

# ETCA: Challenges of reporting a complex but important economic issue

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# Trade liberalization is one of the most important issues in economics

- Most economists agree on the general principle that lowering barriers to trade (allowing people to buy and sell freely) is a good thing
  - The debates in mainstream economics are about details
  - Those who oppose trade liberalization within economics framework also tend to favor a completely different economic model
- Most people tend to fear trade liberalization
  - Daniel Kahneman's and Amos Tversky's prospect theory (20<sup>th</sup> Century): human tend to place more value on loss aversion than gain
  - Or Machiavelli (15<sup>th</sup> Century)
- In Sinhala media, with all its imperfections, the most substantive discussion on an economic topic occurred around this (2010-now)

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. For the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order, this lukewarmness arising partly from fear of their adversaries ... and partly from the incredulity of mankind, who do not truly believe in anything new until they have had actual experience of it.

— Niccolo Machiavelli

# Main reasons to oppose (harms)

- Because harm is likely to be caused to professionals
- Because harm is likely to be caused to Sri Lankan firms
- Because it will accelerate consumption-focused development
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# Harm to professionals

- If supply is increased in market for professionals, their bargaining position will be weakened and the buyers of their services will benefit
  - Should our concern be protection of cossetted professionals who supply sub-standard services (not all) and hold the public to ransom (GMOA)?
- Services trade negotiations are based on positive list (what is brought within scope of treaty has to be specifically mentioned; all else excluded)
  - Only ICT and ship-building services originally proposed
- Government has committed that Mode 4 services trade will not be opened, so question is moot

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# Harm to Lankan firms

- Protection through para-tariffs has grown in past decade, despite our commitments to WTO; India and Pakistan FTAs
  - Possible that some would suffer if government acts to remove protection
  - Prime Minister's Economic Statement (Oct 27, 2016) promises a Trade Adjustment Facility to assist affected firms to respond through productivity-enhancing investments
- In any case, our criterion should be welfare of the consumer, not that of foot-loose, profit-focused firms



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# Will accelerate consumption-focused development

- Big question that deals with fundamental values which will require another session to discuss
- But government has explicit mandate from the people; those who want a different economic model should organize to win the 2020 election

# From the UNP 2015 General Election Manifesto

## A Million Jobs

- Bridge the economic development gap between Sri Lanka and South East Asia - Singapore, Malaysia, and Thailand and reach a level of development which will enable us to create an additional million jobs and increase income.
- To do this, Sri Lanka needs a market larger than the domestic market. The GSP+ gives us access to the European market of 500 million people with concessional tariff. We lost it under the corrupt Rajapaksa regime. Furthermore, there was a ban on fisheries products. Today, we are working to get the ban lifted and GSP+ restored. Reach out through Trade and Investment Agreements with USA, India, China, Singapore, South East Asia and other SAARC countries, in addition to the GSP+.
- The Parliament will enact the Development (Special Provisions) Act vesting special powers with the government to, subject to Parliamentary supervision, modernization of the economy and implementation of the million jobs programme. An agency for development to be established as the government's mechanism for economic development to achieve the given objective.

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# Sovereignty will be diminished

- Many of the controversial commitments in the proposed ETCA (e.g., providing safeguards for foreign investment, bringing foreign professionals in) are today routinely done for BOI companies
  - Difference is that we will not be able to change our position unilaterally and within a short time
- Any measure that constrains the ability of the State to do whatever it wishes (=sovereignty) is indeed a diminishment of sovereignty
  - I happen to like this, especially when done through well-negotiated international treaties (rule-based versus power-based)
  - Those who have an ideological commitment to an all-powerful state may object

# Requisites of well-negotiated treaties (rule-based v. power-based)

- Multilateral > plurilateral > bilateral
- Country sizes and capabilities similar
- Experience of negotiators similar
  
- ETCA is
  - Bilateral
  - Between countries that are 1:50 in size
  - Indian negotiators much more experienced because they were not subject to trade policy freeze

# India-LK FTA of 1998 was first bilateral for both countries; India kept going, we stopped

**India: 13 bilateral; 1 plurilateral; 1 multilateral**

- Finland
- SAARC (multiple, inactive)
- Singapore
- Malaysia
- Africa
- Chile
- Afghanistan
- ASEAN
- Bhutan
- Japan
- Korea
- MERCOSUR
- Nepal
- Sri Lanka
- WTO (GATS, GATT)

**Sri Lanka: 2 bilateral; 1 plurilateral; 1 multilateral**

- Pakistan
- India
- SAARC (multiple, inactive)
- WTO (GATS, GATT)

# Only good thing going for us . . .

- “Gujral Doctrine”: No reciprocity required in dealings with Nepal, Bangladesh, Bhutan, Maldives and Sri Lanka
  - FTA and Study Group for CEPA illustrative
- Even if Gujral Doctrine is not taken into account, India needs to create conditions for Indian firms to engage with Sri Lanka in order to counter China’s economic thrusts, so they are open to a trade agreement (not every country is)



What are the positives?

# Problems government is trying to solve . . .

- Exports stuck at USD 11 billion; inadequately diversified; apparel amounts to USD 5 billion
- Young people wanting jobs that the economy is not producing . . .

A solution: Global Value Chains

# What does it take to participate in Global Value Chains?

- Greater certainty (→ trade agreements)
- Low-cost labor, which we do not have; If not based on low-cost labor, skilled and productive workers (→ education reforms)
- A big enough pool of workers (→ education reforms; agricultural reforms; increasing labor participation by women; SOE reforms . . . )
- Right kind of infrastructure (→ SOE reforms)

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# Greater certainty through trade agreements

- A world incapable of multilateral trade liberalization under the WTO is moving toward plurilateral and bilateral trade regimes that cover goods, services, investment and trade-related matters
  - ASEAN is looking at RCEP and TPP
  - India has entered into a large number of bilateral agreements; in RCEP; considering TPP
- All Sri Lanka has are opportunities for a few bilaterals, despite having been member of GATT since 1947 and GATS since 1995
  - Many disadvantages to negotiating multiple bilateral agreements, but better than being excluded from benefits of agreements

# International trade is a competitive activity

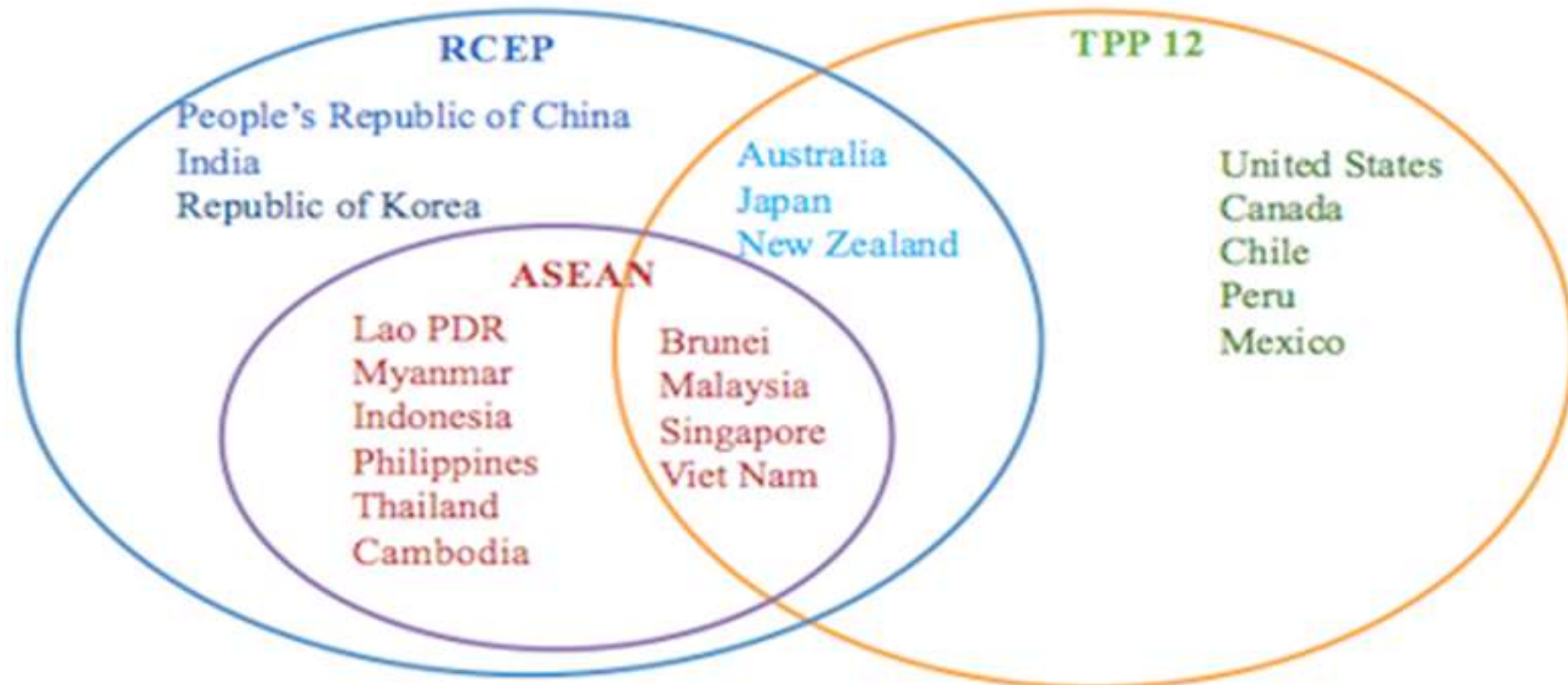
- Let's look at a competitor: Vietnam

# Vietnam has many firms that compete with Sri Lanka firms

- “Overall apparel import growth used to come from China and Bangladesh, but today **Vietnam is the main driver**. I don’t think you will see that trend abate in the short term.”
  - Nate Herman, Vice President of International Trade, American Apparel & Footwear Association
- In 2016 AT Kearney Global Services Index (higher is more attractive for BPO sourcing)
  - Vietnam is 11<sup>th</sup> (score of 5.66)
  - Sri Lanka is 14<sup>th</sup> (score of 5.54)



# Vietnam in RCEP & TPP; India & China in RCEP; and Sri Lanka?



# Vietnam joined WTO in 2006. Additional Trade agreements since then

- TPP (signed, not yet in effect)
- Russia, Kazakhstan, Belarus (signed, not yet in effect)
- ASEAN Free Trade Area
- ASEAN-Australia+NZ FTA
- ASEAN-India CECA
- ASEAN-Japan CEP
- ASEAN-China CECA
- ASEAN-Rep of Korea CECA
- Chile-Vietnam FTA
- Japan-Vietnam ECA
- Rep of Korea-Vietnam FTA

# Results: Exports increased x 9.5 (v x 2.1 for Sri Lanka) in 2000-2014

	Vietnam (2000)	Vietnam (2014)	Multiple	Sri Lanka (2000)	Sri Lanka (2014)	Multiple
FDI (USD millions)	1,298	9,200	7.1	173	1,616	9.3
Exports (USD billions)	17	161	9.5	5.5	11.3	2.1

Source: Sri Lanka BOI

