

Network Trade and Sri Lanka's Integration into Regional Supply Chains

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13th Annual Conference on Managing the Pakistan Economy
Lahore School of Economics

29-30 March, 2017

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OBJECTIVE

- To examine the integration of South Asian countries in general, and Sri Lanka in particular into the Regional Network Trade

STRUCTURE

- Changing trade pattern in Asia and network trade
- Network trade among South Asian countries
- Sri Lankan integration into network trade
- Policy implications and conclusions

PRESENTATION IS BASED ON:

Abeyratne, S. (2013). 'Integration of Sri Lanka into Indian Supply Chains under the Bilateral Free Trade Agreement', *South Asia Economic Journal*, 14(2): 275-292

Abeyratne, S. & Dunusinghe, P. (2015). *Network Trade in South Asia: Product Fragmentation and Integration*, Marga Institute, Colombo, Research Study for South Asia Network of Economic Research Institutes (SANEI), Kathmandu

Network Trade

- Global Product Sharing: geographical fragmentation of production and integration into global supply chains
- Internationalization of a manufacturing process in which several countries participate in different stages of the production process (vertical fragmentation) of a given commodity
- It generates trade in “parts and components” of that given product, which is assembled in a different country
- Growing trade pattern in the world, dominantly growing trade pattern in East and Southeast Asia with China at the center during the past 2-3 decades (Athukorala 2011, Athukorala and Menon 2010, Ferrarini 2011, Kimura 2006, WTO 2011)
- Exports of “parts and components” as percentage of total manufacturing exports:
 - 30% in the world, 34% in developing countries, 52% in ASEAN countries, 31% in East Asian countries, and only 11% in South Asia

CASE I

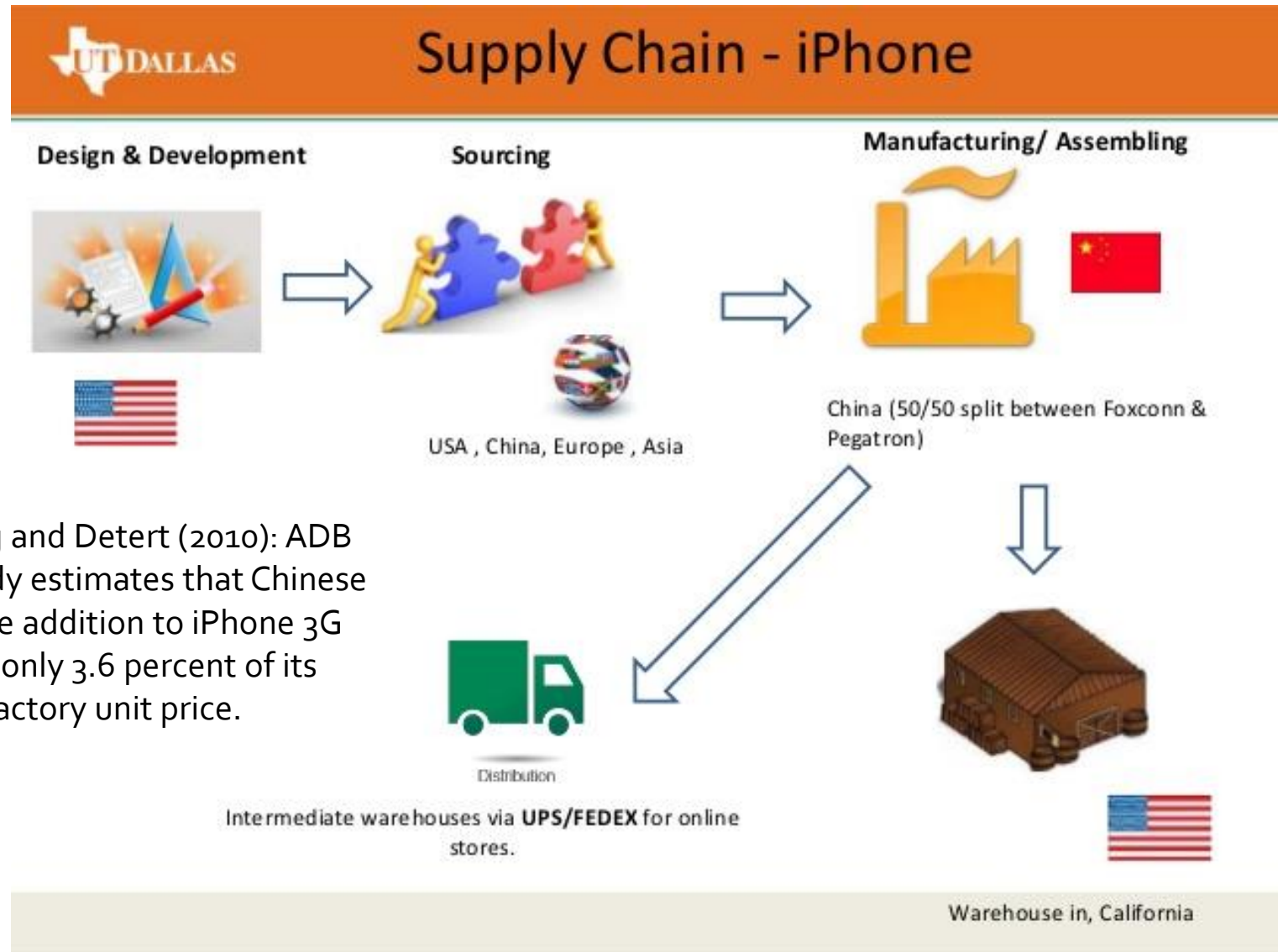
Made in Thailand: Hard Disc Drive Network



Source: Hiratsuka, Daisuke (2006). "Vertical Intra-Regional Production Networks in East Asia: Case of the Hard Disc 3 Drive Industry in East Asia," in Hiratsuka, D. ed., *East Asia's De Facto Economic Integration*, Chapter 6, London: Palgrave Macmillan.

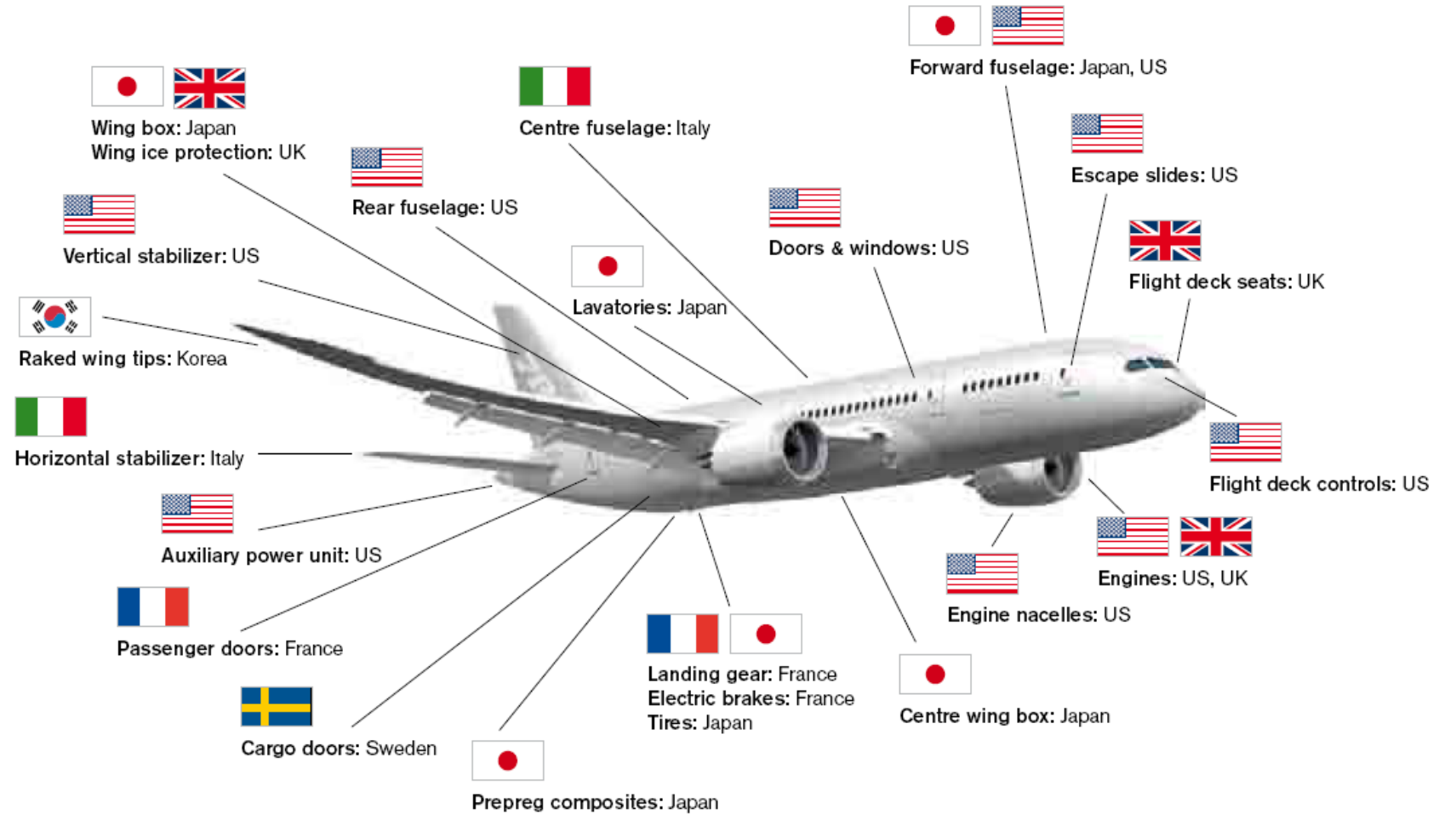
CASE II

Made in China: iPhone Network



CASE III

Made in USA Boeing 787 Dreamliner



Source: WTO (2011). *Trade Patterns and Global Value Chains in East Asia: From Trade in Goods to Trade in Tasks*, P. 95, Geneva: World Trade Organization

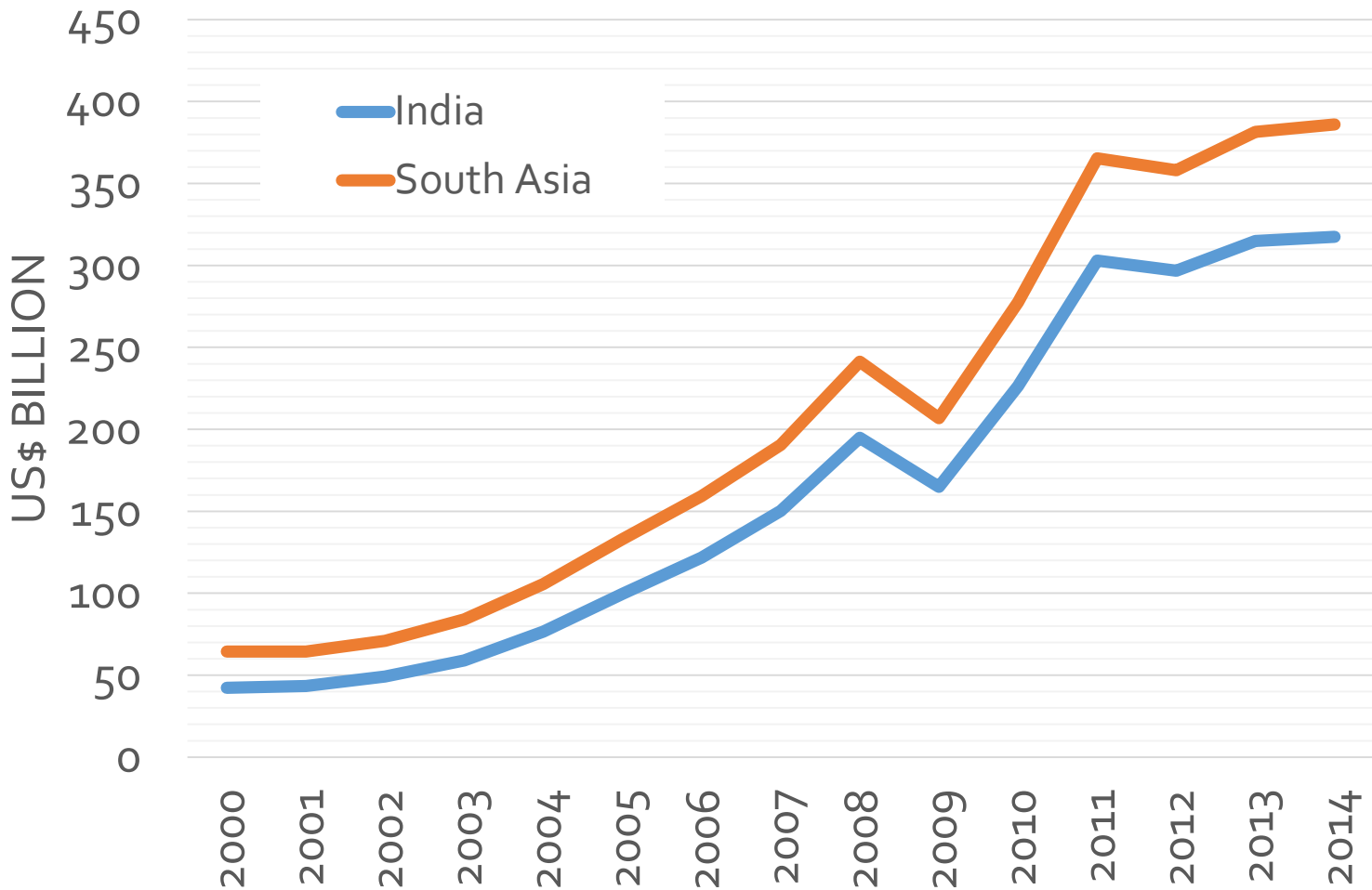
Policy implications

- Global product sharing: different from common patterns of trade:
 - Exchange between Wine and Cloth
 - Exchange of wine for wine and cloth for cloth
- Challenged the conventional notion of “value added” exports – the **volume** is more important than the **unit value** of an export product
- Trade in “parts and components”: part of intermediate goods, but different from the generally used term “intermediate goods” because trade is “relationship-specific” (contractual)
- Highly sensitive to trade barriers – tariffs and NTBs, which can even wipe out the entire space of possibilities
- Region might have better opportunities than individual countries to succeed through global product-sharing

South Asia: trade liberalization, multilateral and bilateral agreements

- Regional initiatives:
 - South Asian Association for Regional Cooperation (SAARC) in 1985
 - SAARC Preferential Trading Arrangement (SAPTA) in 1995
 - Agreement on South Asian Free Trade Area (SAFTA) in 2005
 - The proposed South Asian Economic Union (SAEU) by 2020
- Bilateral initiatives:
 - Two FTAs: India – Sri Lanka Free Trade Agreement (ILFTA) 2000 and Pakistan – Sri Lanka Free Trade Agreement (PLFTA) 2005
 - Most of the other BTAs between India and a neighboring country
 - In addition: Afghanistan – Pakistan; Bhutan – Bangladesh; and some other under negotiations

Merchandise Exports from India and South Asia 2000-2014



Merchandise exports from South Asian Countries, 2010 (% of total exports)

From/To	Bangladesh	India	Nepal	Pakistan	Sri Lanka	South Asia	OECD	EU-25
Bangladesh		1.7	0.0	0.4	0.1	2.2	50.5	87.0
India	1.4		0.9	1.0	1.5	4.7	37.3	18.7
Nepal	6.9	65.3		0.2	0.0	72.3	21.8	11.3
Pakistan	3.0	1.3	0.0		1.4	5.7	49.2	24.1
Sri Lanka	0.4	5.6	0.0	0.7		6.8	65.6	34.9

Source: World Integrated Trade Solution

Exports of Parts and Components from South Asian Countries

Parts and Components Exports as % of total bilateral exports

	year	Bangladesh	India	Nepal	Pakistan	Sri Lanka	South Asia (a)	OECD	EU	world
Sri Lanka	2000	1%	0%	20%	1%		1%	4%	4%	7%
	2010	8%	11%	1%	1%		10%	4%	4%	4%
	2013	7%	9%	1%	1%		8%	4%	3%	4%
Bangladesh	2000		0%	0%	1%	4%	1%	2%	0%	1%
	2010		4%	0%	0%	4%	3%	1%	0%	1%
Pakistan	2000	2%	0%	3%		1%	1%	1%	1%	1%
	2010	1%	1%	0%		0%	1%	1%	1%	1%
	2013	1%	0%	0%		0%	1%	0%	0%	1%
Nepal	2000	0%	3%		17%	0%	3%	0%	1%	2%
	2010	0%	4%		0%	0%	3%	1%	2%	3%
	2013	0%	1%		0%	0%	1%	1%	3%	1%
India	2000	8%		10%	1%	9%	8%	5%	6%	6%
	2010	5%		6%	1%	5%	4%	11%	12%	7%
	2013	5%		6%	1%	5%	5%	9%	10%	7%

Source: World Integrated Trade Solution

India – Lanka 'free trade' in old fashion

- According to the estimates based on a Gravity Model variant (Abeyratne and Dunusinghe 2016), SAFTA or any other BTA in South Asia (including Sri Lanka's FTAs) does not seem to be significant in production fragmentation and network trade.

Composition of Sri Lanka's Exports to India

	2000/01		2010/11	
	USD million	%	USD million	%
Raw materials	18.2	40.5	102.7	20.5
Parts and components	2.1	4.6	34.4	6.9
Finished goods	24.7	54.8	364.5	72.7
(of which) Capital goods	1.1	2.4	91.3	18.2
Total	45.0	100	501.7	100

Discussion

- South Asia has performed well in terms of its export expansion during the past few decades, an integrating even more with their traditional markets in advanced countries.
- It is difficult to argue that trade liberalization and RTAs and BTAs within South Asia have been significant instruments
 - for regional trade expansion in general and
 - for product fragmentation and integration into regional value chains in particular
- India – Lanka FTA under which has become more effective than any other RTA / BTA in the region in trade expansion, did not result in a significant change in the traditional trade pattern.
- Even the free trade agreements do not eliminate NTBs; rules of origin, regulations and negative lists are NTBs stipulated within trade agreements.

Concluding remarks

- Trade agreements have not guaranteed greater trade integration within South Asia; NTBs are barriers to network trade; thus everybody finds it easier to trade with outside South Asia than with each other in the region
- Global product sharing dominated by FDI flows, is likely to be more attractive to a region than to individual countries; thus trade liberalization and trade facilitation should be a more coordinated regional initiative than individual efforts.