

WTO has brought transparency into int'l trading

By Sunalie Ratnayake

Sri Lanka unlike some other countries haven't totally dismissed the World Trade Organisation (WTO) "as we feel that it is an important organisation and that bilateral and regional tracks are the second best approach, the first best approach being the multilateral approach, despite its limitations."

Dr. Saman Kelegama, a senior economist, speaking to reporters about the WTO at an event organized by the Commerce Department recently said that Sri Lanka feels that the WTO has many positive features and WTO talks should be revived at the earliest, "especially because we are a small player in the global trade."

The main players are the EU, USA and Japan. When WTO is not there, it will be political relations that will move trade and not a rule based system. So, that 'might is right.' Small countries like Sri Lanka will be vulnerable and bullied," Kelegama said.

Transparency

No matter what, the WTO has brought a lot of transparency into the international trading environment. Annually we have the trade policy review of various countries. The WTO has also made the investment environment predictable. It has also contributed to trade reforms in countries. WTO has many merits for small developing countries like Sri Lanka.

In addition, the WTO has also contributed to some developing countries by winning cases regarding trade. Brazil won a case on sugar with the EU and with the USA on a cotton issue (involving some Sub Saharan cotton exporting countries). The USA revised its anti dumping regulations because of the WTO.

So, despite all its weaknesses and the current collapse of the talks, the WTO has made an enormous contribution.

Kelegama said that the WTO gradually occupied space in Sri Lanka's overall trade policy, when in 1995 the country bounded its agriculture sector at 50% tariff level.

Kelegama said that two important judgments were made before this binding. The first was that Sri Lanka was a net food importing country and secondly in South Asia, the country had the lowest tariff level.

"However, there was a third point as well, which was that we felt that European subsidies will be removed as was agreed in the agreement on agriculture, so that there won't be a distorted international policy environment," he said. (But European subsidies on agriculture still remain, though there is a commitment to phase out these subsidies).

"When we bound our agriculture tariffs at 50%, we thought that it would be a fair international trading environment for agriculture, we thought that we could develop our agriculture according to our comparative advantage, therefore these factors determined our binding of our agriculture tariff at 50%," said Kelegama.

"In December 1995 SAPTA came into our operation. By that time, we already had a regional agreement called the Bangkok Agreement which is now known as the Asia Pacific Trade Agreement. Since these two arrangements were also there and since we had a different government from 1995 which was emphasizing an open economy with a human face, the unilateral liberalization initiatives were slowed down.

So, while the multilateral liberalization initiatives with the WTO were moving, this regional agenda also influenced trade policy. So much so for the 1999 WTO Seattle summit and for the 2001 WTO round in Doha, "our WTO position was a common position with other SAARC countries."

Implementation issues had to be fulfilled before discussing new issues, TRIPS should be made compatible with the convention of biodiversity, special and differential treatment in the WTO agenda should be fulfilled and the WTO agenda should not be overloaded with non trade issues such as labour and environment issues should not be aligned to trade issues.

Position

"This was the common South Asian position, which we articulated both in Seattle and Doha," said Kelegama. "The point that I'm trying to make is that in the trade policy initiative, regional perspective took some prominence after the mid 1990s and it was well featured in 1999 and 2001. Then the period 2002 to 2003, we deliberately took a decision to follow a WTO Plus agenda. This was because, in December 2004 the multi fibre arrangement (MFA) was coming to an end. And the readymade garment exports, as we all know, is a major exporting item of Sri Lanka. So, the government thought that if we work out a bilateral free trade agreement with the USA, that it should definitely assist the readymade garment sector to have a smooth landing after the MFA came to an end.

So, accordingly, the government pursued a policy of WTO Plus, in the sense that it comes from the WTO ministerial. This associated our common SAARC positions. We pursued a very much US oriented trade policy. We were doing so, in order to get this bilateral free trade agreement. We pursued this type of line because duty free access to the US market would be available, once you fulfil the rules of origin," Kelegama said.

However, this again did not really work out, because by late 2003, the Sri Lanka government changed, or rather a change in policy direction took place.

There was a lot of political uncertainty and as a result the free trade agreement did not work out. "Then again from about April 2004 after the new government came into power, we once again pursued a strategy, which was not WTO Plus, neither was it a very regional arrangement oriented, neither was it very unilateral liberalisation oriented. It was more of a defensive trade policy. This whole idea about policy space occupied a key area in the government strategy," he said.

"So, this factor was used after April 2004 to say that we have to develop domestic capabilities and that we have to get more policy space to have a national development strategy, before opening up and exposing to competitive pressures."

Liberalisation

Unilateral liberalisation slowed down, regional arrangement was completely ignored, because Sri Lanka realised this common position with SAARC is basically a non-starter, especially with India's rapid growth and development after the late 1990s, it was very difficult to have a common position.

"There were many differences with the SAARC countries so we didn't pursue regional trade pacts either. "

After 2003, in our trade policy, the bilateral angle got very prominent, rather than the regional, multilateral and unilateral policies, because by that time, the Indo Sri Lanka Free Trade Agreement (ISLFTA) had consolidated in the system, Pakistan Sri Lanka Free Trade Agreement (PSLFTA) was in the cards and it was signed in June 2005."While this was happening, we had the Hong Kong ministerial meeting at the WTO. "Sri Lanka had a defensive policy in agriculture. We went with G-33 countries, where things such as food

security, livelihood areas were emphasised. We supported the special products idea and the special safeguard idea. Those were the areas, in which the normal tariff liberalization formula should not apply," he said.

"Sri Lanka did not have a very offensive interest, in the sense that whatever our agricultural exports, things such as phyto sanitary measures and technical barriers to trade were not major issues for our agricultural products, even though later certain issues came about. Our main interest was defensive. In the non-agriculture market access (NAMA), we had offensive as well as defensive interest in NAMA. Offensive in the sense that most of our exports were concentrated to the EU and US markets. There, in certain areas, we encountered non-tariff barriers."

The defensive was the development of small and medium industry, promoting rural industries and rural livelihoods. Some amount of protection came into the agenda in the industry sector.

ABI

"No matter in which manner that we supported, we would have been happy if the ABI (Argentina, Brazil, India) formula for tariff reduction came into operation, but we were quite comfortable with the Swiss formula, which was more or less agreed in Hong Kong, because our tariffs were already low. We did not see much danger in the reduction process. We got into a group called the small and vulnerable economies, without creating a specific category. There were many small economies in that," Kelegama said.

"Moving on to services, we still had offensive as well as defensive interests. With the WTO, we had bounded only three sectors, 'telecommunications,' 'financial services' and 'tourism.' We had given our request list for some countries, in which about 17 areas were included.

At the Hong Kong summit, Sri Lanka didn't support the developed country proposals of benchmarking. The interest we had was to be defensive in particular areas of services and to be offensive in Mode IV (free movement of natural persons) and Mode I (cross border provision of services).

In Mode IV, we went with India, especially with regard to skilled labour having more market access in developed countries. To some extent, it was also in Mode I. But, in some service sector areas, we were quite defensive, such as 'detailed' trading," he said.

"Looking at 'trade facilitation,' our position was that we supported all trade facilitation articles in the WTO. However, we also recognised that trade facilitation was also a costly business. Whatever technical assistance that we were getting from the WTO was felt far from adequate. We also felt that the non-tariff barriers in the WTO should be handled both under NAMA and the trade facilitation area because it is not mentioned under any specific category.

In regard to the 'development dimension' our position was quite simple. We said that the development issue should get priority over corporate interests. Under the development dimension, we also felt that we should put a claim for Ceylon Tea, Ceylon Sapphire and Ceylon Cinnamon (geographical indications)," Kelegama said.

"Basically, it is with this position that we went to the WTO Hong Kong ministerial and we always kept in the back of our mind that 'no deal will always be better than a bad deal.'"

Sri Lanka needed a deal that was supportive of developing countries. "We knew that getting it was not going to be an easy task. WTO decisions are made under the basis of consensus. So, it was not a regional going with other SAARC countries and it was our own position at the WTO."

However after July 25, 2006, WTO negotiations have come to a standstill. Sri Lanka is not putting all its eggs in the WTO basket or agenda either. "We have two bilateral tracks in which

we are concentrating and putting a lot of our energy to. Especially the ISLFTA and the PSLFTA. We are not attaching much importance to SAFTA (South Asia Free Trade Agreement) because it is a slow process and is vulnerable to Indian and Pakistani politics. We do not have much confidence in the so-called Bangkok Agreement either, which is based on the positive list approach," Kelegama said.

Sri Lanka

He also said that Sri Lanka felt that the Doha Development Agenda, which was pushed with much aggression, was not realistic.

It came soon after 9/11 in USA in 2001. Western countries felt that they have to give something attractive to developing countries to combat global terrorism. It didn't come to the agenda by attempt, but by event. Development tackling through trade alone is also not a sensible strategy, he said.

According to Kelegama, Sri Lanka also believes that the initial forecast of the Doha Development Agenda, declaring that the overall gains to global trade being about US\$ 400 billion to be unrealistic. The recent estimates of US\$ 40 billion seem to be more realistic, he said.