

Trade Agreements as a Tool to Access Markets

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Outline

- ▶ Background
- ▶ Trade agreements:
 - ▶ Asia
 - ▶ Sri Lanka
- ▶ Preferential Market Access for SL
- ▶ Reasons for low impact
- ▶ Positive developments
- ▶ Conclusion & Way forward



Background

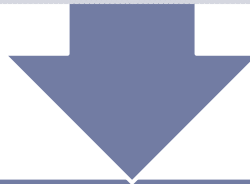
Trade agreements are an important component of the incentive framework to promote exports



Works primarily through tariff concessions for products

Provides a competitive edge in exporting

Motivation to penetrate export markets



Crucial for SL in the context of dwindling exports

Trade agreements in Asia

Bilateral & regional trade agreements (TAs) have been proliferating in Asia in the past decade

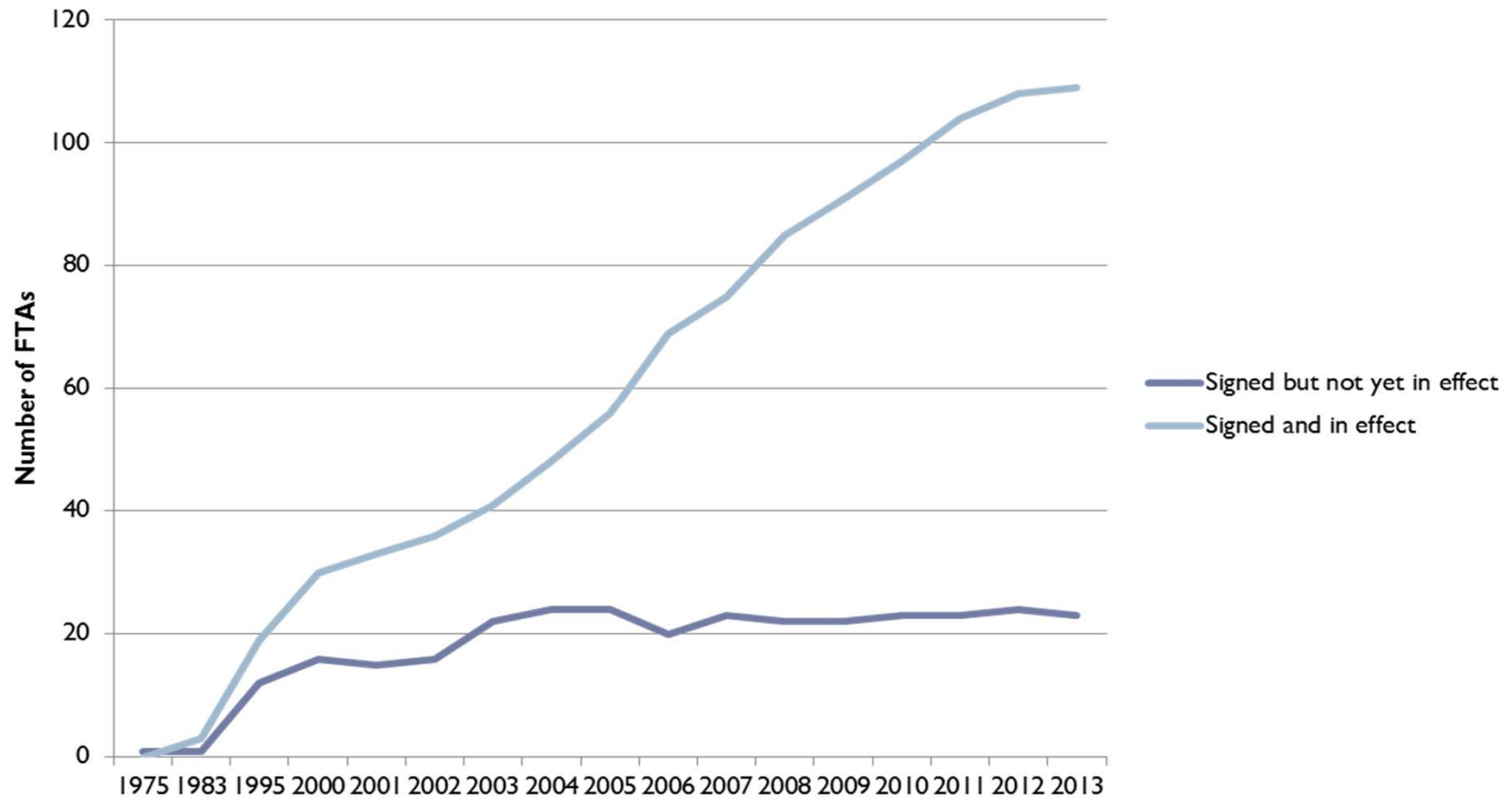
Over **100** agreements in effect and another **150** under negotiation

Asia accounts for nearly half of all TAs



Trade agreements in Asia Cont.

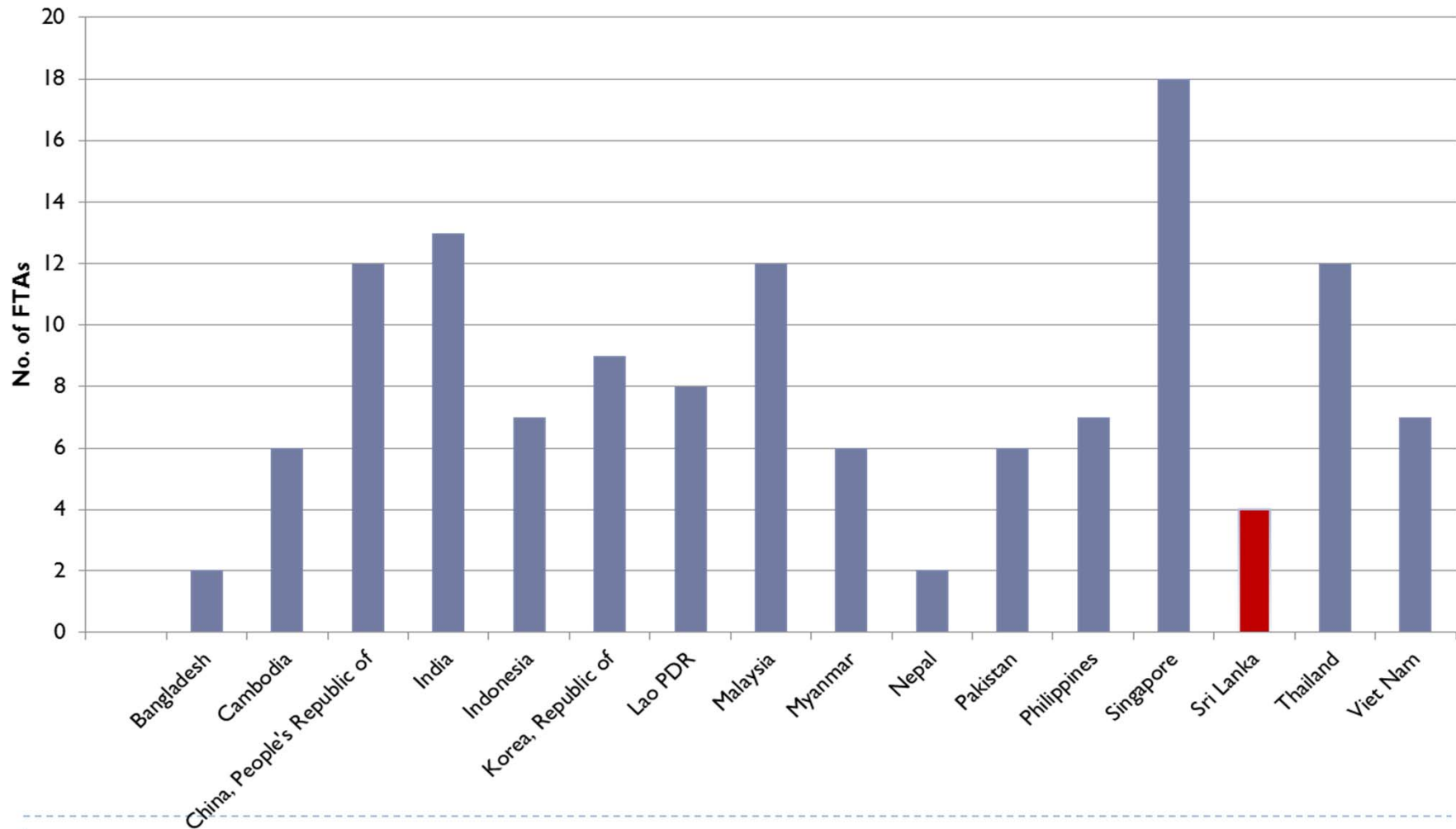
Number of FTAs in Asia, 1975-2013



Source: Asia Regional Integration Center, *FTA Database 2013*

Trade agreements in Asia Cont.

Number of FTAs (Signed & in Effect) by Country, as of January 2013



Source: Asia Regional Integration Center, *FTA Database 2013*

Sri Lanka's trade agreements

SL's engagement in TAs very low compared to competitor countries

Party to **only 4** fully effective agreements which cover **only 21%** of SL's total trade – actual trade under TAs will be below 21% which is far below the global average of 35% trade moving under TAs

- ISFTA, PSFTA, APTA, SAFTA

Utilization of existing agreements also low



Sri Lanka's trade agreements cont.

Agreement	Year	Current Status	Member Countries
<i>Reciprocal Agreements</i>			
APTA	1976	Signed & in effect	Bangladesh, China, India, South Korea, Laos, SL
ISFTA	2000	Signed & in effect	India, SL
PSFTA	2005	Signed & in effect	Pakistan, SL
SAFTA	2006	Signed & in effect	SAARC countries
SATIS	2010	Signed, not yet in effect	SAARC countries
BIMSTEC FTA	2004	Signed, not yet in effect	Bangladesh, Bhutan, India, Myanmar, Nepal, SL, Thailand
Iran-SL PTA	2004	Signed, not yet in effect	Iran, SL



Sri Lanka's trade agreements cont.

Agreement	Year	Current Status	Member Countries
US-SL FTA	2002	Under consultation & study	USA, SL
Singapore-SL FTA	2003	Under consultation & study	Singapore, SL
GSTP	1989	Signed & in effect	43 developing countries
<i>Non-reciprocal Agreements</i>			
EU GSP	1971	Signed & in effect	175 developing countries
US GSP	1976	Signed & in effect	127 developing countries



Sri Lanka's trade agreements cont.

- ▶ TAs can increase market access as long as significant preferences are available for exportable products
- ▶ The ISFTA and EU GSP+ (until 2010) have been important for SL

ISFTA

- **4227** duty free items
- 8 mn pieces of apparel per year w/o sourcing requirements

EU GSP+

- Over **7200** duty free items
- Duty Free access for most apparel products

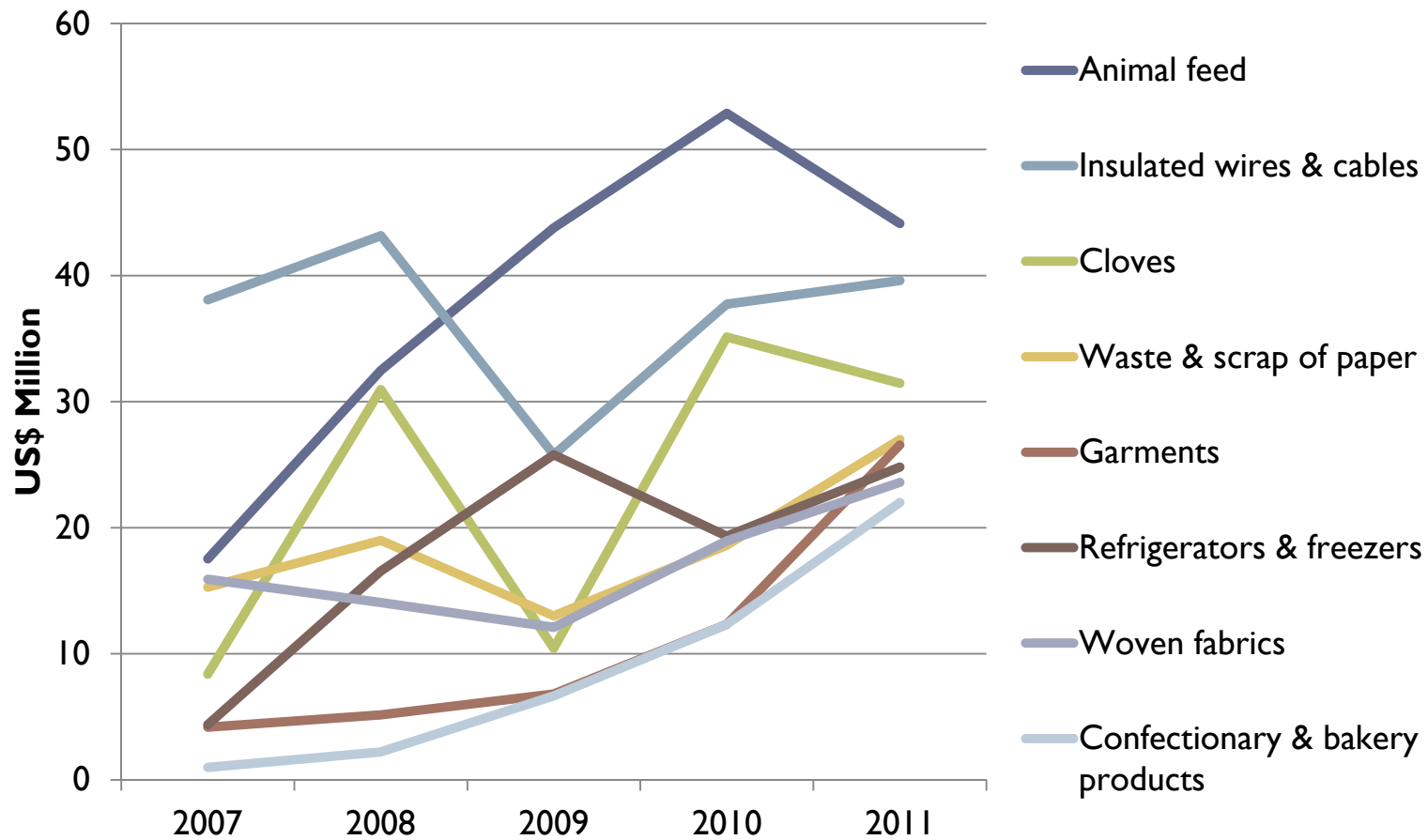
ISFTA

Outcome of 11 years:

	1999	2005	2012
Exports	1%	9%	5.8%
Imports	9%	17%	19%
No of Products	505	1062	2100
Type of Exports	Primary products	Vanaspathi & copper	Value-Added products
Export Destination	14	3	3
Investment in SL	< 2%	16%	12%

ISFTA Cont.

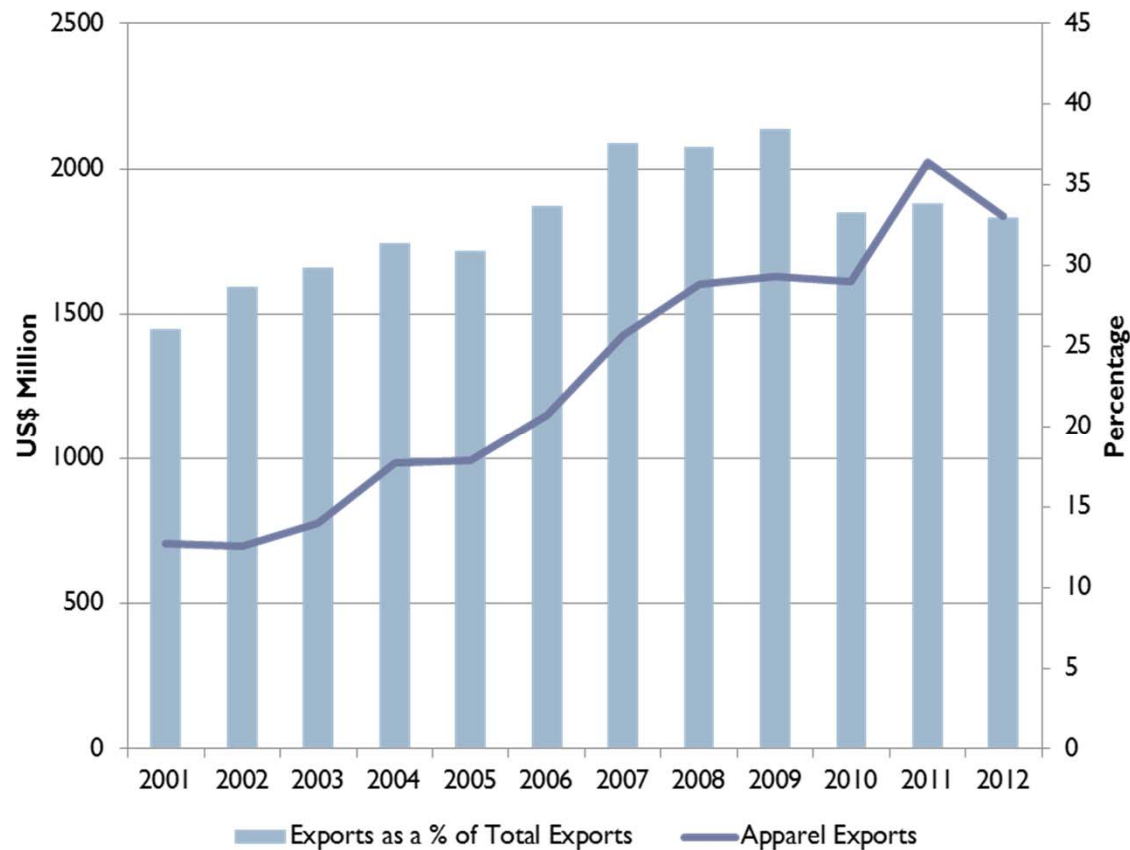
Top Exports to India: 2007-2011



▶ Source: EDB, *Export Performance Indicators*

EU GSP

Sri Lanka's Exports to the EU: 2001-2012



- Notable increase in exports & export share after 2005
- **16%** growth rate of apparel exports in 2006, compared to **0.8%** in 2005
- Decline in export share post 2009

Source: CBSL, *Annual Report, Various Issues*



Sri Lanka's trade agreements cont.

Other TAs much less successful in improving market access for SL exports:

Sri Lanka's Exports as a Share of Total Exports (%)

	2000	2005	2012
Pakistan	0.5	0.7	0.8
Bangladesh	0.2	0.2	0.6
SAARC minus India & Pakistan	1.8	0.7	1.1
China	0.1	0.5	1.2
South Korea	0.6	0.4	0.5

Source: CBSL, *Annual Report*, Various Issues



Preferential market access for SL

TA	DF	Quotas/MoP
<ul style="list-style-type: none">• ISFTA	<ul style="list-style-type: none">• 4227	<ul style="list-style-type: none">• <u>Tea</u> – 50% MoP on 5 items for 15 mn kg• <u>Garments</u> – DF entry for 8mn pieces• <u>Textiles</u> – 25% MoP for 528 items
<ul style="list-style-type: none">• PSFTA	<ul style="list-style-type: none">• 206	<ul style="list-style-type: none">• <u>Tea</u> – 10,000 m/t DF• <u>Garments</u> – 35% MoP for 3mn pieces• <u>Ceramic tiles, table & kitchenware</u> – 20% MoP



Preferential market access for SL cont.

APTA MoP

- ▶ India – covered under APTA but not ISFTA
- ▶ Bangladesh – covered under APTA, but in the sensitive list of SAFTA

India

- Natural rubber (20-43%)

Bangladesh

- Pepper, not crushed or ground (10%)
- Coconut oil (20%)
- Tobacco (20%)
- Salt (10%)
- Rubber tyres (10-15%)

Preferential market access for SL cont.

APTA cont.

China	
• Fish	20-25%
• Vegetables	31-50%
• Fruits	17-50%
• Tea & spices	50%
• Food residues	50-100%
• Plastic & articles	5-30%
• Rubber & articles	5-15%
• Textiles	10-30%
• Garments	20-50%
• Footwear	12-50%
• Gems & jewellery	7-100%
• Electrical equipment	5-100%
• Furniture	30-50

South Korea	
• Fish	20%
• Fruits & nuts	25%
• Coffee & tea	40-50%
• Plastic articles	10-50%
• Rubber articles	22.5-50%
• Textiles & garments	10-50%
• Gems & jewellery	30-50%
• Footwear	10-50%
• Electrical equipment	10-50%



Reasons for low impact of TAs

Low coverage/limited concessions

- APTA based on a positive list approach
- US GSP not extended to key items like textiles, apparel, footwear
- SAFTA has large negative lists including many key exports & long tariff phase out periods for LDCs

TAs restricted to trade in goods

- Recent TAs in Asia go beyond goods to cover services, investment, TF, competition, IPR
- **117** agreements covering both goods & services notified to WTO
- Negotiations on SL's CEPA with India stalled



Reasons for low impact of TAs Cont.

- Non-tariff barriers

Behind the border

- *Within SL:*
Supply constraints
- high utility costs, stringent labour regulations, infrastructure problems

At the border

- *At the border of SL:*
- Inefficiency of customs & other border agencies, corruption at customs

Beyond the border

- *In export market:*
- Bureaucratic red tape, taxes, rules, regulations, procedures



Reasons for low impact of TAs Cont.

RoO issues

- Complex/stringent requirements
- Overlapping requirements in multiple agreements
- Delays/administrative costs in exporting/obtaining CoOs

Domestic concerns

- Domestic industry concerns
- Loss of Govt revenue
- Political economy concerns – protecting poor, vulnerable farmers/producers
- Widening trade deficits

The stalled India-SL CEPA is a case in point



Reasons for low impact of TAs Cont.

Examples under ISFTA:

NTBs

- Processed food exports though covered under the ISFTA remain far below potential due to red tape experienced in obtaining import permits & quality certification

RoO

- India granted preferential access to 8 mn pieces of apparel if made of Indian fabric; remained underutilized as SL manufactures do not use Indian fabric
- Following removal of requirement for 3 mn pieces in 2008, quota was fully utilized while other 5 mn remained untouched



NTBs Prevail but do not overplay them

- ▶ NTBs are there but do not overplay them and halt broadening and deepening existing FTAs
- ▶ Chinese exports to India increased from US\$ 1.5 bn in 2000 to US\$ 50 bn in 2011 without any FTA and facing the same NTBs as other countries have been facing in the Indian market
- ▶ True, China has a huge supply capacity and competitive products unmatched by small countries like Sri Lanka
- ▶ But the fact to note is that Chinese exporters have somehow overcome these NTBs, if not such export expansion in the Indian market is unimaginable



Positive developments

Recent discussions with India are addressing these issues:

- Validity period of the license for processed meat to be extended from 6 months to 1 year
- Quarantine restrictions on Rambutan and Mangosteen to be dispensed
- RoO restrictions on apparel quota fully removed – 8 mn pieces can enter duty free without sourcing requirements
- Other measures discussed to expand trade linkages:
 - Review of negative lists
 - Establishing dispute resolution mechanism
 - Assistance from SL DoC if exporters face difficulties in Indian ports



Positive developments Cont.

Recent announcement of signing an FTA with China

- An agreement signed to establish two committees that will work towards this end
 - SL products with export capacity – apparel, tea, rubber, gems & jewellery – deemed to receive preferential market access
 - Of extreme importance given China's rising economic power – 2nd largest global importer
 - However, an effective FTA will depend on whether SL can address pitfalls observed in other TAs
 - Domestic industry concerns are bound to arise – as in the case with India – perhaps to a greater extent
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Conclusion

A pressing need to pursue TAs with emerging economies to revive exports

Better utilization of existing agreements and deepening and broadening them also important

Priority is to address weaknesses that have hindered effective market access under existing TAs



Way forward

Address behind the border/at the border barriers (in SL) hindering exports

Ensure new TAs have provisions to address 'beyond the border' barriers that go beyond reducing import duties

Move beyond trade in goods to cover other areas such as services, investment, IPR etc.

Ensure a high level of skill & sound grasp of international trade norms/political concerns in negotiating future TAs

Commitment to set aside narrow protectionist interests in view of long term benefits of strong trade linkages through TAs



Thank you

