



## **Pathfinder Economic Flash**

### **Enhancing the benefits from engagement with India CEPA: An opportunity to be grasped**

*The Pathfinder Foundation (PF) since its inception in 2006 has been in the forefront in advocating closer and much more liberal trade and investment relations with an expanding Indian market. In this connection, the Foundation has commissioned several studies on opportunities arising from deepening of the existing FTA with India leading to a Comprehensive Economic Partnership Agreement (CEPA).*

*In order to realise the full benefits of the economic relations between any two countries the PF believes that barriers (tariff and non-tariff) must be removed in trade in goods and services. Since the beginning of the PF's advocacy program the political landscapes of both India and Sri Lanka have changed considerably. Notwithstanding these changes it is heartening that the new Indian leader, Prime Minister Modi, has come forward emphasising the mutual benefits of signing of a CEPA between the two countries.*

Prime Minister Modi made some important observations at the event for the business community organised by the Ceylon Chamber of Commerce (CCC). These comments provide important insights into how Sri Lanka can increase the economic benefits of increasing its engagement with India.

It was well recognised that there were concerns about Sri Lanka's large trade deficit with India and therefore, both sides attach high priority to working towards more balanced growth in trade. In this connection, Mr. Modi announced that India will make it 'easier and smoother for you to access the Indian market'. He also recognised that the asymmetry between the two economies was a source of concern for Sri Lankans. In this connection, as indicated above the PF has consistently advocated the early completion of the CEPA so that there can be a rules based bilateral agreement founded on the principles of non-reciprocity and special and differential treatment. The case for the early completion of CEPA is even stronger now that the Indian Prime Minister has given the assurance that steps would be taken to address concerns over the large trade imbalance. Skilful negotiations on the negative list and safeguard agreements against import surges can also build greater protection against the disadvantages associated with the asymmetry of the two economies.

Mr. Modi also pointed out, as PF has done, that the best way to tackle the trade imbalance is to attract Indian FDI to create competitive supplies to export back into the Indian market.

This strengthens the case for moving from the current FTA in goods to a CEPA which also includes investment in services.

India is currently the fastest growing economy in the world and the world's engagement with India is at a 'new level'. This offers greater opportunities for Sri Lanka to benefit from the advantages of proximity. The reduced transaction costs as a result of improved infrastructure in both countries increases the scope for leveraging proximity, particularly to plug into Indian supply chains.

In addition, Mr. Modi indicated that India was keen to ensure that Sri Lanka does not fall behind in today's changing and competitive world. This is very much in keeping with Mr. Modi's constantly repeated message that India's fortunes are linked to peace and prosperity in the neighbourhood.

The Indian Prime Minister has expressed strong commitment to promote Sri Lanka's development by facilitating trade and investment. It is now important that Sri Lanka responds proactively to the political will reflected in Mr. Modi's comments and the reality of India being the fastest growing economy in the world. Signing the CEPA early would provide a conducive framework for doing this.

The PF has, for a long time now, urged not only the early signing of the CEPA but also the completion of the FTA with China and exploring preferential trade agreements with other potential trade/investment partners.

***This is the Sixty Fourth Economic Flash of Pathfinder Foundation. Readers' comments are welcome at [www.pathfinderfoundation.org](http://www.pathfinderfoundation.org)***