

## ADDRESSING STAKEHOLDER CONCERNS: IMPLICATIONS FOR NEGOTIATORS

CONFERENCE ON  
TEN YEARS OF THE INDIA-SRI LANKA FREE TRADE  
AGREEMENT: ACHIEVEMENTS, CHALLENGES &  
THE ROAD AHEAD

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**Rajan Sudesh Ratna**

Professor, Centre for WTO Studies, New Delhi  
(rsratna@nic.in)

### ISFTA: Background

- ▶ **At the Tenth SAARC Summit held in Colombo in July, 1998, the Prime Minister of India announced:**
  - ▶ Removal of Quantitative Restrictions maintained for Balance of Payment reasons on 2307 items on a preferential basis for SAARC countries with effect from August 1, 1998;
  - ▶ To strengthen economic ties amongst SAARC countries, an offer was made to all the SAARC member countries during the Colombo Summit that India would be willing to enter into bilateral free trade agreements with them to accelerate the pace of trade liberalisation in the region.
- ▶ **Only Sri Lanka has responded positively to this offer so far.**
- ▶ **A Free Trade Agreement was signed by the Prime Minister of India and the President of Sri Lanka in New Delhi on 28th December, 1998.**

## ISFTA: Negotiations

- ▶ The text for FTA was finalised in only two Rounds that were held between August – November 1998.
- ▶ In India a few inter-governmental meetings were held during that time to finalise India's offer, especially its Negative List.
- ▶ Initially rubber, tea etc. were not in its negative list and the list was much shorter having less than 400 items.
- ▶ As per the agreement the lists were to be exchanged within 60 days of signing of the agreement, i.e. by 28 February 1999 (Article XVI).
- ▶ Two member Indian delegation was sent to Colombo to exchange the lists. Sri Lanka refused to exchange the list as tea, rubber were in India's negative list.

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## ISFTA: Negotiations (2)

- ▶ Sri Lanka claimed that it was given to understand that tea and rubber will not be in India's negative List.
- ▶ India kept these items in its NL as Sri Lanka also kept these items in its NL.
- ▶ The stalemate continued.....

..... for almost another 10 months.

- ▶ The sides did not approach each other during this period.

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## What happened between December 1998 to February 1999?

- ▶ Preparation of list remained mostly between Government machinery.
- ▶ Private Sector involvement was minimal. Only CII, FICCI and ASSOCHAM were consulted and the response time given was less. The list remained CONFIDENTIAL.
- ▶ There was protests from State Governments namely Assam, Kerala, Tamil Nadu, West Bengal with a request to keep spices, tea and rubber in India's NL.
- ▶ The Commerce Secretary, Gol has to go to Kerala and meet the Members of Legislative Assembly to explain the position.

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## RESULTS: Exchange of Letters in February 2000

- ▶ **TRQ on tea:**
  - ▶ Tea is not listed in any of the Indian list.
  - ▶ 50% MoP was allowed. The MFN duty was 15%, hence SL exporters could export it with import duty in India @7.5%.
  - ▶ The MFN duty on tea raised to 30%, 35% and now 100%, due to domestic pressure, but with a goodwill gesture India allowed imports of tea from SL @ 7.5%, when the duties should have been actually 15%, 17.5% and 50% at present.
  - ▶ There were several Parliament Questions that were raised in India on tea, rubber etc. and are being asked even now – on its impact on Indian farmers/planters.
- ▶ **TRQ on Garment:** the items though in NL TRQ was given to SL exporters. Port restriction and sourcing requirements of fabrics were imposed.
- ▶ Finally FTA was implemented by both sides in 2000.

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## Role of Private Sector

Recognised by Governments:

*“Article XI*

*Joint Committee*

4. *The Committee shall nominate one apex chamber of trade and industry in each country as the nodal chamber to represent the views of the trade and industry on matters relating to this Agreement.”*

- ▶ **Not an effective body and did not play pro-active role.**

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## Stakeholders consultations: the need

- ▶ **A very important aspect which was missed, not by intent but because of the fact that ISFTA was India’s first full fledged FTA and the negotiators could not visualise the future scenario: impact of FTA on Indian industry.**
- ▶ **Some misconceptions during consultations:**
  - ▶ **SL does not produce so no threat for India.**
  - ▶ **Duty differentials were not accounted for – mostly led to trade diversion and very little trade creation effects have now been observed.**
  - ▶ **No industry in India – hence item not sensitive.**
- ▶ **No proper study was done to examine economically the sensitivity.**
- ▶ **Overall, ISFTA was a good learning experience for the Indian negotiators as well as Industry. Industry became more pro-active to feedback in India’s policy making.**

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## **Stakeholders' recommendations: few cases**

- ▶ India's removal of QRs for SAARC members in 1998: creation of War Room in DGFT to monitor imports from South Asia.
- ▶ Vanaspati:TRQ for Nepal and Sri Lanka
- ▶ Copper & Zinc Oxide:TRQ for Nepal
- ▶ India Thailand EHS items – change in items.
- ▶ Inverted duty structure in India Thai EHS.

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## **What India does presently?**

- ▶ First stage: In-house analysis – trade & tariff
- ▶ Second stage: Studies on purely economic parameters.
- ▶ Third stage: Findings – stakeholders consultations.
- ▶ Fourth stage: Finalise study
- ▶ Fifth stage: Share study in inter-governmental consultations.
- ▶ Final stage: Final consultations with all stakeholders and firm up its negotiating position.
- ▶ Time to time information is also posted on the website of Department of Commerce: Singapore, BIMSTEC, ASEAN etc.

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## India's negotiations: Some illustrations

Country/Group	Start	Finish	Total Time	No. of consultations held) (Inter Govt. & industry)
Sri Lanka	August 1998	November 1998	4 months	4-5
SAFTA	1999	2004	5 years	> 20
Singapore	2003	2005	2 years	>40
ASEAN	2004	2009	5 years	> 70
South Korea	2006	2009	3 years	>30
Thailand	2004	Not concluded	>6 years	>50
BIMSTEC	2004	Not concluded	>6 years	>50
EC	2007	Not concluded	>3 years	>30
Japan	2007	Not concluded	> 3 years	>30

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## Conclusions

- ▶ The importance of stakeholder consultations in the design of trade agreements – very important and essential.
- ▶ There are though several problems associated with:
  - ▶ Conflicting interests
  - ▶ Domestic policies
  - ▶ Inefficiencies
  - ▶ Large industry vrs. SME
  - ▶ Reciprocity principle
- ▶ The Agreement to be revised now given the bitter and better experiences of policy makers as well as Industry.

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