized into primary industries (agriculture and mining) and other industries. We assume that primary industries use constant returns to scale technology under perfect competition, whereas firms in the other industries use increasing returns to scale technology under monopolistic competition. According to the Armington assumption, a product from a primary industry and products from different regions are imperfect substitutes. Products from each firm in the manufacturing and service industries are differentiated within one of the eight industries.
- The production function of the agricultural or mining sector is a Cobb–Douglas function expressed as follows:

$$f(i,k) = A(i,k)L(i,k)^{\alpha_k}F(i,k)^{1-\alpha_k-\sum_{l=1}^{8}\alpha_{kl}}\prod_{l=1}^{8}N(i,l,k)^{\alpha_{kl}}, k = 1,2.$$

- Here, $f(i,k)$ represents the production amount of industry k at location i, and $A(i,k)$ denotes the total factor productivity (TFP) of industry k at location i. The labor input for industry k at location i is expressed as $L(i,k)$, and the land input for industry k at location i is denoted as $F(i,k)$. Intermediate inputs for location i provided by industry l, are represented by $N(i,l)$. Note that industry l may differ from industry k. Furthermore, $\alpha_k \in (0,1)$ and $\alpha_{kl} \in (0,1)$ represent the input shares of labor and intermediate inputs produced by industry l for industry k, respectively. We assume a positive share of land input such that

$$1-\alpha_k-\sum_{l=1}^{8}\alpha_{kl} > 0.$$

Model of the IDE-GSM

- By maximizing the profit of industry k, where k = 1, 2, locating at i with respect to labor input yields the nominal wage rate for industry k at location i, $w(i,k)$, as follows:

$$w(i,k) = \alpha_k \frac{f(i,k)}{L(i,k)} p(i,k), k = 1,2.$$

  Here, $p(i,k)$ denotes the price of a good produced in industry k at location i. By maximizing the profit of industry k, where k = 1, 2, at location i with respect to an intermediate input, we can determine the amount of intermediate inputs provided by industry l for use in industry k at location i, denoted as $N(i,l,k)$, as follows:

$$N(i,l,k) = \alpha_{kl} \frac{f(i,k)}{G(i,l)} p(i,k), k = 1,2.$$

- Using the zero-profit condition in the agriculture and mining industries at location i, the budget constraint of a representative consumer at location i can be expressed as follows:

$$\mathrm{Y}(i) = \sum_{k=1}^{2} \left(p(i,k) f(i,k) - \sum_{l=1}^{8} G(i,l) N(i,l,k) \right) + \sum_{k=3}^{8} \mathrm{w}(i,k) L(i,k).$$

Model of the IDE-GSM

- The price index of the goods in industry 1 or 2 at location i, denoted as $G(i,k)$, is defined as follows:

$$G(i,k) = \left(\sum_{j=1}^{R} p(i,k)^{-(\sigma_k - 1)} T_{ji}^{k\,-(\sigma_k - 1)} \right)^{-\frac{1}{\sigma_k - 1}}, k = 1, 2.$$

  Here, $\sigma_k > 1$ denotes the elasticity of substitution between any varieties of goods in industry k, and T_{ji}^{k} represents the transport costs for shipping goods in industry k from location j to location i. We assume that $T_{ji}^{k} > 1$ if $j \neq i$ and $T_{ji}^{k} = 1$ if $j = i$. Therefore, transportation within the same region is considered costless.

- Firms in the manufacturing and service sectors use an input composite represented by a Cobb–Douglass function of labor and intermediate goods. This input composite is utilized in both the fixed and marginal costs of a firm. We choose units such that the marginal input requirement equals the price–cost markup. By maximizing profit, the price of the variety produced by a firm in industry k and location i, denoted as $p(i,k)$, is determined as follows:

$$p(i,k) = \frac{w(i,k)^{1-\sum_{l=1}^{8} \beta_{kl}} \prod_{l=1}^{8} G(i,k)^{\beta_{kl}}}{A(i,k)}, k = 3, 4, 5, \ldots, 8$$

  where $A(i,k)$ is the TFP of industry k at location i and $\beta_{kl} \in (0,1)$ represents the intermediate share provided by industry l for industry k. Therefore, we assume the positive share of labor input as $1 - \sum_{l=1}^{8} \beta_{kl} > 0$.

Model of the IDE-GSM

- Let the number of firms in industry k at location i be $n(i,k)$, the output of each firm in industry k at location i $q(i,k)$, and number of workers in industry k at location i $L(i,k)$. Meanwhile, $n(i,k)p(i,k)q(i,k)$ is the total value of output in industry k at location i. Thus, the wage bill in industry k at location i,$w(i,k)L(i,k)$, is a share $1-\sum_{l=1}^{8}\beta_{kl}$ of $n(i,k)p(i,k)q(i,k)$. We selected units such that $q(i,k)=1-\sum_{l=1}^{8}\beta_{kl}$ to obtain $n(i,k)=w(i,k)L(i,k)/p(i,k)$. Given that the price index of industry k = 3, 4, 5, …, 8 is defined as $G(i,k)^{-\sigma_k-1}=\sum_{j=1}^{R}n(i,k)p(i,k)^{-(\sigma_k-1)}T_{ji}^{k\,-(\sigma_k-1)}$, we obtain the following:

$$G(i,k)=\left\{\sum_{j=1}^{R}L(j,k)A(j,k)^{\sigma_k}w(j,k)^{1-\sigma_k\left(1-\sum_{l=1}^{8}\beta_{kl}\right)}T_{ji}^{k\,-(\sigma_k-1)}\prod_{l=1}^{8}G(j,l)^{-\sigma_k\beta_{kl}}\right\}^{-\frac{1}{\sigma_k-1}},$$

$k=3,4,5,\ldots,8.$

- The output of industry k serves as both the final product and an intermediate input. The amount consumed as final products is $\mu_k \mathrm{Y}(i)$. The quantity used as intermediate inputs by industry l = 1, 2 is $\alpha_{lk}p(i,k)f(i,k)$, and that for industry l = 3, 4, 5, 6, 7, 8, it is $\beta_{lk}n(i,l)p(i,l)q(i,l)$. Using the constant share of wage payment in sales, the expenditure on industry k at location i, denoted by $E(i,k)$, is obtained as follows:

$$E(i,k)=\mu_k \mathrm{Y}(i)+\sum_{l=3}^{8}\frac{\beta_{lk}}{1-\sum_{k=1}^{8}\beta_{lk}}\mathrm{w}(i,l)L(i,l)+\sum_{l=1}^{2}\frac{\alpha_{lk}}{\alpha_l}\mathrm{w}(i,l)L(i,l).$$

Model of the IDE-GSM

- The following is obtained when the market-clearing condition for a good produced by the agricultural or mining sector at location i is rewritten:

$$p(i,k) = \left[\sum_{j=1}^{R} E(j,k) T_{ij}^{k\,-(\sigma_k-1)} G_A(j,k)^{\sigma_k-1} / f(i,k)\right]^{\frac{1}{\sigma_k}}, k = 1,2.$$

  The following nominal wage rate of industry k in location i is obtained when the market-clearing condition for a good produced by one of the manufacturing and service sectors at location i is rewritten:

$$w(i,k) = \left\{\frac{A(i,k)(1-\sum_{l=1}^{8}\beta_{kl})^{\frac{1}{\sigma_k}}\left[\sum_{j=1}^{R} E(j,k) T_{ij}^{k\,-(\sigma_k-1)} G(j,k)^{\sigma_k-1}\right]^{\frac{1}{\sigma_k}}}{\prod_{l=1}^{8} G(i,l)^{\beta_{kl}}}\right\}^{\frac{1}{1-\sum_{l=1}^{8}\beta_{kl}}}, k = 3,4,5,\ldots,8.$$

- Given the number of workers in each industry and location, we can now determine several endogenous variables, such as nominal wages, goods prices, price indices, industry expenditures, regional incomes, intermediate inputs, and the final production amounts for the agricultural and mining sectors. It is important to note that the TFP level is not an endogenous variable within this economic model. Instead, TFP is derived from the model, assuming that the economy is initially in equilibrium based on the dataset we have collected.

Model of the IDE-GSM

- Furthermore, we calculate the number of workers in each industry and location using two replicator equations. The first equation determines the rate at which the share of workers for industry k in location i changes over time, $\dot{\lambda}_k(i)$, as expressed in the following equation:

$$\dot{\lambda}_k(i) = \gamma_k \left(\frac{\omega_k(i)}{\bar{\omega}(i)} - 1 \right) \lambda_k(i).$$

Here, $\lambda_k(i)$ represents the share of workers for industry k in location i, $\omega_k(i)$ is the real wage rate in industry k and location i, $\bar{\omega}(i)$ denotes the average real wage rate in location i, and γ_k is a positive parameter for industry k. The revenue from land in location i is given by $\sum_{k=1}^{2} \frac{1-\alpha_k-\sum_{l=1}^{8}\alpha_{kl}}{\alpha_k} w(i,k)\, L(i,k)$. Thus, the real wage rate in industry k and location i can be derived as follows:

$$\omega_k(i) = \frac{w(i,k) + \left(\sum_{k=1}^{2} \frac{1-\alpha_k-\sum_{l=1}^{8}\alpha_{kl}}{\alpha_k} w(i,k)\, L(i,k) \right) / \sum_{k=1}^{8} L(i,k)}{\prod_{l=1}^{8} G(i,l)^{\mu_k}}.$$

This replicator equation governs how workers transition from one industry to another within a specific location.

Model of the IDE-GSM

- The rate of change of the share of workers for location i over time, $\dot{\lambda}_L(\mathrm{i})$, is given by

$$\dot{\lambda}_L(\mathrm{i}) = \gamma_L \left(\frac{\omega(i)}{\bar{\omega}_C(i)} - 1 \right) \lambda_L(i),$$

where $\lambda_L(i)$ is the share of workers in location i, $\omega(i)$ denotes the average real wage rate at location i, $\bar{\omega}_C(i)$ is the average real wage rate of the country to which location i belongs, and γ_L represents a positive constant. The average real wage rate in location i, $\omega(i)$, is given by

$$\omega(i) = \frac{Y(i) / \sum_{k=1}^{8} L_k(i)}{\prod_{k=1}^{8} G(i,k)^{\mu_k}} = \bar{\omega}(i).$$

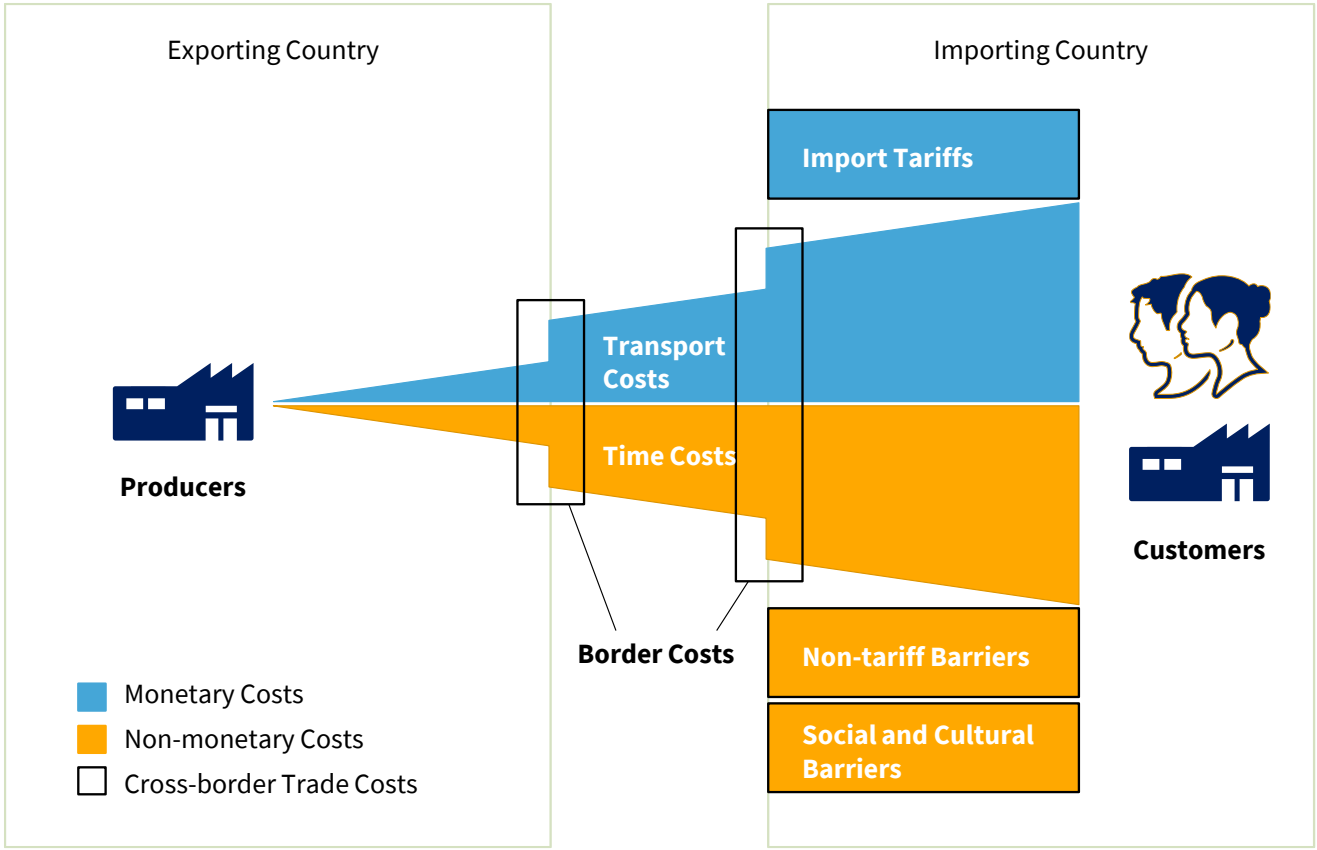
This replicator equation governs how workers move from one location to another within a country.

Model of the IDE-GSM

A.1.4. Parameters

- The transport costs in IDE-GSM (Figure 1) capture many factors.

Figure 1: Transport costs in the IDE-GSM



Source: Authors.

Appendix

Model of the IDE-GSM

- To estimate the total tariffs and nontariff barriers (TNTBs), we employed the log-odds ratio approach, as outlined by Head and Mayer (2000). Industry-level TNTBs were estimated for 69 countries, whereas TNTBs for the other sampled countries were prorated based on their per capita GDP. To evaluate these TNTB estimates, we require the elasticity of substitution, with the sources detailed below.
- Next, we calculate NTBs by subtracting the tariff rates from the TNTBs. Our source for tariff rates is the World Integrated Trade Solution, particularly the Trade Analysis and Information System (TRAINS) raw data. For each trading pair, we aggregate the lowest tariff rates across all available tariff schemes at the six-digit level of a harmonized system and calculate single tariff rates for each industry using a simple average. The available tariff schemes include most favored nation, multilateral and bilateral FTAs, and other arrangements, such as the generalized system of preferences. Additionally, we consider the tariff schedules from the six ASEAN + 1 FTA, the Regional Comprehensive Economic Partnership, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Thus, we obtained varying (bilateral) tariff rates and (importer-specific) NTBs for each industry on a tariff-equivalent basis. Finally, our total transport costs are calculated by multiplying the combined physical transport and time costs with the combined tariff rates and NTBs.

Appendix

Model of the IDE-GSM

- Table A1 presents the industry-specific parameters. We used Hummels (1999) as a reference for the elasticity of substitution in the manufacturing sectors and estimated it for services. To determine the elasticity of services, we employed gravity equations for trade services, incorporating independent variables such as the importer's GDP, exporter's GDP, importer's corporate tax, geographical distance between countries, an FTA dummy, a linguistic commonality dummy, and a colonial dummy. We utilized data from the "Organization for Economic Cooperation and Development Statistics on International Trade in Services" for this estimation. We infer the elasticity of services using the coefficient for the corporate tax.
- In this model, the consumption share of consumers by industry is set uniformly across the entire region. Although it would be more accurate to adjust the share for each country or region, this is not possible due to the lack of reliable consumption data. Similarly, we applied a uniform labor input share for each industry throughout the region and across the entire time period. While these shares may vary among countries/regions and across over, we used an "average" value based on data from Thailand, a country in the middle stage of economic development, as sourced from the Asian International Input–Output Table for 2005 by IDE-JETRO. For the manufacturing sector, we used data from the 2013 JETRO survey.

Model of the IDE-GSM

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