

# Good governance in cross-border economic relations

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Institute of Management, 29 September 2015



# Need to be integrated into global value chains

- Opportunities to grow agricultural and manufacturing sectors in the conventional manner are limited
  - Landholdings are small; labor is expensive
  - Missed the earlier wave of manufacturing expansion
- Possibility of participating in global value chains, e.g.,
  - Fabric parks in S India integrated with apparel factories in Sri Lanka
  - Supply of components from Sri Lanka for automobiles manufactured in Tamil Nadu; Hambantota as a vehicle-shipping port
- Services offer an excellent opportunity

# Legal context of functioning within global value chains

- Need for certainty; each link of supply chain must be robust
- Where investment is involved, even greater need to reduce uncertainty
- → Need for treaties that preclude unilateral actions by state actors
  - WTO agreements, including those that cover goods (GATT) and services (GATS) already exist and contributed to Sri Lanka's achievements in telecom
    - Telecom is still the largest FDI contributor
  - Two bilateral agreements that cover trade in goods with India and Pakistan exist
- Agreements that cover services and investments are needed with all our major trading partners
  - Optimal if multilateral is possible, but WTO's Doha Round is stuck
  - Plurilateral progress is unlikely, because SAARC is a crippled regional association
  - Bilateral is only remaining alternative
    - India has signed with Japan, Korea, Singapore and is negotiating more

# UNP's 2015 Manifesto recognizes the need . .

- “. . . Sri Lanka needs a market larger than the domestic market. . . . Reach out through trade and investment agreements with USA, India, China, Singapore, South East Asia, other SAARC countries . . .”

# Trade constrains sovereignty

- Unless a country produces all that it requires and does not have any businesses that depend on external markets, it can be subjected to external pressures

# Agreements constrain sovereignty

- Any treaty-level agreement constrains the ability to do whatever the government wishes

# Isn't it wrong to constrain our country's ability to act?

- It is theoretically possible for a country to have unfettered sovereignty
  - But such countries are likely to be poor
  - And poverty is the biggest constraint on sovereignty
    - See North Korea in relation to China or Cuba in relation to Russia
- No modern economy can have absolute sovereignty

# What has good governance got to do with it?

- The Magna Carta was about constraining the sovereignty of the King
- All modern Constitutions are about constraining the “sovereignty” of the rulers and of majorities, by setting out procedures and defining fundamental rights
- What treaty-level agreements do is extend that principle to those that invest in, and trade with, the country

# Trade agreements are not a one-way street

- It is true that our government's ability to unilaterally act in relation to foreign investors and trading partners is constrained
- But agreements also constrain the ability of foreign governments to mistreat Sri Lankan investors and traders