Impact of the Sri Lanka-singapore Free Trade Agreement (ssfta) on International Trade and Economy in Sri Lanka at Macro Level

Free Trade Agreement (FTAs) are treaties between two or more economies to reduce or remove trade barriers and bring economic integration. As a country with open economy, Sri Lanka has also involved FTAs aligning with economic developments, especially in international trade. More recently, Sri Lanka Singapore singed a bilateral FTA, “The Sri Lanka- Singapore Free Trade Agreement (SLSFTA)” which enables smooth trading between two nations. In the case of SLSFTA, it demonstrates that Sri Lanka is now open for businesses, including investments, while complementing Sri Lanka as a hub of South Asia and Singapore as a hub of South East Asia. Although Sri Lanka has involved FTAs with some South Asian and Europe countries, SLSFTA is the Sri Lanka’s first FTA with a south East Asian country. At the regional level, the agreement serves Sri Lanka’s broader engagement with one of the fastest growing regions in the world, Association of Southeast Asian Nations (ASEAN). When looking at the features of SLSFTA, it has a comprehensive scope including goods, Foreign Direct Investment (FDI) telecommunication, services, e-commerce, intellectual property and public procurement etc. ; it facilitates tariff liberalization with relatively long adjustment period; it determines product of Singapore origin; it consists limited service liberalization while wider coverage of Singapore’s offers and a clear process to settle dispute; it ensures that public procurement markets are open to international competition, it provide platform to further enhance trade relations between the parties and in terms of Article on Amendments.

Typically, FTAs play a vital role in international trade in an economy and they may impact positively or negatively or interactively on country’s economic conditions. In the sense of SLSFTA, its impact on international trade and economy at macro level can be discussed under several aspects.

Trade

Trade between Sri Lanka and Singapore has steadily grown, with bilateral trade crossing the USD 1 billion mark since 2006. In 2016, Singapore was Sri Lanka’s seventh largest trading partner, with total trade in goods amounting to USD 1. 14 billion, accounting for 4% of Sri Lanka’s total trade. As per the figure 2. 1, value of exports to Singapore has increased gradually from 2013 to 2017 and a significant growth of 66% has reported in 2017 respect to the year 2016. When considering the imports from Singapore it shows a moderate decline at the period of 2013-2015 while a slight positive incline at recent two years. This increment is not much significant comparing with exports to Singapore reported in the corresponding period. Therefore, lowering trade barriers supports industries to access new markets, boosting their presence and customer base. In the point of view of Sri Lanka, since increment rate of exports is higher than increment rate of imports, it will positively impact on trade. Also, SLSFTA enables market diversification benefits eliminating the overdependence on European and American markets. Diversification in terms of both exports markets and the basket of exports are thus vital to position the Sri Lankan economy on a more sustainable footing.

Foreign Direct Investment (FDI)

According to the statistics from Central Bank, Singapore was one of the top five source countries of FDI in 2017. Furthermore, as figure 2. 3 indicates, the improvement of FDI inflows from Singapore in 2017 respect to FDI inflows in 2016 is significant and as a percentage growth, it is 402%. In view of Balance of Payment (BOP), FDI inflows positively influence on external sector and specially to reduce the deficit of BOP of a country With SLSFTA, FDIs are mainly expected to flow in for industries such as manufacturing, tourism, technology, healthcare. According to the Board of Investment (BOI) Sri Lanka, the projects with a total investment value of over USD 16 billion in manufacturing mainly for exports are the first projects to realize since the SLSFTA was implemented on 1 May 2018. The largest of these is an export-oriented oil refinery that values at USD 14. 8 billion in Hambanthota.

The second is a USD 1 billion investment in a steel manufacturing plant in Trincomalee. The other two projects will both be in Hambanthota as a USD 200 million sugar refinery and a USD 50 million flour bill, for both local and export markets. Therefore, with SLSFTA, the FDI inflows will improves and it will strength the external sector of the economy in Sri Lanka.

Expertise and Technology TransferGlobal companies have more experience than local companies in terms of technical know-how accompanied by sophisticated technology. FTAs allow the global firms access to these business opportunities. That develops local firms on best practices. Further, local companies receive access to the latest technologies from their multinational partners.

Government Expenditure

Generally, governments subsidize local industries. SLSFTA will enhance bilateral trade, improve the economic and investment relationship and provide more secure and open for goods, services and investments. Thereby, export oriented local industries are aimed to grow resulting lesser burden on government expenditure. Furthermore, since SLSFTA enables more competitive government procurement, bargaining power in terms of quoting low prices is another source of reducing government expenditure. Ultimately, stronger relations with Singapore can help Sri Lanka's standing in South-East Asia and participation in global value chains.

Job outsourcing, Working Conditions and Intellectual Properties

The biggest criticism of SLSFTA is that they urge for job outsourcing. Reducing tariffs on imports allows companies to expand to other countries. Without tariffs, imports from countries with a low cost of living cost less. It makes it difficult for companies in those same industries to compete, so they may reduce their workforce. In other hand multi-national companies may outsource jobs emerging market countries without adequate labour protections. As a result, women and children are often subjected to grueling factory jobs in sub-standard conditions. Theft of intellectual property is also problem occurring with the FTAs. Many developing countries don't have law to protect patents, inventions, and new processes. The law they do have aren't always strictly enforces. As a result, corporations often have their ideas stolen. They must then compete with lower-price domestic knock-offs.

Natural Resources and Cultures

Degradation of natural resources and destruction of native cultures are also two significant factors might be impact on economic and political sustainability at macro level. Emerging market countries often don't has environmental protections. Free trade leads to depletion of timber, minerals and other natural resources. Deforestation and strip-mining reduce their jungles and fields to wastelands. As development moves into isolated areas, indigenous cultures can be destroyed. Local peoples are uprooted. Many suffer disease and death when their resources are polluted.

Government Revenue

Many smaller countries struggle to replace revenue lost from import tariffs and fees. Since 50% tariff lines (3, 719 items) are already duty free, there will be little or no impact from the immediate list. Import data on products imported from Singapore will show that, out of total imports of $ 1293 million in 2017, $ 750 million were petroleum and related products (in fact, amounting to 60% of imports from Singapore) and $ 228 million were gold. Although gold is under the duty-free list, imposition of excise duty will protect revenue.

Since tariff on petroleum products, tobacco, spirits and alcohol are an importing revenue source to the Government, these items have retained in the negative list (products that will not be subject to liberalization), thereby protecting revenue. It should be noted that as liberalization of tariff will take place over a 12 to 15-year period, revenue loss, if any should be calculated by yearly basis and not as if tariff on all items are reduced immediately. According to the Ministry of Finance, total customs revenue collection from imports from Singapore in 2017 was Rs. 35 billion and revenue loss consequent to tariff liberalization under Singapore agreement over the entire period of 15 years is Rs 733 million. Therefore, average annual revenue loss is 49 million.

The best solutions are regulations within the agreements that protect against the disadvantages. As an example, environmental safeguards can prevent destruction of natural resources and cultures while labour laws prevent poor working conditions. Also, the success of such an agreement, however would also depend on sustained political will domestic institutional and economic policy reforms to facilitate better export sector growth and investment. For instance, Sri Lanka's complex para-tariff structures and existence of other non-tariff barriers could severely undermine the success of the SLSFTA. Economic liberalization efforts often create pockets of sub-industries that lose out. Therefore, the government should also create adequate safeguard through trade adjustment assistance schemes and ensure the broader economy does not lose out on potential benefits due to resistance by special interests. In fact, Sri Lanka could learn from Singapore's previous experiences in complementing a network of strategically places FTAs with domestic economic reforms. Therefore, the SLSFTA should be considered, not just in isolation, but as a part of a broader strategy to create an economy led by private sector growth and well-integrated into regional and global value chains. According to government policies and economic reforms, Sri Lanka plans to create a knowledge-based social market economy and an export-oriented economy as well as the Western Region Megapolis a Megapolis in the western province to promote economic growth. The creation of several business and technology development areas island-wide specialized in various sectors, as well as tourism zones are also being planned. Singapore's growth strategy over the past decades has been based on a policy of outward orientation and reduced barriers to international trade and investment. While being fully committed to the WTO, it has simultaneously pursued trade liberalization through the regional and bilateral and bilateral routes to sustain its global competitiveness in the international market.

In addition, an Agreement with Singapore will include liberalization of the services sector through the provision of national treatment and removal of market access restriction on service suppliers in sectors committed. Singapore has pursued both a positive and a negative list approaches to services liberalization with its FTA partners and liberalized areas of interest to both parties. Service sectors currently liberalized in Singapore including telecommunications, banking, financial, education and environment services. However, liberalization of labour mobility has been restricted under Singapore's FTAs. Even the most spirited free traders like Singapore have been restrained about opening its borders to admit labour from abroad.

Conclusion In conclusion, the signing of a bilateral FTA between Sri Lanka and Singapore has the potential to improve trade relations between the two countries. An agreement will most likely remove custom duty on almost all goods. However Sri Lanka has little to gain in the context of trading goods due to the minimum amount of exports and Singapore's existing duty free access. Mobility of labour to Singapore should not be anticipated based on its existing FTAs. However, a bilateral FTA has the potential to facilitate an increase an in Singapore's FDI to Sri Lanka while Sri Lankan service providers can gain by having more market access in Singapore.