

Preferential Trade Liberalisation through Bilateral or Regional Agreements: Need for a National Strategic Approach for ETCA and Beyond

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Introduction

In a bid to expand her export potential and economic growth horizons, Sri Lanka intends to enter into trade and economic cooperation agreements with a number of countries in the near future. These would include an “Economic and Technical Cooperation Agreement” (ETCA) covering liberalisation of services with India, and trade agreements with Singapore and China. This is amidst wide-spread attempts among countries, including those in the developed world, to enter into bilateral and regional trade agreements, and Sri Lanka having also entered into bilateral trade agreements with India (ISFTA), Pakistan (PSLFTA), and regional agreements with South Asian nations (SAFTA) and Asia-Pacific countries (APTA), in addition to the World Trade Organisation (WTO) framework.

The liberal economic policy prescription, calling for “free trade regimes”, presumes that elimination of market distortions would enable local producers to have quality inputs at competitive prices, and make export items competitive in export markets. This underpins the philosophy behind the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS) and the WTO conditions. However, the world is witnessing a different pattern where countries opt for preferential trade agreements in view of exploiting export markets at preferential terms compared to their competitors, which is not in conformity with the principle of trade on a competitive basis. In such an environment, it is only natural that Sri Lanka, having only a limited domestic market constraining production economies of scale, looks for such bilateral and regional agreements with countries having sizable markets such as India and China.

This paper focuses on Sri Lanka’s entry in to a further trade liberalisation agreement with India through the proposed ETCA, examines the relevant political economic conjuncture, and attempts to weigh pros and cons of entering in to such an agreement. It also discusses a strategic approach which Sri Lanka may adopt with regard to such trade agreements in general.

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Materials and Methods

The shape of ETCA or its terms and conditions are not formally known as yet. Only a broad statement of structure is being discussed, and thus, the analysis had to be innovative and exploratory, with possible scenarios being foreseen and logically established. Data and information required were gathered mainly from secondary sources, such as previous research, and documents that were made available to professional groupings, seminars and discussions, and media. The research adopted a political economic analytical methodology.

Results and Analysis

The available documents and political statements made by the authorities suggest that the proposed ETCA would aim at (a) further streamlining trading of goods under the ISFTA, (b) bilateral opening-up of identified services, (c) bilateral investment promotion, and (d) technical cooperation. It appears to be the re-emergence, in a different form, of the previously proposed Comprehensive Economic Partnership Agreement (CEPA) with India, which was subsequently not pursued due to strong opposition from professionals. The Government's official statements appear to deny that it would include "Mode IV" liberalisation, the most controversial feature of CEPA, but research finds conflicting indications embedded in statements issued at the Indian end (Sen, 2016).²

For what purpose?

The present research could not find any explicit set of benefits Sri Lanka intends to secure by entering into ETCA which could not be realised otherwise. The exploitation of Indian market for Sri Lanka's goods and services, if intended, without having a scrupulously carved out "*Win India Strategy*", would be futile. This is further substantiated by the experience gained with ISFTA on export of goods which was not encouraging (Gunaruwan & De Alwis, 2014). Therefore, entering into a much deeper and complex ETCA, including service sector liberalisation also, without first rectifying the weaknesses in the ISFTA including Non-Tariff Barriers and other restrictions (Moramudali, 2015), and gaining confidence that Sri Lanka could have fair treatment vis-à-vis Indian market (as much as Indian exporters have in the Sri Lankan market), would be fruitless (Kumarasinghe, 2016). On the other hand, if it is the shortage of skills in certain segments which the opening of Sri Lankan doors to Indian human resources is intended to resolve, there is no reason why such a filling of the resource gap cannot be achieved through the existing work permit system which enables entry of an

² "...India...is not interested in negotiating any further on goods till there is progress in the area of liberalising movement of professionals.", Amiti Sen, The Hindu, Feb 6, 2016.

identified and pre-determined number of professionals for a limited period. The mere fact that Sri Lanka appears to be entering into ETCA negotiations with no clarity as to what is intended as benefits raises an added concern as to whether Sri Lanka is not forced to it by Indian pressure.

Domains ear-marked, for whose interest?

The analysis took note of the two domains widely spoken of as being prompted for opening up, namely (a) Information Technology (IT) and (b) Ports and Shipping related services. Concerns were expressed as to whether these were considered because of the strategic and geo-political interests of India rather than on mere commercial or trade-based interests. Sri Lanka's locational advantage at the southern tip of Indian sub-continent is extremely strategic not only due to its close proximity to East-West maritime silk route, but also as a position of regional political and military strength. The possibility of India being interested in making her presence, and even eventual domination, felt in Sri Lanka's strategic maritime nodes cannot be excluded. The IT industry would be a potential "winner" for Sri Lanka. Opening up the sector to India, particularly if permitted under Mode IV, would lead to filling the resource gap by an influx of Indian professionals, dampening the scope for local IT skill development business, and affecting the industry's long-term prospects if such influx becomes lower than acceptable quality (Wickremasinghe, 2016).

Is the "house in order"?

Quality is probably the most critical concern if service liberalisation takes effect through ETCA, given the quasi-absence of systems, standards or rules and regulations in the Sri Lankan market, save in very few domains, to screen for the quality of such service providers. Research revealed that the Indian market is heavily protected by such rules and regulations. Opening up trade in services between India and Sri Lanka in such a context is likely to permit a one-way flow as the Sri Lankan structure has no such rules, regulations, or prohibitions. It is understood that laws, rules, regulations or standards that a partner country would enact subsequent to a bilateral trade agreement coming into effect would not be applicable to businesses conducted under such agreement. Therefore, Sri Lanka should scrupulously define norms, rules and regulations to ensure quality and standards of service imports or human capital inflows, as demanded by professional bodies under the banner of "Put the house in order first".³

³ Government Medical Officers' Association the United Professional Movement have called for a comprehensive policy framework and setting up of standards, rules and regulations.

Impact on our export competitiveness?

Bilateral trade agreements are market distorting, and therefore in contradiction with the liberal economic prescription that trade should be conducted on a levelled playing field among all potential suppliers. Preferential treatment for suppliers belonging to one country or a region would constrain the likelihood of the right quality product with best price winning the market, and would induce inefficiency. If Sri Lanka's inputs for export processing industries are impacted, this could negatively affect their quality and could even damage export competitiveness, particularly vis-à-vis the European and North American markets which are very much quality conscious.

Sacrificing much for nothing?

The study also addressed the question of the sustainability of any competitive edge over other competing supplier countries which Sri Lankan export products or services would gain in the Indian market through ETCA. This is because India may sign similar agreements with other countries, including Sri Lanka's competitors, and it would only be a matter of time that those competitors would secure similar preferential treatments, thus nullifying any advantage Sri Lanka would initially gain in the Indian market by signing ETCA. But, through the process of ETCA, Sri Lanka would have opened up its service market to India, and would have already faced all the related disadvantages or incurred all such costs. Hence, in the long run, this may even amount to be sacrificing much for nothing sustainable in return.

Conclusions and Recommendations

The findings of this study reveal that the proposed ETCA with India (or any other trade agreement with any other nation) would not be without risks or down-sides. The case with India is crucial because of proximity, past experience, and contemporary geo-politics in the region. Therefore, the study concludes that the Government should not rush into further deepening the bilateral liberalisation of trade in goods and services with India, or sealing long-term binding trade agreements with any other country, but should carefully study the pros and cons, anchoring strongly on a futuristic strategic framework within which national interests are safeguarded in the pursuit of export expansion.

The study also indicates that the internal rules, regulations and standards are not adequately geared to ensure quality and standards of imports of goods or services, and also the inflow of professionals (if Mode IV is permitted). Therefore the Government should focus on developing such regulatory imperative and on putting the house in order before discussing bilateral or multilateral trade agreements.

The insights resulting from this research suggest that the country should not enter into binding trade agreements with India or any other nation unless they become unavoidable in achieving desired national economic objectives. This is because these trade agreements would be “supra-national”, and would implicate a compromise of the sovereignty of people to change policies (including those on international trade) through their democratic choice. This is more so because such agreements are likely to be legally enforced outside the national judicial framework, thus compelling any grievances to be referred to international arbitration which is likely to be extremely expensive. It is therefore recommended that any trade agreement into which Sri Lanka intends to enter for unavoidable reasons would have “exit” or “termination” clauses, to be availed in the event the necessity to get out of such agreement arises.

Finally, the results suggest that it would be strategically more appropriate for Sri Lanka to assign policy priority for developing her export competitiveness in general through industrial and service sector productivity, rather than through trade agreements. This is because, it is the international competitiveness of our products or services which would ensure sustainable growth of our export earnings and thereby our balance of payment stability, with or without preferential trade agreements. In short, an effective industrial policy aiming at productivity enhancement through technology, inventions and innovations should be pursued as strategic priority, much ahead of seeking preferential entry to export markets through trade negotiations.

Key words: Preferential Trade Agreements, Sri Lanka, Liberalisation, National Economics

JEL Codes: F13, F15, F53, F55

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