



Monday 18th of April 2022



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*BUSINESS*

# 'Trade Policy Effects on Global Value Chain Participation of South Asian Countries: Implications for Bangladesh-Sri Lanka Trade Negotiations'

Published 2 months ago on 2022/03/4



A new IPS study offers empirical evidence that the gains from a preferential trade agreement between Bangladesh and Sri Lanka are modest and calls for a trade deal without the weaknesses in existing regional trade agreements.



The study finds that the overall effect of existing regional trade agreements is not positive while the impact on the food sector is negative. Moreover, the negative impact is not limited to the gross exports. The global value chain (GVC) components of exports are also negatively affected.





On average, the complete removal of the sensitive lists will generate 35% and 47% of additional exports for Bangladesh and Sri Lanka, respectively. However, the absolute exports- USD 2.1 million for Bangladesh and USD 24.5 million for Sri Lanka – is modest due to the low bilateral trade volume.

A new study conducted by the Institute of Policy Studies of Sri Lanka (IPS) offers empirical evidence that the gains from a preferential trade agreement between Bangladesh and Sri Lanka are modest and calls for a trade deal without the weaknesses in existing regional agreements. The study entitled ‘Trade Policy Effects on Global Value Chain Participation of South Asian Countries: Implications for Bangladesh-Sri Lanka Trade Negotiations’ is by Asanka Wijesinghe and Chathurrdhika Yogarajah.

The IPS study uses disaggregated export data into GVC components to identify the impact of tariffs and existing trade agreements in the South Asian region on trade. The gravity models show that the current level of tariffs hurt gross exports and GVC components of exports in the food sector, border tariffs negatively affect the intermediate exports that will be processed and re-exported by the importing country. Notably, mixed results are obtained for the effects of RTAs.

When allowed to adjust trade costs by estimating the gravity models with data in intermediate goods, the study shows a weak statistically significant positive impact of RTAs on intermediate agricultural exports. This is evident.

However, the effect of RTAs is strongly negative on all the components of food exports. The RTA effect is weakly significant and negative on GVC components of total trade. The results imply an offsetting impact of general regulatory measures attached to the trade agreements. Thus, a future PTA between Bangladesh and Sri Lanka should have minimized regulatory measures-rules of origin (ROOs), sensitive lists, prolonged phasing-in- to realize the agreement’s full potential.

The study also simulates the potential trade gains from eliminating the sensitive lists between the two countries under the South Asian Free Trade Area (SAFTA). The complete removal of the sensitive lists will generate 35% and 47% of additional exports for Bangladesh and Sri Lanka, respectively. However, the absolute value of exports – USD 2.1 million for Bangladesh and USD 24.5 million for Sri Lanka – is modest due to the low bilateral trade volume. Importantly, it will not be feasible to altogether remove sensitive lists due to political and revenue reasons. In addition, being a least developed country, Bangladesh may expect

provisions. Thus, the study identifies products that would maximise trade gains from tariff elimination in the final step.

## Policy Implications

This IPS study implies that future trade agreements should be sans complex ROO, lot sensitive lists, and prolonged phasing-in. In addition, general tariff cuts, instead of preferential tariff cuts, may generate higher trade gains. Significantly, the modest economic benefits from the complete removal of the sensitive lists weigh down on the economic rationale of a PTA. In addition, political and revenue reasons might reduce the scope and depth of a PTA. Thus, the study calls for selective negotiations for removing tariffs on intermediate goods such as dyed cotton and fabrics; cartons, boxes, and cases; plain fabrics of cotton; denim; natural rubber; and smoked sheets of natural rubber. The reason for this approach is that the comparative advantage of both countries lies in the finished products that embed these intermediate products. A PTA can develop value chain participation utilising the scale economies and factor cost advantages.

**Access the full report here:** <https://www.ips.lk/trade-policy-effects-on-global-value-chain-participation-of-south-asian-countries-implications-for-bangladesh-sri-lanka-trade-negotiations/>

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*BUSINESS*

# SEC directs CSE to temporarily close the stock market

Published 11 hours ago on 2022/04/18

The Board of Directors of the Colombo Stock Exchange (CSE) by way of a communication dated 15th April 2022 has called upon the Securities and Exchange Commission of Sri Lanka (SEC) to temporarily close the stock market citing the present situation in the country.

Many other stakeholders of the securities market including the Colombo Stock Brokers Association have also sought the temporary closure of the market on the same grounds.

The SEC has carefully considered the grounds that have been adduced by them and has evaluated the impact the present situation in the country could have on the stock market, particularly the ability to conduct an orderly and fair market for trading in securities.

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# HNB renews long established partnership with Expo Property Developers

Published 11 hours ago on 2022/04/18

HNB PLC has renewed its partnership with Expo Property Developers (Pvt) Ltd to present customers with special feature/value additions on properties offered by the real estate giant.

The partnership will be an opportunity for HNB customers to gain access to one of Expo Property Developers exclusive luxury condominiums spread out across the city of Colombo from March. A special ceremony was held at HNB towers to mark the occasion with the presence of HNB Deputy General Manager- Retail and SME Banking, Sanjay Wijemanne and Expo Property Developers Expo Property Developers (Pvt) Ltd Director, Gratien Fernando.

“This is an ideal time for prospective homeowners to invest in the home of their dreams. (

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# SL delegation heads to U.S. to seek USD 4 billion bailout from IMF

Published 11 hours ago on 2022/04/18



Minister of Finance, Ali Sabry and a delegation left the island yesterday for discussions with the International Monetary Fund in order to receive its financial assistance and thereby rebuild confidence about Sri Lanka among the global investor community.

The delegation which left for Washington, D.C. included Governor of the Central Bank Dr. Nandalal Weerasinghe, Secretary to the Ministry of Finance K.M.M. Siriwardena and a senior delegation from the Ministry of Finance and the Central Bank.

Finance Minister Sabry recently stated to foreign media that talks with the International Monetary Fund (IMF) would begin on Monday (18) seeking a bailout of USD \$ 4 billion.

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