

India an opportunity not a threat

- Indian Commerce Secy

by Gamini Warushamana

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India is a huge market and there are tremendous opportunities with the opening of trade in services with India under ILCEPA, the commerce secretary of India Gopal K. Pillai said in Colombo last week

The officials of the two countries concluded the final draft of the India-Sri Lanka Comprehensive Economic Partnership Agreement (ILCEPA) on Wednesday and on Thursday Pillai addressed a seminar on "Opportunities and challenges of liberalising bilateral trade between the two countries." The agreement is scheduled to be signed during the SAARC summit by the end of this month.

Though the architects of the ILCEPA in Colombo reiterate the benefits of the expanding trade opportunities with the thirty times huge economy on the doorstep, some sectors have expressed fears and doubts over the adverse impact.

They pointed out trade statistics after the signing of the Indo Lanka Free Trade Agreement (ILFTA) which shows asymmetry favour to India over the past seven years after the ILFTA was implemented. ILCEPA is an expansion of the ILFTA liberalising service and investment and it also introduces measures to overcome some issues faced during the implementation of the ILFTA.

Pillai said that if this sem-

inar was held in India the main concerns, fears and doubts that would be expressed may be the same. In any developing country there may be doubts about trade liberalisation.

In India, the problem is more complex. We have a population of over one billion. The continuous high economic growth rate together with the visible nature of activities taking place, India is considered as an emerging economy.

But India is home to a large number of poor in the world. Therefore, the problems in the implementation of CEPA should be considered very carefully and the agreement should be a win-win situation for both countries, Pillai said.

India has great opportunities for Sri Lanka. The economic growth is continuously high. Infrastructure is growing rapidly. For instance the port sector is growing at 12% but import export trade is growing at 25%. Therefore, the growth in these sectors is not sufficient and there are investment opportunities. Two years ago we did not produce a single mobile phone in India. After Nokia invested in India today we produce 1,500 million mobile phones. A lot of skills are here and in some industries Sri Lanka is the world leader. Today over 2,000 Sri Lankan professionals are working in India. With ILCEPA this number can be increased. Since 58% of our

GDP comes from the service sector the opening of the service sector is very important.

Pillai said that an amendment of the domestic regulations is crucial in the suc-

cessful implementation of FTAs. This is a main issue in WTO negotiations as well. Unfortunately many developing countries are reluctant to amend domestic regulations.

Dr. Saman Kelegama of the Institute of Policy Studies (IPS) said that reducing the trade deficit is not an objective of the Free Trade Agreement. Dr. Kelegama was commenting on the progress of the ILFTA analysing the statistics over the past seven years after the ILFTA was implemented.

In this open economy there are surpluses and deficits and while the deficit is increasing with one country the surplus is increasing with another country. Therefore, we should look at the overall impact on trade, investment and transfer of technology.

He said that though there is a current account deficit with India there is a surplus in the capital account. A lot of Indian investments are coming to Sri Lanka and over 50% of Indian investments in the SAARC region are in Sri Lanka, he said.

From 1999 to 2005 Sri Lanka's exports to India increased from 1% to 9%. While Sri Lanka's imports from India increased from 8.5% to 17%. The import/export ratio changed from 10.5:1 to 2.6:1. The number of products that Sri Lanka exports to India increased from 505 to 1062 and India became the third largest destination for Sri Lanka's exports and India became the fourth largest investor in Sri Lanka, Dr. Kelegama said.

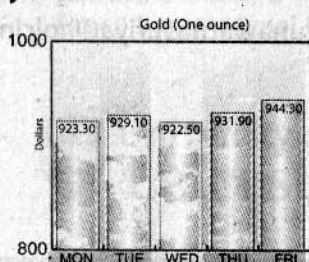
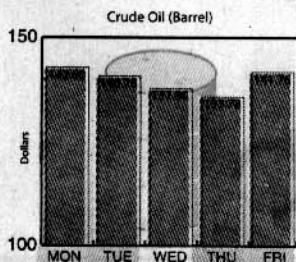
Economist, Ceylon Chamber of Commerce, Subashini Abeysinghe said that Sri Lanka's private sector sees India as a threat and not as an opportunity and therefore are seeking more protectionist measures. They fear after seeing more Indian products, investments and professionals in the Sri Lankan market.

With the rapid economic growth in India it is becoming a huge exporter threatening all countries not only Sri Lanka. Even without an FTA flooding of Indian products is inevitable, she said. Our problem is that we do not have products to export to India. Our industrial and agricultural product bases have not diversified. Our businesses are not aggressive or confrontational and they have a soft approach. In WTO all countries are trying to break the walls of the Indian market and enter this huge market. Today we have that opportunity and we have to use them instead of seeking protectionist measures, she said.

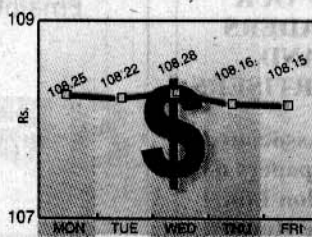


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Commodity Prices



Dollar exchange rate (Selling rate)



Source: Central Bank of Sri Lanka