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SL trade at a crossroads?

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By Madushka Balasuriya

Domestic regulatory reforms, focused and strategic trade policies, increased Government engagement with the private sector and greater expertise in trade negotiations are the needs of the hour if Sri Lanka is to better its present trade strategy, a panel of experts said yesterday on the opening day of the 2017 Sri Lanka Economic Summit.

Since coming into power in 2015, one of the key tenets of this present Government has been the promise of a shift from a debt-based investment strategy to a more proactive export-led one. However, this has come up against some major stumbling blocks.

While Sri Lanka's trade growth has been fairly positive in comparison to the rest of Asia, the Foreign Direct Investment (FDI) coming into the country has lagged. More importantly Sri Lanka's low and concentrated export base, which primarily centres on tea and textiles with a recent push towards IT, has seen exports dwindle to \$ 11 million in 2016, a paltry sum when compared to the nearly \$ 200 million in exports countries such as Malaysia account for. Furthermore, despite Sri Lanka's fortuitous geographic position, it has failed, to a large extent, to capitalise in terms of trade and FDI with the rest of Asia - arguably the most dynamic region in the world.

Nevertheless, there is light at the end of the tunnel. With several emerging opportunities arising in the region, Sri Lanka is in prime position to make the most of them - if handled correctly. Addressing a session titled 'Executing a smarter trade strategy amidst turbulence', Dr. Ganeshan Wignaraja highlighted several examples of opportunities arising in the region as a result of China's rebalancing from an export-led industrial model to one focused more on domestic demand and services.

Wignaraja, Chair of the Global Economy Program at the Lakshman Kadirgama Institute of International Relations and Strategic Studies, noted how China's transition to higher domestic value added products and innovation would result in more technologically sophisticated GVCs (Global Value Chains) in Asia; how it would lead to some of China's labour-intensive stages migrating to other countries in the region; its role in greater opportunities for SMEs in Asia's GVCs and the expansion of services exports across Asia such as digital trade, finance and professional services.

"This is something that we should exploit given the Chinese presence in the economy, in terms of infrastructure and tourism. There are these opportunities, if we're able to access them properly," he explained, noting that this would also negate any pessimism surrounding the United States' recent pivot towards protectionism, as well weak import demand in other advanced countries - something which he believes is only temporary.

To successfully accomplish trade goals such as these though, Wignaraja knows that Sri Lanka's trade negotiation capacity needs to increase, and fast. For this to happen the Government needs to formulate a dedicated body of professionals to oversee trade negotiations, he suggested.

"I think we should build up FTA negotiation capacity properly through a dedicated USTR-type body and that should come under the Prime Minister or the President's Office, and it should criss-cross the two trade ministries we have, the multiple ministries, etc. It should have a dedicated team of lawyers and economists, particularly if you're trying to do multiple negotiations."

Dealing with China

The benefits of such a body would be manifold however one of the most crucial would be its impact on potential trade negotiations with China. Eric Miller, who is a part of the Global Alliance on Trade Facilitation, explained that any country dealing with China will be required to have all of their proverbial ducks in a row.

"They're going come, very realistic, knowing full well what they are doing. The Chinese are right now pursuing an FTA with Canada, they are figuring out who matters, what the country produces and what's important. And indeed, they will do that here. So they will know you better than you know yourself," warned Miller, who is also the President and Founder of Rideau Potomac Strategy Group.

"Sometimes we think of FTAs as magical accords which deliver benefits out of the sky, but in fact they are human creations that are based on deep understandings of interest and of goals. I think for a country of this nature it's important to push ahead with opportunities with China but it's important to also be very realistic about what China is looking to get out of this, and how they're approaching it."

An obvious way of handling this situation, he explained, would be by putting in domestic mechanisms as a long-term commitment in building up trade capacity, as suggested by Wignaraja.

"So you need to put the best minds of this generation and put them on working on trade policy. And that's not just in the Government, that's also in the private sector. The private sector will provide nuances of how a particular industry will work in the context of China trade agreement, and then figuring out how that translates to national interests on the ground.

"You can't know how to succeed unless you know what your interests are, and knowing what your interests are is fundamentally a process of working through dialogue and figuring things out."

Regulatory reform

While the creation of such a body is a sound suggestion, Wignaraja noted that FTAs would realistically take "three to four years" to finalise. As for what could be done in the meantime, Dr. Harsha Vardhana Singh, Executive Director at Brookings India, had a searching proposition.

"Can we think of things which are useful and can be done more quickly which pave the way for the free trade agreement?" he asked purposefully, as he addressed the audience.

"And can it be done in a way, that when the FTA is reached, implementation is half way there? This is something which requires you to take a step back and look at some existing model," he added.

Singh believes that the framework that a country like Sri Lanka could use in its FTAs is already in place, it's just a matter of amending for the desired purpose.

"Take TPP (Trans-Pacific Partnership) - I'm not saying Sri Lanka is ready for TPP, even India isn't ready yet - but why can't we pick out a few key areas which show that this is the way to move towards good governance and internationally agreed high standard methods?"

"Be it technical barriers to trade, be it sanitary measures, be it e-commerce, be it regulation and good governance, that is a ready-made framework of acts that you take."

The need for such regulatory reform was something also highlighted by Dr. Dushini Weerakoon, Deputy Director at the Institute of Policy Studies. She pointed out that the complete benefits of a free trade agreement could only be achieved if domestic regulatory reform was addressed first.

"For me the most important thing is domestic regulatory reforms that align to certain unilateral reforms that we do at that border level for trade. But domestic reforms that are broad-based I think needs to be addressed first. That will allow us to reap the full benefits of any FTAs."

Populist nationalism

With most of the conversation surrounding FTAs, Weerakoon also offered a timely warning on the potential backlash that "overhyping" the gains from bilateral trade agreements could result in. Drawing on examples from the US and certain parts of Europe, where "populist nationalism" has reared its ugly head in the form of anti-immigrant and protectionist political views, she noted that it's important that stakeholders with "legitimate concerns" have platforms to be heard.

"The backlash against globalisation is not something that has sprung up overnight but it has taken about a decade to spill over into national politics.

"There may be legitimate concerns that stakeholders have when governments push ahead with integration. We must create the institutions where those concerns can be heard and policies implemented to mitigate them. If you don't do that, we run the risk that forces of populist nationalism can spill over. Ideas move across borders more than any factor of production," she added, noting that if entrenched interests feel that political elites are not listening to their concerns then the entire effort towards economic integration could prove to "really be counterproductive".

Meanwhile, Elizabeth Ward, the Special Negotiator at Office of Trade Negotiations of the Australian Department of Foreign Affairs and Trade, voiced that the best way to engage with the interconnected world we live in is to build institutions and agreements capable of shaping and managing open interaction between economies.

"This will then build certainty for you the business community and finance markets, so you can really build a world where we can benefit consumers. We need a very clear narrative domestically about the value of having a liberalised set of trade policy priorities," she added.

Weerakoon also highlighted the risk of “casting our nets too wide” in terms of negotiating bilateral trade agreements with several countries.

“Having focused on Asia there is room for us to be more strategic in our trade policy itself. Over the last couple of years we have tended to focus almost entirely on bilateral free trade agreements.

“I think we’re missing a roadmap in terms of what our end objective is at the end of the economic integration process.”

Ward echoed those sentiments, and urged Sri Lanka to work on understanding what they want and to pursue those deals strategically.

“Work out what Sri Lanka stands for, where it wants to position itself in the global economy, work out the right policy settings to fit with that vision and go.”

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