

Market Update

US imposes 44% reciprocal import tariffs on Sri Lanka

IMPACT OF USA TARIFFS ON SRI LANKA'S TRADE & KEY EXPORT SECTORS

- USA has imposed a 44.0% tariff on Sri Lankan goods through an executive order, citing it as a reciprocal measure in response to Sri Lanka's 88.0% combined tariffs and trade barriers on American products. Sri Lanka ranks among the top five countries with the highest tariff rates on US goods. Starting from April 5, 2025, all countries will initially face a 10.0% tariff, with the full 44.0% tariff on Sri Lanka taking effect from April 9, 2025.
- The United States is Sri Lanka's largest trade surplus partner, with exports totaling USD 2.75Bn and imports from USA at USD 504Mn in 2023, resulting in a trade surplus of USD 2.25Bn. USA accounted for 22.7% of Sri Lanka's total exports of USD 11.9Bn in 2023 and only 3% of its total import bill of USD 16.8Bn.
- Garments dominated exports to the USA totaling USD 1.7Bn, or 62% of Sri Lanka's total exports to the USA. The USA is also the single largest buyer of Sri Lankan apparel, accounting for 40% of Sri Lanka's total garment exports, which amounted to USD 4.4Bn in 2023. Rubber products are another key export, with 41% of tyre exports and 60% of rubber gloves exported to USA. Tea exports to United States remain minimal, contributing just 3% (USD 37Mn) of Sri Lanka's total tea exports.
- The garment sector is likely to be the most impacted if the proposed tax measures are implemented. Higher taxes would increase the cost base, which could lead to reduced demand, margin compression, and ultimately job losses in the sector. As the sector accounts for a significant portion of Sri Lanka's exports to the USA, these effects could ripple through the economy, putting pressure on both businesses and employment.

THE USA; SRI LANKA'S LARGEST TRADE SURPLUS PARTNER

| | Sri Lanka (USD Mn) | USA (USD Mn) | Contribution |
|--------------------------|-----------------------|-----------------|--------------|
| Total Exports | 11,910 | 2,759 | 23% |
| Total Imports | 16,811 | 504 | 3% |
| Trade (Deficit)/ Surplus | (4,901) | 2,255 | |

| | SL Total Exports (USD Mn) | Export to USA from SL (USD Mn) | Contribution |
|---------------|------------------------------|-----------------------------------|--------------|
| Garments | 4,441 | 1,783 | 40% |
| Rubber Tyres | 589 | 239 | 41% |
| Rubber Gloves | 226 | 135 | 60% |
| Tea | 1,310 | 37 | 3% |

Note: Data on 2023, Source , CBSL, Trading Economics, WITS

APPAREL SECTOR TO FACE SIGNIFICANT IMPACTS

- Of the listed entities we expect **Teejay Lanka PLC (TJL)**, **Hayleys Fabric PLC (MGT)** and **Hela Apparel Holdings (HELA)** to have adverse impacts through these duties as a significant portion of their revenues are stemming from the USA. We believe that TJL is in a stronger position compared to its competitors, as they have the flexibility to shift production to their factories in India, which currently accounts for 55% of their total production. This ability to diversify production gives them a strategic advantage in adapting to market changes and allow them to benefit from India's lower tariff rate of 26%, compared to higher rates faced by other competitors such as Vietnam (46%), Cambodia (49%), and Bangladesh (37%). This strategic advantage could help TJL maintain competitiveness and mitigate the impact of higher tariffs in our view.
- Companies such as **Dipped Products (DIPD)** , **Haycarb (HAYC)**, **BPPL Holdings (BPPL)** and **Richard Peiris Exports (REXP)** may experience considerable impact from the tariffs imposed, given their significant exposure to the US market. On the other hand, **ACL Cables (ACL)**, **Sierra Cables (SIRA)**, **Royal Ceramics (RCL)**, and **Lanka Walltiles (LWL)** could face some impact due to their reliance on US exports, though the effect may be less severe compared to the others.

AFFECTED COUNTRIES LIKELY TO PURSUE AGGRESSIVE NEGOTIATIONS

- We believe that many countries will seek to negotiate the tariffs proposed by the US administration, as the potential impact on their exports would be severe. For instance, exports from Vietnam to the USA accounts for approximately 35% of their total exports, while Cambodia relies on the USA for about 28% of its exports. Given the substantial reliance on the US market, trade negotiations between affected countries, including Sri Lanka, and the US are expected to address these issues and may lead to adjustments in trade policies soon in our view. We will await further clarity on the implementation of tariffs by specific goods categories and any potential revisions following responses.

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