

WILL IT NARROW THE TRADE GAP ?

The Indo-Lanka Free Trade Agreement is still very much a controversial public issue. Much is being said, debated and written about it, not only by those concerned or affected, but also by knowledgeable persons having the interest of the country upper most. Such public scrutiny and debate ought to have been a part and parcel of a transparent negotiation process. However, regrettably, the agreement had been negotiated and hastily concluded, devoid of such transparency by the very People's Alliance government, that ironically espouses the cause of transparency at every turn !

First and foremost and essentially, one has to assess the Indo-Lanka Free Trade Agreement in the context of the official announcement made by the government immediately upon the signing of the agreement. What did such official announcement pronounce ? This is what was said:- "This Free Trade Agreement between Sri Lanka and India is a landmark in the bilateral relations between our two countries. It will contribute to a resolution of the persistent problem Sri Lanka has faced of a widening trade imbalance with India, by enabling Sri Lanka to have greater access to the Indian market."

Hence, those who negotiated and finalised the Indo-Lanka Free Trade Agreement, in no uncertain terms had expected the agreement to contribute towards the resolution of the persistent problem that Sri Lanka has faced of a widening trade imbalance with India. Therefore, the pertinent issue of relevance, is how in pragmatic terms, this agreement will contribute towards narrowing of the currently widening trade imbalance with India. Would those who negotiated and finalised the agreement be prepared to project in real terms, the narrowing of the trade imbalance, that they had envisaged at the time they formulated, negotiated and finalised the agreement ?

ARRESTING & NARROWING OF IMBALANCE



Foreign Minister Lakshman Kadirgamar — Trade agreement masterminded by the foreign ministry?

Last year's imports into Sri Lanka from India had amounted to US \$ 560 million, whilst Sri Lanka's exports to India had amounted to only US \$ 42 million, resulting in a wide trade imbalance in favour of India, amounting to US \$ 518 million i.e. SL Rupees 35,000 million. This Sri Lanka has to pay India in hard-earned valuable convertible foreign currency. Such valuable convertible foreign exchange is earned for Sri Lanka by the repatriation of funds by several hundreds of thousands of poor Sri Lankans employed abroad undergoing severe hardships, including separation from their families. Such valuable foreign exchange is also earned by the growing export sector exporting to other countries facing international competition.

In accordance with the government's pronouncement, that the Indo-Lanka Free Trade Agreement would contribute towards resolving the persistent problem of this widening trade imbalance with India, surely, those who negotiated and finalised the agreement should be able to project the expected exports to India and the imports from India, at least for the foreseeable future period of years, to demonstrate how they had anticipated, that such a large trade imbalance of US \$ 518 million would be narrowed down and to what extent. What positive action in real terms is India committed to take under the agreement to reduce such trade imbalance ?

The Indo-Lanka Free Trade Agreement is ominously silent on the quantum of this currently prevalent trade imbalance, inasmuch as it is significantly silent on the settlement terms of this huge trade imbalance. Ought not the deferment of such trade imbalance, to be progressively recouped from the confidently expected growth of Sri Lankan exports to India, have been an immediate positive action ? Why had such a key integral strategy been over looked by those who formulated and negotiated the agreement ?

On the contrary, ironically, concerns had been expressed of the problem of such widening trade imbalance, whilst the immediate resolution of the problem had apparently not been addressed. As one option, could it not have been negotiated to convert a part, say 50 %, of such trade imbalance to a SL Rupee Fund to afford concessionary funding as an incentive to promote Indo-Sri Lanka joint ventures and recoup such funds from such joint ventures ? This would have contributed towards the resolution of the problem, narrowing of the trade imbalance and the generation of employment in this country.

Similarly, a strategy of counter-trade, unlike bilateral trade, has a presence in the contemporary global market place. The Indian buses virtually enjoy a monopolistic export market, particularly to the Sri Lankan state sector. Import of fully assembled buses have forced the closure of the well established bus body building industry in this country. Tragically, a recently set up modern bus assembly plant is lying idle today ! This directly has a negative incidence on employment generation in this country, as well as investment confidence. Where else can India export buses to ?

In such circumstances, ought not the negotiations have included reciprocal commitments from India to export Sri Lankan products, to wherever, to an equivalent foreign exchange value on the basis of counter-trade negotiations ? Would this not be a reciprocal strategy towards compensatory contribution to the growth and development of Sri Lankan exports, generating employment in other sectors, whilst the domestic production facilities for bus assembly have foreclosed throwing thousands out of employment ?

Furthermore, if as admitted, the expectation had been the narrowing of the widening trade imbalance by the agreement, then ought not such projections of exports and imports have been pragmatically assessed to have ascertained, how and to what extent the trade imbalance could be narrowed down ? Pointedly, this ought to have been done in relation to specific sectors of products in terms of the ground realities that prevail at present. What are the products that are identifiable, as immediately exportable to India, to contribute towards the arresting and the narrowing of the trade imbalance ?

INDIA FEARS COMPETITION

One of the few industries that has grown fairly widespread in this country, with worker skills developed, is the garment industry. This is also one of the main stay export industries of this country, anticipated to face a challenging period in the emerging global market place in the immediate future. Logically, ought not the export of garments to India have come under the ambit of free trade to narrow down the trade imbalance at present heavily in favour of India ? Did those who negotiated and finalised the Indo-Lanka Free Trade Agreement identify this export market and press hard for the free access to the Indian market for Sri Lankan export garments, in which industry several thousands are employed ?

On the contrary, ironically, even before the negotiation and definition of the products lists, India has put up shutters and declared that the import of garments into India from Sri Lanka would come under India's negative list. India has a very well developed and integrated textile industry. From the stage of spinning of yarn, weaving into fabric and printing and finishing of the fabric, India has a well developed base in the textile industry. India also manufactures the most fashionable sarees and garments, which are exported to Sri Lanka and are in high demand in this country.

Having such a well developed textile industry, why does India fear to face competition in export garments from Sri Lanka, where the textile and garment industry is not so developed as in India ? On the basis of reciprocity and on the premise of a genuine desire to narrow the widening trade imbalance currently in favour of India, the free export of garments from Sri Lanka ought not be on the negative list of imports to India. The logic simply cannot be understood and the principle cannot be appreciated, if the honest and genuine intentions were to find solutions to arrest and narrow the widening trade imbalance by such agreement.

Surely, the Sri Lankan garment exporter would have to compete with the well developed Indian market. Why is India fearful and unable to face such simple competition ? The free export of garments to the Indian market would have immensely contributed to the stabilisation of the future growth and development of the widely spread out export garment industry in this country, giving employment to several thousands of people from all over the island.

Whilst, this is evidently how India is willing to face competition, on the other hand, well developed industrial products manufactured cheaply at levels of large scales of economies from India are expected to compete in the Sri Lanka market, with comparable products from not so developed industries operating at smaller scales of economies in a nascent stage of industrial growth in this country. Such a policy will not only stifle and stymie industrial entrepreneurship in this country, but also contribute towards the closing of already existing local industries throwing thousands out of employment. Refrigerators, bicycles, buses are some of the examples, where locally established industries have already collapsed.

NOT A LEVEL PLAYING FIELD

Sector by sector, the product ranges and potentials ought to have been examined in consultation with the Chambers of trade and industry, prior to formulating and finalising the terms and conditions of the Indo-Lanka Free Trade Agreement. Surprisingly and questionably, the Chambers of trade and industry had not been consulted. Questions in fact have arisen, as to whether even the relevant ministers of trade and industry had been consulted ! To none of these questions have any forthright answers forth come from the government, whilst the government has stoutly propounded that the private sector will be the engine of future growth in this country !

On the contrary, it had been exclusively revealed, that the official delegations of both India and Sri Lanka, after only two rounds of negotiations, had finalised and signed a draft agreement on December 15, 1998. This agreement had also provided for the imposition of "para-tariff" and "non-tariff" barriers, including particularly, border charges and fees. These provisions obviously had been relevant and very necessary in the context of border charges and levies imposed by the several state governments of India, under the federal system of government. This is not so in Sri Lanka. But these very pertinent and relevant provisions having a direct bearing on the concept of free trade had been excluded from the final agreement hastily signed on December 28, 1998, throwing into jeopardy the question of free trade and equitability.

Society is not homogeneous, but is very much heterogeneous; so is the spectrum of industrial and agricultural spheres. Free trade is not adopted as a universal concept even in countries that are labeled as free and open market economies. United States imposes quota restrictions even on garment imports. Japan has zealously always endeavoured to protect its domestic agriculture and industry with import restrictions and other barriers, such as insisting on hygienic packaging, whilst expanding its own exports in the global market place. The European Economic Community recently imposed sanctions on the import of bananas from South America, resulting in the intervention by the United States, due to US business interests in banana plantations in South America !

Regrettably, the Indo-Lanka Free Trade Agreement had clearly failed to take cognisance of the ground realities that prevailed at present. The pragmatic assessment of the present ground realities in the industrial and agricultural sectors in consultation with the Chambers of trade and industry ought to have preceded even the very formulation of an agreement, let alone negotiation and finalisation. The agreement accordingly should have taken cognisance of such ground realities and spelt out strategic measures that would in real terms, contribute towards the arresting and narrowing of the widening trade imbalance with India, which ironically had been defined as the very objective to be achieved by the agreement !

Other relevant ground realities that the Indo-Lanka Free Trade Agreement appears not to have taken cognisance of are the concessions and incentives the Indian central government and/or the state governments extend to the industrial export sector to promote Indian exports, including concessionary credit. In addition to requiring the nascent Sri Lankan export industries operating at smaller scales of economies to compete with well established Indian export industries operating at much larger scales of economies, such concessions and incentives to the Indian export industry would add a further dimension of imbalance. Definitely this would not be a level playing field. Why had the agreement failed to address these cogent issues ? The agreement apparently has even failed to prima-facie examine and recognise the deferential import duty tariff rates imposed by India and Sri Lanka on the same category of products.

INVESTMENT PROMOTION ELSEWHERE

Those who have espoused the Indo-Lanka Free Trade Agreement to assuage legitimate local fears and apprehensions have endeavoured to generate hope, that macro joint-venture industrial production facilities would get established in Sri Lanka in the not too distant future ! No doubt, one of the strategies to contribute towards the narrowing of the wide trade imbalance with India, would be to encourage Indian investment and technology into Sri Lanka, but with committed buy-back arrangements to supply the Indian market with the finished products. Taking the ground realities into cognisance this would be one of the core strategies by which products of Sri Lankan origin could penetrate into the Indian market that has been zealously guarded for decades. This would also contribute towards the generation of employment in Sri Lanka.

But how and in what tangible terms has the Indo-Lanka Free Trade Agreement addressed the issue of the promotion of Indo-Lanka joint-ventures on such terms ? No clear strategies appear to have been spelt out in the agreement to achieve such aspirations, that ironically is now being espoused to assuage legitimate local fears and apprehensions. One of those who has stoutly defended the agreement has been none other than the Chairman & Director General, BOI, Thilan Wijesinghe. No doubt, the promotion of export oriented agricultural and industrial investments into Sri Lanka is the responsibility of BOI and none other.

Ironically, whilst it is conjectured that the Indo-Lanka Free Trade Agreement opens the avenues for Indian joint-venture investments into Sri Lanka, the BOI on the contrary has identified other countries, other than India, as target countries to undertake investment promotion missions to during this year. The immediate investment promotion mission is to Australia and is reportedly led by the Foreign Minister, Lakshman Kadirgamar, whereas apparently it had been the foreign ministry that had been primarily responsible for having promoted, negotiated and finalised the Indo-Lanka Free Trade Agreement, without any consultations

with the Chambers of trade and industry; devoid of transparent participation of other concerned line ministers. Not many moons ago, Lakshman Kadirgamar penned – " This government means what it says."

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