

Trade Connectivity as a Strategic Tool: Challenges and Opportunities for the EU and Sri Lanka

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Conference on “The EU Indo-Pacific Strategy through Sri Lanka’s
Lens: Opportunities for Cooperation and Partnership”

LKI and the EU delegation

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- ▶ The EU-Sri Lanka trade
 - Long history
 - Colonial ties: reduced trade cost
 - Non-reciprocal trade concessions for Sri Lanka
 - For the EU: an opportunity to transfer low-tech manufacturing to Sri Lanka
 - The EU firms can invest in sectors with high preferential margin
- ▶ Bilateral trade based on utilising factor cost advantages and comparative advantage

THE EU AS AN EXPORT DESTINATION

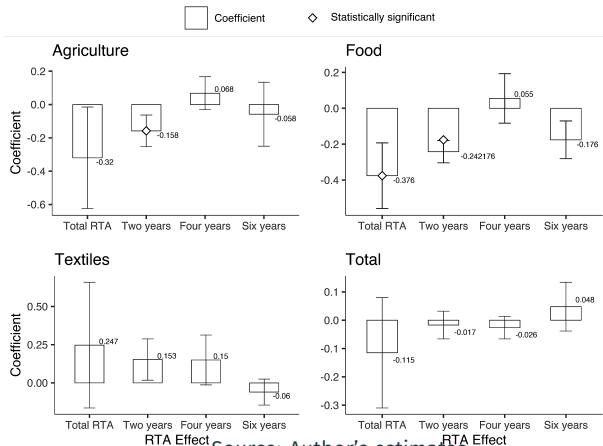
- ▶ Before the pandemic (2019) 3.57 USD billion exports to the EU (30%)
- ▶ Low-tech manufacturing products dominate (2020)
 - HS 621210 (Brassieres of all types of textile materials)
 - HS 611610 (Gloves, mittens)
 - HS 401290 (Tyres)
 - HS 610711 (Men's & boy's underpants)
 - HS 610910 (T-shirts)
- ▶ The EU is the major market for Sri Lanka's Seafood
- ▶ Most of Sri Lanka's exports are covered by GSP+

- ▶ Reduced trade cost due to GSP+ induces forward and backward linkages
- ▶ Supplier of raw materials
- ▶ Key products:
 - HS 600410 (Knitted and crotched fabrics)
 - HS 853190 (Parts of electric sound/visual signalling apparatus)
 - Hs (300490 Medicament)
 - HS 580620 (Narrow woven fabrics)

- ▶ Importance of a trade-led growth strategy for Sri Lanka
 - Small country
 - Less resource endowments
 - Small consumer base
- ▶ The EU is a large market for raw materials and final products
- ▶ Non-reciprocal trade concessions (GSP+)

IMPORTANCE OF THE EU MARKET FOR SRI LANKA

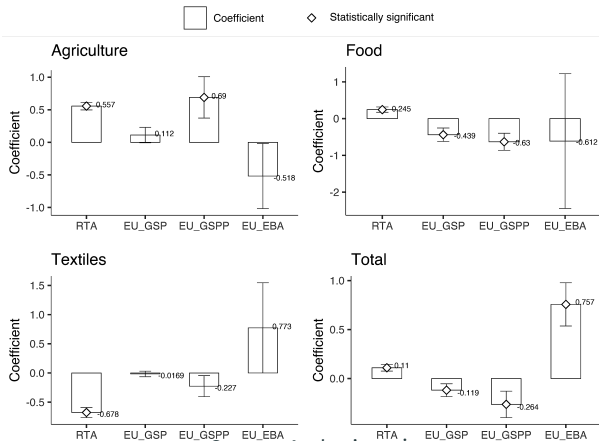
- ▶ Poor performance of regional-trade agreements in the South Asian region



Source: Author's estimates
FIGURE 1: RTA effect on Gross trade: South Asia

IMPORTANCE OF THE EU MARKET FOR SRI LANKA

► Positive effect of GSP program on certain sectors



Source: Author's estimates

FIGURE 2: GSP program effect on Gross trade: Asia

IMPORTANCE OF THE EU MARKET FOR SRI LANKA

► Seafood exports

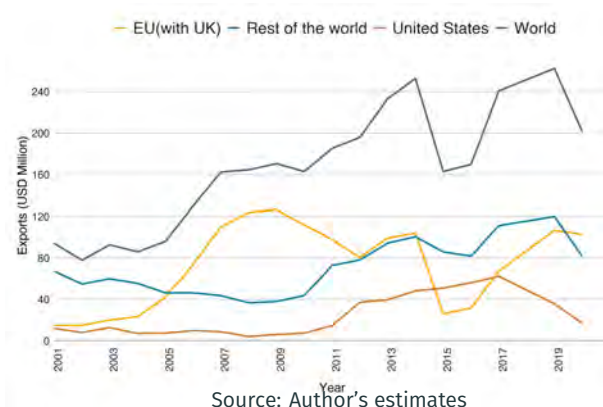
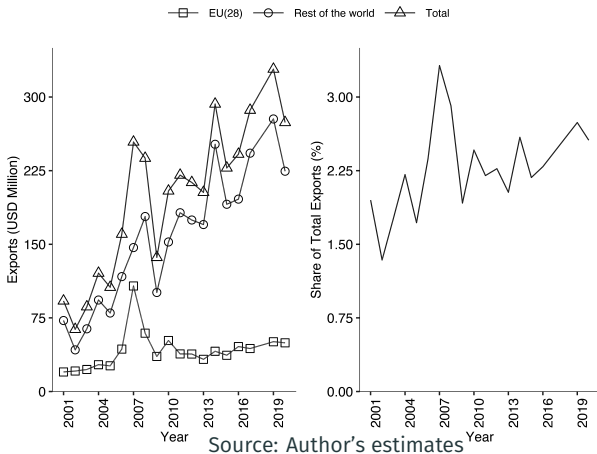


FIGURE 3: Seafood exports: Sri Lanka

► Diversification into complex products:



Source: Author's estimates
FIGURE 4: HS chapter 85 exports: Sri Lanka

- ▶ The EU concessions are economically and strategically important
 - The key sectors benefited are the ones that employ workers from economically marginalised sectors (agriculture, and seafood)
 - Agriculture sector is 1/4 of the labor force in Sri Lanka
- ▶ For the EU: Sri Lanka is a destination for investments and trade through forward and backward linkages

”The EU is committed to further engagement on open, sustainable and rules-based trade with partners in the Indo-Pacific region, including on building support for the modernization of the WTO” –The strategy for cooperation in the Indo-Pacific-

- ▶ Approach is to support a rule-based trade based on multilateral institutes
- ▶ Implementing and enforcing comprehensive trade agreements with Japan, the Republic of Korea, Singapore, and Vietnam
- ▶ Economic Partnership agreements with Pacific States
- ▶ Conclude trade agreements with Australia and New Zealand

OPPORTUNITIES AND CHALLENGES FOR SRI LANKA

- ▶ Open trade will allow Sri Lanka to:
 - Trade based on comparative advantage (increased economic efficiency)
 - Preferential access (GSP+): Profit and efficiency seeking investments
 - Diversification into high-tech manufacturing
 - The EU-US trade relationship under the supply chain realignment of US (for semiconductors, EV batteries etc.)
- ▶ Trade with the EU \Rightarrow poverty alleviation, increasing income and efficiency
- ▶ Tangible economic benefits will bolster strategic alliances

OPPORTUNITIES AND CHALLENGES FOR SRI LANKA

- ▶ Challenges coming from current trade regimes:
 - Sri Lanka's import controls (The EU's thrust for rule based open trade)
 - The link between human rights and GSP+
 - The EU's leverage through GSP+ and political sentiments
 - Rules of origin: need for expanding the cumulation
 - Impact of the EU's NTMs
- ▶ Trade agreements of the EU with other Indo-Pacific nations
- ▶ Trade diversion to Sri Lanka's competitors

- ▶ Solving political disputes on GSP+ compliance
- ▶ Expanding the cumulation \Rightarrow increase GSP+ utilization ratio
- ▶ NTMs and compliance to sanitary and phytosanitary measures
- ▶ A trade policy in compliance to WTO framework

Thank you!