

Trade-led Growth in Times of Crisis
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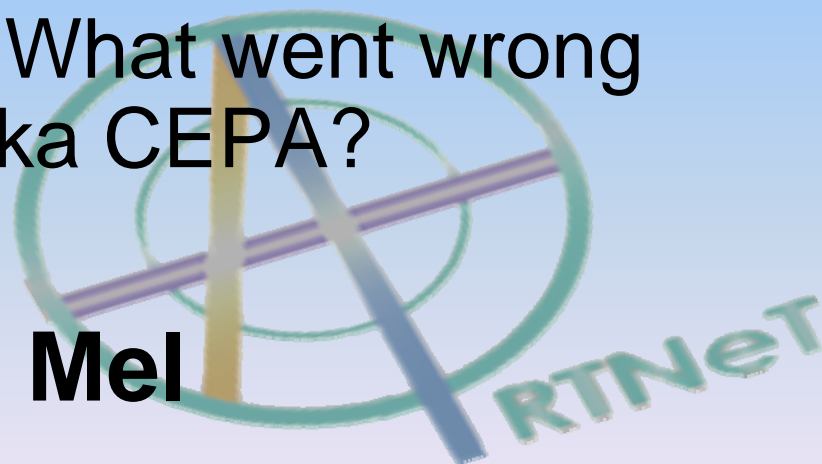
Session 5

Inclusive Trade Policies: What went wrong
with the Indo-Lanka CEPA?

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Asia-Pacific Research and Training Network on Trade

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Inclusive Trade Policies: What Went Wrong with the Indo-Lanka CEPA?

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Outline

- Background to the IL-CEPA
- Rationale of the Agreement
- Structure of the Agreement
- Role of Stakeholders in preparation of SL's Commitments
- Constraints to Liberalisation of trade in services
- Balancing the Benefits and Challenges of Liberalisation
- Challenges of Liberalising trade in services
- Dilemmas of the extent of stakeholder transparency
- Conclusions

Background

- India-SL growing economic integration in the 1990s culminated by signing of the FTA in 1998
- Strong performance in terms of aggregate trade growth and associated investment flows
- Joint Study Group Appointed to examine potential for deepening economic integration
- Proposal to implement a Comprehensive Economic Partnership Agreement (CEPA) in 2003
- Negotiations began in February 2005 and continued for over 3 years until July 2008
- After finalising draft commitments and the framework agreement – CEPA was taken off the table in the wake of vocal domestic opposition to the Agreement in Sri Lanka.

Rationale of the Agreement

- Rapid growth of services sector in India along with general 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

Structure of the Agreement

- 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 IL-FTA
- 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

- India's requests covered almost all sectors in the UN CPC list
- 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
- 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
- Accountancy, engineering, construction and other business services
- Several reasons for this – legislative problems, regulatory issues and lack of domestic market maturity

Liberalisation – Regulatory and Legislative

- Construction Services Act had not been passed through therefore reluctance to make international commitments and domestic legislative position

ects lacks the provision to register foreign architects and a EPA would require a change to the domestic legislation
ke commitments in Mode 1 due to the lack of clarity in this legislation

ch are unilaterally open, commitments could not be made
gs in contemporary regulatory practices – eg. Mode 4
e to instances of under-qualified foreign doctors practicing

mode 4 health services is the heterogeneity of qualification
, and the regulatory burden this would place on SL

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