

# Why an agreement with India covering goods, services & investment is good for Sri Lanka

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# Let's look to future with hope

- ▶ Start with CEPA debates from 2010 but look to effective economic strategies that will create exports and jobs that are attractive to our young people
- ▶ Fear is the principal currency of trade debates. But I have always preferred to work with hope. For those who say hope is imagined, I say fear too is imagined

# State of debate on CEPA

- ▶ CEPA includes trade in goods & services and covers investment; also dispute resolution
- ▶ Opponents of CEPA have stated they have no objection to ILFTA, which means that the goods chapter is not problematic
- ▶ No objection to dispute resolution provisions, which fill a lacuna in ILFTA
- ▶ Not much talk about investment
- ▶ The dispute can thus be narrowed to services, especially movement of natural persons under Mode 4

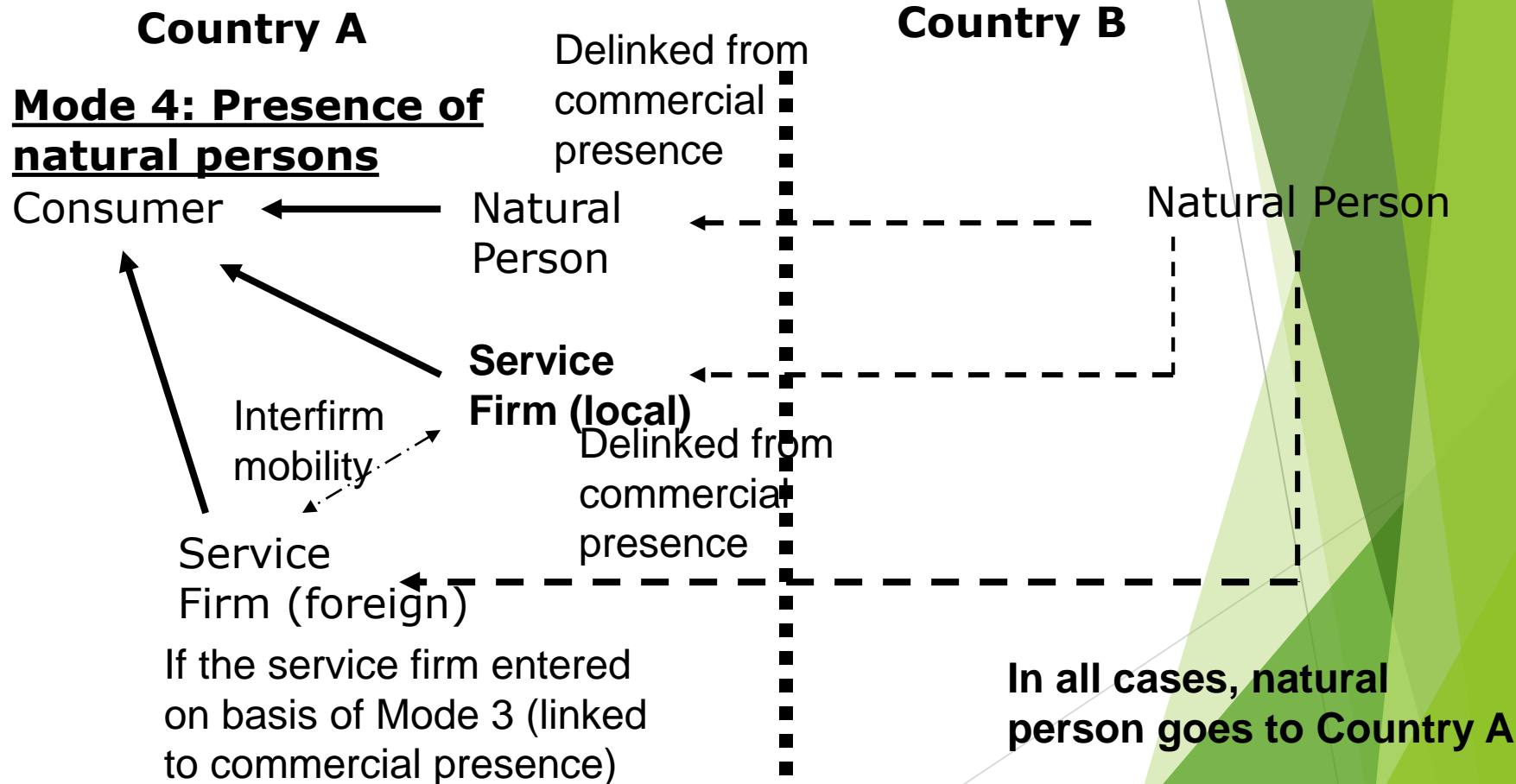
# Why a legal framework for Mode 4?

- ▶ Services trade in Modes 1 and 2 are difficult to police (or even get data on)
  - ▶ But generate demand for Mode 4 (also generated by investment in agriculture and manufacturing)
- ▶ Modes 3 & 4 are integrally connected to investment and are de facto liberalized; why oppose de jure liberalization?
  - ▶ Countries that want foreign direct investment will get it, with or without rules [not discussed in interests of time]
  - ▶ Particularly where Mode 4 is not rule-governed, power relations likely to dominate
    - ▶ Investors will bring in the personnel they want on a case-by-case basis (what happens now, under BOI)
      - ▶ But officials/politicians may use discretionary power to extract rents

# Mode 4 rules do not abolish immigration laws; simply reduce discretion & increase certainty

- ▶ **Highly liberal form of regulating trade-related movement of natural persons**
  1. Both countries to take full commitment within CEPA on independent professionals delinked from commercial presence.
  2. To put in place a visa system to ensure the fulfillment of Horizontal and Sectoral Commitments undertaken.
  3. Undertake to put in place a Visa system ensuring grant of multiple entry visas to professionals.
  4. Allow inter-firm mobility to professionals.
- ▶ **Milder version would link professionals to commercial presence & exclude independent professionals**

# Mode 4 variations



# Significance of trade in services

Illustrated by IT & ITES

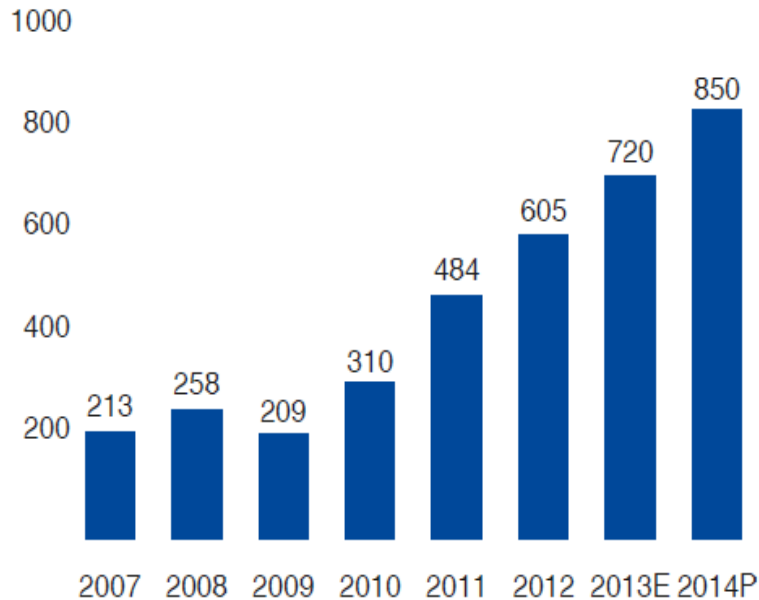
# IT & ITES liberalized unilaterally (without laws/agreements). Sky did not fall

- ▶ Liberalized telecom industry to allow supply by multiple firms and adequate investment, from 1990s
  - ▶ No restrictions on Mode 3; Mode 4 permitted under BOI
- ▶ Liberalized international telecom market in 2003, ensuring redundancy of international telecom service suppliers and media
- ▶ Improved IT education
  - ▶ Local supply and Modes 1-4
- ▶ Capitalized on niche strength in accountants
  - ▶ Local supply as well as Mode 1 & 3
- ▶ Attracted marquee BPOs to Sri Lanka (Mode 3) and facilitated others; now ranked 16<sup>th</sup> in attractiveness for locating services (India #1; Philippines #8; Pakistan #20)
- ▶ Software industry rose on own strength



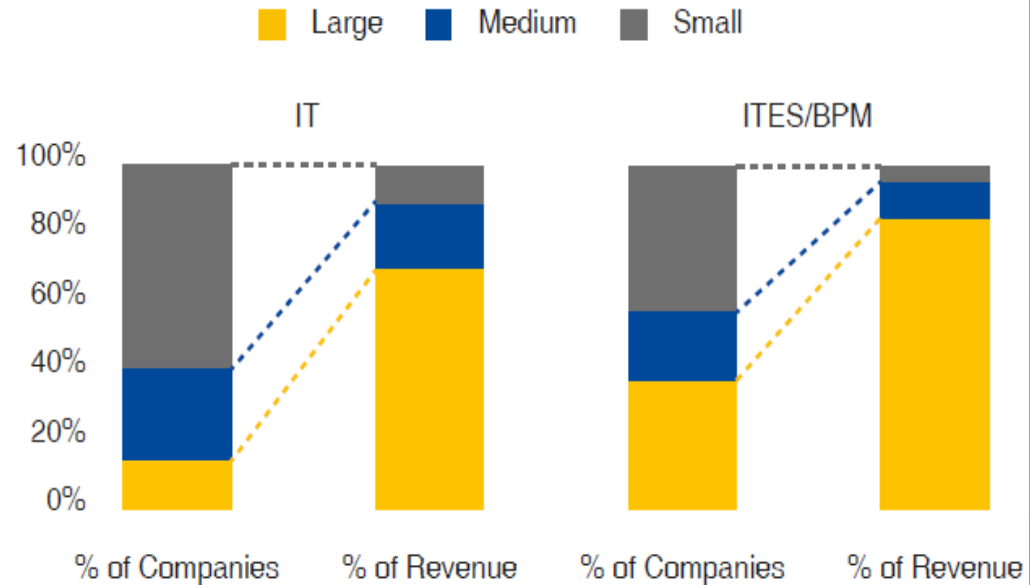
# How a unilaterally liberalized service industry performed: Exports

Growth in revenue (in USD Mn)



Source: SLASSCOM

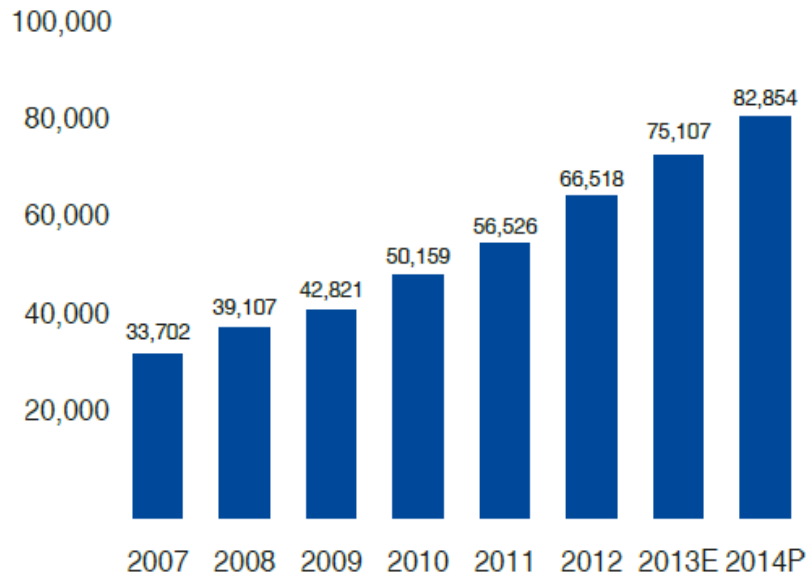
Export revenue contribution by large, medium and small players



Source: ICT Export Value Survey 2010

# How a unilaterally liberalized service industry performed: Jobs

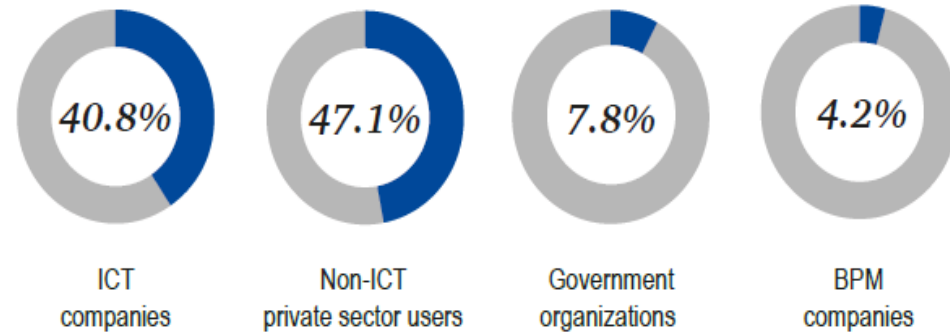
## Growth in workforce



Source: National ICT Workforce Survey 2013

## Contribution by sub-sectors to the workforce (2013)

The overall workforce has grown to 75,107 in 2013 with a projection of 82,854 for 2014 - ICT Survey



Source: National ICT Workforce Survey 2013

# To accelerate growth Sri Lanka needs a services strategy

- ▶ Service exports as well as successful agricultural and industrial exports into niche markets will depend on ICTs and logistics
  - ▶ ICTs critical in shift to advanced service exports, e.g., Mode 1 exports, not Mode 4
- ▶ Need to have a law-governed framework to reduce uncertainty, encourage investment and increase productivity
- ▶ If productivity is high, no need to fear

# Possible services strategy to guide reform actions

- ▶ Thrust sectors
  - ▶ Tourism
  - ▶ IT and IT enabled services
  - ▶ Logistics
- ▶ Priority enabling infrastructures & services identified
  - ▶ Ports and marine services
  - ▶ Airports and aviation services
  - ▶ Telecom networks and services

# Thrust services and enabling infrastructures

TOURISM

Air Passenger  
Transport Services

Air Freight  
Transport Services

AIRPORTS

LOGISTICS

Marine Passenger  
Transport Services

Marine Freight  
Transport Services

PORTS

IT ENABLED SERVICES

Telecommunications  
Services

Courier Services

TELECOM.  
NETWORKS

# Take aways

- ▶ Trade liberalization is not really about exporting more and importing less
  - ▶ It is about improving productivity: in small economies, there is little pressure to improve productivity without removing protectionist barriers
  - ▶ When productivity improves, export will increase
- ▶ Improving productivity of service industries and removing barriers to obtaining best services benefits all industries in Sri Lanka
- ▶ Legal frameworks are not about enabling trade as such, but about increasing certainty → inducing investment → creating competition → increasing productivity