

India-Sri Lanka Trade in Services

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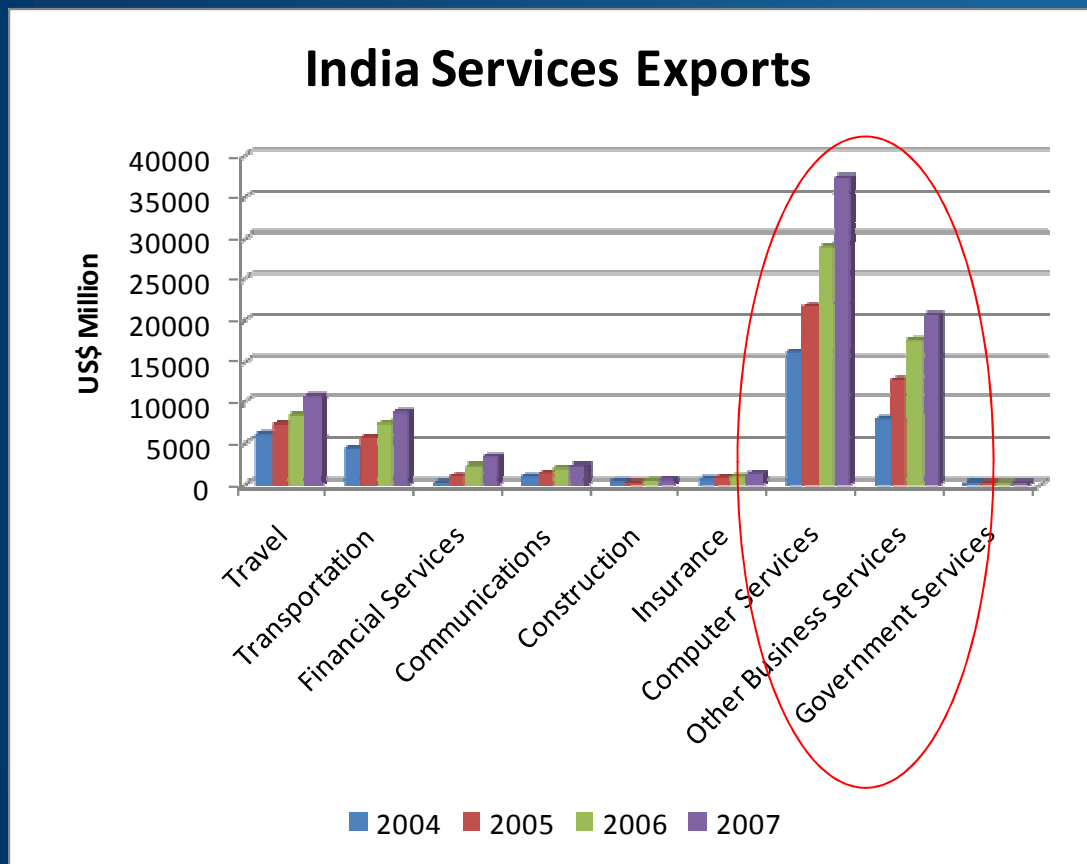
Services thrust....

- Services sector in GDP is nearly **60% in Sri Lanka** and around **55% in India**
- So, **true economic integration** would require the **services sector** to be taken into account
- In India, trade in services has been pivotal in recent economic progress, particularly IT and BPO services.



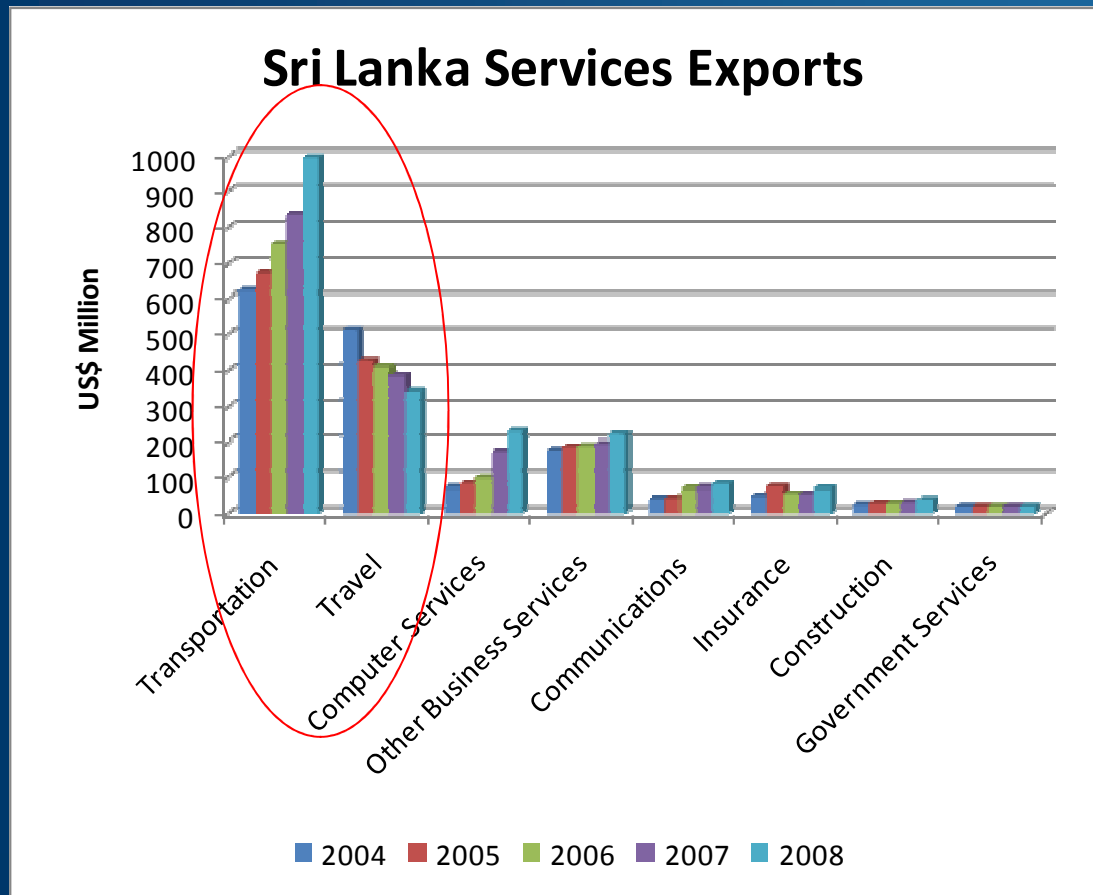
India services exports...

- Main drivers of India's services exports – **IT, BPO** (other business services) sector
- Steady growth in sectors like **transport, travel, financial services**, etc.



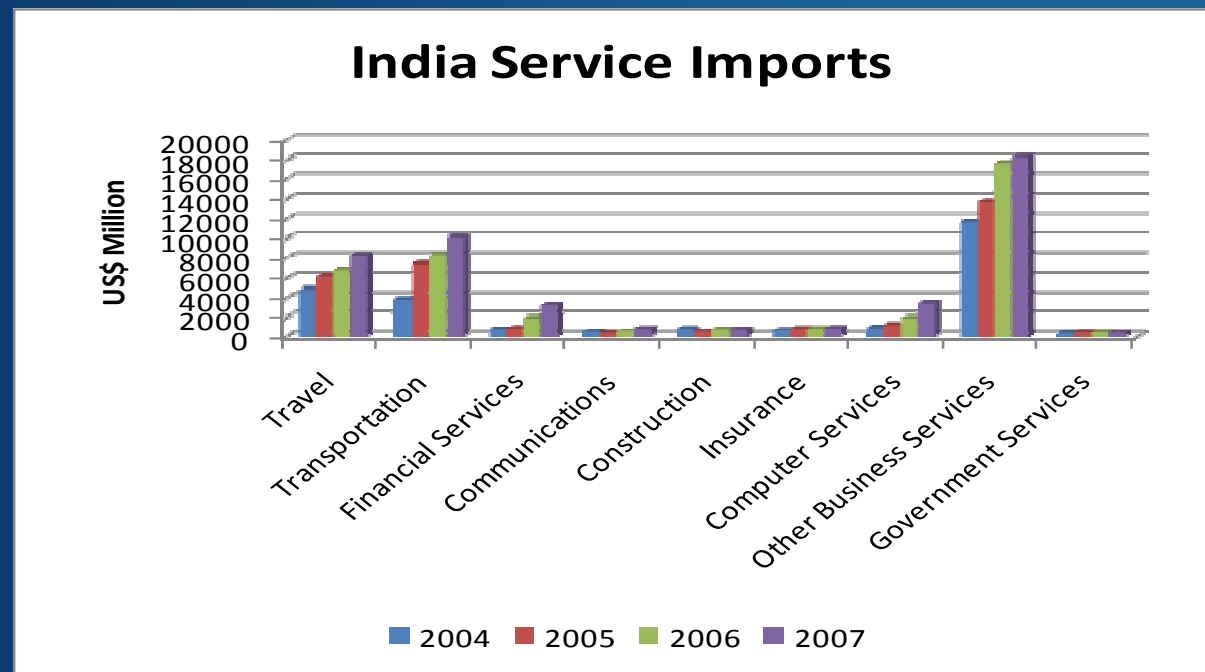
Sri Lanka services exports...

- Recently dominated mainly by **transport services** (50%) – Colombo Port and Sri Lanka Airlines are key drivers - and **travel** (tourism)



India services imports...

- Main drivers – Other business services, transport, travel, and recently computer services and financial services



Sri Lanka services imports...

- Main drivers transportation, travel and other business services



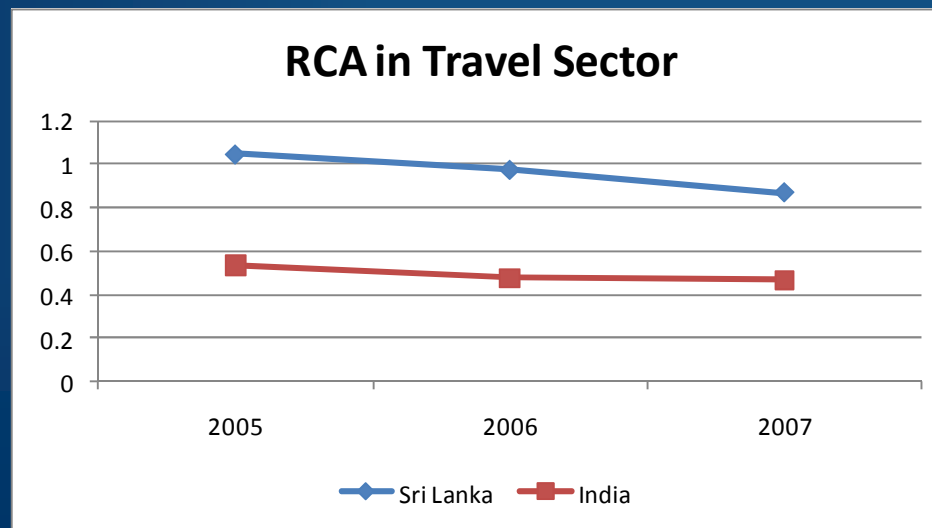
Leveraging on complementarities...

- For both countries, same sectors where exports have been growing have seen growth of imports as well
- Export and import trends in services in India and Sri Lanka suggests scope for complementarities in imports and exports of the services of the two countries
- To explore it further, Revealed Comparative Advantages (RCAs) were calculated



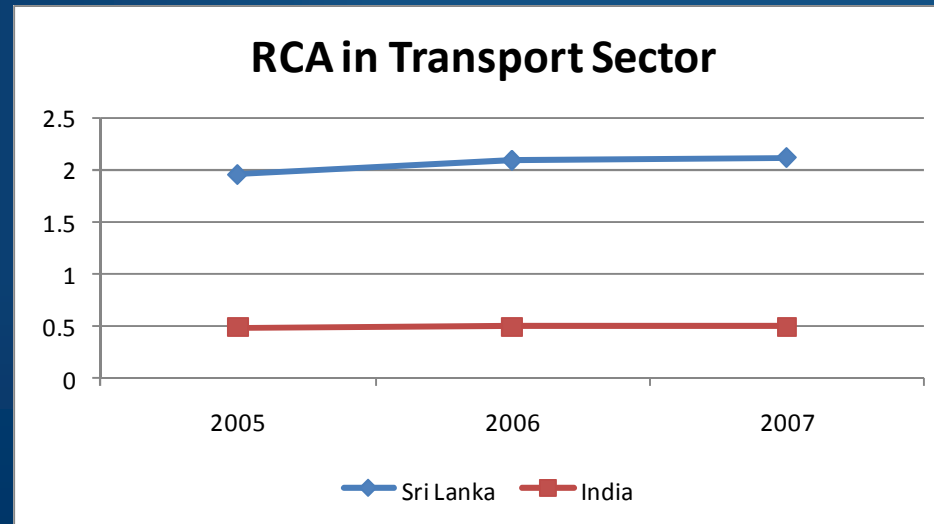
RCA in Travel Sector

- Whilst SL has a higher RCA, it has been declining due to the fall in tourism in the final stages of the war.
- However, with the increased tourism in the post war context, it is likely that Sri Lanka will regain the advantage in tourism and travel.
- Sri Lankan hotels have ventured into India and vice versa, and there is scope for this trend to continue, along with further expansion of mode 4, as the demand for tourism professionals in both countries (Sri Lanka in particular) is likely to increase



RCA in Transport Sector

- SL has a higher RCA given the dominance of the maritime transport sector - strong performance of Colombo port in particular
- In terms of air services however India is likely to have an advantage given the revolution in that sector following liberalization and the emergence of a number of strong private airlines in India.
- Sri Lanka has developed a competitive ship repair and ship building sector and this sector has potential to export services to countries like India through mode 2 in particular.



Rationale for evolving ISFTA to CEPA

- Rapid growth of services sector in India along with overall economic growth
- Increasing costs of FoP in India meant that SL services were increasingly competitive
- Several sectors in Sri Lanka with potential – tourism, accounting, maritime services, IT related services, construction
- SL also hoped to attract 3rd party investment looking to enter the Indian market
- Importance of securing market access when political-economy conditions were conducive
- Import of services could be enhanced through more transparent investment regime (CEPA would provide better framework)



India-Sri Lanka Trade in Services commitments

- 2003 Joint Study Group Report – expand ISFTA to cover services, investments, economic cooperation – a CEPA
- February 2005 to July 2008 → 13 rounds of negotiations
- Draft commitments were made, no formal agreements
- Stalled due to narrow domestic lobby pressure
- 2011 – both countries looking at renegotiating some of the clauses

- Under CEPA negotiations - almost across the board, commitments that were offered by SL **were within what is already allowed** under Board of Investment (BOI), Exchange Control, and Immigration laws.

- Under CEPA negotiations – **flexibility was a key characteristic**
 - SL retained a lot of flexibility e.g. Healthcare: limiting investment in outside-Western Province only

- *(Will not cover the structure of the agreement and the specific commitments made by both sides, as that information maybe outdated)*



Structure of CEPA

- Positive list, request-offer approach, sequential liberalisation
- Asymmetries of the two economies considered
- Sri Lanka allowed to maintain a great deal of flexibility in the liberalisation of services
- Such safeguards required due to Sri Lankan stakeholder perceived concerns, largely related to India's size
- The same issues dominated the debate on the ISFTA
- Flood of goods/services, lower labour standards in India, subsidies, NTBs and red tape issues for exports
- Fresh issues such as regulating services



Role of Stakeholders in Sri Lanka's Commitments

- SL negotiators worked in partnership with business chambers and Indian requests were shared amongst the chamber members
- Industry views on feasibility and extent of liberalisation, required safeguards and export interests were sought
- However, **consumer interests were not cohesively represented in SL**
- Overall defensive stance of the service sector in SL with regard to the CEPA
- Several sectors could not be liberalised at all due to stakeholder concerns
 - E.g. Accountancy, engineering, construction and other business services
- Several reasons for this – legislative problems (construction), regulatory issues (architecture) and lack of domestic market maturity (other business services)



Constraints: Regulatory and Legislative

- Legislative Issues – Construction Services Act had not been passed through parliament in SL, therefore reluctance to make international commitments without a finalised domestic legislative position
- Institute of Architects lacks the provision to register foreign architects and a commitment in CEPA would require a change to the domestic legislation
- Reluctance to make commitments in Mode 1 due to the lack of clarity in this area in domestic legislation
- Even in areas which are unilaterally open, commitments could not be made due to shortcomings in contemporary regulatory practices – eg. Mode 4 health services due to instances of under-qualified foreign doctors practicing in SL
- Another issue in mode 4 health services is the heterogeneity of qualification standards in India, and the regulatory burden this would place on SL regulators.



Constraints: Competition

- Flooding of Indian workers was a concern
- Many safeguards were incorporated to allay stakeholder concerns
- However the negotiations took place in an environment of uncertainty as a result of the teething problems in the FTA which diminished stakeholder confidence in the Agreements.
- Unilateral imposition of quotas on SL exports by India, Rules of Origin criteria which undermined market access for garments and tea, lack of reciprocation of SL extending visa on arrival to Indians (and the abuse thereof).
- **All these factors contributed to reluctance by SL to liberalise mode 4.**



Dilemmas of the Extent of Stakeholder Transparency

- SL negotiators attempted to take stakeholder concerns into careful account in drafting commitments in the CEPA.
- However the Agreement was not signed as scheduled at the 15th SAARC Summit due to domestic stakeholder concerns – captured by 3 primary concerns
 - 1) CEPA should not proceed until teething problems in the FTA are dealt with (but CEPA entails provision to have regular reviews)
 - 2) CEPA undermines SL's economic independence from India (this argument fails to account for the flexibilities provided in the Agreement)
 - 3) Other than the services sector, the broader public was not aware of the Agreement details



Concluding Remarks

- The major concern amongst opponents to the CEPA was **the lack of broader transparency**
- The Agreement may have stood a better chance if the Framework Agreement had been made public prior to the scheduled signature of the Agreement
- However, political climate at the time (mid 2008) was not conducive since the civil war in SL was at an intense phase and nationalist sentiment was at a high level
- In this context any Agreement that was **perceived to undermine national interest** would be opposed vociferously – particularly one with India.
- Given the problems with the ILFTA (recall: vanaspathi and copper issues) it was **difficult for negotiators to sell the benefits of the ILFTA to the public**
- In this environment **it could be argued that greater stakeholder dialogue may not have had much effect**



Concluding Remarks

- Regardless of SL's capability to take advantage of the market access in the short run, it is useful and **important to be integrated with a large dynamic economy such as India**
 - Especially to **piggy-back on growth of Southern Indian states** which are real drivers of overall Indian growth
- Spillover benefits of such economic integration with India is a **key route for Sri Lanka to integrate into the global economy in the long run**
- Also important in the context of **export diversification** – both in terms of export destination and export of services as opposed to goods
- In all such agreements there are opportunities and challenges - important for **the private sector and government to work in tandem to identify and address** latter, in order to take advantage of the former



Thank You

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