Market Update

Impact of US Tariffs on Sri Lanka Apparel Sector

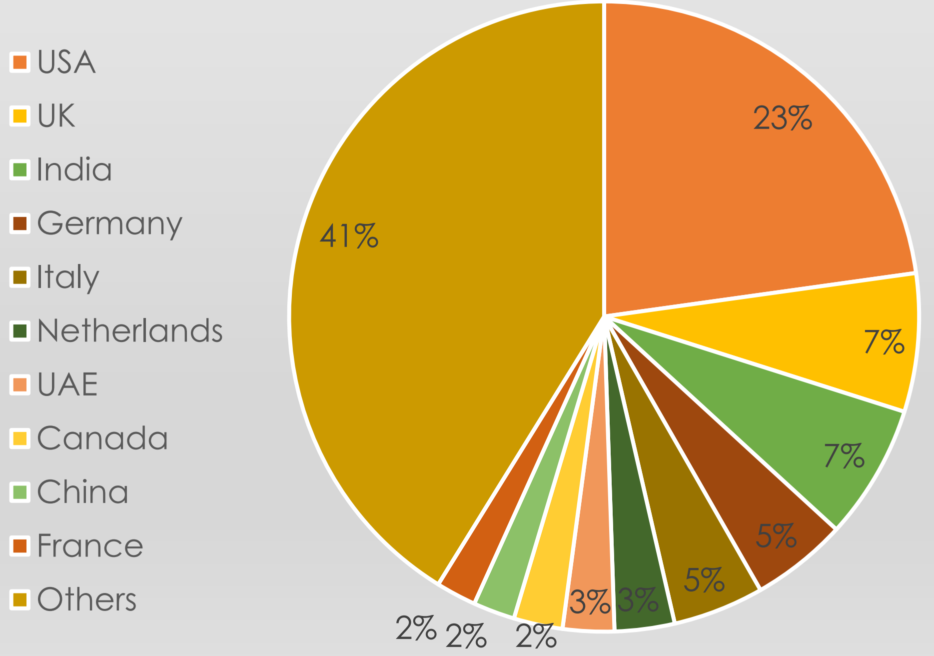
THE US IMPOSES A 30% TARIFF ON SRI LANKA

- On July 9, 2025, the U.S. revised its earlier decision from April 2, 2025, by reducing the reciprocal tariff rate on imports from Sri Lanka to 30%, down from the initially imposed 44%.
- While Sri Lanka faces a 30% tariff, this is still lower than those imposed on key competitors such as Bangladesh, Cambodia, Indonesia, Thailand, and China. Only Vietnam currently enjoys a lower tariff of 20%, creating a potential threat.

Country	Proposed Tariff (April'25)	Current Tarriff
Sri Lanka	44%	30%
Bangladesh	37%	35%
Cambodia	49%	36%
Indonesia	32%	32%
Thailand	36%	36%
China*	145%	30%
Vietnam	46%	20%
India	26%	To be Announced

* The U.S. initially imposed a 46% tariff on China, which later escalated to 104% and then 145% before being rolled back to 30%.

USA is the largest exporter of Sri Lanka



STRUCTURAL COMPLEXITIES AND UNCERTAINTIES, LIKELY TO MAKE A SHIFT DIFFICULT. INDIA REMAINS A CHALLENGING OPTION.

- Although Vietnam enjoys a cost edge from lower tariffs, Sri Lanka's apparel production structure ensures stronger resilience in our view (although Rubber and probably coir sectors will likely have pressure from Vietnam and India due to their low tariffs)

- Sri Lanka's apparel industry, specially is strongly positioned in intimate wear, activewear, and premium segments, catering primarily to high-end Western retailers. Its value proposition is further strengthened by ancillary services like R&D, design support, and stringent compliance standards, making migration of production challenging due to product complexity in our view. In contrast, Vietnam largely specializes in high-volume sportswear, fast fashion, and footwear for mass-market brands, with limited value-added services, allowing easier migration for fast fashion players.

- Meanwhile, India's tariff structure has not yet been announced. A lower tariff for India could pose a serious threat to Sri Lanka's industry in our view despite companies like Teejay Lanka PLC (TJL) with existing manufacturing facilities in India could benefit from shifting or expanding production capacity.

- Meanwhile, we believe the inherent unpredictability of Trump's trade policy adds significant uncertainty to the global apparel trade landscape. This could delay or prolong investment decisions in other countries, given the high capital requirements, thereby providing Sri Lanka with valuable time to adapt to the new environment.

INNOVATION, EFFICIENCY AND MARKET DIVERSIFICATION CRITICAL AS TARIFFS TIGHTEN MARGINS

- The 30% tariff will likely intensify margin pressure across Sri Lanka's apparel industry, particularly for manufacturers serving the low-margin, fast fashion segment. This is exacerbated by Sri Lanka's status as a relatively high-cost production base in comparison to regional peers like Bangladesh and Cambodia, due to higher labor costs, energy expenses, and compliance overheads.

- Premium-focused players meanwhile catering to high-end Western retailers may display more resilience—supported by strong customer relationships and brand loyalty—even they will feel the strain unless they adapt swiftly.

- The sector's continued competitiveness will depend on its ability to leverage its established positioning in premium market segments and to drive advancements in innovation, sustainability, operational efficiency and market diversification. Such measures are critical not only to cushion the impact of external trade shocks but also to differentiate Sri Lanka from lower-cost, high-volume competitors in an increasingly volatile global market.

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