

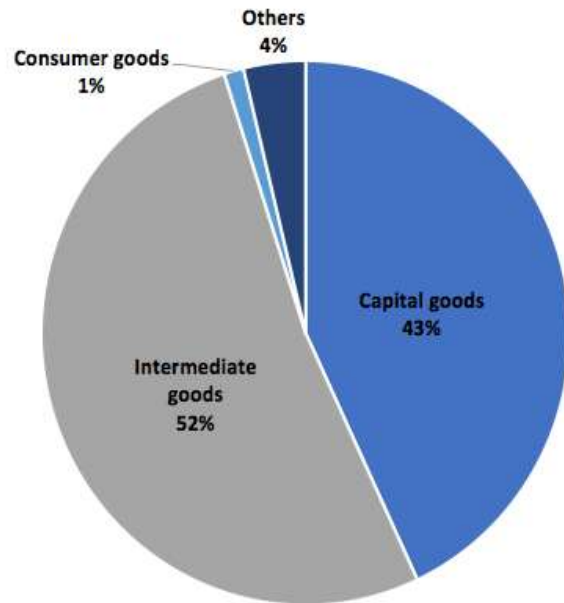
# SLSFTA in the context of worldwide economic developments

Rohan Samarajiva

SLAAS Section F, 14 July 2018



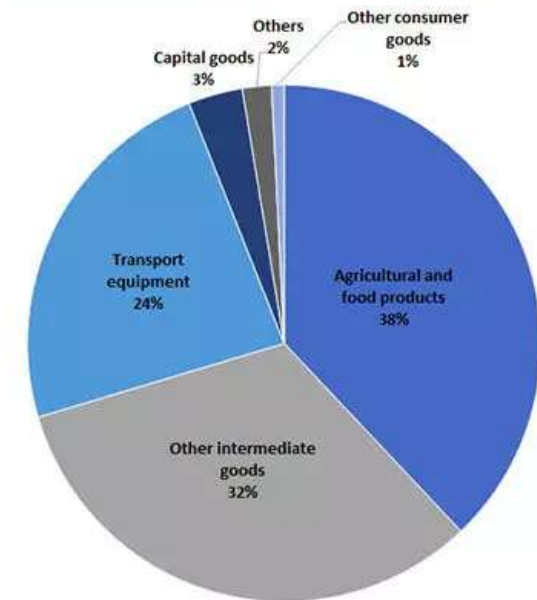
# Look to the future, not the past: The US-China trade war is illustrative of consequences



**Figure 1a** US imports from China subject to Section 301 tariffs, by product type, 15 June lists

Source: USITC Dataweb.

**Figure 1** US exports on China's June 15 tariff retaliation list, by type



# Global Production Networks

## Definition

- A global production network is one whose interconnected nodes and links extend spatially across national boundaries and, in so doing, integrates parts of disparate national and subnational territories.

Coe, N.M.; Dicken, P. and Hess, M. (2008). "Global Production Networks: Realizing the Potential," *Journal of Economic Geography* 8, no. 3: 271–95, doi:10.1093/jeg/lbn002.

## Example from Sri Lanka

- Lanka Harness Company, which makes impact sensors for automobile airbags and seat belts, is to set up a factory in Mexico, its Executive Chairman Rohan Pallewatta said. The move will help the company, which supplies most of the multinational car manufacturers, to get closer to buyers as orders grow. Pallewatta said the company, which has annual sales of 38 million US dollars, is already expanding production at its facility in Biyagama, north of Colombo, where a second plant is under construction.
- "We export to Japan, Germany, Romania, Poland, India, China, Thailand, Indonesia, Malaysia, USA, Brazil and Mexico," Pallewatta told a forum held by the Chartered Institute of Logistics and Transport.

[http://www.economynext.com/Lanka\\_Harness\\_to\\_set\\_up\\_plant\\_in\\_Mexico-3-1902-.html](http://www.economynext.com/Lanka_Harness_to_set_up_plant_in_Mexico-3-1902-.html)

# Example of what happens when decision makers do not understand Global Production Networks

General Motors warned Friday that if President Trump pushed ahead with another wave of tariffs, the move could backfire, leading to “less investment, fewer jobs and lower wages” for its employees.

The automaker said that the president’s threat to impose tariffs on imports of cars and car parts — along with an earlier spate of penalties — could drive vehicle prices up by thousands of dollars. The “hardest hit” cars, General Motors said in comments submitted to the Commerce Department, are likely to be the ones bought by consumers who can least afford an increase. Demand would suffer and production would slow, all of which “could lead to a smaller G.M.”

# Global Production Networks and trade agreements: Multilateral > plurilateral > bilateral

- GPNs are highly efficient, but they are vulnerable to disruption, as evidenced by worldwide problems caused by the Bangkok floods of 2011. Therefore, firms active in GPNs pay special attention to managing risks, both natural and human in origin. Trade agreements that cover services trade including clear provisions regarding Mode 4 movement of natural persons are important in this regard.
- Sri Lanka's more efficient logistics and port facilities (relative to South Asia, but not South East Asia) may give us an edge in participation in GPNs. That this has not materialized indicates that the legal and regulatory risks are washing out the logistics advantages.

Dappe, M.H. & Suarez-Aleman, A. (2017). *Competitiveness of South Asia's ports: A comprehensive assessment of performance, drivers and costs*. Washington DC: World Bank.

# The future is Asia and gravity is normal, but . .

## Exports of goods, % (2017)

<b>USA</b>	<b>25.0</b>
UK	9.0
<b>India</b>	<b>6.8</b>
Germany	4.7
Italy	4.6

## Import of goods, % (2017)

<b>India</b>	<b>25.0</b>
<b>China</b>	<b>20.0</b>
<b>UAE</b>	<b>7.5</b>
<b>Singapore</b>	<b>6.2</b>
<b>Japan</b>	<b>5.0</b>

<https://tradingeconomics.com/sri-lanka/imports>

# We have to keep up with competitors

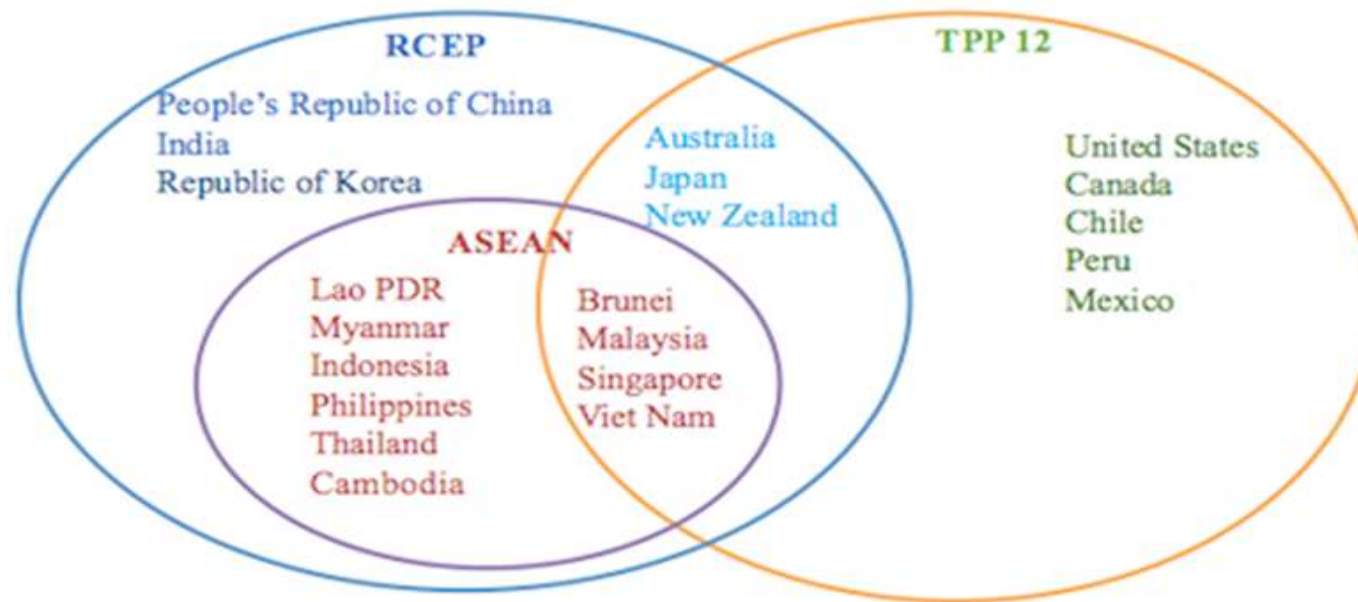
- “Overall apparel import growth used to come from China and Bangladesh, but today **Vietnam is the main driver**. I don’t think you will see that trend abate in the short term.”
  - Nate Herman, Vice President of International Trade, American Apparel & Footwear Association
- In 2017 AT Kearney Global Services Index (higher is more attractive for BPO sourcing)
  - Vietnam is 6<sup>th</sup> (advanced from 11<sup>th</sup>)
  - Sri Lanka is 11<sup>th</sup> (advanced from 14<sup>th</sup>)

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

- TPP → CPTPP (signed, not yet in effect)
- Russia, Kazakhstan, Belarus (signed, not yet in effect)
- ASEAN Free Trade Area → RCEP (not yet in effect)
- 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



# Vietnam in RCEP & CPTPP; India & China in RCEP



Exports increased x 9.5 (v x 2.1 for Sri Lanka) in 2000-2014, despite FDI increase being similar

	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

Focus on service trade

# Nothing new

- Sri Lanka has had commitments on services since 1998 when GATS came into force
  - Opened only a few sectors, but good results achieved in telecom, for example
- With 45.5% of population engaged in services and combined service exports (including Mode 4 exports that yield remittances) exceeding good exports (~ USD 14 billion v 11 billion), necessary to promote services
- Nowadays, no one would sign goods-only agreements
- Because services commitments are intrusive, they are negotiated through a positive-list approach

# Trade negotiation modalities

## **Goods trade**

- Most Favored Nation
- National Treatment
- One mode of trade
- Tariffs were main focus; then non-tariff barriers
- Negative List (unless explicitly excluded, all sectors are covered)

## **Services trade**

- Most Favored Nation
- National Treatment
- Four modes of trade
- No tariffs; entire focus on NTBs
- Positive List (unless explicitly included, a sector is not covered)

# Flexibility in scheduling of service sector commitments

1. limitations on the number of service suppliers,
2. limitations on the total value of service transactions or assets,
3. limitations on the total number of service operations or on the total quantity of service output,
4. limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ,
5. measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service, and
6. limitations on the participation of foreign capital.

# Why a legal framework for Mode 4?

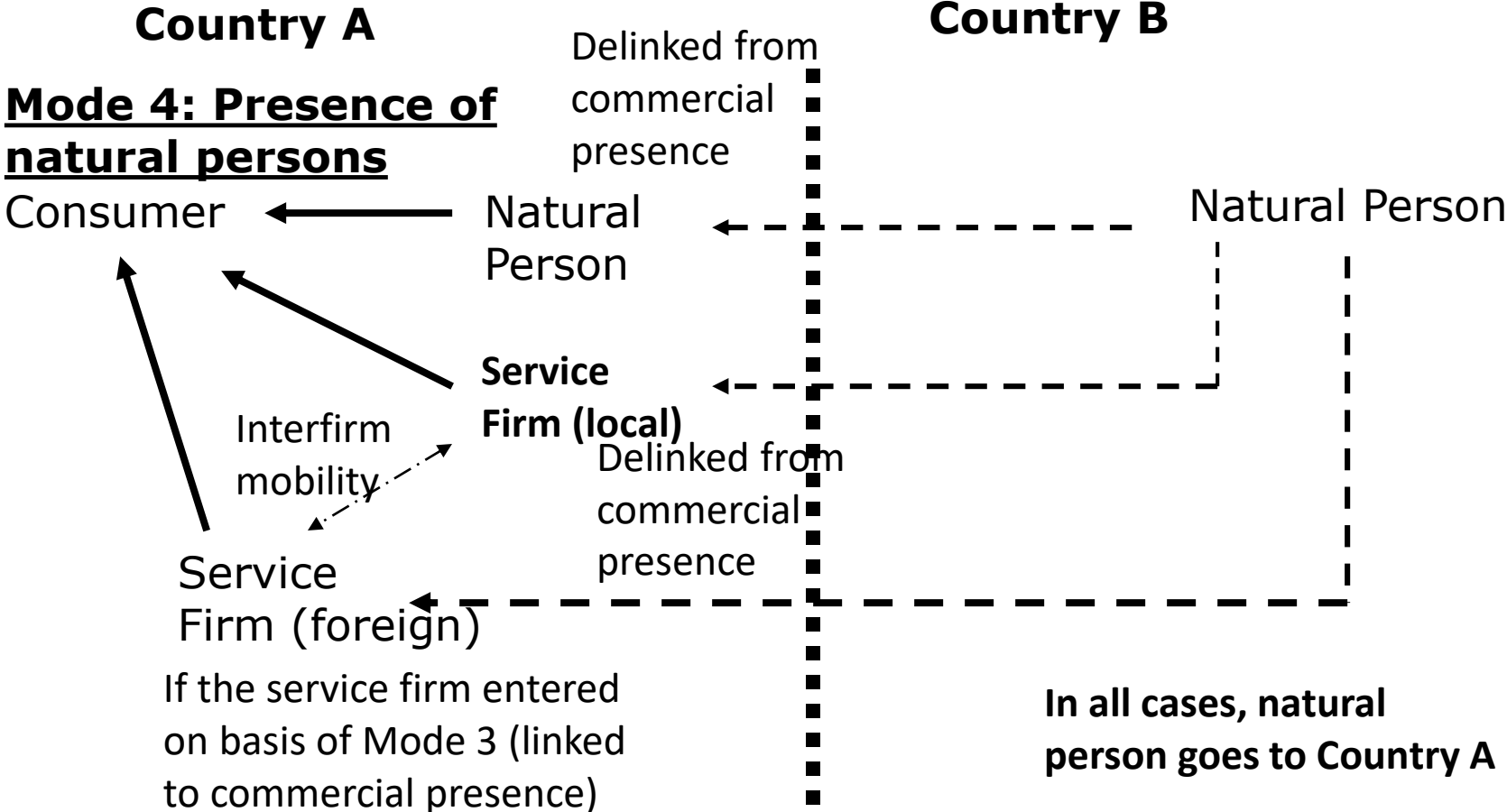
- Services trade in Modes 1 and 2 are difficult to police (or even get data on)
  - But generate demand for Mode 4 (also generated by investment in agriculture and manufacturing)
- Modes 3 & 4 are integrally connected to investment and are de facto liberalized; why oppose de jure liberalization?
  - Countries that want foreign direct investment will get it, with or without rules [not discussed in interests of time]
  - Particularly where Mode 4 is not rule-governed, power relations likely to dominate
    - Investors will bring in the personnel they want on a case-by-case basis (what happens now, under BOI)
      - But officials/politicians may use discretionary power to extract rents

# Mode 4 rules do not abolish immigration laws; simply reduce discretion & increase certainty

- **Highly liberal form of regulating trade-related movement of natural persons**
  1. Both countries to take full commitment within CEPA on independent professionals delinked from commercial presence.
  2. To put in place a visa system to ensure the fulfillment of Horizontal and Sectoral Commitments undertaken.
  3. Undertake to put in place a Visa system ensuring grant of multiple entry visas to professionals.
  4. Allow inter-firm mobility to professionals.
- **Milder version would link professionals to commercial presence & exclude independent professionals**



# Mode 4 variations



# On the past

- Wrong to say ILFTA favored India
- Source: W.A. Wijewardana in FT.lk

## Trade under ILFTA 2000-2013

Year	Total Exports to India \$ million	Exports to India under ILFTA \$ million	% of exports to India under ILFTA	Total Imports from India \$ million	Imports from India under ILFTA \$ million	% of Imports from India under ILFTA	Normal trade gap with India (Deficits in brackets) \$ million	Trade gap with India under ILFTA (Deficits in brackets) \$ million
2000	55.6	8.6	16	600.0	53.9	9	(544.4)	(45.3)
2001	70.1	15.9	23	601.5	113.1	19	(531.4)	(97.2)
2002	168.8	114.2	68	834.7	81.7	10	(665.9)	32.5
2003	241.1	238.8	99	1076.2	150.4	14	(835.1)	88.4
2004	385.5	339.9	88	1358.0	394.7	29	(972.5)	(54.8)
2005	559.2	543.0	97	1440.0	246.2	18	(880.8)	296.8
2006	494.0	431.1	87	1822.1	459.3	25	(1328.1)	(28.2)
2007	516.4	398.2	77	2749.6	385.3	14	(2233.2)	12.9
2008	418.0	309.3	74	2848.4	541.4	18	(2430.4)	(232.1)
2009	324.8	218.5	67	1709.9	371.7	22	(1385.1)	(153.2)
2010	466.6	358.4	77	2546.2	573.7	23	(2080.2)	(219.3)
2011	521.5	391.5	75	4349.4	579.6	13	(3827.9)	(188.1)
2012	566.3	379.5	67	3517.2	156.4	4	(2950.9)	223.1
2013	543.3	354.8	65	3092.6	393.4	13	(2549.3)	(38.6)

Source: EDB and calculations of the author

# Background document

- CONSIDERATIONS FOR FORMULATING A TRADE POLICY FOR SRI LANKA, June 2017, Available online at Echelon.lk and [www.dailymirror.lk](http://www.dailymirror.lk)
  - <http://echelon.lk/home/considerations-for-formulating-a-trade-policy-for-sri-lanka/>
  - <http://www.dailymirror.lk/article/Considerations-for-formulating-a-trade-policy-for-Sri-Lanka-130678.html>