

Bilateral FTAs in SAFTA

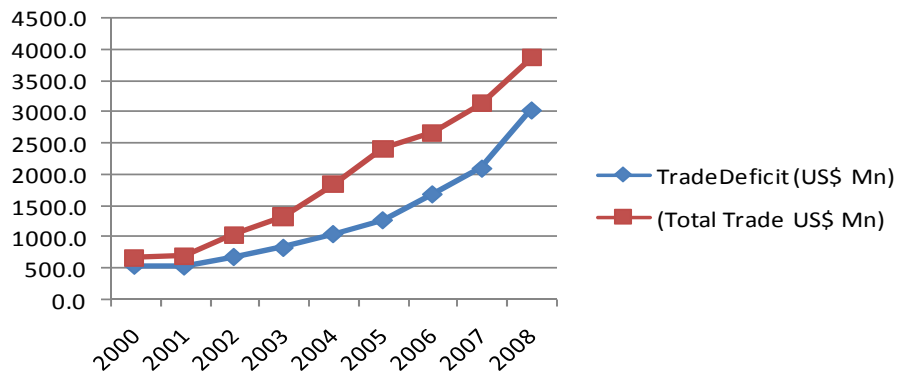
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Introduction

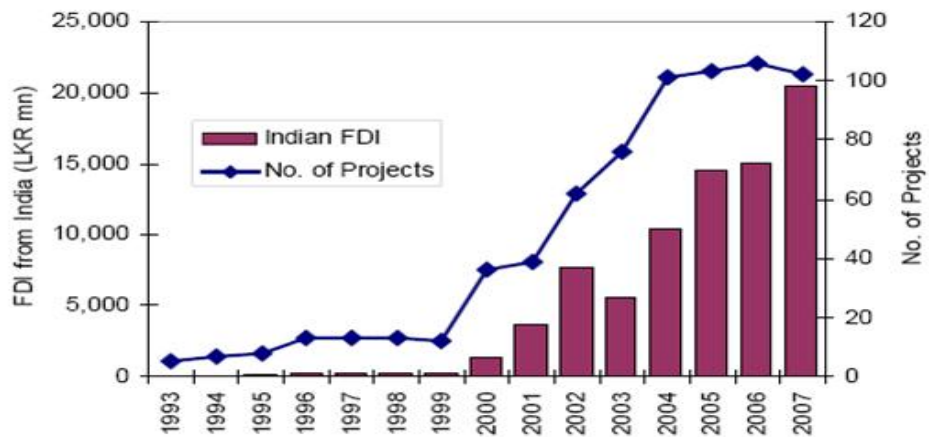
- Regional economic integration since 1995 SAPTA
- Limited trade relevance of SAPTA
- Political turmoil following nuclear tests of 1998
- ILFTA signed in 1998 and implemented in March 2000
- PSFTA signed in 2000 and implemented in June 2005
- Nexus with SAFTA and implications in terms of costs of non-cooperation in SAFTA

ILFTA Economic Impacts : Trade

Total Trade and Trade Deficit (2000-2008)



ILFTA Economic Impacts : FDI



Source: Board of Investment of Sri Lanka

Economic Impacts of ILFTA

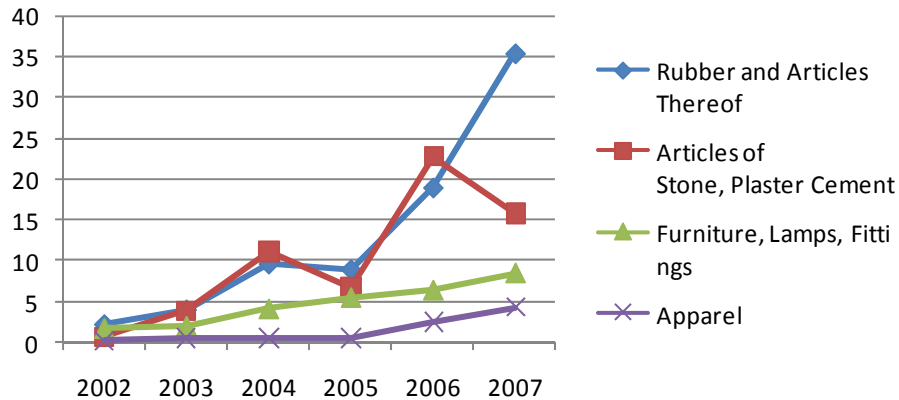
	1999	2007
Sri Lanka Exports to India	US\$ 47 Million (1% of total exports)	US\$ 515 Million (6.6% of total exports)
Sri Lanka Imports from India	US\$ 511 Million (8.6% of total imports)	US\$ 2.8 Billion (23% of total imports)
Trade Deficit	US\$ 463 Million (1:10.5)	US\$ 2.3 Billion (1:6)
FDI from India	US\$ 2.5 Million (1.3% of total FDI)	US\$ 191.2 Million (8.3 per cent of total FDI)
Major Exported Items	Pepper, areca nuts, waste steel, waste paper	Vegetable fats and oils, refined copper, wires (copper, aluminium, iron, steel)

Economic Impacts cont.

- The number of products exported from Sri Lanka to India doubled from 505 in the year 2000 to 1062 by 2005
- New products entered the Indian market such as;
 - Furniture (exports of which increased from US\$ 1.7 Million in 2002 to US\$ 6.4 Million in 2006)
 - Antibiotics (no exports until 2004 and reaching US\$ 22 Million in 2005)
 - Ceramic products (US\$ 0.8 Million in 2002 increased to US\$ 22.7 Million in 2006)
- 75% of Sri Lankan exports to India received preferential treatment in 2006 compared to 22% in 2001

Economic Impacts : New Exports

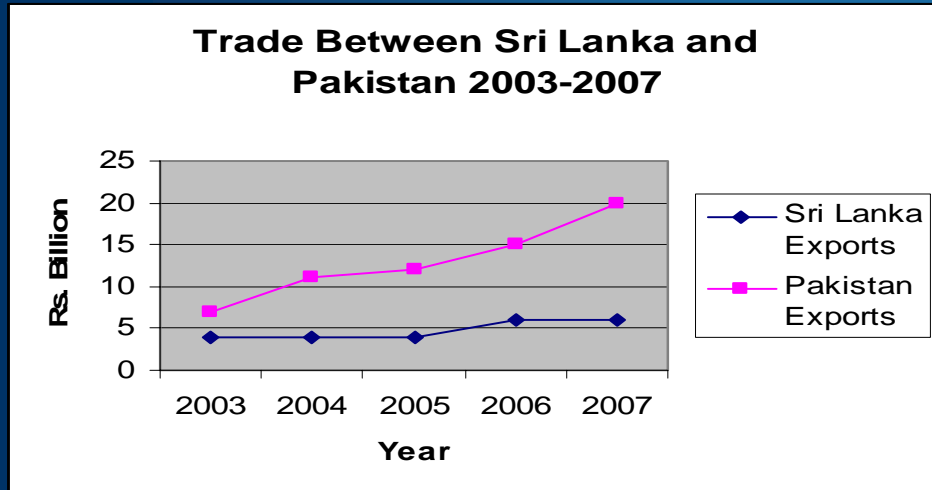
Selected Exports to India (US\$ Mn)



Economic Impacts : PSFTA

- Pakistan has already fully liberalised, SL will do so in 2010
- Limited impacts thus far
- SL exports in 2003 US\$ 36 million (0.7 per cent of total exports) in 2007 increased to US\$ 56 million (still 0.7% of total exports).
- Pakistan's exports to Sri Lanka have grown faster - increasing from US\$ 71 million in 2003 (1 per cent of total imports) to over US\$ 178 million in 2007 (1.6 per cent of total imports).

Trade between SL and Pakistan



Major Traded Products

- Limited change in export basket from Sri Lanka – few new products using concessions - Fresh pineapples, sports goods, tamarind with seeds and activated carbon.
- Major import item from Pakistan is textiles and fabrics, making up 55 per cent of Sri Lanka's imports from Pakistan in 2007. Other items include medicaments, potatoes, rice and dried fish.
- Majority of imports from Pakistan do not receive preferences under the FTA
- Textile and apparel articles receive MFN duty free rates, as do medicaments. Rice and dried fish fall under the negative list and potatoes are imported under a tariff rate quota (TRQ)

Comparisons with SAFTA

- Both bilateral agreements have outpaced SAFTA in terms of impact and implementation
- ILFTA already in place, PSFTA fully in place in 2010. SAFTA in 2016.
- Depth of preferences is also substantially greater in ILFTA, PSFTA – 53% of trade under negative list in SAFTA
- Threatens relevance of SAFTA to a country like SL which has FTAs with major regional partners

Comparison of negative list coverage between ILFTA, PSFTA and SAFTA (Number of Tariff Lines)

	SAFTA	ILFTA	PSFTA
Sri Lanka	1065	1180	697
India	885	429	
Pakistan	1191		540

Trade Restriction in the Agreements

- 42% of Sri Lanka's exports to India are restricted by the Indian negative list in SAFTA compared to 3.3% of Sri Lanka's export value to India falling under the negative list in the ILFTA.
- 44% of India's exports to Sri Lanka fall under the negative list in the ILFTA, but under SAFTA the figure is 54%
- Rules of Origin - SAFTA requires a change of tariff heading at 4 digit level while the PSFTA has a more favourable 6 digit CTH requirement

Costs of Non-Cooperation in SAFTA

- Weaknesses in SAFTA/SAPTA have pushed Sri Lanka to sign agreements with major bilateral partners in the region. Likelihood of Bangladesh following suit.
- A multitude of bilateral agreements within a regional cooperation body increases costs for firms
- i) Resources and time required to understand the provisions and rules in the different agreements and determine which is most suitable for the different products exported to the region. This is particularly challenging for SMEs.
- ii) In some cases contradicting rules require different production methods for the same product to access different markets. This results in inefficiencies and higher costs.
- Negotiating numerous agreements strains limited negotiating capacity amongst different countries in the region. Again this weighs further on LDCs
- The existence of bilateral agreements in the region creates lobbys against further regional liberalisation since the latter results in preference erosion.

Steps to be taken in SAFTA to usurp BFTAs in SAARC

- SAFTA could identify some heavily traded products in the region and provide a fast track liberalisation for them
- Incorporate a binding provision to reduce the size of negative lists
- Incorporate binding commitments for the reduction of NTBs
- More targeted addressing of trade facilitation measures
- Incorporate trade in services more substantially than in the ILCEPA and PSCEPA. Consider innovative measures to encourage commitments such as the common sub-sector approach.

Thank You

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