ILBFTA to CEPA

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Outcome of 6 Years: 1999 cf 2005

- SL Xs to IND: 1 % -----→9%
- SL Ms from IND: 8.5% -----→ 17 %
- M/X ratio: 10.5: 1------------→ 2.6:1
- No. of products from SL: 505 ---→ 1062
- IND – now 3rd largest destination of SL Xs
- Investment followed trade – now IND 2nd largest investor in SL
- >50 % of IND investment in SAARC in SL

Trade with India

Year	Exports	Imports	Export/Total	Import/Export
	US $ mn	US $ mn		
1995	30.23	444.89	0.06	0.94
1996	41.80	547.68	0.07	0.93
1997	42.13	538.84	0.07	0.93
1998	35.91	513.97	0.07	0.93
1999	47.47	499.38	0.09	0.91
2000	54.93	568.04	0.09	0.91
2001	69.05	576.97	0.11	0.89
2002	168.64	843.47	0.17	0.83
2003	244.77	1,070.81	0.19	0.81
2004	378.72	1,392.14	0.21	0.79
2005(J-O)	450.30	1,161.30	0.28	0.72

INDIA'S EMERGENCE AS AN IMPORTANT TRADING PARTNER

OF SRI LANKA

Year	% of total exports	% of total imports
1986	1.0	4.3
1990	1.0	4.4
1994	0.7	8.5
1998	0.8	9.2
1999	1.0	8.5
2000	1.0	8.2
2001	1.5	10.1
2002	3.6	14.0
2003	4.8	16.1
2004	6.8	18.0
2005	8.8	17.3

Source : Sri Lanka Customs
Note : 3rd largest buyer since 2003

SRI LANKA-INDIA TRADE – VALUE IN US$. MN.

Year	Trade Balance US$. MN.	Import/ Export ratio
1998	(501.7)	14.3:1
1999	(463.0)	10.5:1
2000	(544.4)	10.8:1
2001	(531.4)	8.6:1
2002	(665.9)	5.0:1
2003	(835.0)	4.5:1
2004	(972.5)	3.5:1
2005	(880.5)	2.6:1

Source :Sri Lanka Customs

PREFERENTIAL EXPORTS TO INDIA UNDER THE ILBFTA

Year	Exports – Rs. Mn.	% of total exports to India
2000 (March-Dec.)	655	15.5
2001	1,423	22.1
2002	10,930	67.0
2003	15,820	68.0
2004	30,616	79.0
2005	31,089	74.0

Source : Country of Origin Certificates issued by Department of Commerce

Top 10 Countries Rank by Cumulative FDI (2000-2004)

2000		2001		2002		2003		2004	
Country	Investment US$. Mn	Country	Investment US$. Mn	Country	Investment US$. Mn	Country	Investment US$. Mn	Country	Investment US$. Mn
Singapore	273	UK	290	UK	329	UK	354	UK	354
UK	260	Singapore	253	Singapore	237	Singapore	283	Singapore	272
Japan	244	Japan	209	Japan	204	Japan	205	Hong Kong	198
Korea	190	Korea	165	Hong Kong	137	Hong Kong	193	Austeralia	201
Hong Kong	150	Hong Kong	126	Korea	161	Austeralia	185	Japan	183
Sweden	99	Austeralia	107	Austeralia	140	Korea	155	India	143
Austeralia	96	Sweden	83	USA	113	USA	135	USA	142
Virgia Islan	55	USA	63	India	89	India	115	Netherland	115
Netherland	52	India	53	Sweden	48	Netherland	68	Korea	84
Finland	52	Finland	45	Netherland	43	Sweden	53	Sweden	77

Source: Board of Investment of Sri Lanka

MANUFACTURING PROJECTS - RELATED TO ISFTA (BOI)

Products	Country	No. in operation
Copper and copper based products	India/UAE	10
Vanspathy	India/'UAE Singapore/Malaysia Sri Lanka	09
Electric and Electronic products	India/ USA	07
Lead and lead based products	India	02
Zinc Oxide	India	01
Other chemicals and chemical based products	India/ USA Sri Lanka	03
Marble products	India	03
Pine Resins	India	02
Rubber based sports goods	India	01
Ghee from Milk cream	India	01
Diamond cutting tips	India	01
Total		**40**

Source : Board of Investment of Sri Lanka

Services

- Services followed trade in goods. Many IND services in SL today-- Health: Appollo, Escorts; Hotels/Restaurants: Taj, Barrista, Amaravathi; Air Trvl: Jet, Sahara; Retail: IOC,Titan,Usha, Godrej, Bajaj……
- Largest tourist arrivals from India since the visa at arrival policy was put in place by SL in 2002.
- SL Airlines – 9 destinations, SL tourist to India has increased significantly

Some Concerns on the Outcome

- Lop-sided X growth from SL to India. In 2005, for instance, 50% of Xs came from Copper and Vanaspathi.
- Why not Other Xs: (1) Zero duty - 68 (1351) & 50% duty- 218 (2799) of X interest; actively traded X items left out or TRQ, (2) specific duties, surcharges, state level taxes became an issue, (3) NTBs and other para tariffs (cess) became a major issue; (4) SL Xer not aggressive enough

SRI LANKA'S MAIN EXPORTS TO INDIA – 2005

Product	Value in SL RS.Mn.	%
Copper and Copper products	15,590	27.74
Vegetable fats and oil - Vanspathy	12,321	21.92
Aluminium Products	4,534	8.07
Electrical Machinery and Parts	2,304	4.10
Antibiotics	2,279	4.06
Cloves	1,659	2.95
Iron & Steel Products	1,511	2.69
Pepper	1,088	1.94
Pulp	1,077	1.92
Fibre board of wood etc.	1,034	1.84

SRI LANKA'S MAIN EXPORTS TO INDIA - 1999

Products	Value SL. Rs. Mn.	Percentage
Pepper	695	20.30
Areca nut	382	11.15
Waste and scrap of alloy steel	272	7.94
Dried fruit	214	6.25
Cloves	199	5.81
Waste paper & paper board	191	5.57
Glycerol	181	5.28
Apparel & clothing accessories - plastic	149	4.35
Black tea in bulk	146	4.26
Nutmeg	81	2.36

Continue

First Ten Export Items Under Preferential Tariffs-2003

Product	Value Rs.Mn	Percentage
Copper related products	11,820	51.71
Waste paper	968	4.23
Black pepper	818	3.58
Dual Inline memory Modules	808	3.53
Cloves	387	1.70
Iron scrap	332	1.45
Tyres	290	1.27
Furniture	141	0.62
Rice bran	131	0.57
Marbles	122	0.53

Source: Department of Commerce, Sri Lanka

Concerns

- If Copper, Vanaspathi, Bakery Shortening, and Marble are taken out from SL Xs, trade deficit may have increased further
- Trade diversion for IND/for SL it was not an issue but for IND it created problems – pressure from domestic lobbies

Concerns

- Misusing the ROO – Copper, Pepper, Cloves, etc. Concern for India
- SL's concerns: RMG Xs – ROOs too stringent – makes SL RMGs uncompetitive vis-à-vis IND RMGs in the IND market. For ROO relaxed items para tariffs became an issue (< 1%)
- Tea: 4 digit HS Code conversion should be made 6 digit HS Code conversion, registration of tea samples, entry ports (Cochin and Kolkata) hostile (<1%)

SRI LANKA'S EXPORT OF APPAREL TO INDIA 2003-2005

Year	HS 61		HS 62		Total Value Rs.Mn.	% share to world total
	Q.	V. Rs.Mn.	Q.	V. Rs.Mn.		
2003	2,953 Kg 39,067 No.	11.16	2,819 Kg 42,441 No.	33.06	44.22	0.02
2004	1,851 kg 66,742 No.	16.75	1,222 kg 26,386 No.	30.32	47.07	0.02
2005	37,970 kg 16,533 No.	22.95	544 kg 47,183 No.	28.37	51.32	0.02

Note : HS 61 – Apparel – knitted or crocheted HS 62 – Apparel – not knitted or crocheted.
Annual apparel quota for Sri Lanka – 8 Mn. Pcs

Source: Sri Lanka Customs

SRI LANKA'S EXPORTS OF TEA TO INDIA – 2005

Product	Quantity - MT	Value – Rs. Mn.
Green Tea	7.26	2.10
Black tea (packs not exceeding 3 kg)	101.18	43.65
Black Tea - bulk	290.46	64.39
Instant tea	4.70	0.25
Total	**403.60**	**110.39**

Note :Quota allocation for Sri Lanka – 15 Mn. kg of tea per annum
Quota utilization – only 2.68%
(based on total exports)
Source : Sri Lanka Customs

Concerns

- Many other issues – taken up during the ILBFTA meetings: SL introduced floor price scheme for copper ingots, only 10 Vanaspathi firms (IND-100,000 M/t per yr/SL -250,000 m/t per yr), Pepper (IND-2,000 m/t/SL-3,000 m/t – now SL X 6,000 m/t) TRQ's back to the agenda. IND cement 40 % SL's Ms. Under pressure from domestic producers – 10 % surcharge ?

Looking Beyond the FTA

- SL feels that it would be better to rectify the shortcomings and build on the achievements from the FTA.
- Institutions already in place: FICCI/CCC focal points; WG on Customs, Indo-Lanka Joint Commission. No need for a fresh start.
- Deep economic integration with a fast moving economy like IND could contribute to stimulating the growth rates in SL

Beyond FTA

- June 2002: CEPA agreed upon/ April 2003: JSG appointed/Oct 2003 JSG Report out/ February 2005 TLNs start/ April 2006 – 6 rounds of TLNs completed
- CEPA by Mid 2007 – under GATT Article 24 and not under Enabling Clause

CEPA

- Trade preferences deepening, reducing the negative list and relaxing the ROO (derogations)
- Liberalization of Services (GATS plus)
- Liberalization of Investment
- Economic Cooperation to provide an impetus for Services and Investment liberalization. Indian Line of Credit to play a crucial role.

Liberalization of Services I

- It is the regulations (licensing, registration, etc.) that needs to be relaxed. Both IND and SL are entangled in a complex web of regulations in services
- Unilateral liberalization undertaken by both countries have moved services between the two countries
- Plan is to go beyond WTO commitments of both countries; WTO-plus but +ve list using GATS Article V
- Request lists of IND and SL have been exchangeed. Schedules are exchanged outlining market access, national treatment, and other regulations

Liberalization of Services II

- SL Requests: Tourism, Retail, Finance/Insurance, Maritime, & Aviation
- Although aviation is not a subject of GATS it is included in the draft CEPA text as in the case of IND-SGP CECA
- Two Aviation Authorities will discuss: double daily flights, fifth freedom beyond SAARC, more code sharing, etc.

Liberalization of Services III

- Indian Requests: Audio Visual, ICT, Transport, Tourism, Professional Services (Accounting, Architects, Medical & Dental, Nurses and Mid-Wives, Enginering, etc.), Maritime, Energy, Education, Construction

Services Text

Outstanding Issues

- Rules of Origin (Denial of Benefits)
- Safeguard measures
- Spouse Employment
- Treatment of civil aviation

Rules of Origin (ROO) in Trade in Services

- Ensure sufficient inputs from the source country and concessions to the members.
- ROO criteria determines a nationality of the goods/services.
- Determination of ROO in Services could be very complex.
- Services contain labour or human capital.
- ROO is linked with the ownership/nationality of the service providers, but the ownership changes very rapidly

Professional Services

- SL's position is Mode 4 cannot be de-linked from Mode 3. IND is insisting on Mode 4 de-linked from Mode 3.
- SL however is prepared to consider this if Mode 4 is taken under Economic Cooperation (govt to govt) to fill in the shortages in various professions such as Nurses and English teachers.

Professional Services II

- SL is of the view that filling the existing shortages in the labour market via IND professionals will give a signal for the professional bodies to accept that liberalization has started
- SL is now making arrangements for Professional bodies to sign MRAs with their counterparts. It has triggered a wave of reawakening in professional bodies in regard to their regulatory framework.

Investment Liberalization

- New Investment Protection Agreement
- Double Taxation Agreement revised
- National Treatment pre and post-establishment

Six Lessons from ILBFTA

- Political will to go ahead by both governments
- A ‘win-win’ situation can be worked out in a FTA b/w a small and a large country by building in SDT in favour of the small country
- In such a FTA dormant complementarities can be invigorated – one country cannot have comparative advantage in everything

Lessons

- Unilateral liberalization initiatives have triggered steps for deeper integration by the FTA – clearly visible in tourism, air travel
- ILBFTA is a 14 page document – not overburden by rules and regulations
- India seen as an opportunity not as a threat. Economic benefits can transform political relations – bitter IND-SL relations of the late 1980s – history

ILBFTA to CEPA

- Thank you