

# Hinrich Foundation Sustainable Trade Index

## Sri Lanka Highlights

### Introduction

The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection.**

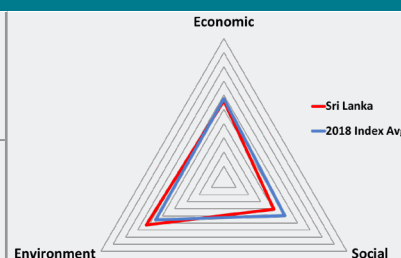
The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment, and attracts funding and support from multilateral development agencies.

The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit [www.hinrichfoundation.com](http://www.hinrichfoundation.com) to download the 2018 and 2016 Index.

Sri Lanka Overview		
<b>GDP per capita</b> <b>US \$3,835</b>	<b>Population</b> <b>21.2 million</b>	<b>Exports % of GDP</b> <b>21.4% of GDP</b>
<b>GDP growth</b> <b>6.16% growth</b> <small>(average since 2010)</small>	<b>Labour Force</b> <b>8.7 million</b>	<b>FDI net inflow</b> <b>US\$898 million</b>



SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index 2018

### Overall performance

Sri Lanka punches above its economic weight, ranking seventh overall in the 2018 Index. Its positive performance reflects the country's focus on sustainable development, particularly in terms of attracting and absorbing foreign direct investment (FDI) in a manner beneficial to workers and the environment. If indeed Sri Lanka manages to balance industrialisation with impressive social and environmental protections, it could one day be a developmental model for other small emerging economies.

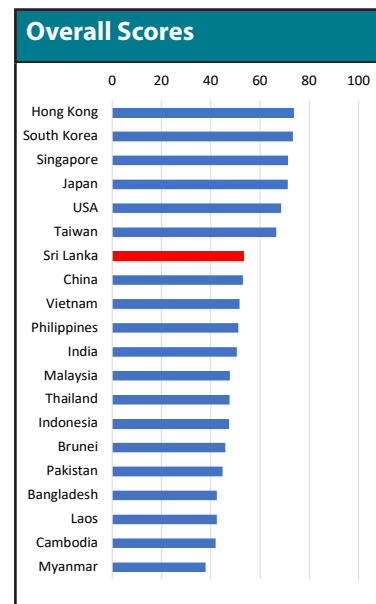
- **Economic:** When comparing Sri Lanka's performance on the 2018 Index relative to its GDP ranking among other countries, the country over performs its income by four places.
- **Social:** Sri Lanka was one of the majority of economies to remain stagnant or decrease in social pillar ranking for the 2018 Index. The country scored best in political stability and worst in educational attainment.
- **Environmental:** Sri Lanka's best performance on the 2018 Index was in the environmental pillar, where it outperformed some upper-income economies including the US, Taiwan and Brunei.

Overall Index Performance			
Pillar	2018 Rank	2016 Rank	Change
Economic	12	13	+1 ▲
Social	12	11	-1 ▼
Environmental	5	8	+3 ▲
Overall	7	9	+2 ▲

Sri Lanka's score on each pillar compared with 2016 Sustainable Trade Index results.

2018 Index Performance Relative to GDP				
TOP PERFORMERS				
	Country	2018 Rank	GDP Rank	Rank relative to GDP
▲	Vietnam	9	15	+6
▲	India	11	16	+5
▲	Sri Lanka	7	11	+4
▲	Philippines	10	13	+3
▲	South Korea	2	5	+3
BOTTOM PERFORMERS				
▼	Thailand	13	10	-3
▼	Laos	18	15	-3
▼	USA	5	1	-4
▼	Malaysia	12	8	-4
▼	Brunei	15	6	-9

SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

## Areas of top performance and improvement

- **Top performance:** Air pollution. Sri Lanka topped the 2018 Index with the lowest level of air pollution of all Index economies. This indicator, which is measured based on levels of particulate matter 2.5 (PM 2.5) in a country, highlights the important link between sustainable economic growth, trade and pollution.
- **Worst performance:** Technological innovation. Sri Lanka scored 17th out of 20 countries on the technological innovation indicator, which measures a country's investment in research and development (R&D) as a percentage of total GDP. This indicator captures a country's ability to innovate and participate in the trading system as it moves towards more sophisticated goods and services.
- **Most improved:** Share of natural resources in trade. This indicator assesses natural resources as a percentage of a country's total trade. Reliance on a high concentration of natural resources-related exports is a key indicator of unsustainable trade. In the 2018 Index, Sri Lanka lowered its share of natural resources exports and as a result, climbed 10 spots to fourth place for this indicator.

Top & Bottom Indicators		
Indicator	Index Avg.	2018 Score
Current account liberalization	90.7	100
Air pollution	67.2	100
Exchange rate volatility	66.7	84
Tariffs & non- tariff barrier to trade	59.4	75
Foreign direct investment	13.0	1
Educational attainment	38.4	12
Water pollution	24.3	0
Technological innovation	26.2	2

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

## Economic pillar

Sri Lanka ranked 12th in the economic pillar for the 2018 Index, an increase of one spot from the 2016 Index. Sri Lanka is one of the top-performing low-income countries on the economic pillar, outperformed by only Vietnam and India.

### KEY TAKEAWAYS:

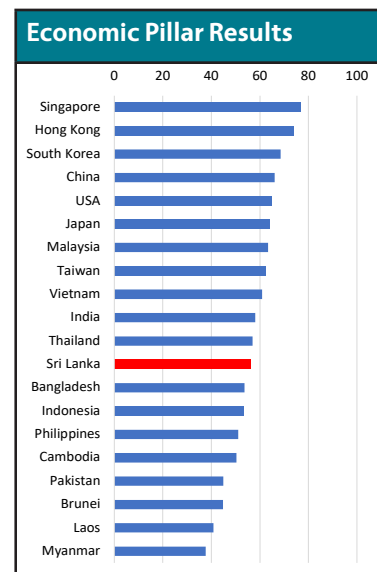
- Sri Lanka advanced one position to score 12th overall in the 2018 Index's economic pillar.
- Sri Lanka performed well in eliminating tariffs and non-tariff barriers to trade and in trade costs indicators, indicating it has the policy willingness needed to trade.
- Yet, Sri Lanka placed toward the bottom of the Index for technological indicators, showing there are areas to improve before it is able to attract high levels of FDI.

Sri Lanka demonstrates an openness to trade based on its performance in the tariff and non-tariff barriers and trade costs indicators. The country's economic development is being guided by its Vision 2025 masterplan, the year by which it aims to achieve high-income status "with a knowledge-based, highly competitive, social-market economy". The plan "foresees a move from a public investment and non-tradable sector to a private investment and trade sector-led growth model," says Idah Pswarayi-Riddihough, the World Bank's country director for Sri Lanka and Maldives.<sup>1</sup>

As part of these efforts, Sri Lanka has been striving to reduce tariff and non-tariff barriers (it ranks joint fourth on this indicator). At the end of 2017 it eliminated "para-tariffs" (fees or duties on imports other than customs tariffs) on over a thousand tariff lines. It is also creating a National Single Window for trade, which will help reduce the time taken for import clearances including those relating to non-tariff measures, says Ms Pswarayi-Riddihough.<sup>2</sup>

Sri Lanka was one of only two low-income countries to place in the top 10 for the trade costs indicator, which uses a composite of four factors – infrastructure, logistics, corruption and legal system— to capture the extra burden to trade created by inefficiencies in the trading system. Of these four factors, Sri Lanka performed best in legal system (=6) and worst in logistics (17).

With both low trade barriers and trade costs, Sri Lanka should be an attractive place for foreign investors. Yet, the country scores toward the bottom of the Index in foreign direct investment (FDI), placing 14th in the FDI indicator overall— which measures inward FDI as a share of total GDP. Sri Lanka also placed in the bottom half of economies for both technological infrastructure and technological innovation. Improving its performance on these indicators could help Sri Lanka move up the value chain and make it a more enticing location for the FDI needed to support the country's trade and economic growth.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Current account liberalization	90.7	100
Tariffs & non- tariff barrier to trade	59.4	75
Exchange rate volatility	66.7	84
Export product concentration	84.6	91
Gross fixed capital formation	42.2	46
Growth in labour force	64.0	74
Trade costs	51.2	48
Foreign trade and payments risk	65.3	64
Technological infrastructure	62.5	50
Growth in per capita GDP	66.7	62
Export market concentration	68.3	74
Financial sector depth	43.5	16
Foreign direct investment	13.0	14
Technological innovation	26.2	20

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

<sup>1</sup> Hinrich Foundation Sustainable Trade Index 2018

<sup>2</sup> Hinrich Foundation Sustainable Trade Index 2018

## Social pillar

In the 2018 Index, there was an overall stagnation across all economies on the social pillar. Inequality and political instability are on the rise across the region, a trend that transcends wealth and development status. Sri Lanka was one of the majority of economies to remain stagnant or decrease its ranking on the social pillar. The country fell one spot from 11th place in 2016 to 12th place in the 2018 Index.

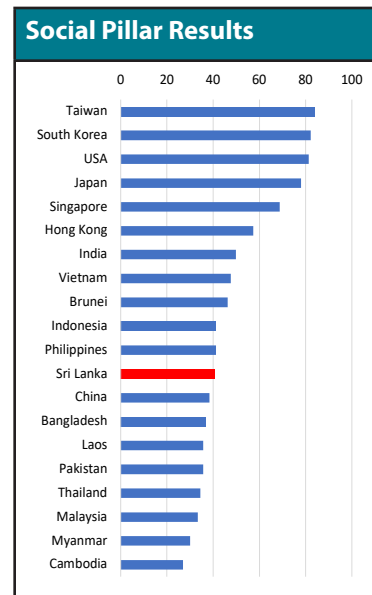
### KEY TAKEAWAYS:

- Sri Lanka placed 12th overall on the 2018 Index’s social pillar.
- Sri Lanka’s biggest increase was in the political stability indicator, a remarkable achievement for a country in a post-conflict era.
- Yet, Sri Lanka placed toward the bottom of the Index for educational attainment and has more work to do to broaden access to education and skills training.

Sri Lanka’s biggest increase on the social pillar was in political stability, where the country advanced six places on this indicator for the 2018 Index — a remarkable achievement for a nascent democracy still vulnerable to destabilising forces in a post-conflict era. This has provided the base for healthy debates about everything from factory worker’s rights to the need to manage the inevitable economic and geopolitical interests from China and India.

The country’s biggest decrease on the social pillar was in the labour standards indicator, which measures labour standards based on three categories: forced labour, child labour and labour rights. Sri Lanka dropped two places in this indicator in 2018, falling to 10th place overall.

Sri Lanka’s worst performance on the social pillar was in the educational attainment indicator, which measures total enrollment within a country for tertiary education as a share of the percentage of the population of the corresponding age group. Educational attainment and skill acquisition are key indicators for trade and economic competitiveness.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Political stability	57.6	60
Labour standards	39.7	28
Inequality (Gini coefficient)	62.3	63
Educational attainment	38.4	12

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

### CASE STUDY: MORE WORK TO BE DONE FOR EDUCATIONAL ATTAINMENT IN SRI LANKA

There remains much work to be done in terms of growing labour force participation—particularly for women—and broadening access to education and skills training in Sri Lanka. However, two recent education initiatives have resulted in steps in the right direction: raising the proportion of the school-aged population which completes at least 11 years of schooling from 82 percent in 2012 to 88 percent in 2017; and boosting the enrolment in vocational training and technical education courses from around 178,000 in 2014 to about 188,000 in 2016. Also, a revision of the Shop and Office Employees Act is planned, which will address some regulatory barriers to female employment, according to Idah Pswarayi-Riddihough, the World Bank’s country director for Sri Lanka and Maldives.<sup>3</sup>

<sup>3</sup> Hinrich Foundation Sustainable Trade Index 2018

## Environmental pillar

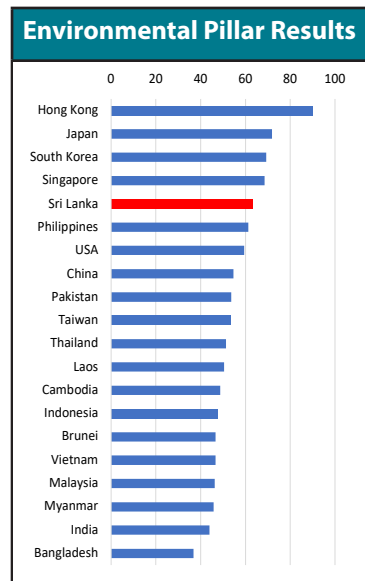
Sri Lanka's best performance in the 2018 Index was on the environmental pillar, where the country advanced three places to fifth place overall— outscoring all other low-income economies and topping some upper-income economies including the United States, Taiwan and Brunei. Sri Lanka improved on nearly every environmental indicator on the 2018 Index, reflecting the country's continued awareness of the necessity of environmental viability in trade.

### KEY TAKEAWAYS:

- Sri Lanka's best performance on the 2018 Index was in the environmental pillar, where the country placed fifth overall and outperformed some upper-income economies.
- Sri Lanka had the lowest level of air pollution for the 2018 Index, in part due to a slew of interventions such as a national Clean Air Initiative.
- Sri Lanka has room to improve in water pollution, which was its worst performing indicator on the environmental pillar for the 2018 Index.

Sri Lanka scored in the top 10 for all environmental indicators, excluding water pollution. Sri Lanka recorded the lowest level of air pollution for all economies on the 2018 Index. The country jumped three spots to first place for this indicator in 2018, which measures levels of particulate matter 2.5 (PM 2.5) in a country. This was in part due to a slew of interventions such as a vehicle emissions inspection program and a national Clean Air Initiative.<sup>4</sup>

Sri Lanka's biggest rank increase on the 2018 Index came from reducing its share of natural resources in trade. Reliance on a high concentration of natural resources-related exports is a key indicator of unsustainable trade. Sri Lanka managed to dramatically decrease its share of natural resources as a percentage of its total trade, and in doing so increased ten positions from 14th place in 2016 to fourth place on this indicator in 2018.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Air pollution	67.2	100
Share of natural resources in trade	85.3	98
Transfer emissions	22.6	28
Deforestation	66.8	85
Environmental standards in trade	66.7	67
Water pollution	24.3	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

### CASE STUDY: SRI LANKA LEADING THE WAY FOR ECO FACTORIES

Sri Lanka's eco-factories, which first came to the world's attention about a decade ago, are still considered industry-leading, says Rob Sinclair, president of supply chain solutions at Li & Fung. They include features such as trees growing between factory lines, lots of natural light, and placing natural water-cooling systems over air-conditioners. A couple of manufacturers initiated the eco-factories, he says, which then had a knock-on effect, as others realised they have to compete to attract workers who didn't want to leave those factories with great environmental and sustainability practices. "We tell other manufacturers in other countries that they should go to Sri Lanka to see how it's done."<sup>5</sup>

<sup>4</sup> Hinrich Foundation Sustainable Trade Index 2018

<sup>5</sup> Hinrich Foundation Sustainable Trade Index 2018

# Hinrich Foundation Sustainable Trade Index

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### Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at: [www.hinrichfoundation.com/trade-research/sustainable-trade-index](http://www.hinrichfoundation.com/trade-research/sustainable-trade-index) to download additional Sustainable Trade Index resources including:

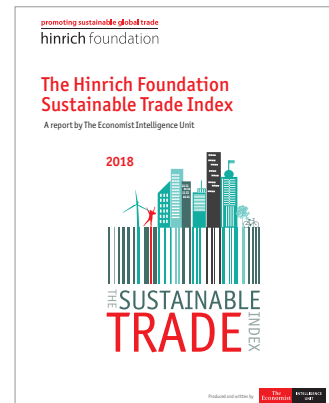
- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

### About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

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Economic Pillar		Social Pillar		Environmental Pillar	
Australia	82.4	A.1: Gender	82.4	A.1: Energy	82.4
Canada	82.4	A.2: Diversity	82.4	A.2: Pollution	82.4
China	82.4	A.3: Innovation	82.4	A.3: Climate Change	82.4
France	82.4	A.4: Education	82.4	A.4: Air Quality	82.4
Germany	82.4	A.5: Health	82.4	A.5: Water Quality	82.4
India	82.4	A.6: Employment	82.4	A.6: Deforestation	82.4
Indonesia	82.4	A.7: Income	82.4	A.7: Biodiversity	82.4
Japan	82.4	A.8: Infrastructure	82.4	A.8: Land Use	82.4
South Korea	82.4	A.9: Digital	82.4	A.9: Ozone Depletion	82.4
USA	82.4	A.10: Equality	82.4	A.10: Acid Deposition	82.4
UK	82.4	A.11: Governance	82.4	A.11: Global Warming	82.4
South Africa	82.4	A.12: Corruption	82.4	A.12: Air Quality	82.4
Colombia	82.4	A.13: Transparency	82.4	A.13: Water Quality	82.4
Costa Rica	82.4	A.14: Accountability	82.4	A.14: Deforestation	82.4
Denmark	82.4	A.15: Integrity	82.4	A.15: Biodiversity	82.4
Finland	82.4	A.16: Fairness	82.4	A.16: Land Use	82.4
Italy	82.4	A.17: Justice	82.4	A.17: Ozone Depletion	82.4
Malaysia	82.4	A.18: Rule of Law	82.4	A.18: Acid Deposition	82.4
Netherlands	82.4	A.19: Property Rights	82.4	A.19: Global Warming	82.4
Spain	82.4	A.20: Contract Enforcement	82.4	A.20: Air Quality	82.4
Sweden	82.4	A.21: Dispute Resolution	82.4	A.21: Water Quality	82.4
Switzerland	82.4	A.22: Insolvency	82.4	A.22: Deforestation	82.4
Taiwan	82.4	A.23: Bankruptcy	82.4	A.23: Biodiversity	82.4
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USA	82.4	A.31: Trade Facilitation	82.4	A.31: Biodiversity	82.4
UK	82.4	A.32: Trade Policy	82.4	A.32: Land Use	82.4
USA	82.4	A.33: Trade Disputes	82.4	A.33: Ozone Depletion	82.4
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UK	82.4	A.36: Trade Policy	82.4	A.36: Air Quality	82.4
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UK	82.4	A.38: Trade Agreements	82.4	A.38: Deforestation	82.4
USA	82.4	A.39: Trade Facilitation	82.4	A.39: Biodiversity	82.4
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USA	82.4	A.79: Trade Facilitation	82.4	A.79: Biodiversity	82.4
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USA	82.4	A.99: Trade Facilitation	82.4	A.99: Global Warming	82.4
UK	82.4	A.100: Trade Policy	82.4	A.100: Air Quality	82.4

