

The Impact of Non-Tariff Barriers for the Success of Indo – Sri Lanka Free Trade Agreement

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Introduction

The Indo – Sri Lanka Free Trade Agreement (ISFTA) was signed in 1998 with the aim of expanding the trade between the two countries. The ISFTA came into effect from 2000 (Hand Book of ISFTA, 2013). There have been suggestions to expand the ISFTA and include more service exchange between two countries and it was proposed to sign Economic and Technology Corporation Agreement (ETCA).

According to the initial agreement, if any product is to be considered under the ISFTA, at least 35 % of the value addition should take place in the country of origin. Accordingly, ISFTA facilitates more than 70 % of the exports to India. However, only less than 30 % is exported from India to Sri Lanka through the ISFTA. When the ISFTA was initially signed, Sri Lanka was allowed a larger negative list (1,180 tariff lines) than India (429 tariff lines). However, in 2003, the duty exempted items for Sri Lanka was increased from 1,351 to 4,150 (Kelegama, 2003). It was evident that the removal of tariff barriers has resulted in increasing the existence of NTBs. ISFTA, too had been subjected to the NTBs which had hindered the possibilities of expanding the bi-lateral trade.

Many research conducted to evaluate the success of ISFTA and to identify shortcomings of it. Ever since the ISFTA came into effect, certain exporters are facing NTBs which are not easily comprehended or foreseen until someone faces the situation. It was evident that during

last decade, the trade with India had not grown sufficiently in spite of the existence of ISFTA. Literature identifies that NTBs has been acting as obstacles to trade in contrast to tariff barriers which has been reduced by a large margin. At this moment, it is very vital to identify the NTBs exist in trading with India. Therefore, it is an utmost need to identify the existing barriers prior to expansion of the ISFTA.

Objectives

The research has the major objectives of identifying the NTBs existed within the scope of the ISFTA. It also attempts to examine the reasons for the existence of NTBs. The paper further attempts to investigate whether there has been sufficient efforts to address NTBs faced by exporters.

Methodology

The research adopts the method of descriptive analysis and case study method to analyze how NTBs hindered the trade under ISFTA. Interviews were conducted with officials in charge of the Department of Commerce who handle the matters which relate to the ISFTA, and exporters who faced NTBs were interviewed to analyze the root causes for NTBs.

Results and Discussion

In the analysis following issues are identified. (a) issue regarding quality assurance: A company faced the issue of rejecting the compound chocolate produced by Indian companies even if chocolate is an item come in the duty free list in the ISFTA (HS 1806.20 and HS 1806.90). However, compound chocolates are manufactured in India and are available in the Indian market. This clearly seems to be a NTB that is not only hinder the trade, but also mislead exporters. (b) Issue of imposing floor price: It was found that restrictions have been imposed on Sri Lankan marble and granite exporting to India (Chapter 68 of

IT(HS) Code) under ISFTA. According to the exporting company, Indian authorities had arbitrarily imposed floor price which has been acting as a barrier over the years. (c) anti-dumping duty issue: Another exporting company faces an issue of being imposed an anti-dumping duty by the Indian government. Accordingly, they were facing the issue over the years and despite the complaints made and cases filled, the issue remains unaddressed. However, the Department of Commerce in Sri Lanka has no right to intervene in resolving the dispute and the company alone has to fight the battle. (d) port restrictions: time to time India had imposed certain ports restrictions regarding certain products exported by Sri Lanka. For example in 2004, regulation was imposed on copper exports.

Conclusion and Recommendation

The evidence shows that the NTBs act as a hindrance to expand the Indo – Lanka trade and fully utilize the ISFTA. It was identified through case studies that the asymmetry of information too had caused NTBs. Further, it was identified that the lack of an independent body to evaluate certain actions taken in relation to the ISFTA, had allowed countries to act arbitrarily. In this context, this study suggests to establish a common body for quality assurance in order to avoid NTBs. It is also suggested to allow the Department of Commerce to intervene in a more active manner in solving NTBs issues related to foreign trade.

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