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The proposed Thailand Sri Lanka Free trade agreement if negotiated professionally can be very beneficial for the island nation states study “Unveiling Trade Potential: An Ex-Ante Analysis of the Sri Lanka – Thailand Free Trade Agreement” done by two researchers of IPS, Dr. Asanka Wijesinghe and Nilupulee Rathnayake. (Pictured)

The two nations aim to complete the discussion rounds by the beginning of 2024. The partial equilibrium analysis predicts a substantial 38% increase in Sri Lanka’s exports to Thailand if tariffs are eliminated,

with the wearing apparel and tea sectors poised to benefit the most.

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In contrast, Thailand is expected to experience a 27.8% increase in exports, slightly lower than Sri Lanka's gains. However, due to the existing trade imbalance favouring Thailand, Sri Lanka's post-FTA trade deficit is projected to rise by 26%. To ensure the success of the FTA, the authors note that it will be imperative to reduce tariffs on products where both countries have a comparative advantage and address trade policy uncertainties. Sri Lanka's offensive list includes 154 products, mainly in manufacturing sectors, such as wearing apparel, tea products, rubber and plastic products, and electric equipment.

Thailand's offensive list comprises 147 products, encompassing rubber products, household electric equipment (e.g., refrigerators, air-conditioners), malt extracts, and vehicles and parts. These lists play a pivotal role in securing an FTA with substantial trade effects, given the significance of the industries they protect domestically.

While the FTA has the potential to generate substantial trade gains through reduced tariffs, the authors highlight the short-term challenge that comes from the widening trade deficit for Sri Lanka with Thailand, in the wake of full tariff liberalisation. To mitigate this risk and maximise the FTA's benefits, the authors suggest that both countries must negotiate diligently, considering phased tariff reductions with binding commitments and comprehensive trade adjustment programmes. The study highlights the structural differences in the economies of Sri Lanka and Thailand, which bring opportunities and pose challenges from a bilateral trade deal. The analysis reveals that both countries have relatively high tariffs in sectors where the other country has a comparative advantage.

For example, Thailand imposes significant tariffs on Sri Lanka's clothing and tea exports, while Sri Lanka maintains high tariffs on Thailand's vehicle and parts, rubber products, and light electronics exports. Additionally, trade policy uncertainty exists, mainly due to Sri Lanka's lower binding coverage, resulting in a binding overhang of 33.1% in agricultural exports from Thailand.

The full report can be accessed at <https://www.ips.lk/unveiling-trade-potential-an-ex-ante-analysis-of-the-sri-lanka-thailand-free-trade-agreement/>

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