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<https://www.dailymirror.lk/features/trade-agreements-that-dont-deliver-the-goods/185-31130>

# Trade agreements that don't deliver the goods

A previous Verité Insight found that bi-lateral and regional trade agreements were proliferating, especially in Asia, but Sri Lanka was missing out. Despite once being a regional pioneer in trade agreements, Sri Lanka has not signed a major agreement in almost seven years.

But that is not the only problem. The data analysed in the same Insight showed that Sri Lanka may not be benefiting much from its existing trade agreements either. In short, there are two problems. First is the quantity of trade agreements and second is the quality. This second problem deserves further analysis.

## **The quality devil lurks in the details**

Why are Sri Lanka's existing trade agreements not delivering the goods? There are several reasons.

First, these agreements reduce trade barriers only for a selected number of products and at times the reductions are too small to be of any commercial interest to traders. The GSTP and APTA, the two major trade agreements signed by Sri Lanka, cover only a limited range of products and that too with no commitment by the importing countries to eliminate import duties.

Second, complex trade regulations, bureaucratic red tape and additional border

taxes can often be higher trade barriers than import duties. Processed food is covered under the Indo-Lanka FTA, but exports remain far below their potential due to red tape experienced in issuing import permits and complying with health and safety regulations.

Third, Sri Lanka’s trade agreements tend to be hobbled by rules of origin restrictions. These restrictions play a critical role in the success of trade agreements. For example, India granted preferential access to eight million pieces of Sri Lankan apparel, provided the fabric used in production was sourced from India. But because Sri Lankan apparel manufacturers don’t use Indian fabric, almost no benefit accrued in trade. In 2008 this was relaxed allowing for three million pieces that were not restricted by rules of origin and that export quota was quickly filled. However, the remaining five-million piece quota still remains largely underutilized, showing just how important rules of origin are in determining a trade agreement’s success.

### **Dinning with the devil in China**

A few weeks ago, at the end of May 2013, President Rajapaksa visited China, and signed an agreement to set up committees to work towards a trade pact between the two countries.

The opportunity for increasing exports to the Chinese market deserves attention by Sri Lankan policy makers. Sri Lanka’s trade deficit with China expanded rapidly over the past few years; with imports growing briskly while exports remained sluggish (see chart 1).

The opportunity is made clear by the fact that China is soon going to be the world’s largest economy and is already the largest exporter and the second largest importer in the world. Other developing countries have capitalized on this trend and have successfully shifted export promotion to the Chinese market. For Sri Lanka China is only the 16th most valuable export market. India and Vietnam, two important regional competitors, have already made

Country	Rank of China as an Export Destination	Exports to China as a % of total exports
South Korea	1st	25.0%
Thailand	1st	11.0%
Vietnam	3rd	9.2%
India	3rd	7.8%
Brazil	1st	15.8%
Chile	1st	24.8%
South Africa	1st	11.4%
Sri Lanka	16th	1.2%

China their third most valuable export market .

### **Exorcising trade agreements**

As this initiative towards a Sino-Lanka trade agreement is floated, it is timely to reflect on the nuts and bolts of a negotiation that can promote or prevent the success of a Sino-Lanka trade agreement.

The politics of trade negotiations is part of the economic considerations. Sri Lankan negotiators face two political challengers in forging a beneficial trade agreement.

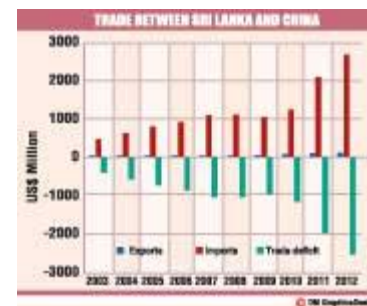
The first is in relation to China. Sri Lanka's market is small and therefore, unlike China, Sri Lanka cannot attract concessions simply on the basis of market access. It must do so on other grounds including arguments on parity of treatment, and the stability of regional and bilateral political relations.

The second political challenge is internal. Vested interests of domestic industries, short-term concerns on government revenue, and imperatives of protecting poor farmers, all impinge politically on reasonable clauses that can be included in a trade agreement.

The President's initiative towards a free trade agreement with China is commendable. But if Sri Lanka expects to receive a beneficial trade agreement as an act of Dana delivered to its begging bowl, it will be sadly mistaken.

In order for an agreement to be fruitful the details will have to avoid the pitfalls of past agreements; and go well beyond reducing import tariffs for a few items; and exorcise the devil from the details of non-tariff barriers, para tariffs, rules of origin, and onerous regulations.

To leverage Sri Lanka' case, despite being a small market, a successful negotiation will require not just such economic acumen in the details, but also a sound grasp of international trade norms, an understanding of global and



regional political concerns, and a hard-nosed distillation of mutual interests. In short to deliver the goods, a great deal more skill is required than is apparent in past trade negotiations.

(Verité Research provides strategic analysis and advice for governments and the private sector in Asia)