

Effective Implementation of PTAs: Case Study of Sri Lanka

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Study Context

- Carried out across 13 countries
 - Caricom, Egypt, Ghana, Indonesia, Jordan, Morocco, Sri Lanka, Tanzania, Thailand, Turkey, Uruguay, Vietnam, Zambia
- Understand role of regional integration in development
 - Status-quo pre-PTA
 - Depth & scope of PTA commitments
 - Reforms undertaken to implement commitments
 - Lessons learnt from process for other developing countries

Sri Lanka and PTAs

- Engagement limited, signatory to
 - South Asian Free Trade Agreement (SAFTA)
 - India-Sri Lanka FTA (ISFTA)
 - Pakistan-Sri Lanka FTA (PSFTA)
 - Asia Pacific Trade Agreement (APTA)
 - Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)
- All confined only to trade in goods
 - Excludes services, investment, IPRs, competition policy, etc.
- ISFTA most comprehensive South Asian PTA
 - Considered a 'success' story of a PTA between 2 developing countries



What Prompted ISFTA?

- For Sri Lanka, economic rationale clear
 - Access to large, expanding market
 - Encourage domestic industrial diversification
 - Gain early-mover advantage
- For India, more a political than economic rationale
 - Limited market potential
 - Cement much improved political relationship in 1990s
- Sri Lanka offered favourable asymmetric treatment
 - Maintain negative list of 25% tariff lines (India, 8%)
 - 5 extra years to phase out other tariffs, etc.



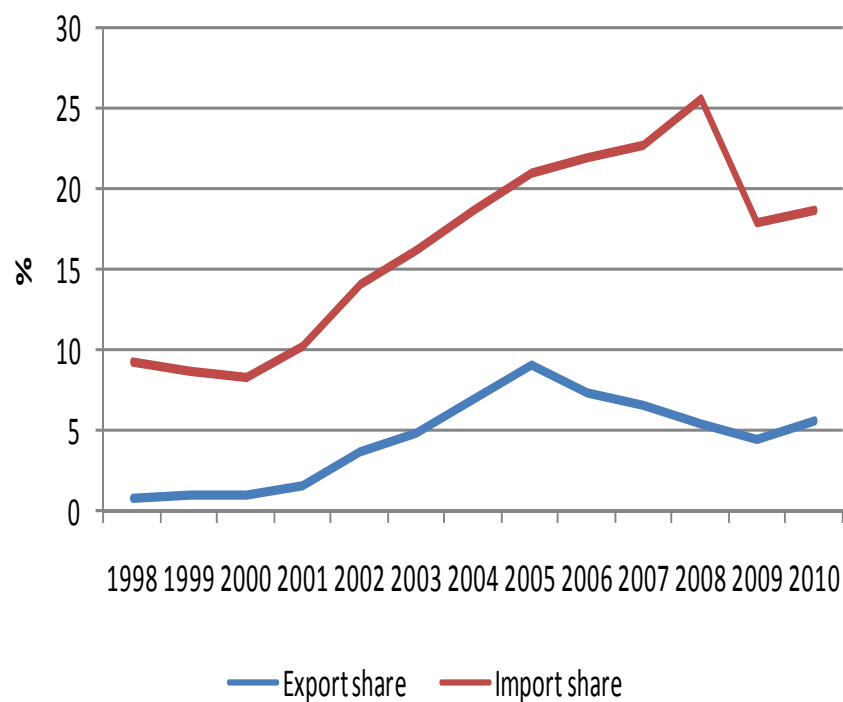
Depth/Scope of ISFTA

- Depth/scope limited
 - Confined only to goods
 - No limit on negative list size
 - No binding commitment to reduce negative list over time
- Implementation straightforward as a result
 - Issuance of a gazette notification on tariff changes
 - Implementation costs minimal



Positive Outcomes Post-implementation

Sri Lanka's Trade with India



- Sri Lanka saw significant export gains
 - Exports to India rose from 1% to 9% between 2000-05 (from \$55 mn. to \$565 mn.)
- India's exports to Sri Lanka also increased
 - Less to do with ISFTA; 50% of Indian exports not receiving preferences
 - Relatively, 97% of Sri Lankan exports enjoying preferences

Source: CBSL, *Annual Report*, various years.

Implementation Issues

- Sri Lanka's exports driven by a handful of goods
 - Basic VA on imported raw material for export
 - Concentration led increasingly to trade disputes
- Framework Agreement signed in 1998 lacked consultation
- With implementation from 2000, disputes arose
 - Restrictions by India on ports of entry for certain goods
 - Surge in exports led to demand for quantity caps
 - Imposition of measures other than tariffs (standards/certification, etc.)



Trajectory of a Dispute: Veg. Oil

- Vegetable oil trade driven by newly established manufacturers
 - 2003, request from India for an export cap (100,000 MT)
 - 2003, Sri Lanka imposes voluntary export restraint (250,000 MT)
 - 2005, India renews call for a cap (100,000 MT)
 - 2005, Sri Lanka imposes special import levy on imported raw material
 - 2006, India imposes unilateral quota through canalization
 - Cumbersome procedure set up to administer quota
- Disputes arose from weaknesses in PTA design
 - Lacked formal dispute settlement mechanism
 - Absence of mutual recognition of standards, etc.
 - No attempt to identify/address NTBs



PTA and Broader Reforms

- PTA engagement found to stretch capacity
 - Simultaneous negotiations on ISFTA/PSFTA/SAFTA/APTA/BIMSTEC
- Multiple PTAs of limited benefit/interest
 - Overlapping members in most
 - Volumes of trade are also very low in most
- Created a general apathy towards PTAs
 - Where it has generated interest (ISFTA), it has also sharpened divisions between pro and anti-PTA lobbies.



Visible Downside Effects on Policy

- Sri Lanka's effective protection rose 2004-10
 - Riddled with para-tariffs
 - Justified for reasons of revenue & 'level-playing field'
- Opposition to PTAs also helped galvanize support
 - Growing clamour from certain quarters for 'protection' against tariff liberalization under PTAs

"Cesses will be used in the future to mitigate the negative impact of the increased preference for imports from India and Pakistan to maintain the tax revenue from imports at an acceptable level"

Lal de Mel, Co-Chair of Sri Lanka's Tariff and Trade Cluster (March 2006)

<http://www.lankabusinessonline.com/fullstory.php?nid=1901955436>



India-Sri Lanka CEPA under Threat



- Post-ISFTA, sharp improvement in Indian FDI inflows prompted CEPA negotiations to begin in 2003
 - Further deepen tariff cuts, and include services & investment
- Vocal opposition to CEPA prompted Sri Lanka to back away from signing agreement in 2008
- Much of the opposition to CEPA arising from perceived shortcoming in ISFTA



Current Policy Thrust on PTAs

- Experience of other preferential arrangements not been positive
 - EU GSP+ benefits obtained on labour standards in 2005
 - However, non-trade related conditions (human rights, etc.) attached in renewal of agreement found not to be acceptable
 - Seen as an attempt to exert political pressure, using trade
- Sri Lanka not pursuing new PTAs and/or deeper integration issues
 - Focused only on incremental changes to existing/on-going PTAs only
- Important lesson that unless PTAs are properly designed, their effectiveness in promoting reforms/development is limited.



Thank You

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