

**Stakeholders Consultation on
Regional Economic Cooperation in South Asia with a Focus on India-Sri Lanka Trade**
Cochin University of Science and Technology, Kochi, Kerala
August 21, 2008

A Report of the Proceedings

Introduction

In association with the International Centre for Economic Policy and Analysis (ICEPA), University of Cochin, and in partnership with Friedrich Ebert Stiftung (FES India), CUTS Centre for International Trade, Economics & Environment (CUTS CITEE) organised a stakeholders consultation entitled, 'Regional Economic Cooperation (REC) in South Asia with a Focus on India-Sri Lanka Trade' at Hall of Fame, Cochin University of Science and Technology (CUST), Kochi on August 21, 2008.

It marked the release of a CUTS-published monograph entitled, '*India and Preferential Trade Agreements: The Path Traversed and the Road Ahead*' The event brought together like-minded people to ascertain their opinion on India's engagement in regional economic cooperation in South Asia.

CUTS CITEE plans to organise a series of such consultations in different parts of India to gather peoples' opinion on how to enhance the regional economic cooperation in South Asia. This consultation will be followed by one in Kolkata focusing on *India-Bangladesh Trade* and another in Srinagar focusing on *India-Pakistan Trade*. Recommendations made by the participants in these consultations will be taken forward to various levels, including the Centre and inter-governmental bodies.

The objectives were to:

- ensure the participation of Indian stakeholders in regional trade initiatives in South Asia and promote policy responses that would be inclusive of stakeholder preferences; and
- involve business representatives, farmer organisations, civil society representatives, academics, and government for creating an awareness and momentum towards regional economic cooperation in South Asia in a way that is expected to influence the future policy direction on trade and investment promotion in the country.

In all, 87 participants including representatives from business chambers and associations; civil society; government officials; academicians; researchers and students attended the consultation. Two resource persons: N C Pahariya, Fellow, CUTS International and K Padmakumar, Secretary, Public Sector Restructuring and Internal Audit Board, Government of Kerala conducted various sessions. While Pahariya conducted a session on *India and Preferential Trade Agreements: The Path Traversed and the Road Ahead*, Padmakumar facilitated the group discussions, which was based on a couple of major issues identified from thematic presentation.

Opening Session

D. Rajasenan, Dean and Faculty of Social Sciences, CUSAT welcomed the participants and outlined the purpose of this consultation. He said that similar consultations would be organised in different parts of India to gather peoples' opinion on how to enhance regional economic cooperation in South Asia. With emphasis on trade as a pivotal engine of growth, he spoke about India-Sri Lanka trade relations and how India is being benefited due to opening of services and industrial sectors. He informed that Comprehensive Economic Partnership Agreement (CEPA) with Sri Lanka will help India to increase its trade from US\$560mn to US\$1.5bn. On the whole, enhanced regional economic cooperation in South Asia has helped India in expanding trade at an accelerating pace, he added.

N D Inasu, Pro-Vice Chancellor of CUSAT, in his presidential address, pointed out how with the coming up of India-Sri Lanka CEPA into force will not only boost trade but also open up services and investment sectors. It is more or less in tune with India's policy of 'constructive economic engagement' with developed/under-developed neighbours, he argued. For India's trade relations to prosper further, it will have to play the role of an elder brother. Free Trade Agreement (FTA) with Sri Lanka has already helped in consolidating intra-regional co-operation, and at present, India is the fourth largest partner in terms of foreign direct investment in Sri Lanka.

Ramachandran Nair, Member, Kerala State Planning Board, thanked Cochin University and CUTS for inviting him to deliver the keynote address. He hoped that this consultation will take a re-look at India's approach towards regional economic cooperation not only in regional and bilateral settings but also in the context of driving towards an effective framework of global multilateralism acceptable to large and small as well as rich and poor nations of the world. Taking into account the current global scenario, multinational corporations (MNCs), transnational corporations (TNCs) and other global corporations have emerged as powerful entities controlling the flow of financial capital, which give scant respect to sovereign nation states, he reasoned. This has further led to marginalisation of the poor and enrichment of the rich.

In the present scenario of international political economy, he continued, it will be difficult to identify one's friends and foes. The spirit of give and take in international relations is slowly vanishing and its time India takes this seriously and shapes its future while negotiating accordingly. India needs to take steps to strengthen multilateralism and harmonise this with its approach to bilateralism he suggested. All this will require high quality of statesmanship, vision and diplomacy. It would be suicidal if India sacrifices multilateralism and instead promotes bilateralism. India should use its skills and strength to get World Trade Organisation (WTO) transformed into a more democratic, just and equitable global institution, he argued. This could be achieved by mobilising like-minded nations under India's leadership to make their collective voice heard in global forums and demonstrate India's economic and political independence and also willingness to stand together and fight gross injustice in global relations.

Simi T. B. Assistant Policy Analyst of CUTS summed the opening session and extended the vote of thanks.

Session 1

India and Preferential Trade Agreements: The Path Traversed and the Road Ahead

N C Pahariya, in his presentation, spoke about India's engagement in various forms of regional and bilateral economic co-operation. He pointed out that non-progress of multilateral negotiations under the aegis of the WTO has compelled several countries to enter into Preferential Trade Agreements (PTAs) with like-minded nations. Today, there are more than 300 regional trade agreements in operation and almost 70 percent of the global trade is taking place through similar concurrence. This has further led to PTA members becoming an attractive destination for trade and investment in comparison to non-members.

Speaking of India's participation in the era of new regionalism, he presented a background on Indian economy till 1980, which was characterised/regulated by *License Raj* - that is limited freedom in entrepreneurial activity. Approach towards regionalism was wary and engaged in a few bilateral/regional initiatives. In mid 80s, due to delicensing and deregulation of certain segments of the economy, things started to turn around. Competition led to increased efficiency, which further increased the number of entrepreneurs who could produce for the world economy, he argued. All this saw a beginning of powerful and influential export body. With the help of competition and cheaper imports, Indian exporting class came into its own. In 1990-91, exports as a percentage of gross domestic product (GDP) was 5.72 percent, and by 1995-96, this ratio touched 9 percent despite a rate of growth in GDP, which reached 6 percent per annum.

Having realised the importance of trade for the country's economic development, he continued, India has been negotiating trade agreements with countries in the Far East and European Union (EU). It has already signed South Asian Free Trade Agreement (SAFTA) in 2004, bilateral agreements with Thailand, Sri Lanka, Nepal, Afghanistan, and Bhutan, and a Comprehensive Economic Cooperation Agreement (CECA) with Singapore in 2005. In addition, seven countries of South and South East Asia (India, Bangladesh, Bhutan, Nepal, Sri Lanka, Thailand and Myanmar) signed a Framework Agreement to form the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Co-operation (BIMSTEC) in 2004, which decided to form a free trade area by 2012, he informed.

Furthermore, India signed PTA with Chile in 2006; and FTA with Thailand in 2003. India has also concluded negotiations for forming an FTA with the 10-country group – Association of South East Asian Nations (ASEAN). With these negotiations at advanced stage, India has also initiated dialogues for trade pacts with other Asian nations such as China, Japan, Indonesia, Malaysia, and South Korea. All this fits well with the "Look East" policy of India, he added.

With specific reference to India-Sri Lanka FTA, he pointed that this has been the most significant agreement negotiated by India since the 1990s. It was signed in 1998 and came into operation in 2000. He discussed how different size of both these countries might lead to market penetration. Taking this into account, certain asymmetric structure has been built into the Agreement. An important lesson of India-Sri Lanka FTA is very high growth rate of Indian exports as well as imports. Indian foreign direct investment (FDI) to Sri Lanka has increased from US\$50mn to US\$4.5bn. This has been mainly due to ease of entry (to India) faced by Sri Lankan exports as a result of this FTA.

Liberalisation of goods exports from India to Sri Lanka has helped India in taking advantage for entering the service sector there. At the same time, liberalisation of Sri Lanka's retail sector has helped in attracting franchise led by Indian retail services. This has acted as synergy between exports in goods, FDI and services. In order to build upon this FTA, India and Sri Lanka are engaged in concluding a Comprehensive Economic Partnership Agreement to expand trade relations through inclusion of trade in services, investment, and other forms of economic cooperation, he added.

He explained that on welfare grounds multilateralism is better than bilateral trading agreements. With WTO talks not reaching any conclusion, it is but natural for all countries including India to engage in PTAs, and with synergies amongst trade in goods, services and FDI, there is enough scope for nations to explore each other through PTAs. Indo-Sri Lanka FTA provides Sri Lanka backward linkages, which are necessary for services trade and forward linkages that will help spur Indian FDI in Sri Lanka. These synergies tell complementarities that can be further exploited through this FTA. Also, PTAs do not go against globalisation or multilateralism, as looking at the larger perspective there are more and more nations who have joined or engaged in PTAs, he concluded.

Session 2

Group Discussions

K Padmakumar identified a few major issues from the thematic session and divided the participants into three groups to discuss those issues and suggest recommendations.

Group 1

Multilateral frameworks, regional frameworks and country to country approach: is it complementary or contradictory?

Recommendations:

- Enhance efficiency in all areas of economic activities;
- Increase awareness among stakeholders about the provisions, procedures and rules of the international trading system; and
- Ensure a better synergy between various stakeholders to take forward India's concerns with respect to the international trading system.

Group 2

Effective implementation of economic co-operation agreements

Recommendations:

- Informal trade between India-Sri Lanka is to be studied and appropriate measures should be taken to minimise it – reduce the number of items in the negative list and that will lead to strengthening of formal trade between the two nations.
- Sri Lanka is being used as a transit point for many items like tea, cashew, pepper, palm oil, spices, copra (dry coconut) – Sri Lanka should only be allowed to export its own items. For any other items, transaction outside the country of origin should attract the appropriate import tariffs.
- Although India-Sri Lanka FTA contributed positively to both countries farmers cultivating coconut, tea and spices sectors in India have been affected negatively– keep a sensitive list for some items; establish a price stabilisation fund; fix quality standards and their monitoring.

Group 3

Asymmetries in India-Sri Lanka FTA and strategies for their mitigation

Recommendations:

- In order to appreciate the efficiency of a regional trade treaty or any other treaty, there is the need for capacity building of all relevant stakeholders which will help in developing a better understanding of technical/economic terminologies, for instance, definition of tariff, duty/market free quota, HS code.
- It is essential to have reliable database on both sides to assess the impacts of a trade treaty.
- There is a need to involve stakeholders (paddy/pepper growers) through NGOs, producers groups.
- Regional trade treaties are important for contributing stability and peace amongst nations. Moreover, to make such treaties viable and sustainable there is need for a national consensus within a country before commencing negotiations.