

hinrich foundation

advancing sustainable global trade



The Hinrich Foundation Sustainable Trade Index 2020

Sri Lanka highlights



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Foreword

This report is based on the results of the Hinrich Foundation Sustainable Trade Index 2020. The index assesses the readiness of 20 Indo-Pacific economies to balance the economic, environmental, and social outcomes from trade.

The Hinrich Foundation commissioned the Economist Intelligence Unit (EIU) to develop the Sustainable Trade Index 2020. STI 2020 is the third in a bi-annual series with earlier editions in 2016 and 2018. The index was created to encourage meaningful discussions between policy makers and business executives about the linkages between international trade and sustainability.

The Sustainable Trade Index represents the readiness of 20 Indo-Pacific economies for sustainable trade. The achievement of balanced outcomes through participation in trade encourages expanded trade and builds stronger economies. The index may also serve as a benchmark for measuring progress against the [Sustainable Development Goals](#) (SDGs), also known as Global Goals, adopted by United Nations member states in 2015, aimed at ending poverty, protecting the planet, and ensuring that all people enjoy peace and prosperity by 2030.

This report presents key findings of the 2020 index for Sri Lanka and compares those with findings in 2016 and 2018. The STI and its detailed data sheet can be found on the Hinrich Foundation website: <https://hinrichfoundation.com/trade-research/sustainable-trade-index/>

Trade is among the important drivers of the global economy, but for trade to be sustainable, it needs to deliver environmental protection and social equity. The concept of sustainability is based on a co-dependent triangle consisting of economic growth, social capital and environmental protection.

The economic cost of environmental degradation, and the social strains caused by unbalanced growth, can hobble economic development just as much as the absence of market drivers starting with trade. Sustainability is a constant balancing act, and there are no perfect solutions.

About scores and ranks

Our scores and rankings are dynamic and relative to other economies in the index, with indicators that reflect how well prepared each economy is to conduct trade that promotes economic development, benefits society, and protects the environment.

Indicator scores are assigned in the range of 0 to 100, where the best performing economy receives a 100 while the weakest performing economy receives a 0. A 0 does not denote lack of performance in an indicator.

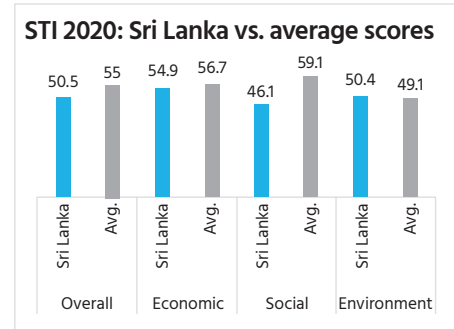
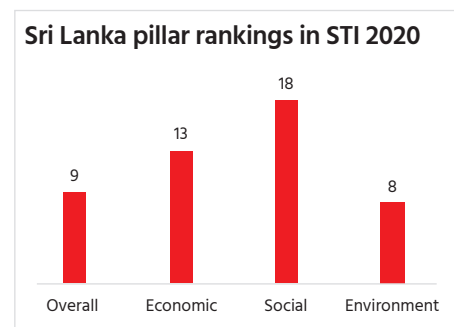
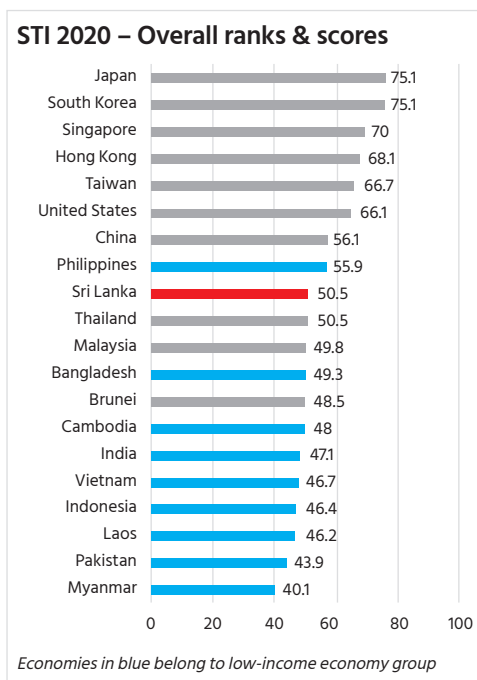
Ranks are assigned in the range of 1 to 20, where 1 is the best performing economy and 20 is the weakest performing relative to other economies measured.

Close readers will notice that a score on an indicator could remain the same or increase, while the ranking on that indicator may decline because other economies have progressed faster. This scoring and ranking system captures the competitive nature of international trade. For more information about scoring and ranking methodology, please go to our website.

Hinrich Foundation Sustainable Trade Index (STI) 2020



Results for Sri Lanka



Economic: Sri Lanka placed 13th among the 20 economies in the 2020 STI. Its top-performing indicators were current account liberalization, and exchange rate volatility. But its performance in the growth in labor force indicator declined.

Social: Sri Lanka ranked 18th on the social pillar of the 2020 STI. The economy saw an improvement in the labor standards indicator, but the political stability indicator dragged the economy down on the pillar.

Environmental: Sri Lanka was at the eighth position in the 2020 STI. Its top environmental pillar indicator was transfer emissions, but its performance declined in the share of natural resources in trade indicator.

Biggest increases and decreases in rank				
Indicators	2016	2018	2020	2018/2020 change
Exchange rate volatility	9	4	2	2
Export market concentration	4	12	10	2
Deforestation	8	6	5	1
Air pollution	4	1	8	-7
Growth in labor force	10	9	17	-8
Political stability	14	8	17	-9

Executive summary

Sri Lanka stood at the ninth spot in the overall 2020 STI. The economy shared the position with Bangladesh. It outperformed most of the low-income economies in the 2020 Index, except for the Philippines. Sri Lanka secured the 13th place on the economic pillar and stood at the near-bottom rank of 18th on the social pillar. Its strongest performance was on the environmental pillar where it was placed eighth in the 2020 STI.

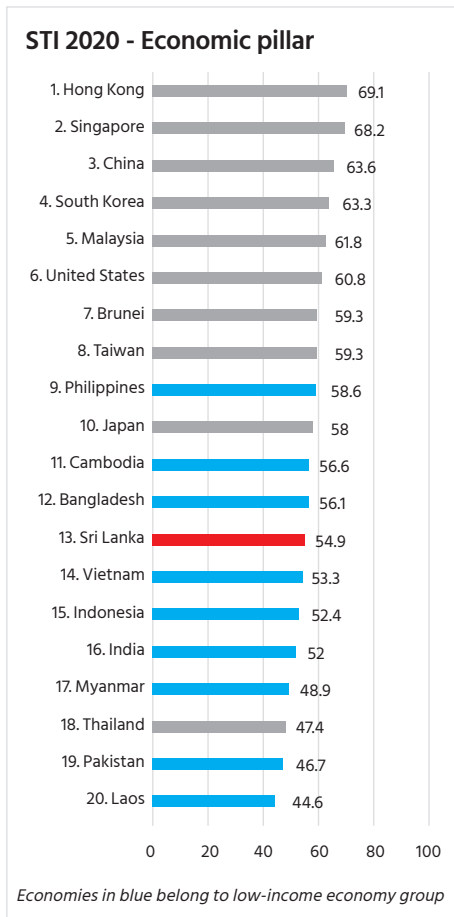
STI 2020	Rank	Score	Average score
Overall	9	50.5	55.0
Economic	13	54.9	56.7
Social	18	46.1	59.1
Environmental	8	50.4	49.1

Sri Lanka witnessed a significant fall in its performance in the growth in labor force indicator. It dropped eight places from a ranking of ninth in the 2018 STI to 17th in the 2020 STI. It was outperformed by all other low-income economies in the 2020 STI. The indicator assesses the year-on-year change in an economy's labor force.

Sri Lanka's performance in the political stability indicator declined significantly in the 2020 STI. It plunged nine places from the eighth spot in the 2018 STI to the 17th in the 2020 STI. The economy outperformed Myanmar, Pakistan, and Cambodia in the low-income economy group. The indicator measures economies on the level of political stability, linking trade with political and social stability in the economy.

Sri Lanka's top-performing indicator on the environmental pillar was transfer emissions. It was at the fifth spot in the 2020 STI – unchanged from the 2018 STI. The economy outperformed most of the low-income level economies but trailed behind Laos, and Cambodia in the same income level. The indicator measures transfer emissions as a share of an economy's total territorial emissions (MtCO₂). A high rank in this indicator indicates that an economy has cleaner export industries that contributes to a sustainable model for global trade.

Economic pillar



Sri Lanka placed 13th on the economic pillar of 2020 STI. It outperformed several low-income economies, including Vietnam, Indonesia, India, and Myanmar, among others.

Key takeaways

- Sri Lanka overall placed 13th on the economic pillar of 2020 STI.
- Sri Lanka's top indicator was current account liberalization. It was at the first position in the 2020 STI – unchanged from the 2018 STI.
- Sri Lanka's best performing indicator was exchange rate volatility, going up two places from the fourth spot in the 2018 STI to the second in the 2020 STI.
- Sri Lanka's worst performing indicator was growth in labor force, where it stood at the 17th position in the 2020 STI, dropping eight spots from the ninth rank in the 2018 STI.

Sri Lanka's top-performing indicator on the economic pillar was current account liberalization. It stood at the first position in the 2020 STI – unchanged from the 2018 STI. It shared the spot with 11 other economies including Singapore, Hong Kong, South Korea, and the United States, among others. The indicator is used to capture the ease with which an economy trades goods across its border.

The economy stood at the first position in the currency manipulation indicator, tying with 12 other economies including the United States, India, Indonesia, China, and Hong Kong, among others. The new indicator assesses the level of currency manipulation in support of export competitiveness in managed float exchange rate regimes. For Sri Lanka, there was no evidence of currency manipulation based on current account balance, foreign currency sales/purchases, or changes in the real effective exchange rate.

Sri Lanka's performance in exchange rate volatility improved as it climbed two places from the fourth spot in the 2018 STI to the second in the 2020 STI. It trailed behind Hong Kong. An improvement in this indicator indicates low volatility in the exchange rate, which decreases risk and uncertainty in conducting trade and investment.

The economy stood at the seventh position in the export product concentration indicator of the 2020 STI – unchanged from the 2018 STI. It outperformed the Philippines, Bangladesh, Cambodia, and Indonesia in the low-income economy group. This shows that Sri Lanka's exports are not heavily concentrated on few products. Also, the economy improved its position in the export market concentration indicator as it went up two places from the 12th position in the 2018

Economic pillar – Top scores		
Indicators	STI 2020 avg. score	Sri Lanka score
Current account liberalisation	89.6	100
Currency manipulation	72.5	100
Exchange rate volatility	50.1	85.1
Export product concentration	84.2	89.7

Economic pillar – Low scores		
Indicators	STI 2020 avg. score	Sri Lanka score
Financial sector depth	40.9	13.3
Foreign direct investment	15.3	2.2
Technological innovation	24.6	1.8
Growth in labor force	53.8	27

STI to the 10th in the 2020 STI. An improvement indicates that the economy's export markets are becoming diversified.

Sri Lanka's rank in the trade costs indicator went up one place from the 10th position in the 2018 STI to the ninth in the 2020 STI. It outperformed all other low-income economies in the 2020 STI. The trade costs indicator uses a composite of four important factors – infrastructure, logistics, corruption, and legal system – to capture the burden to trade created by inefficiencies in the trading system.

The economy climbed one place in the foreign trade and payments risk indicator from the 11th spot in the 2018 STI to the 10th in the 2020 STI. This indicator captures the risks to conducting trade, which provide an additional barrier to trade for companies.

Sri Lanka's performance in the foreign direct investment (FDI) indicator declined one spot from the 14th position in the 2018 STI to the 15th in the 2020 STI. It shared the position with China and outperformed Pakistan and Bangladesh in the low-income economy group. The indicator measures the inward FDI as a share of GDP. In 2019, the economy's FDI stood at 1.1% of GDP.

The economy's gross fixed investment declined from 27.5% of GDP in 2018 to 24.7% of GDP in 2019, which led to a fall in Sri Lanka's position in the gross fixed capital formation indicator. The economy slipped one place from the eighth spot in the 2018 STI to the ninth in the 2020 STI. Like FDI, an economy's gross fixed investment encourages trade and economic growth.

The economy witnessed a decline in the domestic credit to the private sector from 45.9% of GDP in 2018 to 45.4% of GDP in 2019. This led to a fall in Sri Lanka's position in the financial sector depth indicator. It dropped two places from the 13th position in the 2018 STI to the 15th in the 2020 STI.

On the tariff and non-tariff barriers to trade indicator, the economy fell five places from the fourth spot in the 2018 STI to the ninth in the 2020 STI. Sri Lanka was outperformed by the Philippines in the low-income economy group.

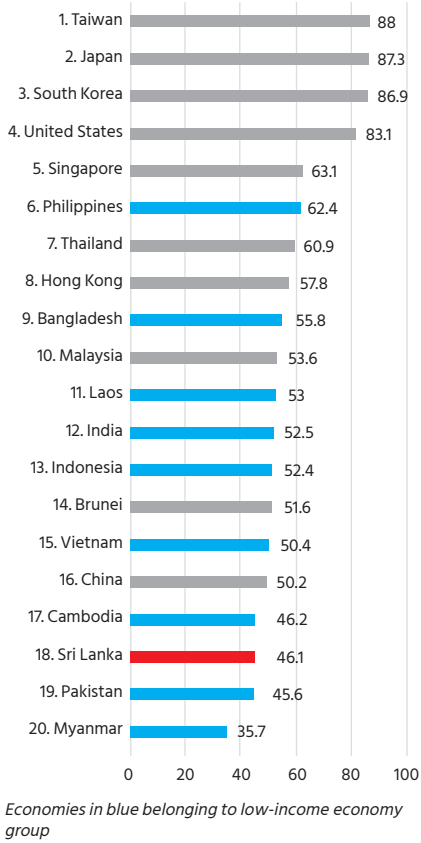
Sri Lanka witnessed a significant drop in its performance in the growth in labor force indicator. It fell eight places from the ninth position in the 2018 STI to the 17th in the 2020 STI. The indicator measures the year-on-year change in an economy's labor force.

On the technological indicators, the economy's performance in the 2020 STI remained at the 2018 level. Sri Lanka stood at the 11th position in the technological infrastructure indicator. It shared the spot with three other economies – China, India, and Thailand. Also, the economy placed 17th in the technological innovation indicator. It outperformed Laos, Brunei, and Myanmar.

The economy stood at the 15th position in the growth in per capita GDP indicator of the 2020 STI – falling three spots from the 2018 STI. Sri Lanka outperformed Pakistan in the low-income economy group. The indicator measures the year-on-year growth of real GDP per head.

Social pillar

STI 2020 - Social pillar



Sri Lanka's weakest performance was on the social pillar. It stood at the 18th position in the 2020 STI. It was ahead of Pakistan, and Myanmar.

Key takeaways

- Sri Lanka placed 18th overall on the social pillar.
- Sri Lanka's top-performing indicator was labor standards. It stood at the ninth position in the 2020 STI, moving up one place from the 10th spot in the 2018 STI.
- Sri Lanka stood at the 12th position in the human trafficking indicator of the 2020 STI.
- The economy's performance in the political stability indicator declined nine spots from the eighth place in the 2018 STI to the 17th in the 2020 STI.

Sri Lanka's top-performing indicator on the social pillar was labor standards. Its position in the indicator went up one place from a ranking of 10th in the 2018 STI to ninth in the 2020 STI. It shared the position with Cambodia and trailed behind Indonesia, and Pakistan in the low-income economy group. The labor standards indicator is a weighted sum of four sub-indicators – goods produced by forced labor, goods produced by child labor, gender non-discrimination in hiring, and right to association. Of the four sub-indicators, Sri Lanka stood at the first position in goods produced by forced labor, tying with nine other economies. Sri Lanka placed first in goods produced by child labor, sharing the spot with seven other economies.

Social pillar – 2020 scores

Indicators	STI 2020 avg. score	Sri Lanka score
Labor standards	68.4	68.8
Human trafficking	58.9	44.4
Inequality (Gini coefficient)	69.1	60.8
Educational attainment	42.2	12.4
Political stability	57.1	44.2

The economy stood at the 12th position in the human trafficking indicator of the 2020 STI. It tied with four other economies – Brunei, Cambodia, Malaysia, and Vietnam. Human trafficking is a composite of three factors: risk, criminalization, and strategy. The economy has a risk of human trafficking as it stood at the 12th spot, tying with six other economies. Sri Lanka has an active national strategy to combat and prevent human trafficking, however, it does not have a national law that specifically criminalizes human trafficking.

Sri Lanka's performance in the educational attainment indicator declined. It fell one place from the 15th position in the 2018 STI to the 16th in the 2020 STI. The indicator measures the percentage of individuals receiving tertiary education. In 2019, individuals receiving tertiary education in Sri Lanka declined to 19.6% from 19.8% in 2018.

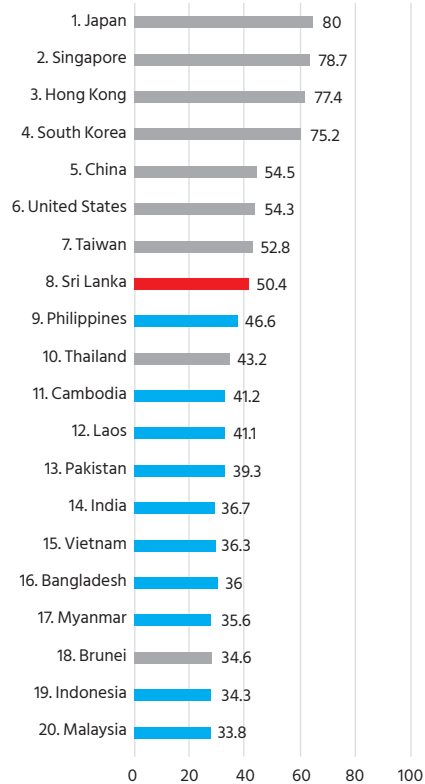
The economy fell four spots in the inequality indicator from the 11th position in the 2018 STI to the 15th in the 2020 STI. Sri Lanka outperformed the Philippines in the low-income economy group. The indicator is based on the Gini coefficient,

which measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A decline in this indicator indicates an increase in the level of inequality in the economy. A high level of inequality could become a burden on the economy as the benefits would be reaped by a few individuals or households as opposed to equal distribution of benefits in society.

On the political stability indicator, Sri Lanka saw a significant decline in its performance as it plunged nine places from the eighth spot in the 2018 STI to the 17th in the 2020 STI. It was behind Myanmar, Pakistan, and Cambodia. The indicator measures economies on the level of political stability.

Environmental pillar

STI 2020 - Environmental pillar



Economies in blue belonging to low-income economy group

Sri Lanka’s strongest performance was on the environmental pillar. It stood at the eighth position in the 2020 STI. It outperformed all other economies in the low-income economy group.

Key takeaways

- Sri Lanka placed eighth overall on the environmental pillar.
- Sri Lanka’s top environmental pillar indicator was transfer emissions. It placed fifth in the 2020 STI – unchanged from the 2018 STI.
- Sri Lanka stood at the fourth spot in the share of natural resources in trade indicator of the 2020 STI, unchanged from the 2018 STI.

Sri Lanka’s top-performing indicator was transfer emissions. It stood at the fifth position in the 2020 STI – unchanged from the 2018 STI. The economy trailed behind Laos, and Cambodia in the low-income economy group. The indicator measures transfer emissions as a share of an economy’s total territorial emissions (MtCO₂). An economy with a high score indicates that its export industries are becoming cleaner.

The economy improved its performance in the deforestation indicator as it went up one place from the sixth spot in the 2018 STI to the fifth in the 2020 STI. It shared the position with Brunei and trailed behind Pakistan in the low-income economy group. The indicator measures the rate of deforestation in an economy over time, reflecting the links between growth, trade, and the degradation of natural resources.

Environmental pillar – Top scores

Indicators	STI 2020 avg. score	Sri Lanka score
Transfer emissions	20.9	22.4
Deforestation	58.8	82.3
Air pollution	67.6	78.7

Sri Lanka placed eighth in the environmental standards in trade indicator of the 2020 STI – unchanged from the 2018 STI. It shared the position with seven other economies including Malaysia, Thailand, Pakistan, and Indonesia, among others. This indicator is a composite based on adherence to seven conventions or international agreements: Convention on Hazardous Wastes, Convention on Prevention of Marine Pollution, Convention on Protection of the Ozone Layer, Convention on Climate Change, the International Timber Agreement, Convention on International Trade in Endangered Species, and Convention on Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade. Sri Lanka has ratified/accepted/acceded to five out of the seven Conventions or international agreements.

Environmental pillar – Low scores		
Indicators	STI 2020 avg. score	Sri Lanka score
Share of natural resources in trade	73.6	98.2
Water pollution	22	0
Carbon pricing	17.5	0

Sri Lanka stood at the 15th position in the water pollution indicator of the 2020 STI – unchanged from the 2018 STI. It shared the rank with five other economies including Bangladesh, Cambodia, and Indonesia, among others.

The economy's performance in the air pollution indicator declined – it went down seven spots from the first position in the 2018 STI to the eighth in the 2020 STI. Sri Lanka outperformed all other economies in the low-income economy group. This indicator measures the level of particulate matter 2.5 (PM 2.5) to capture the air pollution in an economy.

Sri Lanka's performance in the share of natural resources in trade indicator remained unchanged at fourth place in the 2020 STI from the 2018 STI. The economy's share of the natural resources in trade increased from 2.1% in 2018 to 2.2% in 2019. It outperformed other economies including Malaysia, Singapore, and Japan, among others. This indicator measures natural resources (ores and metals, mineral fuels, lubricants, and related materials) as a percentage of an economy's total trade. Reliance on a high concentration of natural resources-related exports is a key indicator of unsustainable trade.

Sri Lanka's lowest score was a zero on carbon pricing. The carbon pricing indicator determines whether an economy is currently implementing or plans to implement a pricing model for carbon emission, whether through a quota, cap-and-trade system, or a tax. A score of zero on carbon pricing indicates that Sri Lanka has not yet planned to implement a pricing model for carbon emission.

Appendix

Additional resources

The Hinrich Foundation commissioned the Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The index uses 27 indicators to measure the trade impacts of 19 economies in Indo-Pacific and the US across the three recognized pillars of sustainability – economic growth, social capital, and environmental protection.

Visit our website at <https://hinrichfoundation.com/trade-research/sustainable-trade-index/> to download additional Sustainable Trade Index resources.

Economic pillar indicator scores and rankings										
Indicators	2016 score	2018 score	2020 score	2018 vs 2020	Average score	2016 rank	2018 rank	2020 ranks	Change in rank	
Current account liberalization	100	100	100	=	89.6	1	1	1	=	
Currency manipulation	NA	NA	100	NA	72.5	NA	NA	1	NA	
Exchange rate volatility	100	91.3	85.1	↓	50.1	9	4	2	2	↑
Export product concentration	91.4	91.3	89.7	↓	84.2	6	7	7	=	
Trade costs	44.8	47.5	51.6	↑	53	8	10	9	1	↑
Tariffs & non- tariff barrier to trade	50	75	75	=	70.2	13	4	9	-5	↓
Gross fixed capital formation	46.6	45.7	38.3	↓	42.2	7	8	9	-1	↓
Export market concentration	96.6	73.7	82.6	↑	71.2	4	12	10	2	↑
Foreign trade and payments risk	64.6	63.6	64.4	↑	62.6	11	11	10	1	↑
Technological infrastructure	50	50	50	=	63.6	11	11	11	=	
Growth in per capita GDP	54.1	60.3	42.3	↓	57.4	14	12	15	-3	↑
Financial sector depth	6.4	15.7	13.3	↓	40.9	17	13	15	-2	↓
Foreign direct investment	4	1.5	2.2	↑	15.3	13	14	15	-1	↓
Technological innovation	3.9	1.5	1.8	↑	24.6	13	17	17	=	
Growth in labor force	30.2	73.9	27	↓	53.8	10	9	17	-8	↓

Social pillar indicator scores and rankings

Indicators	2016 score	2018 score	2020 score	2018 vs 2020	Average score	2016 rank	2018 rank	2020 ranks	Change in rank	
Labour standards	50	56.4	68.8	↑	68.4	8	10	9	1	↑
Human trafficking	NA	NA	44.4	NA	58.9	NA	NA	12	NA	
Inequality (Gini coefficient)	62.7	63	60.8	↓	69.1	11	11	15	-4	↓
Educational attainment	10.3	11.9	12.4	↑	42.2	15	15	16	-1	↓
Political stability	40	60	44.2	↓	57.1	14	8	17	-9	↓

Environmental pillar indicator scores and rankings

Indicators	2016 score	2018 score	2020 score	2018 vs 2020	Average score	2016 rank	2018 rank	2020 ranks	Change in rank	
Transfer emissions	30	28.2	22.4	↓	20.9	5	5	5	=	
Deforestation	86.3	85.1	82.3	↓	58.8	8	6	5	1	↑
Carbon pricing	NA	NA	0	NA	17.5	NA	NA	5	=	
Air pollution	90.6	100	78.7	↓	67.6	4	1	8	-7	↓
Environmental standards in trade	50	66.7	71.4	↑	73.6	15	8	8	=	
Share of natural resources in trade	97.6	98.3	98.2	↓	83.4	5	4	4	=	
Water pollution	0	0	0	=	22	15	15	15	=	

The Hinrich Foundation is a unique Asia-based philanthropic organization that works to advance mutually beneficial and sustainable global trade.

We believe sustainable global trade strengthens relationships between nations and improves people's lives.

We support original research and education programs that build understanding and leadership in global trade. Our approach is independent, fact-based and objective.

MEDIA INQUIRIES





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There are many ways you can help advance sustainable global trade. Join our training programs, participate in our events, or partner with us in our programs. inquiry@hinrichfoundation.com

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