Key trade agreements of Sri Lanka

Bilateral trade Arrangements

a) **Indo-Sri Lanka Free Trade Agreement (ISFTA)**

- The Indo-Sri Lanka Free Trade Agreement (ISFTA), which was signed on 28th December 1998 and entered into force with effect from 1 March 2000, aims at promoting economic linkages between India and Sri Lanka through enhancement of bilateral trade and investment.
- The Agreement covers only trade in goods and requires the two countries to offer market access for each other's exports on duty free basis and concessionary tariffs. The ISFTA does not provide for elimination of non-tariff barriers.
- India has now emerged as the largest and the most balanced trading partner of Sri Lanka, with a high level of exports and imports taking place between the two countries
- For instance, in 2012, imports from India stood at 19% of the overall imports of Sri Lanka (largest source of imports to Sri Lanka) while Sri Lanka's exports to India stood at 5.8% of overall exports of Sri Lanka (3 largest destination of Sri Lankan exports) with total trade between the two countries amounting to US$ 4.2 billion.
- The ISFTA has made a substantial contribution in bringing this situation with over 70% of Sri Lankan exports to India moving under the FTA and below 30% of the Indian exports to Sri Lanka moving under the FTA. At a time when Sri Lanka's traditional markets in the West are showing slow recovery from the global economic crisis, the growing markets in Asia like that of India provide a great opportunity for Sri Lankan expo rts via the ISFTA.

b) Pakistan – Sri Lanka Free Trade Agreement (PSFTA)

- The Pakistan Sri Lanka Free Trade Agreement (PSFTA), which came into force on 12th June 2005, has seen a substantial improvement in trade between the two countries, with the value of total trade between the two countries and this has made Pakistan Sri Lanka's second largest trading partner in the SAARC region after India.

- 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 its 4th phasing out commitment

Regional trade Arrangements

a) **South Asian Free Trade Area (SAFTA)**

- The Agreement on South Asian Free Trade was finalized and signed by the Council of Ministers of the member states of SAARC on 6th January 2004 in Islamabad, Pakistan.

- SAFTA aims at further enhancing the programme of regional economic integration through promotion of preferential trade, which began with the establishment of the South Asian Preferential Trading Arrangement (SAPTA) in 1995.

b) Asia– Pacific Trade Agreement (APTA)

- The Asia Pacific Trade Agreement (APTA), formerly the Bangkok Agreement signed in 1975, is one of the Asia's oldest regional preferential trading agreements with six participating states - Bangladesh, China, India, Laos, Republic of Korea and Sri Lanka.

- APTA is a dynamic regional agreement which has been instrumental in producing a favorable outcome to Sri Lanka. It is particularly important for Sri Lanka as it is the only trade agreement Sri Lanka partakes with China and the Republic of Korea.

Multilateral trade Arrangements

a) **Global System of Trade Preferences (GSTP)**

- The GSTP Agreement was established in 1988 as a framework for the exchange of trade preferences among developing countries in order to promote intra-developing-country trade and was envisaged as a dynamic instrument of economic cooperation, proceeding with step-by-step negotiations in successive stages.

- The Third Round of Negotiations was concluded in Brazil in 2010 with eight Participants of the original 22 Participants to the Round signing the final Protocol. Sri Lanka has not yet signed the Protocol, pending further negotiations on Rules of Origin

b) Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC)

- The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is an international organisation involving a group of countries in South Asia and South East Asia. These are: Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

- BIMSTEC has Fourteen priority sectors cover all areas of cooperation and In Sri Lanka priority area is technology under this agreement

c) **Indian Ocean Rim Association for Regional Co-operation (IOR-ARC)**

- The Indian Ocean Rim Association (IORA), formerly known as the Indian Ocean Rim Association for Regional Co-operation, is an international organization with 20 member states bordering the Indian Ocean.
- It was first established as Indian Ocean Rim Initiative in Mauritius on March 1995 and formally launched on 6–7 March 1997 by the conclusion of a multilateral treaty known as the Charter of the Indian Ocean Rim Association for Regional Co-operation.
- In 2011, six priority areas of cooperation were identified for IOR-ARC. These include: Maritime Safety and Security, Trade and Investment Facilitation, Fisheries Management, Disaster Risk Management, Academic and Science & Technology Cooperation, and Tourism and Cultural Exchanges.

Other Important Trade Agreements

North American Free Trade Agreement (NAFTA)

- The North American Free Trade Agreement is an agreement signed by **Canada, Mexico, and the United States**, creating a trilateral rules-based **trade bloc in North America**.
- The agreement came into force on **January 1, 1994**. It superseded the Canada–United States Free Trade Agreement between the U.S. and Canada.
- NAFTA has **two supplements**: the North American Agreement on Environmental Cooperation **(NAAEC)** and the North American Agreement on Labor Cooperation **(NAALC)**.
- NAFTA created the world's largest free trade area, which now links 450 million people producing $17 trillion worth of goods and services.

Asian Free Trade Area (AFTA)

- The ASEAN Free Trade Area (AFTA) is a **trade bloc** agreement by the **Association of Southeast Asian Nations** supporting local manufacturing in all ASEAN countries.
- The AFTA agreement was signed on 28 January 1992 in Singapore. When the AFTA agreement was **originally signed, ASEAN had six members**, namely, **Brunei, Indonesia, Malaysia,**

<u>Philippines, Singapore and Thailand. Vietnam</u> joined in 1995, **<u>Laos and Myanmar</u>** in 1997 and **<u>Cambodia</u>** in 1999. AFTA **<u>now comprises the ten countries of ASEAN</u>**. All the four latecomers were required to sign the AFTA agreement in order to join ASEAN, but were given longer time frames in which to meet AFTA's tariff reduction obligations.

- The primary goals of AFTA seek to:
  - ✓ Increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers; and
  - ✓ Attract more foreign direct investment to ASEAN.

Economic integrations

- An economic integration is an arrangement among nations that typically includes the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies.
- In simple terms it is used to depict different forms of trade agreements built by various nations in the world.
- There is a hierarchy of economic integrations that is forwarded by economists according to the success of each when implementing,

1. Preferential Trade Area (PTA)
2. Free Trade Area (FTA)
3. Customs union
4. Common market
5. Economic union
6. Total economic integration

1) Preferential Trade Area (PTA)

- In this integration, countries who are falling under agreement reduce or cut off a percentage of the tax/tariff when engaging trade between other countries in the integration.
  EX: In 1998 US cuts off the entire tariff on importing goods from sub-Saharan African counties.

2) Free Trade Area (FTA)

- Under this integration, the countries involve should remove the total tariff for other countries in the agreement for the agreed good categories.
  EX: North American Free Trade Area (NAFTA)

3) Customs union

- In this integration, countries under the agreement use a common tariff percentage for all other countries exclude from agreement. For the member countries in the agreement, they should not charge any percentage as tariff for the agreed goods and sometimes there are subsidies provided by these countries to non - member countries in trading activities.
- Following some of the famous customs unions in the world,

  1. Central American Common Market
  2. Andean Community – CAN
  3. Caribbean Community – CARICOM
  4. East African Community – EAC
  5. South African Customs Union – SACU

4) Common market

- In common markets, the member countries have freedom for exchanging of factors of production such as labour and capital and agreed goods without any restriction.
  EX: European Economic Community established by Treaty of Rome in 1957.

5) Economic union

- This is an integration where the main focus is to create identical economic policies within the member countries.
- Member countries can practice trade with free tariff for the agreed goods and factors of production and with an equal percentage as a tariff for other non – member countries.

6) Total economic integration

- This is a type of integration which focus on creating all financial, public financial, social and other policies alike and equal in all the member countries.
- These type of agreements has special systems which are modified to develop the co-operation and inter- relationships among member countries.
- In making financial policies these economic integrations establish a common central financial authority and all the member countries are allowed to use a single currency unit (Euro used by member countries in European union as agreed according to the Maastricht agreement in 1991).

Multilateral financial/trade Organizations

World Bank

- The World Bank is a **United Nations international financial institution**.
- The World Bank was established to promote **long-term foreign investment loans on reasonable terms.**
- The World Bank's **official goal is the reduction of poverty**.
- The World bank is the collaboration of **five international organizations (World Bank Group):**

  - ✓ International Bank for Reconstruction and Development **(IBRD)**
  - ✓ International Development Association **(IDA)**
  - ✓ International Finance Corporation **(IFC)**
  - ✓ Multilateral Investment Guarantee Agency **(MIGA)**
  - ✓ International Centre for Settlement of Investment Disputes **(ICSID)**

Objectives of World Bank

1. **To assist in the reconstruction and development** by facilitating the investment of capital for;

   - the restoration of economies ***destroyed or disrupted by war***;
   - the reconversion of productive ***facilities to peaceful needs***; and
   - the encouragement of the development of productive facilities and resources in ***less developing countries***;

2. To **promote private investment** by means of guarantee or participation in loans and other investments made by private investors.

3. To **promote the long-range balanced growth of international trade** and the maintenance of equilibrium in balances of payments

Functions of World Bank

a. Granting reconstruction loans to war devastated countries.

b. Granting developmental loans to underdeveloped countries.

c. Providing loans to governments for agriculture, irrigation, power, transport, water supply, educations, health, etc

d. Providing loans to private concerns for specified projects.

e. Promoting foreign investment by guaranteeing loans provided by other organizations.

f. Providing technical, economic and monetary advice to member countries for specific projects

g. Encouraging industrial development of underdeveloped countries by promoting economic reforms.

World Bank and Sri Lanka

- Sri Lanka has a history more than 6 decades with the World Bank and during that time it helps Sri Lanka providing financial support, technical and technological support, establishing power plants, transportation and digital infrastructure facilities in order to foster a good economic growth.
- Also it helps Sri Lanka by funding and providing aid in order to uplift health care facilities, education, providing drinking water and sanitary facilities etc.
- Following are some major development criteria identified by World bank and Sri Lankan government in order to develop Sri Lanka in the future,
  - Creating a macro economic environment suitable for promoting investments in private sector
  - Reducing poverty levels in the regions faced by war
  - Creating an economic growth in favour for poor people (Pro – poor economic growth)
  - Making investments to facilitate social life of general public
  - Strengthening government to uplift the life of poors
- Apart from the above objectives of World bank towards Sri Lanka in year 2015, it has created a new mechanism to foster faster development and growth in macro - economic sector in Sri Lanka under their 2017 – 2020 World bank IDA funding program. It has created this program under 3 main objectives,

  I. Increase macro-economic and public financial stability and competition
  II. Creating an economic growth and development process in a way that everyone could take part in (with a macro-economic participation)
  III. Developing environment by creating an environment management plan

International Monitory Fund (IMF)

- The International Monetary Fund (IMF) is an organization of 188 countries, working with the ***objectives*** of :
    a. foster global monetary cooperation,
    b. secure financial stability,
    c. facilitate international trade,
    d. promote high employment and sustainable economic growth,
    e. and reduce poverty around the world.

Functions of IMF

a. Providing short terms credit to member countries for meeting temporary difficulties due to adverse balance of payments.
b. Reconciling conflicting claims of member countries.
c. Providing a reservoir of currencies of member-countries and enabling members to bor-row on another's currency.
d. Promoting orderly adjustment of exchange rates.
e. Advising member countries on economic, monetary and technical matters.

For extra knowledge:

- From 2010 onwards IMF opens a special fund in facilitating low to middle income earning countries in the world at their difficulties in eliminating poverty and fostering economic growth.
- Under that there are 3 financial facilities given by IMF,
    1. Extended Credit Facility (ECF)
    2. Stand – by Credit Facility (SCF)
    3. Rapid Credit Facility (RCF)
- Also there are other commercial loans given for middle and high income earning countries by charging an interest by IMF,
    1. Stand – by Arrangements (SBA)
    2. Flexible Credit Line (FCL)
    3. Extended Fund Facility (EFF)
    4. Emergency Assistance Facility (EAF)

World Trade Organization (WTO)

- The World Trade Organization (WTO) is an organization that **intends to supervise and liberalize international trade.**
- The World Trade Organization (WTO) is the **only global international organization dealing with the rules of trade between nations.**
- WTO was officially commenced on 1 January 1995 **under the Marrakech Agreement**, replacing the **General Agreement on Tariffs and Trade (GATT)**
- The **goal of WTO** is **to help producers of goods and services, exporters, and importers conduct their business.**
- There were 159 member countries on 2 March 2013

Functions of WTO

a. Administering WTO trade agreements
b. Forum for trade negotiations
c. Handling trade disputes
d. Monitoring national trade policies
e. Technical assistance and training for developing countries
f. Cooperation with other international organizations

Asian development bank

- Started in 19^{th} December 1966.
- Head office is at Manila, Philippines.
- Obtained membership from 67 countries (48 – Asian, 19 - Pacific)
- Main objective is to promote social and economic development of member countries. They act to reduce poverty levels within member countries by providing loans and grants.
- It has a long term plan to develop member countries of it covering 3 main sectors,

    a. To foster an inclusive economic growth with a macro-economic participation
    b. To develop environmental sustainability
    c. Regional integration

Effect of trade agreements and international organizations on international trade

- Minimizes tariff barriers on international trade
- Enhance the co-operation among countries
- Receives a personal market to the goods of countries through the trade agreement
- Can minimize the losses of price fluctuations due to a permanent price agreed
- Receive equal benefits by every member country
- Ensure financial stability and develop global financial co-operation
- Minimizes poverty, achieve sustainable development and expansion of employment opportunities