

Why not signing India-Sri Lanka CEPA is inimical to the national interest

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- Chair, Commission on Growth & Development
 - Basic problem is the shortfall of USD 1 trillion in demand, which will not come back unless US house prices return to pre-crisis levels
 - This will not happen
 - Can the demand come from elsewhere?
 - Natural reaction, despite the bad experience of 1930s (60% decline in world trade was result of Smoot-Hawley Act), is to become protectionist and preserve the remaining demand for local industry

**US & S Korean Presidents
after US Congress
approved US-S Korea FTA**



- The US Congress this month approved 3 FTAs with South Korea, Colombia and Panama
- In addition to North American Free Trade Agreement (NAFTA) covering Canada, USA and Mexico

International Trade

- India & World Trade Organization (WTO)
- [Trade Agreements](#)
- Non Tariff Measures
- TBT and SPS Portals
- Fifth Trade Policy Review of India
- Trade Promotion Programmes and Schemes

National Trade

- Special Economic Zones
- Trade Promotion Assistance
- Foreign Trade Policy and Procedure
- Plantation Scheme

[Current Engagements/ Negotiations](#)

- [Current Engagements of India in RTAs](#)

[Agreements already concluded](#)

- [Agreement of Cooperation with Nepal to Control Unauthorised Trade](#) PDF download
- [Agreement on Economic Cooperation between India and Finland](#) PDF download
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[Other Agreements/ Negotiations](#)

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The offensive/optimistic
response (Plan A)

Can Asia fill the demand gap?

- Demand = people with money
- How can people with money be created?
 - Growth
- According to the Commission, growth comes with
 - Integration to global value chains
 - Application of knowledge to economic activities

Leave aside Asia, what about Sri Lanka?

- Value chains
 - Now that the war is over, can we
 - Connect more value chains to the global economy?
 - Increase the integration of these value chains?
 - Make these value chains more inclusive?
 - Does global have to mean US and Europe?
- Application of knowledge = productivity
 - How can we increase the application of knowledge, and thereby productivity across the economy?

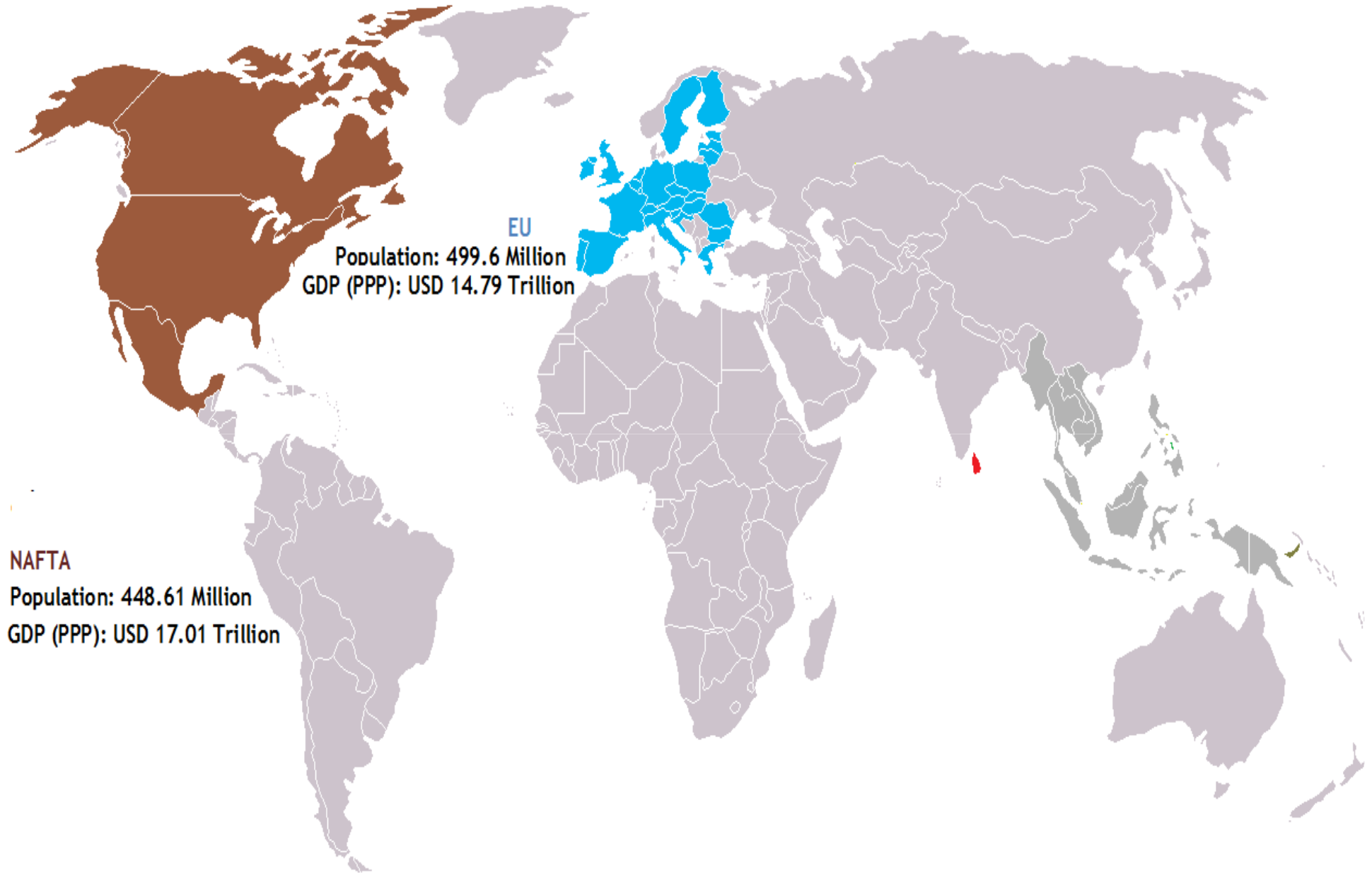
Our chances of success

- Will they be better
 - If we draw on skills and capital, OR
 - If we try to do it on our own?
- Does CEPA help or hinder?

The defensive/pessimistic
response (Plan B)

Hopefully we will not see full
protectionism like in 1930

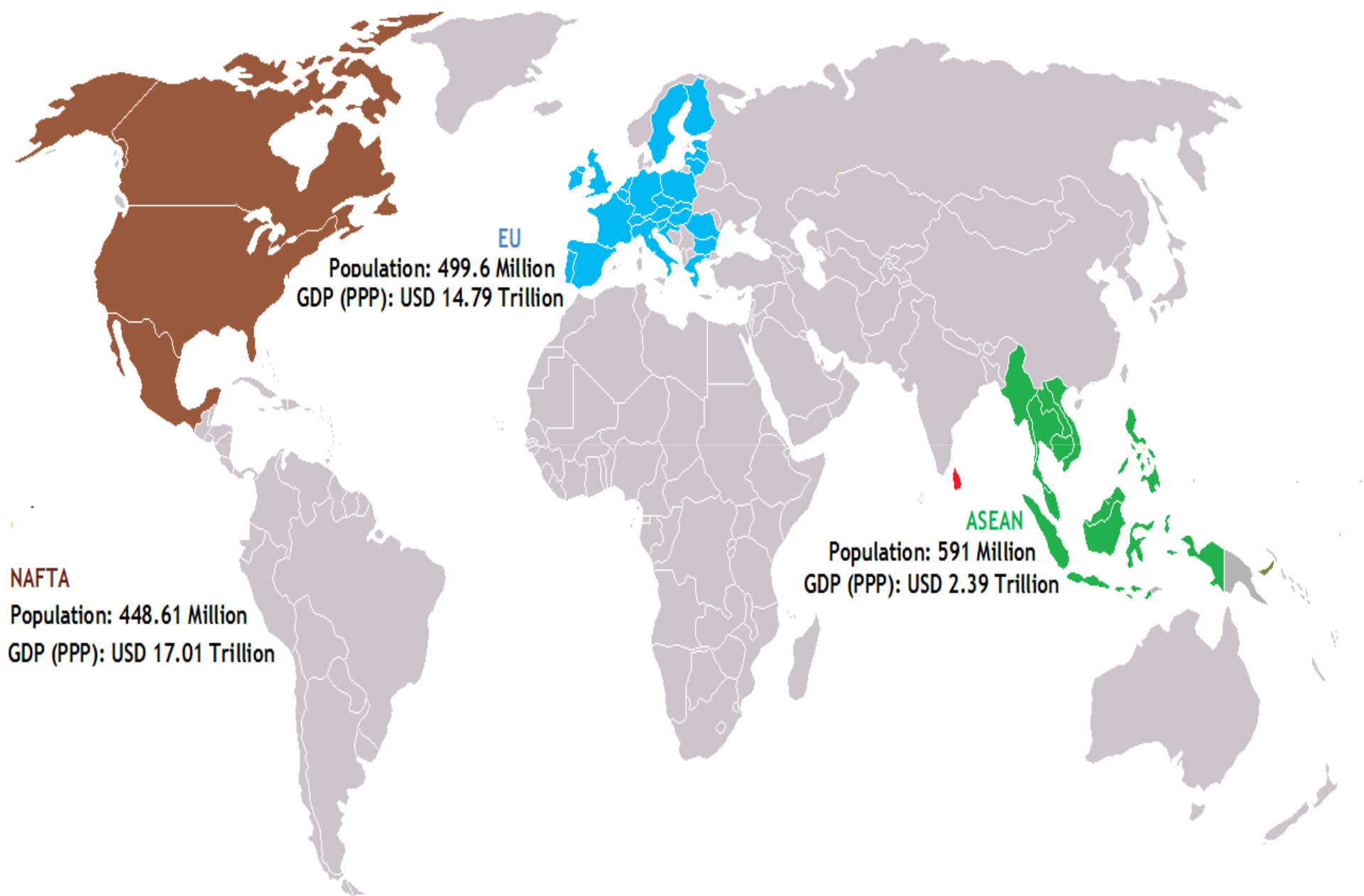
- But, perhaps two fortresses, emerging from the already existing trade blocs, NAFTA and EU?



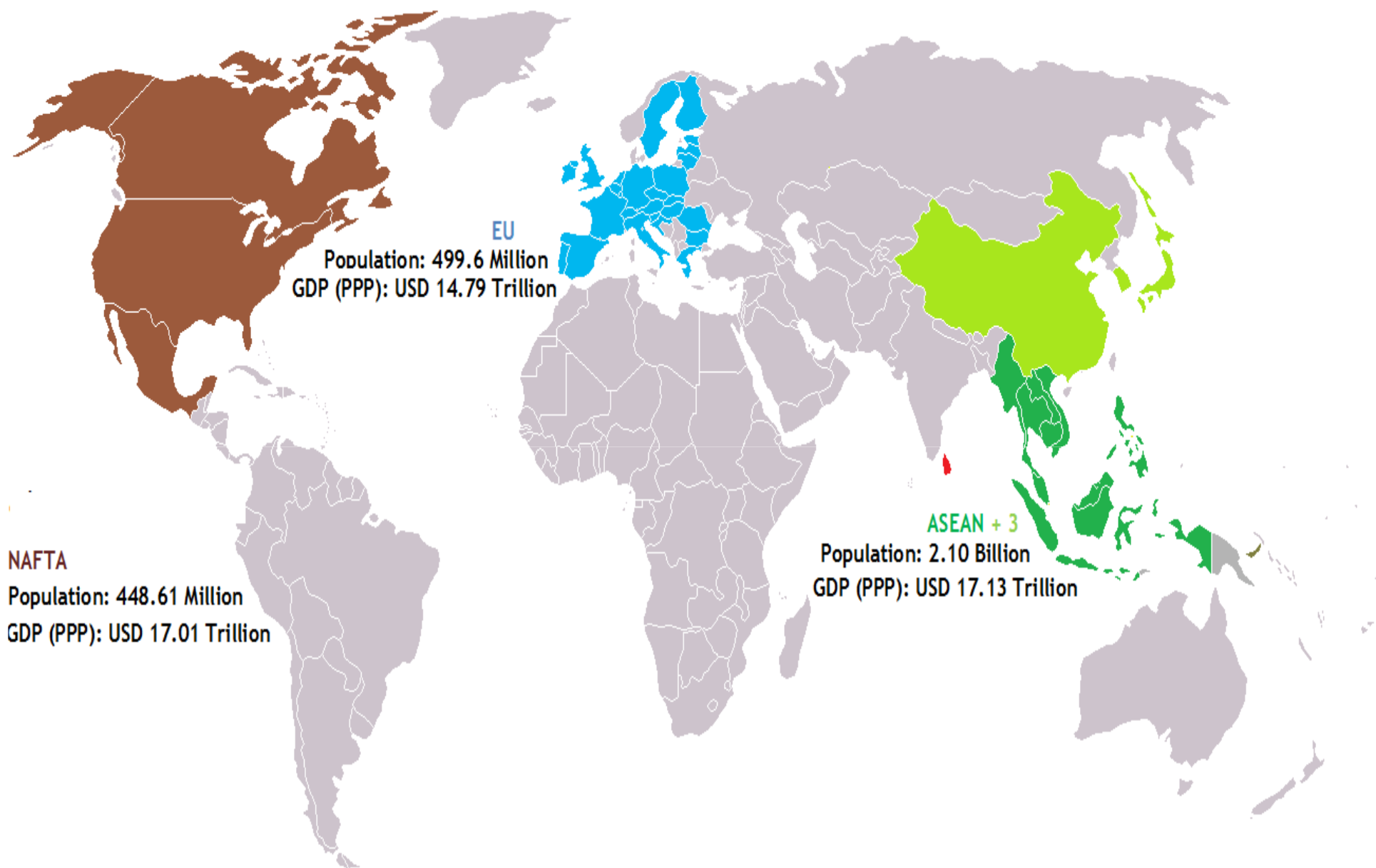
Data Source: IMF (2010) World Economic Outlook Database & Eurostat

And a third? But who will be in? And out?

- What about Asia, the growth engine?
 - ASEAN+3 proposed by China (ASEAN+ China + Japan + South Korea), OR



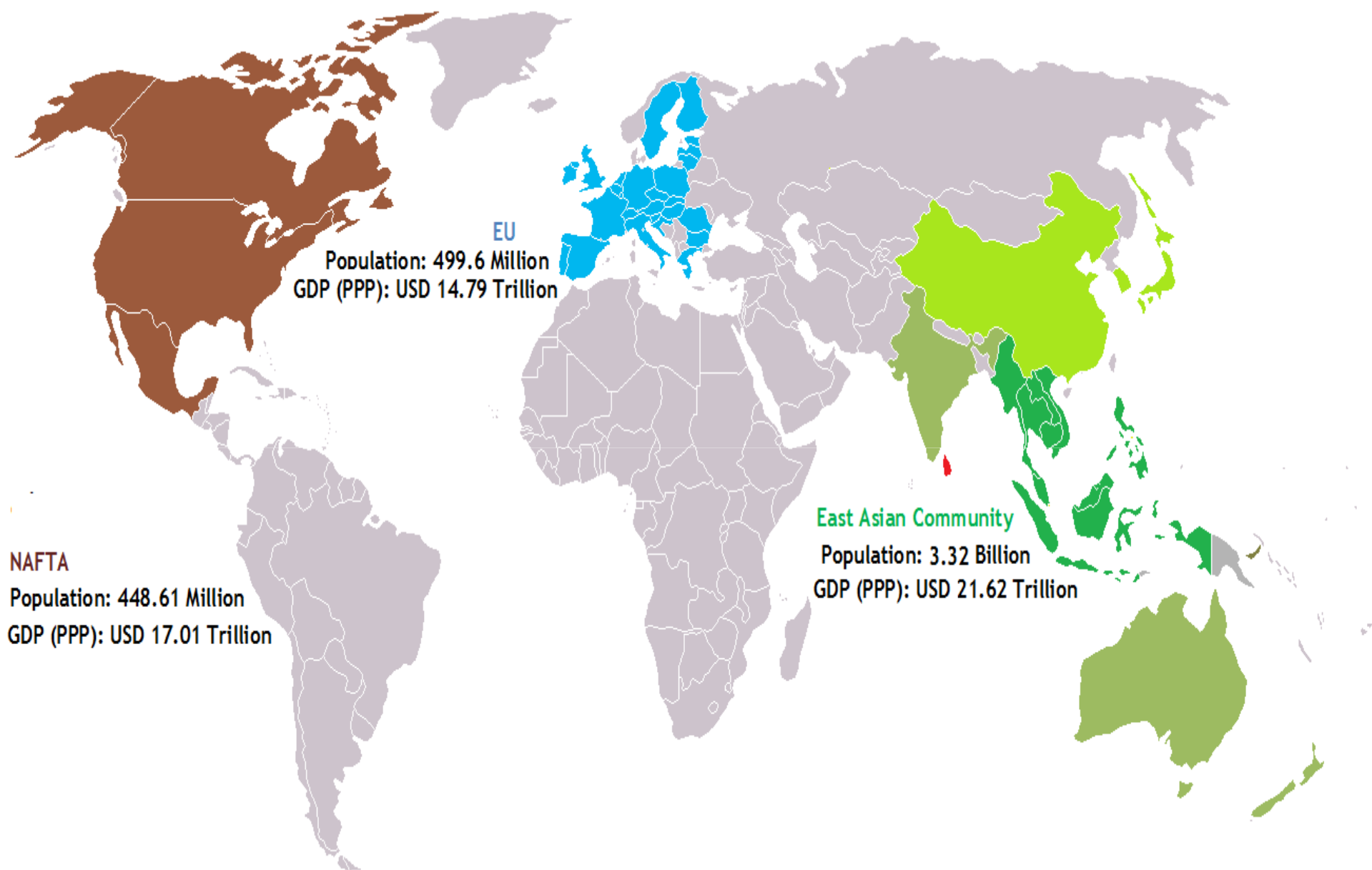
Data Source: IMF (2010) World Economic Outlook Database & Eurostat



Data Source: IMF (2010) World Economic Outlook Database & Eurostat

Or, another option?

- East Asian Community proposed by Japan & Australia (ASEAN+3 + Australia + NZ + India)?



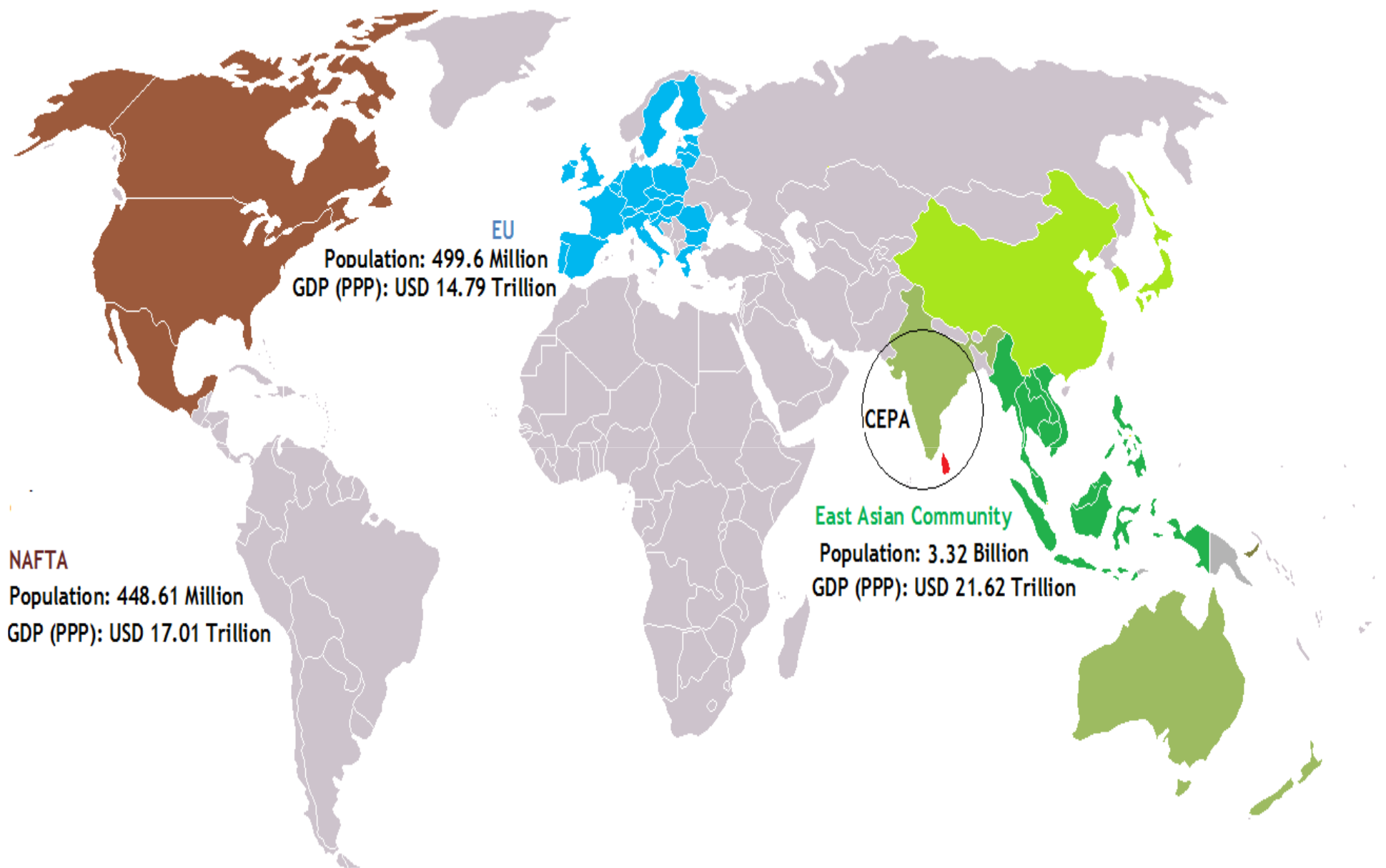
Data Source: IMF (2010) World Economic Outlook Database & Eurostat

Is Sri Lanka included in either option?

- China is promoting ASEAN+3
 - But no mention of Sri Lanka
- Japan and Australia are promoting East Asian Community
 - No mention of Sri Lanka either
- Only India wants to sign CEPA with us

In a world of fortresses . . .

- How will life be for those outside?
- How realistic are the chances of Sri Lanka being invited to the party on its own?
- But like the Lome Convention countries got connected to the EU, can we also benefit from being in CEPA?



Data Source: IMF (2010) World Economic Outlook Database & Eurostat

South-South trade within Asia on the rise

- . . . bilateral trade between India and China has been on the rise and has surpassed the bilateral trade between India and the United States since 2008. Furthermore, trade between India and China held up during the crisis, whereas that between India and the United States showed a declining trend. . . . **South-South trade is becoming more important now** . . . and has recovered much faster than South-North trade.
- Share of exports from Pakistan to the United Arab Emirates plus Afghanistan, for example, has surpassed the corresponding share from Pakistan to the United States. . . . **all the top four importing countries from Pakistan are developing countries or Middle Eastern countries. Similarly, for Bangladesh and Sri Lanka, China, and India are the two most important trading partners, accounting for 30 percent of their total imports for both countries.**

World Bank (2010). *Moving up, looking east. South Asia Economic Update*. p. 38
<http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1269620455636/6907265-1275784425763/SAREconomicUpdate7June2010.pdf>

World Bank research on South Asia's Look East strategy

- CGE modeling . . . Suggests . . . that it is India's participation that provides most of the gains to East Asia. For the South Asian economies themselves, countries other than India gain significantly *only if India carries its neighbors in South Asia with it. In its absence, the India–East Asia integration scenario produces significant trade and welfare losses for India's neighbors.*

World Bank (2010). *Moving up, looking east. South Asia Economic Update*. p. 40,
<http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1269620455636/6907265-1275784425763/SAREconomicUpdate7June2010.pdf>

This is the context of CEPA

- Isolation does not seem a good option in either response to the Great Recession
 - We need to increase productivity
 - We need to integrate with global value chains more
 - We need to make sure we're not left out of the emerging fortresses

State of debate on CEPA

- CEPA includes trade in goods & services and covers investment; also dispute resolution
- Opponents of CEPA later stated they have no objection to ILFTA, which means that the goods chapter is no longer problematic
- No objection to dispute resolution provisions, which fill a lacuna in ILFTA
- Not much talk about investment, because being against investment may not be in line with government policy
- The dispute can thus be narrowed to services, esp. movement of natural persons under Mode 4

How to discuss a non-public document

- Best available evidence: slideset from IPS presented at official seminar just before Manmohan Singh visit in 2008 when authorities believed agreement would be signed

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http://www.ips.lk/events/workshops/cepa_10_7_08/programme.pdf

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SEMINAR ON

INDIA-SRI LANKA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT (ILCEPA): OPPORTUNITIES & CHALLENGES

Samudra Ballroom, Taj Samudra Hotel, Colombo

Thursday 10 July, 2008

What sectors Sri Lanka offered for Mode 4 commitments?

- Total of two
 - Computer and related services
 - Only for expert trainers and technical staff at 10% of total staff for each USD 100k
 - Ship building services, where there is a shortage of people and where most exports are to India
 - Specified occupations only

Claims of the opponents

- “Under this set up any professional even an Indian barber can come with his family to work in Sri Lanka,” [Samantha Kumarasinghe] said.
 - Sunday Times, 30 May 2010 [Lankan entrepreneurs protest against CEPA]
- Who has actually set up high-end hair-cutting and related service operations in which country?

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Unisex Hair & Beauty Salons

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OUR TEAM

APPOIN



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SALONS



Why not see Indian market as an opportunity for service export?

- India planning to spend USD 500m by 2012; USD 1 trillion after that
 - World Bank estimates India would need to triple the number of civil engineers it currently produces to meet the infrastructure growth targets
 - “Sujay Kalele, an executive with Kolte-Patil, . . . said the company’s projects could be completed as much as three months faster if it could find enough skilled engineers”
- But not exports only; we also need expertise