

Political Changes in Sri Lanka: Are We Better or Worse Off?

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About LIRNEasia

- Our mission
 - *Catalyzing policy change through research to improve people's lives in the emerging Asia Pacific by facilitating their use of hard and soft infrastructures through the use of knowledge, information and technology.*
- Our tagline
 - *Pro-poor, pro-market*

Countries that we engage with



What follows is not based on LIRNEasia's work, though it is compatible with its approach.

The facts and interpretations are based on personal engagement with public policy issues as an independent public intellectual.

2015: A watershed year for Sri Lanka

- Two elections in 2015 January & August
 - Unexpected result at Presidential Election of 8 January 2016
 - Incumbent President who called elections early after amending Constitution to enable him to run for a third term was defeated
 - 100 days + program in January-June 2015 yielded a Constitutional Amendment that significantly reduced the power of the Executive Presidency
 - Perhaps the cleanest Parliamentary election campaign in recent history (June-August 2015) yielded
 - A grand coalition with a President from one of two major parties and a Prime Minister from the other
 - Leader of Opposition from party representing Northern Province which was at heart of the ~ 30-year civil war
 - Parliamentary representation more or less approximating ethnic composition of country; but grievously under-representing women

Mixed results for liberty

- Government is committed to Constitutional reforms, and has already implemented reforms that reduce the powers of the executive Presidency
 - Good governance provisions (Constitutional Council to screen appointees to critical positions; Independent Elections and Audit Commission; Right to Information) in process
 - Action is being taken to hold accountable perpetrators of large-scale corruption
 - Slow but significant progress on reconciliation
- But in effort to win the Parliamentary elections in August, the “interim” government gave away the store through February 2015 Budget → now economy requires IMF rescue
 - Imposed retroactive, entity-based taxes which were implemented months later

An illustration of change in Sri Lanka: Trade policy

Pre-history

- Sri Lanka was a founding member of the GATT
- Relatively open economy until around 1958
- Statist policies, including expropriation of domestic and foreign capital, ascendant since then
- Protectionism kept rising until 1978

Trade policy in Sri Lanka, 1978-2004

- One of the first to dismantle statist economic policies in 1978, well before India and China
- By 2002, Sri Lanka
 - Was still the most open economy in South Asia
 - Trade dependency [(exports + imports) / GDP] was ~75%
 - Bilateral agreement to liberalize trade in goods implemented with major trading partner (ISLFTA): First for both India and Sri Lanka. India becomes largest source of imports
- Trade liberalization on agenda in 2002-04
 - Accelerated initiative to transform ISLFTA to a Comprehensive Economic Partnership Agreement (ISLCEPA)
 - June-October 2003: Joint Study Group report completed
 - On occasion of receiving the report, India announced liberalization of its international aviation policies, an issue that was part of Sri Lankan negotiating position
 - By February 2004, restrictive bilateral aviation agreement was replaced by competition → lower prices, superior quality resulting from lifting of supply constraints
 - Progress in drafting actual negotiation of text stalled due to change in government in early 2004
 - Early discussions on trade agreement with US (Sri Lanka's largest export destination)
 - FTA with Pakistan (minuscule trade volume) completed in parallel with Indian report
 - Relatively liberal stances adopted in GATS request-offer process under Doha Round

Trade policy in Sri Lanka, after 2004

- Low-key, slow-paced efforts continued on drafting CEPA
- Before all schedules were completed, government planned to sign the main agreement when Prime Minister of India visited Sri Lanka in 2008 for SAARC Summit
- First major protests
 - Those normally engaged with ideological mobilization for the war, voiced opposition to a pact with India
 - President welcomed into his official residence the leaders of a street protest



CEPA negotiations suspended

- “Sri Lanka is in the process of negotiating Comprehensive Economic Partnership Agreement (CEPA) with India in order to strengthen the present bilateral economic relations. The formal discussions on the proposed arrangement have not taken place since the conclusion of third round of Trade Negotiating Committee meeting held in July 2008. By 2008, the two governments, after conducting 13 rounds of negotiations, had finalized most of the draft text for the proposed CEPA. However, the CEPA negotiations came to a halt in 2008 due to the concerns expressed by some private sector stakeholder in Sri Lanka on the possible adverse effects of CEPA, in particular liberalization of services.
- Later in February 2011, an Inter-Agency-Committee (IAC) was established with the approval of the Cabinet to look into the matters pertaining to the proposed Agreement with India and prepare a draft text. After several rounds of discussions, the IAC finalized revision of all chapters of the CEPA agreement, except the Chapter on Investment. Relevant officials of the Board of Investment of Sri Lanka (BOISL) and its Indian counterpart, namely, the Department of Industrial Policy and Promotion, met in Colombo on 16th and 17th of July 2012, to have some preliminary discussions on the new draft of the Investment Chapter produced by India. BOISL has submitted to DOC its view but CEPA negotiations has not progress since then as the approval has not been given to go ahead with CEPA negotiations.”

Department of Commerce, Performance Report and Annual Accounts, 2012

But government not against all trade agreements

- Talks for comprehensive agreement including services with Pakistan announced in 2011, but goes nowhere
 - Negotiations fast-tracked with China in 2014, after completion of feasibility study in 2013
 - Meanwhile, trade dependency ratio declined to 53% by 2014
- Witnessed by Chinese President Xi Jinping and President of Sri Lanka Mahinda Rajapaksa, Chinese Minister of Commerce Gao Hucheng and Sri Lankan Minister of Economic Development Basil Rajapaksa signed a memorandum on the launch of the Free Trade Agreement (FTA) negotiations, officially announcing the launch of bilateral FTA negotiations. The two parties confirmed that the China-Sri Lanka FTA will be a comprehensive agreement covering trade in goods, trade in services, investment and economic and technological cooperation. The two parties also agreed to accelerate the negotiations to realize an early closure, so as to benefit the enterprises and peoples of the two countries at an early date.

After 2015 . . .

From the United National Party's 2015 August 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+.

Begins with India

- Says CEPA will not be signed; Economic and Technical Partnership Agreement (ETCA) is to be negotiated
- Circulates a draft Framework Agreement to stakeholders, which is promptly published by government doctors' trade union
 - Commits to complete negotiation within six months of signing
 - Assures “early harvest” measures that will fix problems in FTA by
 - Enabling Mutual Recognition Agreements for phyto-sanitary requirements
 - Establishing a dispute-resolution mechanism

Battle is joined . . .



- Only a few solitary voices speaking against protectionism

Prospects

- Prime Minister understands critical importance of creating the conditions for permitting Sri Lankan firms to join Global Value Chains
 - By reducing transaction costs
 - Providing certainty to investors
- He is committed to enter into bilateral trade agreements with important trade partners, but looking from the outside
 - An effective overall strategy is difficult to discern
 - Little information
 - One can only hope PM can hold all his MPs, let alone the grand coalition
- But where is the support from informed citizens and intellectuals?

The fault is not in our leaders . . .

- Few effective voices against statism, protectionism and xenophobia
- Economists and think tanks mostly silent
- Who will speak for the consumer? Who will speak for liberty?