

Session 02- Executing a Smarter Trade Strategy amidst Turbulence

Summary

- **Sri Lanka needs to be more strategic in trade liberalisation process by pursuing a mix of bilateral FTAs reforms and unilateral reforms that is correctly paced and sequenced to get the best tangible benefits.**
- **Sri Lanka needs to leverage on opportunities arising from current FTA negotiations to achieve future agenda in the FTA architecture.**
- **Trade policy needs to focus on both external and internal factors, bigger emphasis need to be made on domestic reforms**
- **Sri Lanka's trade negotiation capacity needs to increase, and fast.**

Key Takeaways

1. There are emerging opportunities arising in the region, as a result of China's rebalancing from an export-led industrial model to one focused more on domestic demand and services. Sri Lanka is in prime position to make the most of them - if handled correctly, given the Chinese presence in the domestic economy.
 - China's transition to higher domestic value added products and innovation would result in more technologically sophisticated GVCs (Global Value Chains) in Asia;
 - It would lead to some of China's labour intensive stages migrating to other countries in the region and create greater opportunities for SMEs in Asia's GVCs and the expansion of services exports across Asia such as digital trade, finance and professional services.
2. Sri Lanka's foreign direct investment have lagged exports and ASEAN region.
 - Sri Lanka's FDI have been less than USD 1000 Bn and annual average FDI inflows as a % of Gross Fixed Capital Inflows during 2011 – 2016 is at 4.8% compared to other countries in the ASEA region (Singapore 80.7, Malaysia 14, Philippines 7, Thailand 6.1)
 - FDI is vital for bringing in technological transfers, skills and marketing connections which are crucial for changing the structure of the economy and move Sri Lanka from a low tech commodity dependent to mid/hi tech economy with higher skills.
3. Sri Lanka has a low and concentrated export basket and markets have not changed much over the past decades.
 - There are gaps in the export basket, haven't got into the supply of services and IT at the required export level and lags behind many other countries in the region.
 - More than lack of diversification it do with narrow concentration of products. This is a low hanging fruit than needs to be addressed and as Sri Lanka currently exports more than 50 product categories to India.
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- Sri Lanka is not trading much with Asia which is not only the most dynamic region but also geographically closest (2% to China, Japan and ASEAN 9%, India 6% compared to 50% to EU and USA)
4. Sri Lanka's lagging in FTA activity, especially with China and Dynamic Asia
 - Sri Lanka is a laggard in the FTA game with very few FTAs in effect compared to other countries in the region.
 - Singapore has 20+ FTAs with top trading nations in the world.
 - South Korea is the real star not just because it has FTAs with USA and EU, but because of other factors stimulating trade (has more than 15 universities teaching FTA courses, have established a new institution to provide technical assistance for SMEs to make use FTAs).
 - However the thrust seems to be right with new FTA negotiations; India (dynamic market), China (obvious player) and Singapore (which has multiple FTAs with trade powerhouses) which will take some time. Sri Lanka is also signatory to WTO Trade Facilitation Agreement and also been successful in reinstating GSP+ (but time bound until 2024 (8 years)).
 5. The Global trade is on resurgence.
 - Whenever there is financial and economic crisis take place together, it takes about 7 or more years to pick up. Currently we are in the eighth year and a resurgence of trade have started to show up. WTO predicts world trade to grow at 2.4% in 2017, up from 1.3% last year. IMF forecast global GDP growth 3.5% and 3.6% next year
 - Although USA's growth forecast has been slightly downward revised, it has no impact on global growth forecast, an indication that slight decrease has no impact on global growth forecast. Good growth rates are forecasted in the Asian region an indication that a good turn around can be expected and momentum will continue Asia has is becoming the engine of global growth.
 6. Protectionism is looming with more emphasis with inward looking trade policies by larger economies but there these economies are also seeking larger markets abroad.
 - Even with these new changes, fundamentally the regulatory processes and focus on improved standards will stay unchanged.
 - India's objectives of ETCA are also inline of these strategies. Both countries are working towards this with the early harvest mechanism (e.g. Mutual Recognition Agreement (MRA) on conformity assessment) and this has also been emphasized by the National Trade Policy of Sri Lanka.
 7. Sri Lanka has to leverage on the advantage of smallness.
 - Sri Lanka has the benefit to leverage on a properly done decision making process which large countries do not have.
 - There needs to be a stronger discussion domestically for putting in place this mechanism.
 - Dialog is crucial for understanding what you need out of FTAs. A country cannot succeed without knowing what your underlying interests are. Trade is a language that needs to be translated and put into trade terms.

- Every successful country has taken its own path.
8. Importance of working towards free markets and while getting the domestic policy settings right. Therefore the Trade policy needs to focus on both external and internal factors.
- We are in an interconnected world. It is important To build institutions and agreements that are able to shape and manage open interactions and create certainty business communities and financial markets
 - Focus need to be on making the economy is resilient by having an adoptable workforce while having a clear narrative domestically on the value of having trade liberalisation priorities.
 - Bigger emphasis need to be made on domestic reforms as standards are increasingly considered an important thing in the as Global economy.
 - India is looking strongly at reforming trade internal operations to improve standards and trade facilitation input to support the make in India strategy
 - Sri Lankan policy makers are aware of things that need to be addressed, but priority needs to be given to implementing these steps.
9. Concept of Competitiveness has to expand
- Need to move beyond conventional measures of competitiveness. Sri Lanka has lot of strengths and need to voice it out loud (e.g According to the Global Competitiveness Index of the World Economic Forum, Sri Lanka is ranked top in South Asia for technical readiness, health. primary education, higher education and training
 - It's not just the cost competitiveness that matters, quality and linking up with people achieved through commercial and political competitiveness are crucial factors in today's competitiveness policy. It also gives an opportunity for countries to learn from commercial and political partners and get support from them to replicate best practices in their domestic economies.
 - Regulatory processes also need to be amended to regulatory coherence is a key in the internet age.
10. FTAs are magnets to rallying opposition to freer trade in the current climate.
- Closer economic integration could have disruptive impact on an economy.
 - Goods services investment move at different speed and could create long term structural unemployment in an economy.
 - These concerns need to addressed otherwise popular nationalism will have efforts could be counterproductive.

Recommendations

1. Sri Lanka's trade negotiation capacity needs to increase, and fast.
 - Government needs to formulate a dedicated body of professionals to oversee trade negotiations. It should have a dedicated team of lawyers and economists and experienced trade negotiators, particularly if you're trying to do multiple negotiations.
 - A real commitment over a decade to build up trade capacity. Both in other Government and private sector.

2. Sri Lanka needs to be more strategic in trade liberalisation process
 - Looking at the current turbulence in global trade, it is strategic to pursue a mix of bilateral FTAs reforms and unilateral reforms that is correctly paced and sequenced to get the best tangible benefits out of it.
 - Ongoing FTAs are critical, but we are missing a road map as to what is our end objective, is it RCEP or ASEAN etc.
 - The risk of casting the FTA net so wide without knowing the end objectives could be problematic. Multiple bilateral FTAs mean multiple tariff schedules with trading partners.
 - Need to think strategically as to have Sri Lanka could link up with Global Production Networks.
 - Liberalisation of trade in goods should be done at unilateral level and that can be plugged into FTA negotiations.

3. Sri Lanka need to leverage on opportunities arising from current FTA negotiations to achieve future agenda in the FTA architecture.
 - Singapore could be Sri Lanka's our route to joining the Regional Comprehensive Economic Partnership (RCEP), which is considered a very development friendly trade agreement. RCEP Includes ASEAN, China, Japan, Korea, India, Australia, New Zealand – covering 30% of world GDP.
 - Need to work proactively to obtaining observer status in ASEAN. Should emphasis this thrust in our foreign diplomacy and the foreign mission in Indonesia should be given an explicit mandate to improve dialog with ASEAN.

4. FTAs take time, hence focus needs to also be on things that can be done quickly and usefully to pave way for effective FTAs.
 - TPP can be used as model for domestic reforms and regional collaborative initiatives. Need to pick areas that pave the way towards good governance and internationally agreed high standard methods.
 - TPP delivers cutting edge trade polices to get to contemporary trade problems. WTO is not able to deliver these outcomes at the moment. But TPP has provided a blue print and these involved are have already started using these in other agreements.
 - Other countries can use TPP as a catalyst for domestic reforms.
 - The countries that stand to gain most in the current trading climate are those who have made commitments for deepest domestic reform efforts.
 - TPP is unlikely to be ratified in its current form, but those who are still committed to TPP have made a decision to go ahead of these reforms anyway.