# TRADE AGREEMENTS - A WINNING STRATEGY FOR GROWING SRI LANKA'S EXPORTS

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Sri Lanka has been running a substantial trade deficit for a number of decades. Although the trade deficit has decreased marginally in the last two years, the total exports for the year 2013 only accounted for about 58 percent of the total import bill. Therefore the country continues to be heavily reliant on the worker remittances to narrow its balance of payment deficit. Although the exports have continuously grown over the past few years there has not been a significant reduction in the imports to have an appreciable impact on the trade deficit. On the other hand, the continuous lobbying by the Tamil Diaspora against Sri Lanka has also had an adverse impact such as the withdrawal of the GSP Plus scheme.

The country's external trade performed well in 2013 benefiting from an increase in demand from major export destinations due to the gradual recovery of the advanced economies to achieve a growth rate of 6.4 per cent. The country's external trade policy in 2013 continued to focus on improving Sri Lanka's integration into the world economy through trade negotiations and expanding economic activity through increased openness. Institutional support was provided to enable exporters to withstand the increasing global competition and to access new markets and technologies.

However, the WTO economists have reduced their forecast for world trade growth in 2014 to 3.1% (down from the 4.7% forecast made in April) and cut their estimate for 2015 to 4.0% from 5.3% previously. The downgrade comes in response to weaker-than-expected GDP growth and muted import demand in the first half of 2014, particularly in natural resource exporting regions such as South and Central America. Beyond this specific downward revision, risks to the forecast remain predominantly on the downside, as global growth remains uneven and as geopolitical tensions and risks have risen.

"International institutions have significantly revised their GDP forecasts after disappointing economic growth in the first half of the year," said Director-General, WTO, Roberto Azevêdo. "In light of this, the WTO's forecasts for trade growth have also been revised downwards for 2014 and 2015. Uneven growth and continuing geopolitical tensions will remain a risk for both trade and output in the second half of the year. "This is a moment to remind ourselves that trade can play a positive role here. Cutting trade costs and broadening trade opportunities can be a key ingredient to reversing this trend."

# Free Trade Agreements: Not As Free As You Think

The World Trade Organisation (WTO) at its meeting held on 31 July 2014, failed to ratify the Trade Facilitation Agreement (TFA), which had emerged from the December 2013 conference in Bali, Indonesia. Despite consensus throughout the WTO's membership on the urgency of a TFA, the WTO's efforts to reduce red tape and expedite the movement of goods on a global scale have failed. Governments lamented the deadlock of global trade liberalization negotiations at the latest WTO Doha Development Round, and the ideological crisis of multilateralism, by retreating to regional and bilateral free trade agreements (FTAs), signaling the return of a more conditional, interventionist and nationalist socioeconomic model, which prevailed in the aftermath of the Great Depression.

Although national barriers are not being re-erected and states resist the temptation to resort to traditional trade barriers – economies do increasingly pick trade partners, assert how commercial activities should be performed, and specify where trade disputes ought to be arbitrated. In 2000 when the WTO Uruguay Round was officially concluded, there were a mere 30 bilateral and multilateral FTAs in effect in the Asia Pacific while the number has soared to 119 in 2014. The past few years also witnessed the parallel rise of several mega-FTAs, such as the Transatlantic Trade and Investment Partnership (TTIP), the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP).

An explosive proliferation of FTAs inevitably urges national governments to engage in trade forum shopping. In practice, governments will prioritize some trade forums while moving away from others. Since FTAs serve the purpose of increasing national trade and the choices of individual citizens, one may logically assume that rational governments would strike bilateral deals with their major, if not top, trading partners. In a similar vein, economies could be expected to participate in multilateral FTAs that their major trading partners are also signatories.

However, facts are unequivocal and disproving. Economies far too often engage in signing preferential trade agreements with their minor trade partners. As of 2014, China has FTAs with countries such as Peru Chile and Costa Rica, while hardly any meaningful agreement exists between China and its top ten trading partners, excluding Hong Kong and Taiwan. The combined GDP of the EU's FTA partners in 2013 was $3.2 trillion, approximately equal to one fifth of U.S. GDP. Not unlike China and the EU, the average trade share of the U.S.'s preferential partners, excluding the North American Free Trade Agreement (NAFTA) members, lingered at 0.6 per cent from 1995 to 2004. With respect to multilateral agreements, governments are not necessarily willing to join trading blocs led by their close trading partners, despite the prospect of maximizing economic gains by locking in liberalization commitments with their principle trading partners. A case in point is South Korea, which to date has been reluctant to join the TPP, a US. led mega-FTA. Many have argued TPP membership is in the best interest of South Korea as many of its top trading partners are already negotiating membership, and its absence in the negotiation process will incur high entrance fees in the future and force it to accept an already agreed upon set of rules. Yet South Korea has adopted a "wait-and-see" approach, and is not likely to join the TPP negotiations until its FTA with China is completed.

This "no free trade with key partners" phenomenon is rather puzzling, yet it is largely explicable. First, most economies are still officially committed to multilateralism, despite their tactical efforts to advance trade liberalization through regional and bilateral measures. For example, the EU upholds a long-standing principle that the WTO is the only legitimate avenue to discuss trade agreements, and that is partly why the EU has hitherto concluded only four FTAs. That said, were economies able to secure their trade interests by signing bilateral trade deals with their key partners, global trade dynamism would be bound to fade. Economies in turn will see much less necessity in making painstaking comprises in multilateral trade negotiations to push forward a global trade liberalization agenda that does not necessarily benefit them much. Economies' subtle detachment in reaching FTAs with their major trading partners shields governments from the stigma of sounding the death knell for multilateralism, and the accusations of pursuing narrow economic gains to the detriment of others.

Second, economies engaged in international trade negotiations are restrained by the 'gains for control' trade-off. Empirical evidence suggests that economies are predisposed to prioritize trade agreements where they are able to exert more control. FTA negotiations are essentially a "give-and-take" game. Therefore trade negotiations are notoriously tricky and sensitive especially when one's influential trading partners' national interests are also at stake. In 2006, the Japan-Philippines Economic Partnership Agreement (JPEPA) was signed; the treaty was the first comparable trade-deal since the Philippines signed the Parity Rights Agreement with the US. in 1946. One provision in the JPEPA legally permits Japan to dump its trash and toxic waste in the Philippines, and it has elicited opposition for years. Critics argued that other countries will demand nothing less than the same concessions the Philippines gave to Japan, putting the country in a disadvantaged position in future FTA negotiations through precedent. In justifying their stance, the Filipino negotiators admitted that the provision was deemed to be a necessary evil in order to convince Japan to open up its markets to Filipino labourers, and that they had little control over this issue. To avoid committing similar acts of "economic treason," governments keep respectfully aloof from signing FTAs with their major trading partners for fear that the latter may dominate the negotiation trajectory.

Third, a prerequisite for the successful conclusion of FTAs between major trading partners is the government's ability to garner sufficient political support at the right point in time. The launch of the TTIP would have not been possible if it had not taken place at a time when the economic crisis had heightened the awareness of all political actors, including the European Council and the European Parliament, concerning the need to devise new ways of stimulating economic growth. Not many governments have the capacity to steer public opinion to convince domestic interests groups with varying, if not conflicting, political and economic aspirations, that sacrificing political control for economic gains, or vice versa, by engaging key trading partners in FTAs is in the best interest of the nation.

Trade, one of the oldest forms of international communication, lies at the nexus of national, regional and international politics. A government's preference for FTA partners vividly reflects the complex nature of trade politics. In the larger picture, FTAs are at most the second best

options in today's "gated globe" It remains critical for policymakers not to divert too much of their attention and trade negotiation resources away from multilateralism, which provides a platform to mitigate global risks.

## Impact of Trade Finance on Global Trade

The paper on Trade Finance Issues presented by the Committee on Global Financial System of the Bank for International Settlements highlighted many developments and issues relating to trade finance. Historically, the global trade finance market was considered liquid and well functioning. But more recently, it has experienced periods of stress, most notably right after the Lehman bankruptcy in 2008, and also appears to be undergoing incipient structural change. At the same time, recurrent data gaps have made it difficult to assess the extent and impact of recent dislocations, and to track and evaluate the importance of current market dynamics.

It is believed that trade finance directly supports about one-third of global trade, with letters of credit (LCs) covering about one-sixth of total trade. However, the proportion varies widely at the country level: bank-intermediated products are primarily used to finance trade involving emerging market economies (EMEs), particularly in Asia. Global banks appear to provide about one-quarter to a third of global trade finance, and almost half of their exposure is to firms in emerging Asia. In EMEs for which data are available, local banks account for the bulk of the bank financing in support of trade. Trade finance seems to be even more Dollar denominated than global trade, with 80% of L/Cs, and a high proportion of the activities of global and local banks denominated in Dollars. The ability of global and local banks to provide trade finance can be disrupted if banks' Dollar funding lines are curtailed, as appears to have been the case in some instances in 2008/09, and again in 2011/12.

Growth in trade finance has tended to lag growth in nominal trade in many countries over the last 10-15 years. This pattern is most apparent in the declining intensity of L/C usage. However, trade finance intensity has increased strongly in recent years in China and Hong Kong, and the growing role of the EMEs in world trade has also supported growth in aggregate trade finance exposures. Global banks see supply chain finance, under which banks manage the collection and funding of receivables within a network of firms, as an important new area of activity, and focal point of current competition. Citing new regulatory demands and high marginal costs of equity capital, the trade finance industry is experimenting with new structures and products to distribute trade finance exposures to non-bank investors. To date, the scale of this activity has been limited, with take-off not appearing imminent. Expanding the role of non-bank investors may require a significant education effort with investors and regulators and greater standardisation of trade finance products.

Bank-intermediated trade finance exposures in almost all countries fell sharply in the quarters immediately after the Lehman bankruptcy, often at rates comparable to declines in the value of trade. In many cases, trade finance subsequently rebounded quickly. In contrast, while pricing firmed, data do not point to a broad contraction in the global provision of short-

term trade finance in the second half of 2011, when funding strains at European banks raised concerns about possible disruptions. The provision of trade finance by some European banks decreased. But the retrenchment from global markets was buffered by increased lending from other market participants.

Surveys and academic studies generally suggest that trade finance disruptions had a secondary but economically significant role in the sharp reduction in global trade volumes in the quarters following the Lehman bankruptcy; reduced global demand for capital goods and consumer durables was the main driver. Statistical analysis conducted by the Committee using national data sources found broadly similar results, suggesting that reduced trade finance availability may have accounted for up to one-fifth of the decline in trade volumes in the aftermath of the Lehman bankruptcy. However, in other periods, including in 2011, trade finance does not appear to have been a limiting or accelerating factor in the growth of trade.

Losses on short-term trade finance portfolios historically have been low. Moreover, given their short-term nature, banks have been able to quickly reduce their exposures in times of stress. However, this latter feature also introduces possibilities for trade finance to act as a conduit of stress from the financial system to the real economy, when banks allow trade finance books to run down in response to funding and liquidity strains. The ongoing expansion of supply chain finance networks could make future funding cuts less likely, but potentially more disruptive to production and distribution channels in the event cutbacks occur.

Policies addressing banking system capital and liquidity vulnerabilities and encouraging competition generally provide effective means for avoiding or containing disruptions to trade finance flows. While current regulatory efforts clearly work in this direction, questions have arisen about whether some of the new regulatory requirements might result in an overly conservative treatment of trade finance assets. Adaptions have been made, addressing most of the industry's concerns. Market participants generally describe the emerging regulatory environment as much less burdensome than initially anticipated, while highlighting that some uncertainties remain about the possibly divergent treatment across jurisdictions and the potential impact of aspects of the liquidity coverage ratio. Also, current tight pricing may need to rise once all new rules are fully phased in.

Experience suggests that, in the event of material disruptions specific to trade finance, targeted short-run support, such as through export credit agency guarantees or central bank facilities, can play a complementary role in relieving strains. The short-term nature of trade finance requires that such support be mobilised quickly. A monitoring strategy, using existing data sources complemented by market outreach, can support assessment of the desirability and calibration of any sector-specific response. Enhancing national and industry statistics through standardising data definitions and extending coverage would aid such an approach.

# Lack of trade finance causing global trade growth to slow

The International Chamber of Commerce (ICC) in July 2014 released the *Global Survey 2014: Rethinking Trade and Finance,* its largest and most comprehensive Global Survey to date, including data from 298 banks across 127 countries. The Survey concludes that the growth rate of international trade has dropped drastically when compared to the years prior to the global financial crisis.

Global trade growth was a shade above 3% during 2013, although picked up to an annualized growth rate of 4% during the first quarter of 2014 and is anticipated to accelerate beyond 5% through 2016.

"We are cautiously optimistic, with a realization that this optimism is framed within a fragile international trade environment," said Vincent O'Brien, Member of the ICC Banking Commission Executive Committee. "The fragility is magnified by unpredictable political developments on the fringes of Europe, the Middle East, South East Asia and other part of the emerging world."

Further encouragement came from the survey with 68% of respondents reporting positively that the availability of trade finance increased by value compared to the previous year. However, In terms of the "trade finance gaps", 41% of respondents reported that they perceived a shortfall of trade finance globally. According to Mr. O'Brien: "This gap remains a major challenge, especially for SMEs as without access to trade finance, now widely acknowledged as an engine of growth, SMEs will not be able to contribute substantially towards economic recovery and development."

The ICC Global Survey also highlighted that G20 countries accounted for three quarters of the trade restrictive measures imposed since 2008, with Word Trade Organization figures showing that these countries introduced 193 new trade restrictive measures between December 2012 and November 2013. Such restrictions, many of which are protectionist and therefore trade distorting, have stalled the agenda to open up world trade.

One key finding of the Global Survey is that South-South exports now represent 46% of global exports. Also, 40% of respondents identified Asia as the primary focus for trade. Even with trade slowing in the emerging markets, their significance within the global economy is increasing as new trade corridors are opening up. Yet it is these markets that most keenly feel the pinch on trade financing availability. Through aiding senior executives and world leaders in formulating policy, the Global Survey could prompt changes that would close the trade finance gap as well as increase productivity and competiveness in trade, and thus create jobs.

Indeed, one important benefit of the financial crisis is the spirit of partnership that has evolved between trade and trade finance stakeholders – something very evident since the commencement of the ICC Global Trade Finance Surveys.

# Sri Lanka's Trade Agreements

The main objective of the multilateral and bilateral preferential trade agreements is to obtain a concessional rate of import duty thereby making the country's exports competitive as against the same products imported from another country. Although the FOB price of a product from Sri Lanka may be much higher than that of the same product from another country, in terms of the Landed Price Sri Lanka's product may remain cheaper than that of the other country due to the Duty benefit enjoyed by the Sri Lankan exporters under the preferential trade agreement.

The multilateral Trade Agreements of which Sri Lanka is a member are the SAPTA - South Asia Preferential Trading Arrangement, GSP - Global System of Trade Preferences, APTA - Asia Pacific Trade Agreement. BIMSTEC-Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation is still under negotiations.

The Agreement on SAARC Preferential Trading Arrangement (SAPTA) which envisages the creation of a Preferential Trading Area among the seven member states of the SAARC, namely Bangladesh, Butan, India, Maldives, Nepal, Pakistan and Sri Lanka was signed in Dhaka in April 1993. The idea of liberalizing trade among SAARC countries was first mooted by Sri Lanka at the sixth Summit of the South Asian Association for Regional Co-operation (SAARC) held in Colombo in December 1991. It was agreed that SAPTA is a stepping stone to higher levels of trade liberalization and economic co-operation among the SAARC member countries.

The central pillar of the multilateral rule-based trading system enshrined in the GATT/ WTO is the acceptance and operation of the Most Favoured Nation principle. This means that every member of GATT/WTO should invariably accord the same, identical, equal and non-discriminatory treatment to all imports irrespective of the countries of origin.

However, the Generalized System of Preferences (GSP) is an officially agreed exception to the Most Favoured Nation principle which was proposed at the first meeting of the United Nation Conference on Trade and Development (UNCTAD) with a view to assisting the developing countries in their exports and development efforts. In 1964, the First United Nations Conference on Trade and Development (UNCTAD) started to look into ways and means of granting special trade preferences to developing countries. The main objectives of granting trade preferences to developing countries are: to enhance export earnings of developing countries to promote industrialization and to encourage the diversification of their economies.

In 1968, UNCTAD recommended the creation of a "Generalized System of Tariff Preferences" under which industrialized countries would grant autonomous trade preferences to all developing countries. In order to implement the system a waiver was required from Article 1 of the GATT which prohibits discrimination. This waiver was granted in 1971 by adopting the "enabling clause" of the GATT to create the legal framework for the "Generalized System of Tariff Preferences" (GSP). Under this framework developed countries were authorized to establish individual Generalized Schemes of Tariff Preferences. The enabling clause was adopted originally for ten years, and renewed in 1979, for an indefinite period of time thereafter.The individual countries

which have implemented their GSP schemes are; the European Union, USA , Australia , Canada , Japan , Switzerland , Norway , New Zealand , Poland , Belarus , Bulgaria , Republic, Slovakia , Hungary and the Russian Federation.

The Asia-Pacific Trade Agreement (APTA), formerly known as Bangkok Agreement was signed in November 2005 and it came into force with effect from 1st September 2006.

The APTA member countries (Bangladesh, China, India, Laos, South Korea and Sri Lanka) cover a total population of about 2.5 billion, which is a vast potential market to increase the level of intra-regional trade flows among the participating states. The third round of negotiations, which has offered a maximum of 50% Margin of Preference on existing tariffs among the member countries, includes substantial tariff concessions and a wider coverage of products.

The 3rd Round of Tariff concessions under APTA entered into force on from 1st September 2006. At the end of the Third Round, the participating Sates had exchanged concessions on 4,270 products plus 587 products offered exclusively to LDCs, a marked increase from the 1,721 products plus 112 products for LDCs before the Third Round

Sri Lanka has also successfully entered into the following Free Trade Agreements: ISFTA - Indo- Sri Lanka Free Trade Agreement, PSFTA -Pakistan - Sri Lanka Free Trade Agreement and SAFTA - South Asia Free Trade Agreement with a view to enhancing trade with the countries in the region.

The Indo-Sri Lanka Free Trade Agreement (ISFTA), which was signed on 28th December 1998 and entered into force with effect from 1st March 2000, provides duty free concessions to a wide range of products traded between the two countries. Sri Lanka's final tariff liberalization commitment under ISFTA came into effect since November 2008 and with this completion of the commitment, the ISFTA which came into effect from March 2000 has been fully implemented. However, Sri Lanka has already got a fully duty free access to the vast Indian market under the ISFTA since the end of March 2003. Thus, the entrepreneurs based in Sri Lanka can now export more than 4000 product lines to the Indian market on duty free basis.

Pakistan Sri Lanka Free Trade Agreement (PSFTA) came into force on 12th June 2005. A substantial improvement in trade has been recorded since the Agreement came into force. Pakistan implemented its final phasing out commitment in March 2009 and Sri Lanka has now duty free market access for more than 4500 products. Sri Lanka has also completed all her phasing out commitments in November 2010

## India Sri Lanka Free Trade Agreement

This was the first bilateral free trade agreement signed by both Sri Lanka and India. India became one of the biggest sources for import of goods. However the export of goods to India

from Sri Lanka continued to be very low. Since SAFTA was not progressing as desired due to the ailing political relationship between India and Pakistan, India and Sri Lanka looked at a bilateral agreement in order to improve the trade between the two countries.

Imports from India to Sri Lanka was growing rapidly, even before the FTA came into force and the extent to which the growth in imports can be attributed to the FTA may not be that significant. On the other hand exports from Sri Lanka to India showed an increase but it is only a very few products that contributed to this increase thereby questioning the effectiveness of the FTA on the country's exports as well.

Under the India Sri Lanka Free Trade Agreement the negative list put forward by Sri Lanka had only 429 items whereas the negative list put forward by India had 1220 items. Considering the sizes and populations of the two countries concerned this is not all acceptable and in fact it would have been more logical if it was the other way about. The open economic policies now being pursued by India should make it more conducive to bring about a substantial reduction in the number of items in the negative list and the Government of Sri Lanka should make every attempt to push for a reduction.

The strong anti- Sri Lanka lobbying in the state of Tamil Nadu has also hampered the growth in exports. However, with the snowballing growth of trade between Sri Lanka and the Peoples Republic of China has pushed the Indian central government to reconsider their stance against Sri Lanka in spite of the strong opposition from the local government in Tamil Nadu. India is keen to have closer trade ties with Sri Lanka and thereby not to lose out on the opportunities that fast growing Sri Lanka had to offer.

It was recently reported that over 4000 product lines for which preferential rates of duty had been offered have not been utilised by the Sri Lankan business community and it is pertinent to carry out a study to ascertain whether Sri Lanka has the potential to make use of items in this list of 4000 items or whether the items are not relevant is of no value.

## India Sri Lanka CEPA Agreement

The governments of Sri Lanka and India were reportedly on the verge of signing this agreement when the professional in Sri Lanka made a strong lobby against entering into this agreement as it would severely affect the job opportunities that they have due to a heavy influx of the huge labour force in India.

As many are familiar with already, Sri Lanka and India have been struggling to complete negotiations on a proposed 'Comprehensive Economic Partnership Agreement' or CEPA, which would expand the current India-Sri Lanka Bilateral Free Trade Agreement to include services, investment, and economic cooperation chapters. The agreement was to take in to account the massive assymetry between the two countries (economic size, population, etc), and afforded Sri Lanka a more than disproportionate advantage. Following heavy lobbying by narrow nationalist

business leaders with close political affiliations, there was an eruption of uninformed and exaggerated sentiments against greater commerce with India. These groups successfully scuttled efforts at completing the CEPA deal, and the government has said it is no longer looking to rekindle it either.

However, what is really interesting in this latest Joint Statement is the reference to building a 'special economic partnership framework' between the two countries. Here is the relevant extract (item number 4) from the Statement:

"It stirred up too many emotions among the protectionist factions of the Lankan business community, and triggers too much nervousness within the government, especially the President. We will have to wait and see what this 'special economic partnership' as referred to in this Joint Statement really means – whether the Sri Lankan government bites the bullet and provides Sri Lanka with an opportunity to tap into a huge market, with a middle class set to be 10 times our entire population – or whether we will continue to amble along, making joint statement after joint statement, and never actually get down to business, frittering away this huge economic opportunity. Meanwhile India is signing CEPAs and CECAs left, right, and centre with countries all around us. For India, this is just a 20 million population – a tiny market. But for Sri Lanka, latching on to India's growth and just tapping in to India's growing middle class alone – set to be 267 million by 2015 – can be transformative and that will be truly *special*."

Though CEPA has been in the works since 2005, several attempts to arrive at a consensus only proved futile. Negotiations began after a joint study group set up to explore ways of expanding bilateral trade relations and means for greater flow of investment between the two countries made its recommendations in 2003. Even after 13 rounds of negotiations until 2008, both countries could not come to an agreement. And now, the minister said Colombo felt both countries had moved on. Suggesting that an open market offered the best alternative, Therefore it has created a Special Bilateral Agreement.

Indian businessmen were making a mark all over the world, and in Sri Lanka, too. They are taking over fortune 500 companies, and that means Indian businesses are growing so much. They don't need any special protection now. Similarly, Sri Lankan businessmen had also made their way into the Indian market creating a free flow of goods. Apparel, information technology and automobile sectors offered potential for Indian investments,

## Pakistan Sri Lanka Free Trade Agreement

Obtaining significant growth from the India Sri Lanka Free Trade Agreement prompted the government of Sri Lanka to have similar Free Trade Agreements with the other major economic partners in the region. Although they successfully entered into the Pakistan Sri Lanka Free Trade Agreement, there does not appear to be any significant growth in the trade volumes between the two countries. Unlike India Pakistan put up only 540 items in the negative list as against 697 items that Sri Lanka has put forward. And the growth rate continues to be sluggish.

## Free Trade Agreements under negotiation

As bilateral trade jumped by 67%, Sri Lanka and Bangladesh began exploring the possibility of a historic Free Trade Agreement at the meeting held last month in Colombo but decided to hold back on the exact nature of the Trade Agreement to be reached. While it would be the first-ever FTA for Bangladesh, for Sri Lanka, it is an entry point to a huge regional economic corridor. There are many sectors where both countries have comparative advantages; in some Sri Lanka is strong, Bangladesh in others.

Indonesia is going to be one of the biggest and emerging economies in the world and given that situation Sri Lanka-Indonesia Business Council (SLIBC) wants the government of Sri Lanka to consider entering in to a Free Trade Agreement (FTA) in future to reap real economic benefits, Since Indonesia is part of ASEAN and therefore Asian region will become a major economic powerhouse in the world, it is the need of the hour to have an FTA with Indonesia to achieve Sri Lanka's economic targets in the near future. Sri Lanka is now considering Chinese Indian, EU and US markets but now the time is right to seriously consider signing a FTA and develop bilateral trade with Indonesia, which has lots of potential to become an economic powerhouse in Asia The Council's objective is to promote trade, services and business between Sri Lanka and Indonesia, particularly exports from Sri Lanka.

## Negotiating the Free Trade Agreement with China

China is the second largest economy in the world having reached a GDP of US Dollars nine trillion in 2013, maintaining an average growth rate of 9%. With a 1.4 billion population China is the world's largest market. Sri Lanka and China are engaged in talks to finalize a free-trade agreement to be implemented at an early date which would bring substantial economic and trade benefits to the two countries.

The Negative List in a FTA contains sensitive products which are exempted from tariff concessions under the agreement. It is absolutely important that the negative list should be prepared in consultation with the local business community by studying as implications for local industries and livelihoods which may be adversely affected by trade liberalisation. The negative list should be kept to a minimum to ensure that a substantial proportion of tariff lines and products are covered under the agreement.

Many Sri Lankan exporters have faced difficulties in entering the Indian market due to the prevalence of state taxes, standards, and administrative procedures and other barriers, which are outside the scope of tariff reductions. Therefore these issue onset be addressed along with tariff reductions/eliminations. Tariff rate quotas is another impediment to trade growth and should be avoided as far as possible. Lack of a Mutual Recognition Agreement (MRA) for standards between Sri Lanka and its FTA partners has resulted in various additional checks/certifications on the goods at the importing country, even though they have been previously tested and certified by the relevant authorities in Sri Lanka which also must be addressed.

There is no point in in obtaining concessions under a trade agreement if the country does not have the capacity to supply the goods in this may have been one of the reasons that over 4000 product lines remain unused in the India Sri Lanka Free Trade Agreement.

## Growth Targets for Exports

The government of Sri Lanka has set a target of US Dollars 20 billion for exports by 2020 which is double the volume in 2011. The question is whether when an aggressive policy is being pursued in increasing the country's exports, a target which may be easily reached is sufficient. Furthermore, the contribution of exports as a percentage of GDP in 2020 will be reduced to 13%, lower than that the present contribution of 18%.

Sri Lanka Export Development Board must play a more proactive role in arriving at the negative lists and tariff concessions, tariff quotas et. It must ascertain the potential for venturing into new products and services by having a close dialogue with the producers, manufacturers and the business community as a whole. Having entered into the trade agreements it must provide institutional support to obtain the maximum benefit under it for the country.

## Conclusion

Sri Lanka will have an uphill task of continuing to increase its exports at a very much higher rate than the global trade growth which is expected to be sluggish in the next few years. Therefore, it is essential that we come up with appropriate strategies. The forces working against the country especially the Tamil Diaspora will also make export growth a difficult task. The restrictive trade practices being adopted in spite of the call for global free trade will also be a hurdle.

Entering into bilateral and multilateral preferential and free trade agreements with a view to enhancing market access will be the most appropriate and important strategy to achieve this objective. Entering into a free trade agreement with China will definitely be a major boost for Sri Lanka. However it is absolutely essential that it is negotiated taking into consideration the lessons learnt from the existing Free Trade Agreements and the various issues which were not anticipated at the time they were being negotiated.

The government should also take immediate steps to discuss with their counterparts the weaknesses and deficiencies and negotiate solutions for such problems in the already concluded free trade agreements. It is also important to ensure that negotiations are carried out to achieve concrete results and the maximum benefit for the country rather than being political in boasting about the numbers achieved which may not mean very much in producing results.

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