

TARGETING INVESTMENT FROM JAPAN

Promising leads in targeted sectors

Center for International Development, October 2016

Financial support provided by the Open Society Foundations under the project grant for “Sustained and Inclusive Economic Growth and Governance in Sri Lanka”.

TARGETING SECTORS FOR NEW JAPANESE INVESTMENT

Targeting methodology: identifying strategic new products with high Japanese presence

1. Start with all tradable goods (not already exported):
 - Total of 1242 possible products (Harmonized System, 4-digit)
 - First pass of filters eliminates Sri Lanka's current exports, natural resources / low complexity, and negligible categories
2. Narrow down to list of 50 “strategic bet” products:
 - Less related to exports today - could be entirely new clusters.
 - Filter identifies products that create new opportunities – products with large markets, and many new potential linkages
3. Further narrow to 15 products with Japanese presence:
 - Filter leaves products with “revealed comparative advantage” (RCA) in terms of exports and FDI outflows from Japan, as well as products where wages may be too low for Japanese production
 - Final filter leaves 15 products, in 3 clusters

Targeted product codes and clusters

Code	Product	Cluster
8512	Electrical lighting or signaling equipment used for motor vehicles	Automotive / Electrical
8483	Transmission shafts	Automotive
8708	Parts and accessories of the motor vehicles	Automotive
8703	Cars	Automotive
8409	Parts suitable for use with spark-ignition engines	Automotive
8407	Spark-ignition reciprocating or rotary internal combustion piston engines	Automotive
8504	Electrical transformers	Electrical
8501	Electric motors and generators	Electrical
8502	Electric generating sets and rotary converters	Electrical
8536	Switches, fuses & related circuit protection	Electrical
8207	Interchangeable tools for hand tools	Metal products
7318	Screws, bolts, nuts and similar articles of iron or steel	Metal products
8482	Ball or roller bearings	Metal products
9032	Automatic regulating or controlling instruments and apparatus (valves)	Metal products
7326	Other articles of iron or steel	Metal products
		Automotive

Current major exporters in targeted products

Product Group	HS Code / Description	Company Name	Total exports since 2013 (\$m)
Automotive	8708 - Parts and accessories of the motor vehicles	Camso Loadstar	11.6
		Elastometric Engineering	5.0
		Trelleborg Wheel Systems	2.0
Metal Goods	7318 - Screws, bolts, nuts and similar articles of iron or steel	Sebim Engineering & Supplies	3.5
		Kramski Lanka	9.0
	8207 - Interchangeable tools for hand tools	Reliance Diamond Tool	2.4
		Lanka Precision Engineering	2.3

Current major exporters in targeted products

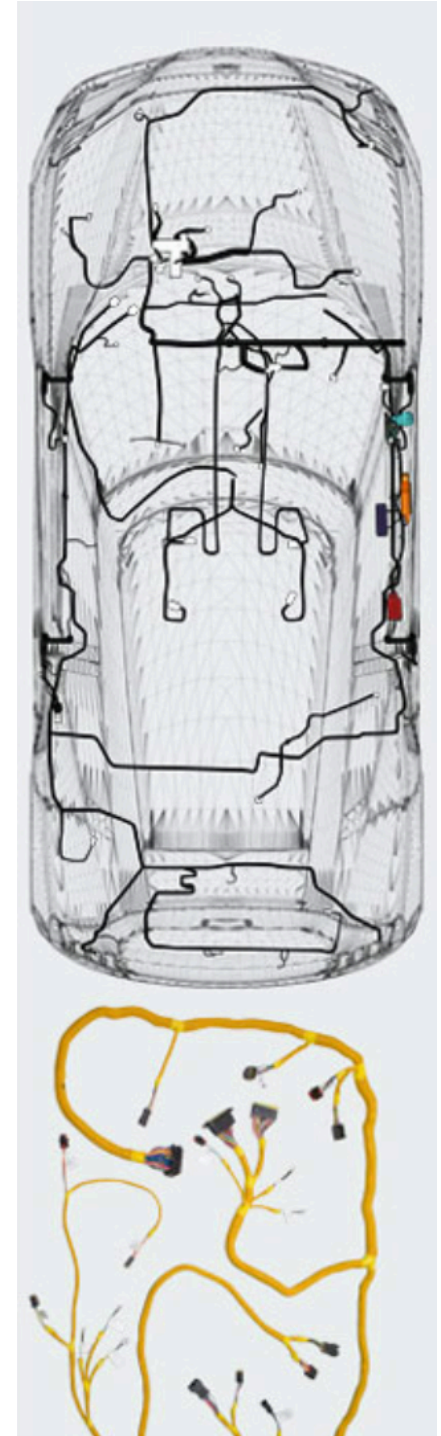
Product Group	HS Code / Description	Company Name	Total exports since 2013 (\$m)
Electrical	8504 - Electrical transformers	Noratel International	66.4
		LTL Holdings	17.3
		Etal Group	10.2
		CCS Lanka	5.0
		FDK Lanka	4.0
		Kohoku Lanka	2.0
Electrical	8536 - Switches, fuses & related circuit protection	Orel Corporation	3.1
		PCE Lanka	2.9
		Contrinex Ceylon	1.8
		Kramski Lanka	1.4

POTENTIAL EXPORT PARTNERS IN SRI LANKA

Motherson Electrical Wires Lanka

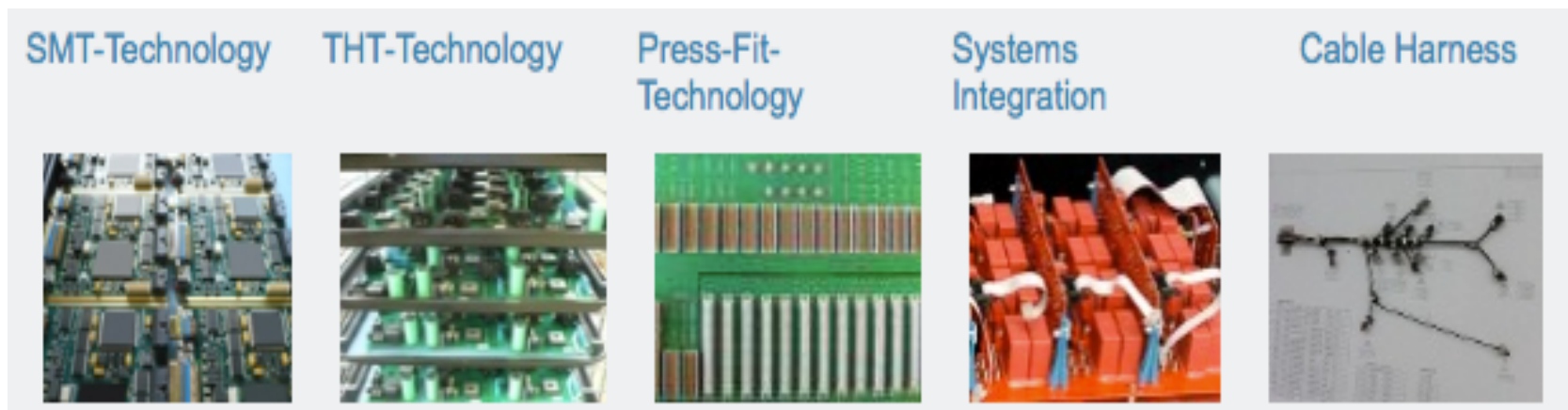
- MWL commenced commercial operations in January 2004 as a subsidiary of Motherson Sumi Systems Ltd. (Indian company).
- The wire manufacturing facility caters primarily to the automotive industry.
- Motherson Sumi Systems produces many additional automotive value chain products.
- Besides direct exports, many of the joint venture companies of MSSL export to their own collaborators. For example, wiring harnesses from Motherson Electrical Wires Lanka are exported to Sumitomo Wiring Systems, Japan.

Source: <http://www.motherson.com/motherson-electrical-wire-lanka.html>



Variosystems PVL

- Swiss electronics contract manufacturer established in 1993 with plants in Sri Lanka (est. 1998), China (est. 2006) and the United States (est. 1999).
- Factory based in Badalgama employs 640 people
- Caters to the European and US market, focusing on the following industries: pharmaceuticals, avionics, military, industrial products, railway engineering, safety engineering, renewable energy, automotive, consumer products.



Source: <http://www.variosystems.com>

CCS Lanka

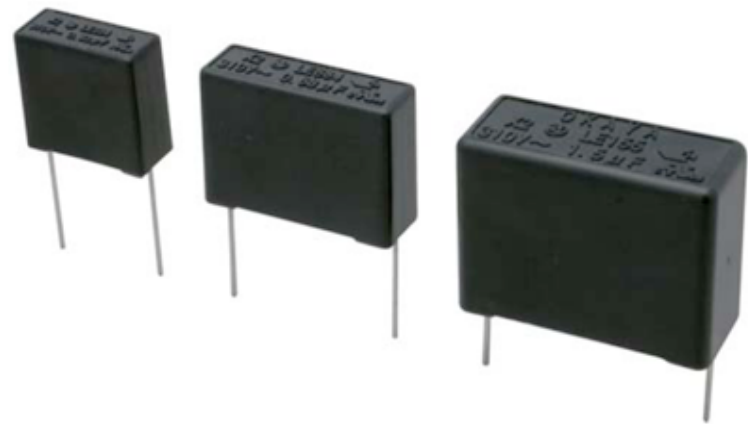
- Swiss electronic manufacturing and design MNC
- Sri Lanka locations operational since 1985, 870 employees; produce customized coiled goods and cable assemblies (panel bards and enclosures): \$35M avg. annual exports since 2013
- Combines SL's logistics advantage with its high-tech potential
 - “Located between the Near and Far East, CCS Lanka (PVT) Ltd. is ideally positioned for the global procurement of electronic and electro mechanical components. At the southern tip of the Indian sub-continent we are in practice a half-way logistic hub between east and west. Co-operation with the local technical university in Colombo offers a large pool of skilled professional workers.”



Source:
ccsedms.com

Okaya Electric Industries

- Japanese corporation, global leader in manufacture of electronic components for noise suppression and surge suppression
- Invested US \$30m in Katunayake location in 2008, planned employment of up to 1200; many skilled workers, with training in Japan
- Currently exports >\$11 M annually, mainly electrical capacitors; destinations are diversified within Asian production network (HK, Singapore, Japan, Thailand, China)



Source: asiantribune.com/node/12833

Lanka Precision Engineering

- In Sri Lanka for over 30 years. Partners with Star Precision Engineering (Singapore, China locations)
- High-precision metal dies and metal mold components, for auto industry and others
- Sees location near India + future FTA as big advantage
- Another advantage is SL workers: "You find skilled, artisan-like engineers at factories in Sri Lanka, very similar to what you see at Japanese factories," - CEO Keiko Ishibashi (Japan)

Source: asiantribune.com/node/12833



Lanka Harness Co.

- Established in 2002, Lanka Harness manufactures impact sensor switches for seat belts and airbags, and assembles automobile seat belt sensor switches, airbag sensor switches, and sun visors for automobile companies. Initial investment came from Japan.
- With an export turnover of \$42 million in 2012, the company has a production capacity of 460,000 pieces per month and employs 230 people.
- Products are exported to Japan, Indonesia, Romania, Thailand and India to automobile companies such as Toyota, Nissan, Honda, Mitsubishi & Mazda of Japan, Ford, General Motors and Chrysler of USA, Volvo, SAAB, BMW, Aston Martin, Opel and Renault of Europe

Sources:

<http://www.srilankabusiness.com/exporters-directory/lanka-harness-company-pvt-ltd-886.html>

<http://repository.kln.ac.lk/handle/123456789/7902>

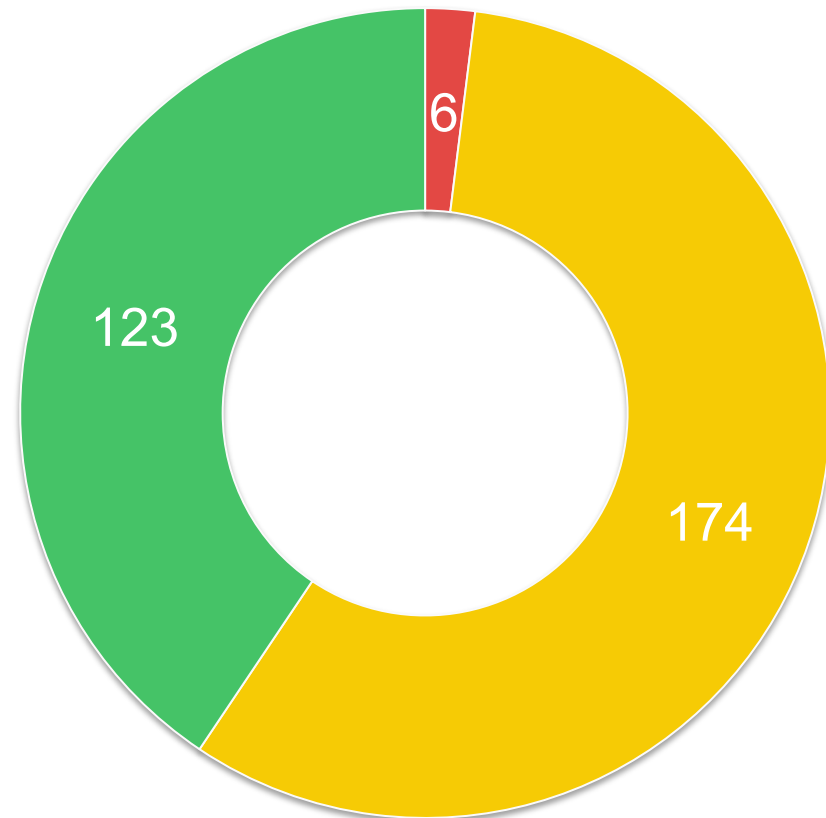


TRADE ARRANGEMENTS COMPARISION

Indian Import Duties: Sri Lanka vs. Japan




The 15 targeted products (HS 4-digit) correspond with 303 8-digit tariff lines.



- In the India - Japan FTA:
 - 174 will be completely phased out by 2021
 - 6 have already been eliminated (static converters & rectifiers)
 - The 123 not included face Indian MFN tariffs:
 - 68% face 7.5%-10% tariff
 - 30% face 125% tariff (cars)
- In the India - SL FTA:
 - All 303 are tariff-free



- Already eliminated
- Being phased out
- Not included in FTA

Indian Import Duties: Sri Lanka vs. Japan

	Automotive
	Electrical
	Metal Products

Code	Product	India-Sri Lanka FTA	Japan-India EPA	
8512	Electrical lighting or signaling equipment used for motor vehicles			
851210	Lighting or visual signaling equipment of a kind used on bicycles	0	10, B10	
851220	Other lighting or visual signaling equipment: head lamps, tail lamps, stop lamps, side lamps and blinkers; other automobile lighting equipment; other	0	X [7.5-10]	
85123010	Sound signaling equipment: Horn	0	10, B10	
85123090	Sound signaling equipment: Other	0	7.5, B10	
851240	Windscreen wipers, defrosters and demisters	0	X [10]	
851290	Parts	0	7.5, B10	
8483	Transmission shafts; etc.			
848310	Transmission shafts (including cam shafts and crank shafts) and cranks	0	7.5, B10	
848320	Bearing housings, incorporating ball or roller bearings	0	X [7.5]	
848330	Bearing housings, not incorporating ball or roller bearings; plain shaft bearings	0	X [7.5]	
848340	Gears and gearing, other than toothed wheels, chain sprockets and other transmission elements presented separately; ball or roller screws; gear boxes and other speed changers, including torque converters	0	X [7.5]	
84835010	Flywheels and pulleys, including pulley blocks: Pulleys, power transmission	0	7.5, B10	
84835090	Flywheels and pulleys, including pulley blocks: Other	0	X [7.5]	
84836010	Clutches and shaft couplings (including universal joints): Flexible coupling	0	7.5, B10	




Note: "B10" means to be eliminated in 11 equal annual installments from the Base Rate to free; base rate is provided. "X" means excluded from any commitment; MFN rate for 2015-16 is shown in brackets.

Indian Import Duties: Sri Lanka vs. Japan

Automotive
Electrical
Metal Products

Code	Product	India-Sri Lanka FTA	Japan-India EPA
8483 (cont.)	Transmission shafts; etc.		
84836020	Clutches and shaft couplings (including universal joints): Fluid coupling	0	7.5, B10
84836090	Clutches and shaft couplings (including universal joints): Other	0	X [7.5]
848390	Toothed wheels, chain sprockets and other transmission elements pres. separately; parts	0	X [7.5]
8708	Parts and accessories of the motor vehicles		
870810	Bumpers and parts thereof	0	10, B10
870821-29	Other parts and accessories of bodies (including cabs): Safety seat belts & other	0	X [10]
870830	Brakes and servo-brakes; parts thereof	0	X [10]
870840	Gear boxes and parts thereof	0	11.25 (2011) to 6.25 (2019)
870850	Drive-axles with differential, whether or not provided with other transmission components, and non-driving axles; parts thereof	0	X [10]
870870	Road wheels and parts and accessories thereof	0	10, B10
870880	Suspension systems and parts thereof (including shock-absorbers)	0	X [10]
870891	Radiators and parts thereof	0	X [10]
870892	Silencers (mufflers) and exhaust pipes; parts thereof	0	10, B10
870893-95	Clutches and parts thereof; Steering wheels, steering columns, steering boxes, and parts thereof; Safety airbags with inflator system and parts thereof	0	X [10]
870899	Other	0	X [10]

Indian Import Duties: Sri Lanka vs. Japan

	Automotive
	Electrical
	Metal Products




Code	Product	India-Sri Lanka FTA	Japan-India EPA
8703	Cars (and other motor vehicles principally designed for the transport of persons)		
870310	Vehicles specially designed for travelling on snow; golf cars and similar vehicles	0	100, B10
870321	Of a cylinder capacity not exceeding 1,000 cc	0	X [125]
870322	Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc	0	X [125]
870323	Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	0	X [125]
870324	Of a cylinder capacity 3,000 cc	0	X [125]
870331	Of a cylinder capacity not exceeding 1,500 cc (diesel or semi-diesel)	0	X [125]
870332	Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc (diesel or semi-diesel)	0	X [125]
870333	Of a cylinder capacity exceeding 2,500 cc (diesel or semi-diesel)	0	X [125]
870390	Other	0	X [125]
8409	Parts suitable for use with spark-ignition engines		
840910	For aircraft engines	0	7.5, B10
84099111 - 84099120	Suitable for use solely or principally with spark-ignition internal combustion piston engines: Valves, inlet and exhaust, piston, piston rings, piston assemblies, fuel injection equipment excluding injection pumps	0	X [7.5]
84099191/ 94/99	Suitable for use solely or principally with spark-ignition internal combustion piston engines, other: Of petrol engines for motor vehicles; Of gas engines; Other	0	X [7.5]
84099192/ 93	Suitable for use solely or principally with spark-ignition internal combustion piston engines, other: Of other petrol engines; Of kerosene engines	0	7.5, B10
840999	Other	0	X [7.5]



Indian Import Duties: Sri Lanka vs. Japan

Automotive
Electrical
Metal Products

Code	Product	India-Sri Lanka FTA	Japan-India EPA	
8407	Spark-ignition reciprocating or rotary internal combustion piston engines			Automotive
840710	Aircraft engines	0	7.5, B10	
840721	Marine propulsion engines: Outboard motors	0	5, B10	
840729	Marine propulsion engines: Other	0	7.5, B10	
840731	Of a cylinder capacity not exceeding 50 cc	0	7.5, B10	
840732	Of a cylinder capacity exceeding 50 cc but not exceeding 250 cc	0	X [7.5]	
840733	Of a cylinder capacity exceeding 250 cc but not exceeding 1,000 cc	0	X [7.5]	
840734	Of a cylinder capacity exceeding 1,000 cc	0	X [7.5]	
840790	Other engines (petrol, kerosene, other)	0	7.5, B10	
8504	Electrical transformers, static converters and inductors			Electrical
850410	Ballasts for discharge lamps or tubes	0	X [7.5]	
850421-23	Liquid dielectric transformers: All power handling capacities	0	7.5, B10	
850431-32	Other transformers: Having a power handling capacity not exceeding 16 kVA	0	10, B10	
850433-34	Other transformers: Having a power handling capacity exceeding 16 kVA	0	7.5, B10	
850440	Static converters	0	0	
850450	Other inductors	0	7.5, B10	
850490	Parts	0	7.5, B10	

Indian Import Duties: Sri Lanka vs. Japan

	Automotive
	Electrical
	Metal Products




Code	Product	India-Sri Lanka FTA	Japan-India EPA	
8501	Electric motors and generators (excluding generating sets)			
850110	Motors of an output not exceeding 37.5 W	0	X [7.5]	
850120	Universal AC/DC motors of an output exceeding 37.5 W	0	7.5, B10	
850131-32	Other DC motors; DC generators: Of an output not exceeding 75 kW	0	X [7.5]	
850133-34	Other DC motors; DC generators: Of an output exceeding 75 kW	0	7.5, B10	
850140	Other AC motors, single phase	0	X [7.5]	
850151	Other AC motors, multi-phase: Of an output not exceeding 750 W	0	7.5, B10	
850152-53	Other AC motors, multi-phase: Of an output exceeding 750 W	0	X [7.5]	
850161-64	AC generators (alternators): All sizes	0	7.5, B10	
8502	Electric generating sets and rotary converters			
850211	Of an output not exceeding 75 kVA	0	10, B10	
850212-13	Of an output exceeding 75 kVA	0	X [7.5]	
85022010	Generating sets with spark-ignition internal combustion piston engines: Electric portable generators of an output no exceeding 3.5 kVA	0	10, B10	
85022090	Generating sets with spark-ignition internal combustion piston engines: Other	0	7.5, B10	
850231-39	Other generating sets: Wind-powered & Other	0	7.5, B10	
850240	Electric rotary converters	0	7.5, B10	

Indian Import Duties: Sri Lanka vs. Japan

Automotive
Electrical
Metal Products




Code	Product	India-Sri Lanka FTA	Japan-India EPA	
8536	Switches, fuses & related circuit protection			Electrical
85361010	Fuses: For switches having rating up to 15 amps, rewirable	0	10, B10	
85361020 - 85361090	Fuses: All other types	0	7.5, B10	
853620	Automatic circuit breakers	0	7.5, B10	
853630	Other apparatus for protecting electrical circuits	0	7.5, B10	
853641	Relays: For a voltage not exceeding 60 V	0	10, B10	
853649	Relays: Other	0	7.5, B10	
853650	Other switches	0	7.5, B10	
853661-69	Lamp-holders, plugs and sockets	0	10, B10	
853670	Connectors for optical fibers, optical fiber bundles or cables	0	7.5, B10	
853690	Other apparatus	0	X [7.5]	
8207	Interchangeable tools for hand tools			Metal Products
820713-19	Rock drilling or earth boring tools	0	10, B10	
820720	Dies for drawing or extruding metal	0	10, B10	
820730	Tools for pressing, stamping or punching	0	10, B10	
820740	Tools for tapping or threading	0	10, B10	



Indian Import Duties: Sri Lanka vs. Japan

	Automotive
	Electrical
	Metal Products

Code	Product	India-Sri Lanka FTA	Japan-India EPA	
8207 (cont.)	Interchangeable tools for hand tools			
820750	Tools for drilling, other than for rock drilling	0	10, B10	
820760	Tools for boring or broaching	0	10, B10	
820770	Tools for milling	0	10, B10	
820780	Tools for turning	0	10, B10	
820790	Other interchangeable tools	0	10, B10	
7318	Screws, bolts, nuts and similar articles of iron or steel			
731811-14	Coach screws; other wood screws; screw hooks and screw rings; self-tapping screws	0	10, B10	
731815	Other screws and bolts, whether or not with their nuts or washers	0	X [15]	
731816	Nuts	0	10, B10	
731819	Threaded articles: Other	0	10, B10	
731821-24	Spring washers & other lock washers; other washers; rivets; cotters & cotter-pins	0	10, B10	
73182910	Other non-threaded articles: Circlips	0	10, B10	
73182990	Other non-threaded articles: Other	0	X [15]	
7326	Other articles of iron or steel			
732611-19	Forged or stamped, but not further worked	0	10, B10	
732620	Articles of iron or steel wire	0	10, B10	
732690	Other	0	10, B10	

Indian Import Duties: Sri Lanka vs. Japan

	Automotive
	Electrical
	Metal Products

Code	Product	India-Sri Lanka FTA	Japan-India EPA	
8482	Ball or roller bearings			
84821011 - 84821040	Adapter ball bearings(radial type)	0	7.5, B10	
84821051	Thrust ball bearings: Of bore diameter not exceeding 50 mm	0	7.5, B10	
84821052 - 84821053	Thrust ball bearings: Of bore diameter exceeding 50 mm & other	0	X [7.5]	
84821090	Thrust ball bearings: Other	0	X [7.5]	
848220	Tapered roller bearings, including cone and tapered roller assemblies	0	7.5, B10	
848230	Spherical roller bearings	0	7.5, B10	
848240	Needle roller bearings	0	7.5, B10	
848250	Other cylindrical roller bearings	0	7.5, B10	
848280	Other, including combined ball/roller bearings	0	7.5, B10	
848291	Balls, needles and rollers	0	7.5, B10	
848299	Other	0	7.5, B10	
9032	Automatic regulating or controlling instruments and apparatus (valves)			
903210	Thermostats	0	7.5, B10	
903220	Manostats	0	7.5, B10	
903281-89	Other instruments and apparatus: Hydraulic or pneumatic & other	0	7.5, B10	
903290	Parts and accessories	0	7.5, B10	