

Best Business Practices

A joint initiative by

HSBC

[Daily Mirror - 13.07.2007 - 5p]

FINANCIAL TIMES

Market Access through Regional Trade Arrangements (RTAs)

In recent years, regional trade arrangements (RTAs) have become a significant feature of the world trading system. By definition, RTA is a trade agreement which seeks to reduce barriers to trade between two or more countries within a certain region on a reciprocal and preferential basis. There are various types of RTAs in existence (Table 1) and they differ considerably with some agreements going beyond tariff cutting exercises to include provisions on services, investment, competition, intellectual property, environment, labour. Almost all countries in the world, including Sri Lanka are now members of at least one or more RTAs while some are party to 20 or more! The number of such arrangements has surged since the early 1990s and there are some 386 notified RTAs to date, with still more in the pipeline.

The proliferation of RTAs has been due to a number of developments dating back to the early 1990s, namely the uncertainty surrounding the fate of the Uruguay Round, which prompted countries to seek trade deals with their most important trading partners rather than wait for a multilateral trade agreement to be in place. The sluggish progress under the current Doha Round launched in 2001, which was expected to have been concluded in 2005 is likely to fuel the surge in RTAs already witnessed, as countries scramble to partner up with more countries.

The growth in the number of RTAs and their increasing importance is reflected in the steady rise in the share of preferential



trade; with trade between members of RTAs making up nearly one third of total global trade flows. While RTAs have spread across the world, Asia and Latin America have witnessed the largest number of arrangements in recent times.

While RTAs are being pursued largely for economic reasons - that is, to gain better access to markets of partner countries - the choice of RTA partners appears to be increasingly driven by political and security concerns rather than economic considerations. Apart from accessing markets on favourable terms, RTAs also provide a way of attracting foreign direct investments to a country with low labour costs which has preferential access to a larger (or more developed) market.

Sri Lanka too has been participating in several regional trade arrangements. Sri Lanka really began to seriously take part in regional and bilateral initiatives from the mid-1990s. Currently, Sri Lanka is a party to the Asia Pacific Trade Agreement (APTA or formerly the Bangkok Agreement), South Asia Preferential Trade Agreement (SAPTA) which was recently replaced by the South Asia Free Trade Agreement (SAFTA), Indo-Lanka Free Trade Agreement (ILFTA), Indo-Lanka Free Trade Agreement (ILFTA) and Pakistan-Sri Lanka Free Trade Agreement (PSFTA).

Sri Lanka is also currently in the process of negotiating a FTA with countries in South Asia and South East Asia under the Bay of Bengal Initiative for Multi-Sectoral

Cooperation (BIM-STEAC).

Technical and Economic Cooperation (BIM-STEAC). The Indo-Lanka Free Trade Agreement has become the defining bilateral agreement in the region, and the first FTA that Sri Lanka signed. Subsequently, Sri Lanka went on to sign a FTA with Pakistan (PSFTA) and other South Asian countries (SAFTA). Under ILFTA, Sri Lanka has duty free access to the Indian market since 2003 (with the exception of some products), providing Sri Lankan firms with a competitive advantage in exporting goods to India over other countries equiva-

rent to the duty rate applied. In return, Sri Lanka has particularly opened up its market to Indian products and will fully liberalize by 2008 thereby providing opportunities for firms to import Indian goods on duty free terms.

Since the Agreement came into effect in March 2000, bilateral trade has surged with India becoming the third largest export market in 2005, while India has become the largest source of imports to the country.

Through much of this growth in exports has been concentrated in few products, a number of Sri Lankan firms producing both industrial and consumer products have successfully entered the Indian market with the support of the FTA is a range of food items including tea, sausages, biscuits, chocolates, ceramics, furniture, metal products, footwear, wooden toys, memory chips, machinery and mechanical appliances and herbal products.

On the back of success seen under ILFTA, Sri Lanka and India have been negotiating over the past three years to deepen the Agreement by including trade in services and investment provisions under the Comprehensive Economic Partnership Agreement (CEPA). CEPA is expected to be concluded within this year, and open the door to a number of opportunities from which firms and consumers in both countries could further benefit.

Insights courtesy of Institute of Policy Studies (IPS), Sri Lanka

Table 1 - Types of RTAs

- 1) Preferential Trade Agreement (PTA)** - Member countries reduce tariffs but do not eliminate tariffs on some product categories. (e.g.) South Asian Preferential Trade Agreement (SAPTA)
- 2) Free Trade Area Agreement (FTA)** - Member countries eliminate tariffs between themselves but maintain their own external tariffs against the rest of the world (i.e. North American Free Trade Agreement (NAFTA). This is the most common form of trade arrangement currently in place.
- 3) Customs Union** - Member countries eliminate tariffs between themselves and set a common external tariff on imports from the rest of the world. (i.e. Southern Common Market (MERCOSUR))
- 4) Common Market** - Member countries eliminate tariffs among themselves, adopt a common external tariff and remove impediments to movement of capital and labour between the member countries (i.e. European Economic Community).
- 5) Economic/Monetary Union** - Members move beyond a common market to coordinate and harmonize economic policies and share a common currency (i.e. European Union).

Some Important Elements of a FTA

- 1) Tariff schedules** - list goods which are eligible for tariff concessions, with some concessions granted immediately upon the entry of the agreement or subsequently phased-in over a period of time
- 2) Negative lists** - exclude goods which do not receive concessions as they are considered sensitive or of strategic importance
- 3) Rules of Origin criteria** - specifies how much local value addition is required to be eligible for tariff concessions
- 4) Safeguard clauses** - allow for protection against import surges
- 5) Review and consultation mechanisms** - provides an opportunity for review and consultation on the progress made in the implementation of the Agreement
- 6) Dispute settlement mechanism** - allows bilateral trade disputes to be resolved amicably