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Bangladesh – Sri Lanka Preferential Trade Agreement: Gains and policy challenges

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By Asanka Wijesinghe and Chathurrdhika Yogarajah

Despite enhanced trade partnerships in South Asia, intra-regional trade is far from theoretical potential. Similar production patterns and competitive sectors can be identified. However, bilateral discussions to further lower trade costs continue. The ongoing Sri Lanka discussions on a preferential trade agreement (PTA) will benefit from knowledge of potential gains from reducing bilateral trade costs. In addition, knowledge of production higher potential for export gains will help optimise the economic benefits from a trade

Bangladesh – Sri Lanka Trade: The Current Status

In 2018, when discussions on a PTA began to firm up, Sri Lanka's exports to Bangladesh were USD 133 million, while imports from Bangladesh were USD 37 million. Despite the low volume, Sri Lanka's exports to Bangladesh have grown (Figure 1). In addition, Sri Lanka records a bilateral trade surplus with Bangladesh, which is encouraging given the trade deficit concerns. However, weak growth of exports from Bangladesh to Sri Lanka is seen from 2001 to 2016 (Figure 1).

The current trade deals between the two countries are still partially restrictive. Both countries keep a sensitive list of products that are not eligible for tariff cuts. Sri Lanka maintains a sensitive list of 925 products sanctioned by SAFTA (South Asian Free Trade Area) while Bangladesh maintains a sensitive list of 1,200 products. Sri Lanka's sensitive list covers USD 6.2 million or 23.8% of imports from Bangladesh. The sensitive list of Bangladesh covers USD 77.6 million or 62% of imports from Sri Lanka. Thus, the elimination of sensitive lists may benefit Sri Lanka more.

Figure 1: Trade Intensity between Bangladesh and Sri Lanka

Source: Authors' Illustration using Trademap Data.

Theoretically, bilateral alliances deepen trade by removing weaknesses in existing trade arrangements. A trade deal between Bangladesh and Sri Lanka can simplify regulations further. In addition, Bangladesh needs alternative preferential access to key markets. For Sri Lanka, increasing bilateral participation in production value chains, especially in the textiles sector, might be an economic motivation. Financial support by Bangladesh to manage Sri Lanka's foreign currency pressures might be a political motivation for a trade deal.

Eliminating sensitive lists can lead to trade creation, although it may not happen for political and economic reasons. When it comes to tariff cuts, both countries will act defensively as certain products in the sensitive lists are vital for employment and income generation. Thus, the success of a trade deal depends on how many products with trade potential are under its purview. In this direction, a group of products with specific

characteristics can be identified as an offensive list. For example, Sri Lanka's offer includes products that Bangladesh imports from anywhere in the world, produced with a capacity for expansion. Sri Lanka has a comparative advantage in exporting and Bangladesh already has a tariff on the product.

Export Gains from Tariff Elimination

If tariffs on the sensitive lists are eliminated, there will be modest export gains for and Sri Lanka in absolute terms. Sri Lanka will gain USD 24.7 to 49.7 million of exports to Bangladesh, while Bangladesh will gain USD 2.1 to 4.5 million of exports to Sri Lanka. Potential export gains are given in a range due to assumptions on elasticity values in a partial equilibrium model. Elimination of sensitive lists will generate a higher tariff loss to Bangladesh, ranging between USD 13.5 million to USD 19.1 million. By contrast, Sri Lanka's revenue loss will be slight at USD 1.4 million to USD 1.9 million.

Whatever the arrangement, it is crucial to include the products with high export potential in the offensive lists (See Table 1 for the major products). Out of 39 products in Bangladesh's offensive list, 21 are intermediate goods, while 18 are consumption goods. Similarly, 115 products in Sri Lanka's offensive list are intermediate goods. Tariff cuts on intermediate products may induce fragmented production between two countries, which would erode country-specific comparative advantages. Major intermediate goods in the offensive lists include dyed cotton fabrics, cartons, boxes, and cases, plain woven fabrics of cotton, denim, rubber, and smoked sheets of natural rubber (Table 1).

The ex-ante estimates predict modest gains for Sri Lanka and Bangladesh in absolute terms, even after completely removing the sensitive list. But complete removal is politically challenging for both countries. Moreover, Bangladesh as an LDC may expect special differential (S&D) treatment. Thus, the outcome can be a limited PTA in line with existing trade agreements governing South Asian trade. The impact on trade of trade agreements in force is negative primarily due to stringent general regulatory measures including rules of origin (ROO), sensitive lists, and prolonged phasing-in. Given the estimated modest economic gains of a Bangladesh-Sri Lanka PTA do not justify a PTA that requires substantial resources for negotiations, the PTA should have fewer regulatory measures and tariff concessions for the products on the offensive lists to maximise the economic benefits of a PTA between the two countries.

Link to the full Talking Economics blog:

<https://www.ips.lk/talkingeconomics/2022/01/20/bangladesh-sri-lanka-preferential-trade-agreement-gains-and-policy-challenges/>

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First Capital holds strong despite economic challenges

Published 11 hours ago on 2022/02/21

First Capital Holdings PLC (the Group), a member of the Janashakthi Group, reported a Profit after Tax of LKR 235Mn for the quarter ended 31st December 2021.

The Group's Corporate Finance, Wealth Management and Stock Brokering businesses were the key drivers of these results during what was a particularly challenging period for the market. The profits include a reversal of over provision of income tax amounting to Rs. 140Mn.

First Capital's Corporate Finance division reported a Profit after Tax of Rs. 47Mn for the months ended 31st December 2021. This includes fee income on structuring and placing corporate debt securities of Rs. 36Mn and trading gains of Rs. 84Mn on sale of corporate and equity securities.

The Group's Wealth Management division reported a Profit after Tax of Rs. 77Mn for the period. The business unit had assets of Rs. 44.9Bn under its management as of 31st Dec 2021.

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Opportunity for local corporates to raise foreign currency denominated capital through CSE

Published 11 hours ago on 2022/02/21

The Colombo Stock Exchange (CSE) has enabled local entities incorporated or established in Sri Lanka to issue and list foreign currency denominated shares in the main market segments (Diri Savi and Main Boards) of the CSE.

This new financing option for local companies is a result of the new strategic plan the CSE launched in 2020. Having obtained necessary clearances from the Securities & Exchange Commission of Sri Lanka, the Listing Rules and the Trading Rules of the CSE and the CSE Rules of the Central Depository Systems (Pvt.) Ltd. have been suitably amended to facilitate the listing, trading and clearing & settlement of foreign currency denominated shares issued by local entities. The aforementioned regulatory framework has been effective since 14th February 2022.

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Nations Trust Bank plants saplings across Hiyare Rainforest

Published 11 hours ago on 2022/02/21

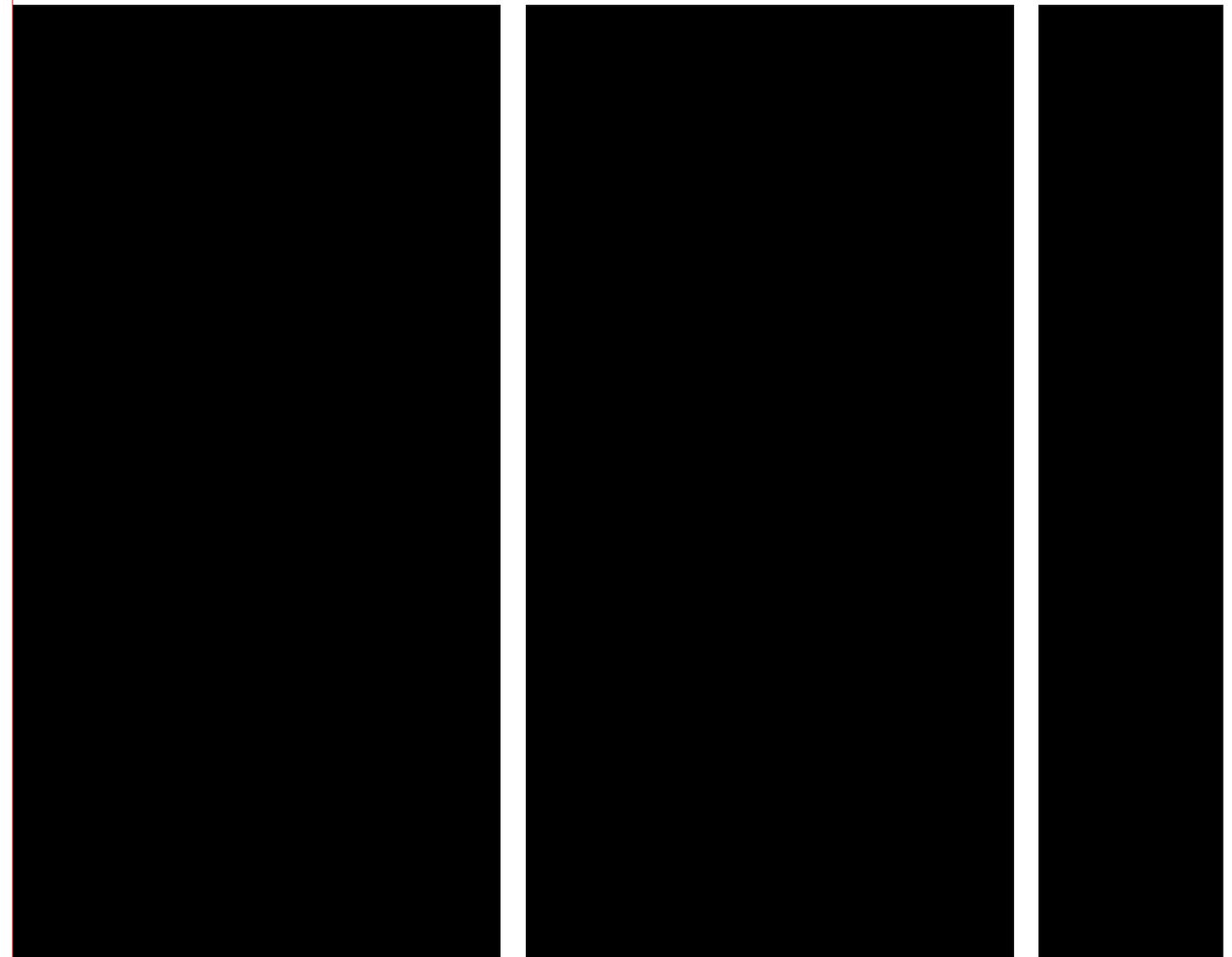
Nations Trust Bank, a responsible corporate citizen that supports environmental stewardship, undertook to plant saplings across an acre of forest floor in the Hiyare Rainforest and Reservoir in Galle on the 15th of February 2022.

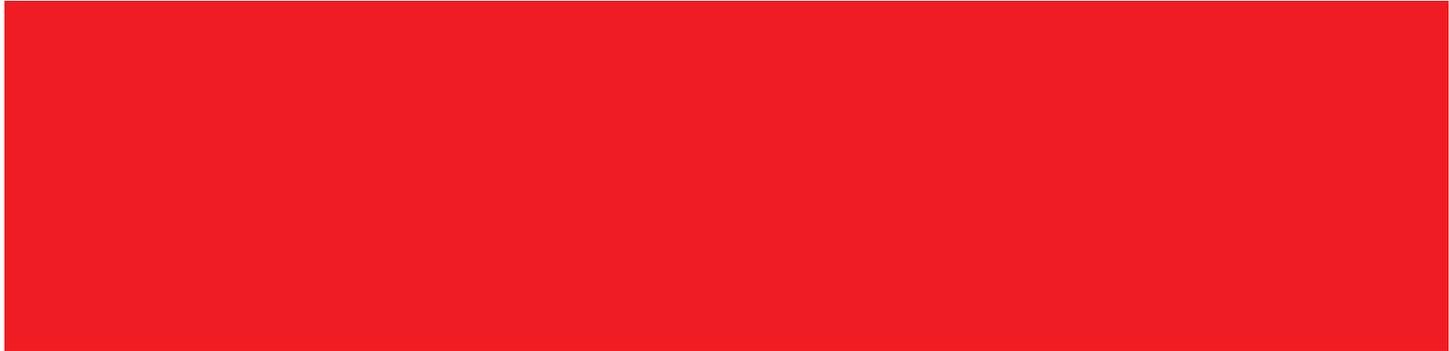
The tree planting event was held in the presence of Nations Trust Bank officials and staff including Theja Silva – Head of Corporate Social Responsibility, Ramanika Unamboowe – Executive Vice President, Human Resources, Sanjaya Senarath – Chief Marketing Officer and other officials from the Wildlife Conservation Society, Galle.

Saplings were planted on behalf of every customer who opened a new Current Account, Savings Account or an Investment Plan with the Bank during the week of Avurudu in 2021 as part of the ‘Mihikathata Avurudu’ programme.

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