

Why are we afraid of opening up?

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What happened when we opened up?

No theory. Real Sri Lankan experience

Telecom: Results of opening up through reforms of 1989-2003

Before opening sector to competition & foreign investment

- When the enabling law (25 of 1991) was enacted, there were 175,000 telephone connections, mostly urban & many official
- Massive waiting list for new connections despite punitive connection charges; poor quality of service; bribery & corruption
- International calling out of reach for most

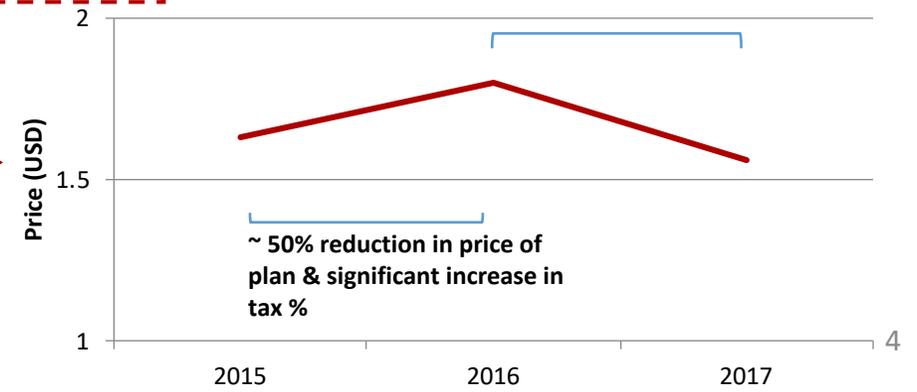
Now

- At least one mobile phone in 88.2 percent of Sri Lankan households (2016 HIES); no waiting list
- Most affordable broadband prices in the region & perhaps the world
- Enabled exports and employment creation
 - ~1 billion USD in IT & ITES exports
 - E commerce shipments from Sri Lanka worldwide have just started

Mobile broadband plan prices, including affordability (cheapest plan with at least 1 GB / month), 2017 South Asia, ITU comparison

Country	Service Provider	Price of plan (local currency, incl. tax)	Tax %	Price Basket (USD)	Price Basket as % of GNI per capita
Afghanistan	Roshan	350	0	5.15	10.83
Bangladesh	GrameenPhone	229	21	2.85	2.32
Bhutan	Bhutan Telecom	208.95	5	3.21	1.42
India	Bharti Airtel	399	18	6.13	4.04
Maldives	Dhiraagu	211	6	13.71	1.72
Nepal	Ncell	789.87	13	7.56	11.48
Pakistan	Jazz	999	32	9.47	7.19
Sri Lanka	Dialog	238.28	19.74	1.56	0.49

Price of plan remained the same but reduction in tax%



Telecom sector was developed through opening up

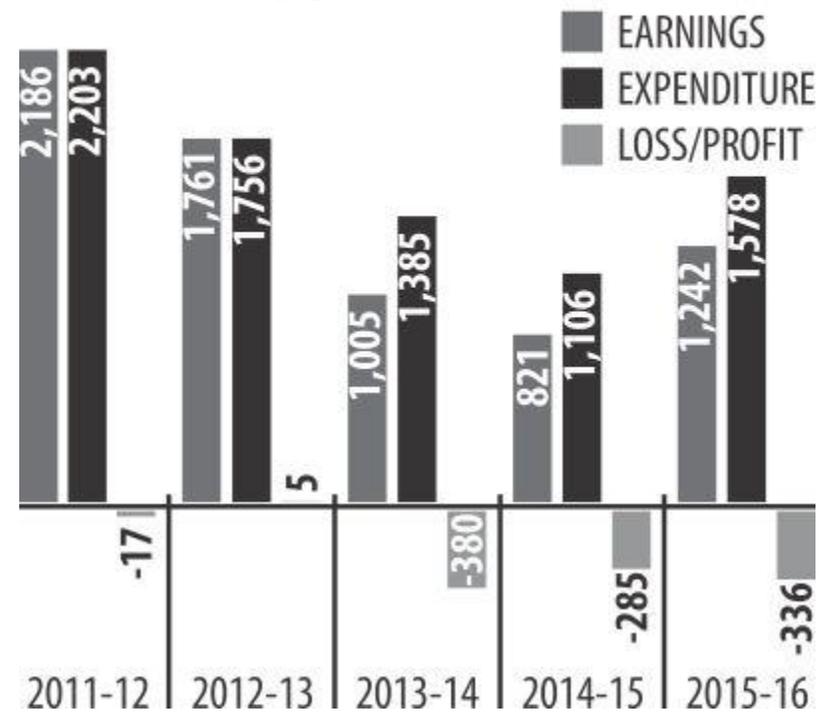
- One of the few sectors where Sri Lanka made commitments under the General Agreement on Trade in Services (GATS)
- For many years, telecom and IT sectors attracted the largest share of foreign investment
- But actual opening up to investment was GATS +
 - 100% foreign ownership was permitted, despite there being no commitment
 - Significant numbers of executives & experts permitted to enter Sri Lanka to work in the sector, though no opening up of Mode 4 under GATS
 - In 1999, during a period of rapid growth, foreigners served as CEOs of six of the seven major suppliers
 - Few years later, only one or two foreign CEOs, but still a few at senior levels

Widely recognized as greatest success in economic reform

- Consumers have benefited from lower prices, improved quality and choice
- Other sectors, including export sectors, have benefited from liberalization of international voice and data markets
- Investments have been attracted
- IT and IT Enabled Service exports have been enabled
- Revenues to state have been provided > World Bank credits obtained to support the reform
- SLT is only utility that contributes to exchequer, rather than drain it; avoided the fate of BSNL of India and BTCL of Bangladesh which are losing market share & money

BTCL'S REVENUE AND EXPENDITURE

figures in crore; SOURCE: BTCL



The evidence is clear; yet
tremendous resistance to trade
liberalization

It's more than Indophobia . . .

- Despite the qualified success of the India-Lanka Free Trade Agreement (first for both countries), tremendous hostility to broadening its scope to ETCA to cover services (and to fix its flaws)

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

Simplistic (and false) arguments that kept being repeated despite being refuted

- General argument was that small economies cannot win against big economies
- Main objections focused on services, particularly on movement of persons
- Images of thousands of Indians responding to job ads in Sri Lanka were conjured
- Examples such as Colombo Dockyards winning contracts in India disregarded
- Government saying no commitments Mode 4 would be off limits & proponents saying service agreements allowed fine-tuned regulation ignored

Trade negotiation modalities

Goods trade

- Most Favored Nation
- National Treatment
- One mode of trade
- Tariffs were main focus; then non-tariff barriers (NTBs)
- 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

- Limitations on the number of service suppliers
- Limitations on the total value of service transactions or assets
- Limitations on the total number of service operations or on the total quantity of service output
- Limitations on the total number of natural persons that may be employed in a particular sector or that a service supplier may employ
- Measures which restrict or require specific types of legal entity or join
- Limitations on the participation of foreign capital

SRI LANKA – SCHEDULE OF SPECIFIC COMMITMENTS

Modes of supply: 1)Cross-border supply 2)Consumption abroad 3)Commercial presence 4)Presence of natural persons

Sector or Sub-sector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
I. HORIZONTAL COMMITMENTS			
ALL SECTORS INCLUDED IN THIS SCHEDULE			
Sector of Sub Sector	Limitations on Market Access	Limitations on National Treatment	Additional Commitments
	<p>03. Service Supply through commercial presence must be after registration under relevant Sri Lankan laws.</p> <p>04. Unbound except for the following categories and subject to Immigration laws of Sri Lanka</p> <p>a). Business visitors Entry for Business visitors shall be for a period of not more than 30 days. Such visitors have to comply with relevant immigration requirements.</p> <p>b). Intra corporate transferees Temporary movement of the following skilled categories of intra corporate employees who are natural persons of Singapore and are employees of juridical persons in Singapore, and are being</p>	<p>3. Subsidies, where granted, shall be available only to domestic service providers</p> <p>4. Unbound</p>	

After the fracas over ETCA, government signs with the exact opposite of India: Singapore

- Smaller than Sri Lanka
- First-world country with very high income levels
- But still massive opposition, despite:
 - Restrictive provisions for intra-corporate transferees of Singapore companies investing in Sri Lanka and vice versa
- Far-fetched claims of Indians being brought into Sri Lanka because “Placement and Supply Services of Personnel (CPC 87203,87204,87205)” included in positive list by Sri Lanka

Indophobia is obviously a factor,
but much more is involved

Most coherent objection to FTAs is based on absolutist conception of national sovereignty

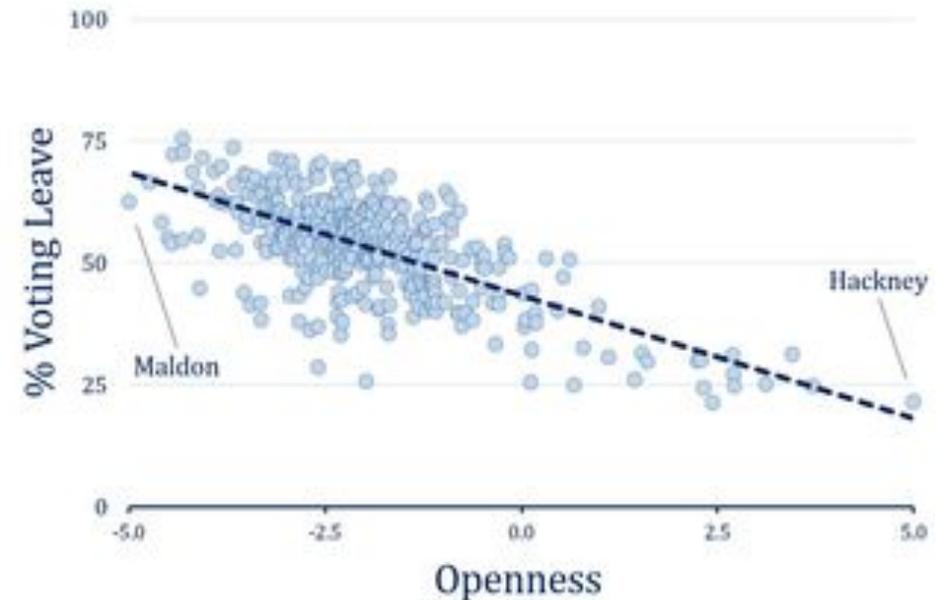
- When shown that BOI-based work-permit rules were in fact more liberal than provisions in trade agreements, a leading opponent said his objection was not to the rules per se, but to the Sri Lankan state being unable to change them unilaterally
 - Fundamental challenge to basic rationale for any kind of trade agreement (multilateral, plurilateral or bilateral), which is to create certainty for those investing or trading across borders
- In a deal-based culture, all actors tend to prefer broad discretion
 - Constitutions, checks and balances, international agreements which limit discretion are not liked

Is opposition to opening up simple lack of principle?

- Bandula Gunawardene, leading opponent of Singapore FTA while in Opposition, ruling out revocation of signed FTAs, when he briefly served as International Trade & Investment Promotion Minister in November 2018

Are more fundamental personality traits at play?

- Some scholars claim that Brexit voting patterns were correlated with personality traits such as openness:
 - “The Personality of Brexit Voters: Openness predicts best”
<https://www.psychologytoday.com/us/blog/one-among-many/201606/the-personality-brexit-voters>
- Why else do Sri Lankans who have done well abroad and returned still oppose opening up when back home?

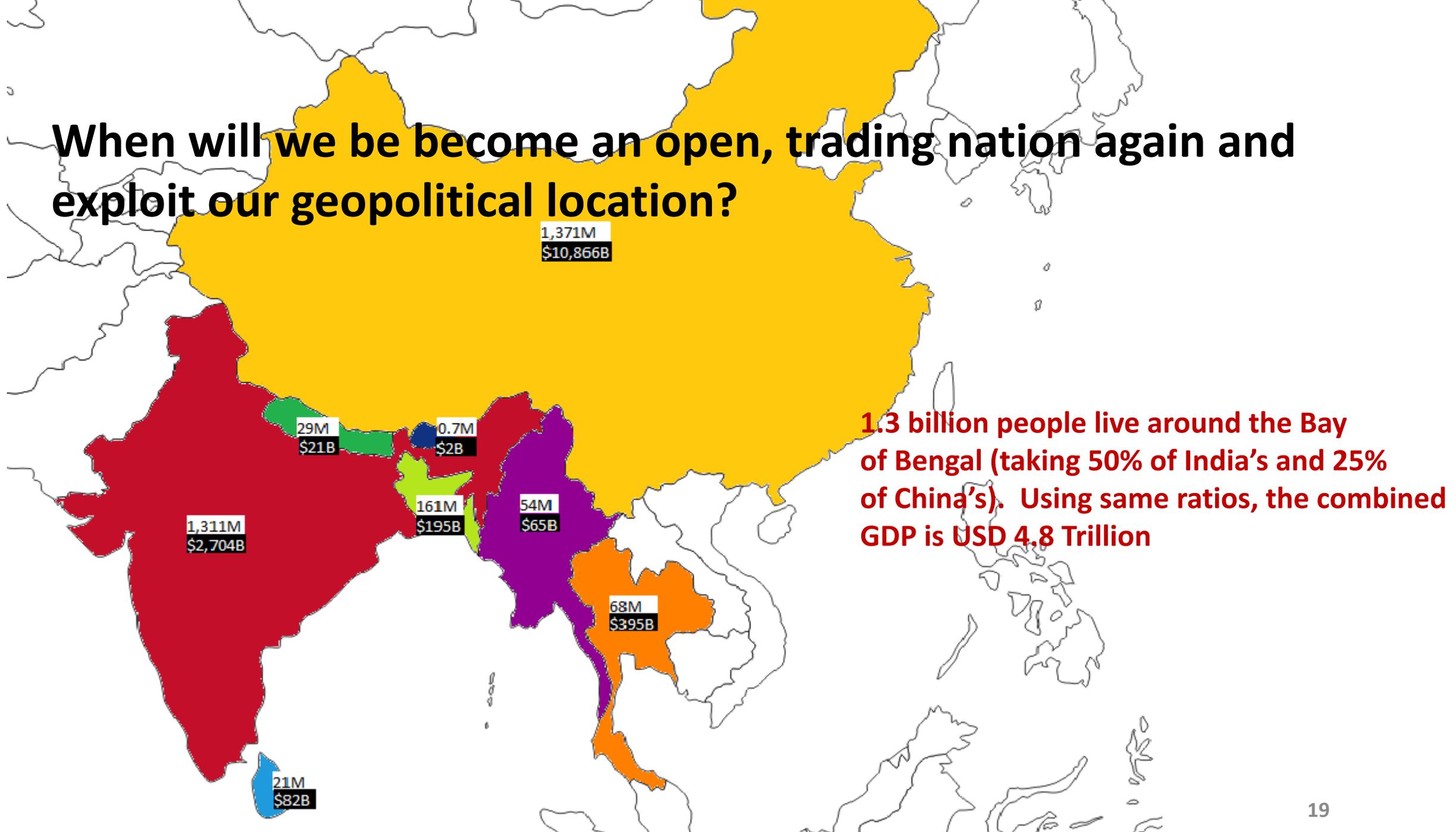


Sri Lanka was an open, trading nation, as evidenced by recent findings from Mantai (active port in ancient Lanka ~200 BCE-850 CE)

- Eleanor Kingwell-Banham, an archaeobotanist at University College London, joined the team to study the plant remains sifted from the excavated soil. She found an abundance of locally grown rice grains, but also more exotic products: charred black pepper dating to 600–700 C.E. and a single clove from 900–1100 C.E.—an exceptionally rare find, because ancient people were very careful with their spices
- The team also found remains that could link the port city to the ancient Mediterranean world—processed wheat grains dated to 100 to 200 C.E. and grape seeds dated to 650 to 800 C.E. Neither crop can grow in Sri Lanka’s wet, tropical climate, so they had to be imported, possibly from as far as Arabia or the Roman world. Kingwell-Banham says her team is studying the chemical isotopes absorbed by the plants to determine where they were grown.



When will we be become an open, trading nation again and exploit our geopolitical location?



1.3 billion people live around the Bay of Bengal (taking 50% of India's and 25% of China's). Using same ratios, the combined GDP is USD 4.8 Trillion