



Pathfinder Economic Flash

Small may be Beautiful but Thinking Small May Make Us Irrelevant: An Agenda for the Indo – Sri Lanka CEO’s Forum

The forthcoming visit to Sri Lanka by Hon Anand Sharma, Minister of Commerce, Industry and Textiles, with a delegation of leading Indian businessmen, offers an opportunity to explore how Sri Lanka can take greater advantage of its proximity to the large and growing Indian economy. The first Indo-Sri Lanka CEO’s forum is an ideal platform for building a substantive agenda for this purpose. The agenda for this Forum could, inter alia, address the following.

- Explore ways of expanding two-way trade and investment by identifying impediments and constraints and recommend measures for eliminating or reducing them. It is important to develop a time bound and monitorable program to achieve this.
- Strengthen links between business associations, including by creating dedicated institutional capacity to support Sri Lankan private enterprises doing or seeking to do business with or in India (in the Confederation of Indian Industry [CII] or Federation of Indian Chambers of Commerce and Industry [FICCI])
- The CEO’s forum should seek to build on the existing Indo-Lanka Free Trade Agreement (FTA) by deepening the current agreement on the trade in goods and creating a rules-based framework for expanding the trade in services and investment in a manner that deals effectively with the asymmetry in size between the two economies. India has negotiated a preferential agreement involving goods, services and investment with ASEAN. This means that Sri Lanka has already lost ground as a result of the loss of momentum in its negotiations with India, due to small-minded thinking. Further delay will mean that Sri Lanka will lose even further ground to key potential competitors in the Indian market. High priority must, therefore, be attached to early finalization of the Indo-Sri Lanka Comprehensive Economic Partnership Agreement (CEPA), while taking full account of the implications of the large asymmetry between the two economies.

The FTA has been successful. 80% of Sri Lanka’s exports to India enjoy preferential access while a similar proportion of India’s exports to Sri Lanka are on MFN terms. This clearly constitutes the basis of an agreement on trade in goods that has effectively taken

into account the asymmetry of the two economies, after considerable teething problems. It must be noted that Sri Lanka experiences a large trade deficit with India. However, this merely reflects the fact that the Indian goods that are imported are price competitive. If these goods were imported from elsewhere it would have a negative impact on Sri Lanka's overall trade balance.

- Identify areas for attracting Indian investment which improves Sri Lanka's capacity to export to the Indian market. This is the best means of reducing the trade deficit.
- Identify avenues for Sri Lankan enterprises to plug into the supply chains of Indian companies, both vertical integration into manufacturing services and horizontal integration in services. In this connection, call for a major study to identify subsectors where Sri Lankan companies could have a competitive advantage in accessing Indian supply chains.

The most dynamic element of the international trading system is intra-firm trade in Asia. Sri Lanka has no presence in these supply chains. Given the proximity of the large Indian market, high priority needs to be attached to accessing the supply chains of companies, both Indian and multinational, that are operating in India. Given the challenges being experienced in Sri Lanka's traditional markets in the US and Europe, there is even greater urgency to increase exports of goods and services to Asia, particularly India.

With a population of 20 million, Sri Lanka can only achieve an accelerated growth trajectory through export expansion. The CEO's forum offers an opportunity not only to increase exports but also to attract investment to enhance export capacity.

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