

A Political Economic Analysis of the Sri Lanka-Singapore Free Trade Agreement

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Introduction

Today, the future of globalization has become the world's most powerful ideology over the past few decades. At a time, when the Western world is stuck in a transitional period of deciding whether to move away from neo-liberalism with globalization or move forward with it, Sri Lanka's current foreign trade policy helps to make some decisions regarding the economic conditions. Sri Lanka enters into international trade agreements with other countries in accordance with the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade and Services (GATS) agreements enacted within the WTO mechanism.

Currently, bilateral and multilateral trade agreements have been signed with the objective of enhancing Foreign Direct Investment (FDI) in Sri Lanka, linking global products and values, promoting trade between countries and enhancing economic cooperation. They are the South Asian Free Trade Agreement (SAFTA), the Indo Sri Lanka Free Trade Agreement (ISFTA), the Sri Lanka-Pakistan Free Trade Agreement (SPFTA), the Multilateral Sectorial Free Trade Agreement for Technical and Economic Cooperation in the Bay of Bengal (BIMSTEC) and the Sri Lanka-Singapore Free Trade Agreement (SLSFTA). Free Trade Agreements (FTAs) have already been signed by Sri Lanka. Various parties have expressed varying views on the Sri Lanka-Singapore Free Trade Agreement.

This agreement is set to take Sri Lanka to a critical juncture in the economy of South Asia. It is the first free trade agreement signed by Sri Lanka in ten years, and is the first comprehensive free trade agreement signed by Sri Lanka, including trade in goods and services. It is also Sri Lanka's first free trade

agreement with a Southeast Asian country. The agreement is primarily for service investment, sanitation and biometric operations, removal of technical barriers to trade, trade assistance and dispute resolution, provision of customs relations and trade facilities, economic and technical cooperation, government planning, e-commerce and intellectual property rights.

Singapore is Sri Lanka's 8th largest trading partner, according to the 2018 Central Bank report. In terms of commodity trade, Singapore is not a highly important export market for Sri Lanka. At present Sri Lanka exports to Singapore only parts for electrical and electronics manufacturing, machinery, minerals, apparel, food and beverages and tobacco. The agreement opens up more opportunities for Sri Lanka to export men's T-shirts and women's clothing, jersey, rubber tires, special men's wear, pepper, light utensils, electric ovens, vulcanized rubber products, gemstones and semi-precious stones. Singapore is currently the 7th largest investor in Sri Lanka. More than 119 Singaporean companies currently operating in Sri Lanka have invested about US \$ 658 million in Sri Lanka from 2005 to the third quarter of 2017 (Central Bank of Sri Lanka, 2018).

Singapore has invested in IT, real estate, manufacturing, construction, renewable energy and pharmaceuticals. Although the primary objectives of the Sri Lanka-Singapore Free Trade Agreement are to attract foreign direct investment to Sri Lanka's manufacturing and services sectors, and to engage with global product and value chains, many have expressed a number of critical views on the matter. Some of those critical views are the impact on local industrialists, the risk of losing government tax revenue, and whether foreigners can come to work in the country. In this context, it is a timely necessity to analyze what its objectives really are under a political-economic approach.

Objectives

The primary objective of this study is to investigate whether the Free Trade Agreement between Sri Lanka and Singapore will bring specific benefits to Sri Lanka. The secondary objective is to examine the arguments raised by people protesting against the Sri Lanka-Singapore Free Trade Agreement and to gain a political-economic approach.

Methodology

This study uses annual data from the Department of Commerce Sri Lanka on Import and Export Trade between Sri Lanka and Singapore between 2001 and 2019 as secondary data to identify whether Sri Lanka would experience specific benefits through the Sri Lanka-Singapore Free Trade Agreement. The export intensity index, import intensity index and trade balance index have been used to analyze the specific benefits to Sri Lanka through this agreement. The Export Intensity Index studies the export orientation and export trade relations between the two countries as follows:

$$XIJ = \frac{Xij}{Xj} / \frac{Mj}{Mw-M} \quad (1)$$

The Import Intensity Index studies the import-trade direction and import-trade relationship between the two countries as follows:

$$MIJ = \frac{Mij}{Mi} / \frac{Xj}{Xw-X} \quad (2)$$

The Trade Balance Index studies the trade direction and trade relationship between two countries as follows:

$$TBIij = \frac{Xij-Mij}{Xij+Mi} \quad (3)$$

Microsoft Excel software was used to calculate and analyze the above index. To examine the arguments of people who have a positive and critical view on the Sri Lanka-Singapore Free through the Trade Ministry of Development Strategies and International Trade is applied. Data were collected via in-depth questionnaire-based interviews from the officials of the Department of Commerce Sri Lanka and members of the National Front of Professionals. The transparency of the Lanka-Singapore Free Trade Agreement has been studied using detailed statistical methods.

Results and Discussion

Figures 1, 2 and 3 below show the values of the Export, Import Intensity and Trade Balance Index respectively calculated for trade between Sri Lanka and Singapore from 2001 to 2018. It identifies variations in these indicators under three main phases: 2001-2004, 2005-2014 and 2015-2018.

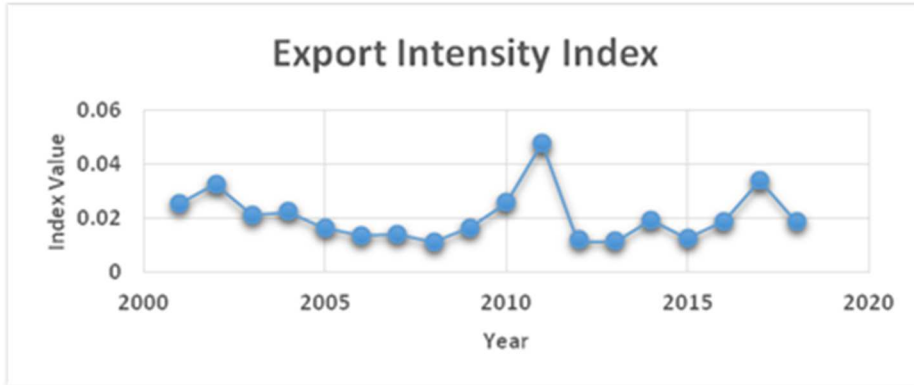


Figure 1: Values of the Export Intensity Index

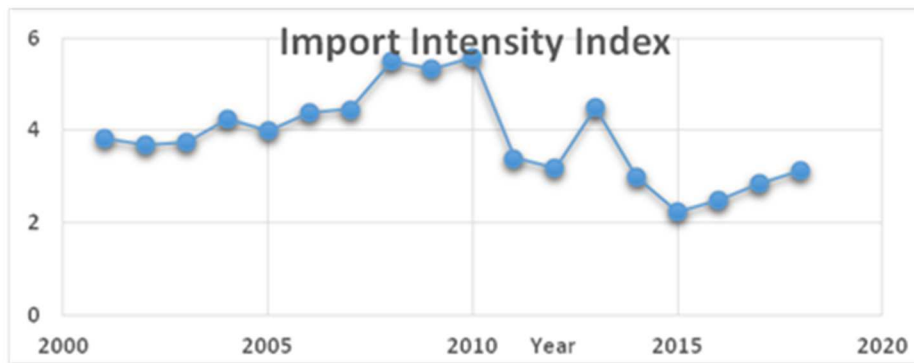


Figure 2: Values of the Import Intensity Index



Figure 3: Values of the Trade Balance Index

During the first phase, an increase in the Export Intensity Index was detected in 2002. Sri Lanka's exports to Singapore have not been as lucrative as Sri Lanka had hoped, and the value of the import intensity index has remained stable. Considering the second period, the value of the Export Intensity Index declined during 2005-2008, to a low of 0.113 in 2008. During the period 2005-2010, the value of the Import Intensity Index increased steadily, reaching its highest level in 2010 (5.58). This may have been due to the war situation in Sri Lanka during that period. The value of the Export Intensity Index rose sharply during the period 2008-2011, reaching a high of 0.047 in 2011. But since 2011, the value of the Export Intensity Index has fallen again until 2014. Although the import intensity index declined to 2.22 in 2015, its value has continued to rise since then. The trade balance depreciated from 2001-2004, hitting a low of -0.90 in 2008, and has improved after. This is due to the end of the war and the implementation of export promotion programs. But after 2011, the trade balance index fell to 2014. It is also possible to detect fluctuations in the values of the trade balance index during the period 2015-2018.

The major weakness in the drafting of the Sri Lanka-Singapore Free Trade Agreement is the lack of consultation with the various stakeholders involved. But the government denies the allegation. In addition, Sri Lanka does not have a national trade policy except for a document called the New National Trade Policy. The basic arrangements of this agreement have put Sri Lanka at a disadvantage. It can also be seen that Sri Lanka is losing a lot of tax revenue through this and Singapore has gained a huge advantage from the trade in goods. According to the agreement, falling prices of imported goods could lead to a severe crisis in the local manufacturing industry and the risk of losing the local job market.

Conclusion

Sri Lanka is subject to import and export activities between Sri Lanka and Singapore due to a value of less than 1 in the Export Intensity Index and more than 1 in the Import Intensity Index for trade between Sri Lanka and Singapore during the period between and 2001-2019. In addition, Sri Lanka is a net importer as the value of the trade balance index is less than one. Through this Free Trade Agreement, not only the citizens of Singapore but

also the citizens who have obtained permanent citizenship of Singapore will have the opportunity to come to Sri Lanka and engage in various occupations. The quality of the Sri Lankan labor market will improve due to the expertise of the people arriving from Singapore. Also there is a risk that waste such as garbage, which is harmful to the environment, could enter Sri Lanka through this trade agreement. The response from Sri Lankan scholars and trade unions to the Sri Lanka-Singapore Free Trade Agreement has been poor. The trade agreement should be reactivated after a feasibility report on the Sri Lanka-Singapore Free Trade Agreement is prepared and studied. Necessary policies should be formulated to promote small and medium scale industries in Sri Lanka. As there is no stable national trade policy in Sri Lanka, an effective national trade policy that is beneficial to the country should be created.

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