

# Impact of Regional Integration on Indo-Sri Lanka Trade & Investment

M. Sundaralingam

Deputy Director, Department of Commerce

**T**his article attempts to reflect briefly on the emergence of regionalism in global trade and its conceptual linkage and significance to the regional approaches and attempts, made in Sri Lanka since 1991 towards rectifying the chronic imbalance in the Indo-Sri Lanka trade as well as to enhance the prospects for expansion of trade and investment between the two countries. The regional approaches made so far are traced briefly in their historical perspectives and the article concludes that regional integration is an inevitable process to be pursued vigorously to achieve these two objectives.

## Regionalism in Global Trade

Regionalism, in the trade and economic perspective, relates to conclusion and implementation of regional integration agreements among countries in a region towards expansion of intra-regional trade, investment or/and other forms of economic cooperation with a view to developing the national economies of the member countries. Regional integration would cover integration agreements among countries either in the same region (eg. EU, NAFTA, ASEAN) or in other cases, among countries in different regions (eg. GSTP - Generalized System of Trade Preferences of the Group of 77, Bangkok Agreement, BIMST-EC - Bangladesh, India, Myanmar, Sri Lanka and Thailand-Economic Co-operation, IOR-RAC-Indian Ocean Rim Association for Regional Cooperation etc). The regional agreements can take the

form of Customs Unions, Preferential Trading Arrangements or Free Trade Areas.

There are diversified theoretical controversies among economists, trade diplomats and professionals the world over as to the trade-distorting aspects of regional integration agreements. Despite these perhaps academic controversies, the proliferation of such agreements since the post world war era, and more particularly during the multilateral trade negotiations of the Uruguay Round, has empirically proved, beyond doubt, the trade-creating advantages of such agreements. This can also be substantiated by the fact that since the inception of GATT in 1947 until now, more than 100 regional integration agreements have been formed, covering virtually all regions in the world. Practically every country in the world today is a member of one or more of such agreements. Formation of regional integration agreements is not repugnant to the provisions of GATT (originally since 1947) or to GATT-1994/WTO after the conclusion of the Uruguay Round of multilateral trade negotiations. Article XXIV of GATT and the "Enabling Clause" - Part IV of GATT (and in some instances article XXV - "waivers"), in fact, paved the way for the formation of such regional integration agreements.

Formation of regional integration agreements and conduct of intra-regional trade with potentials of investment generation effects are not therefore considered to run contrary to the objectives of the multilateral trading system under the aegis of GATT

(1947) or of GATT-1994/WTO now. These integration agreements and the concept of regionalism are now widely accepted as both supportive and complimentary to the goal of achieving the integration of national economies into the global economy. The entire Europe has been covered with a number of regional integration agreements, inclusive of the European Union with its on-going process of enlargement, while the countries in the continent of North America, together with Mexico, formed NAFTA in 1992. There are seven regional integration agreements in active force in the continent of Africa. ASEAN in South East Asia will move into a Free Trade Area by the year 2003, while Latin American countries are covered by integration agreements such as the Latin American Integration Association (LAIA) and Southern Common Market (MERCOSUR). The Gulf Co-operation Council (GCC) caters for the interests of the Gulf States. In the case of South Asia, however, the concept of regionalism came to be realized somewhat belatedly. This was obviously due to political factors, asymmetrical economies in view of different sizes of the countries and levels of growth, diversities of cultures, languages etc in the region. However, with the formation of SAARC in 1985, SAPTA, (SAARC Preferential Trading Agreement), the economic component of SAARC, came into force in 1995.

Regionalism, as a recognized progeny of globalization has come to stay in the arena of international trade

trade and investment. Sri Lanka is, at present, a member of the regional integration agreements such as Bangkok Agreement (1975), SAPTA (1995), GSTP (1988), BIMST-EC (1997) and IOR-ARC (1997).

**Regional Approach to Indo-Sri Lanka Trade**

The period of late 1980s in the Indo-Sri Lanka trade is taken here for examination, since it was during this period that the concept of a regional approach to Indo-Sri Lanka was seriously considered by Sri Lanka. The bilateral trade between India and Sri Lanka remained during this period as well, as shown below, with a continuous imbalance, leaving considerable trade deficits to Sri Lanka, as in the case of the previous several years.

A close examination of the export performance in the Indian market of each of Sri Lanka's products during the period of late 80s proved that there had been a direct link between Sri Lanka's performance and the Indian commercial policy regime. Sri Lanka's poor performance had nothing much to do with the production shortfalls in Sri Lanka. If at all shortfalls had occurred, that had been attributable to India's restrictive commercial policy regime. Supply shortfalls were mainly due to extreme shocks and were not due to

indigenous factors. In the case of manufactured and semi-manufactured products, the Indian market did not provide promising hope in the context of high tariff walls and a multitude of non-tariff and para-tariff barriers. Efforts made through the medium of the Joint Commission Meetings between India and Sri Lanka, and the traditional trade promotional methods could not result in achieving the desired objectives of a reasonable and satisfactory balanced trade between the two countries, with any reduction in the ever-increasing and escalating unfavourable balance of trade to Sri Lanka. The scenario during the late 80s resulted in a record figure of Rs.3921 million as the unfavourable balance of trade to Sri Lanka in 1990 from Rs.1891.3 in the year 1986. While the value of imports from India was maintained with a steady and gradual growth with its doubling in 1990, exports from Sri Lanka dwindled with violent fluctuations intermittently during this period and registered only a modest increase to Rs.809.6 million in 1990. The value of imports from India in 1990 increased by almost six-fold, compared to the value of Sri Lanka's exports to India.

**First Step of regional approach**

It was against the back-drop of the above described scenario that serious efforts in Sri Lanka began in order to explore positive ways and means to bridge, to a reasonable extent, the ever-increasing trade gap in the Indo-Sri Lanka trade. Of all the strategies formulated and considered, a regional approach emerged by end of 1990, as the most viable in keeping with the global developments, (i.e, the emergence and importance of regionalism and regional integration agreements), SAARC, though formed in 1985, did not possess within its fold an economic component for its future projections and advancement in that field. With the "Indian factor" in mind and its importance to Sri Lanka's national interests

in the field of trade and economic co-operation primarily, and due to the timely relevance and importance of a regional integration agreement to the countries in South Asia, based on the experience of some regional integration agreements in other regions, Sri Lanka took the initiative in 1991 at the Sixth SAARC Summit held in Colombo, to propose the establishment of a regional integration agreement of what came to be known as the SAARC Preferential Trading Arrangement (SAPTA), which was readily and unanimously accepted by all other member countries of SAARC. SAPTA, eventually after initial rounds of trade negotiations among all member countries became operationalized since December 1995.

**Agreement on SAPTA (SAARC Preferential Trading Arrangement)**

The Heads of member states at the Sixth SAARC Summit in 1991 declared firmly that a preferential trading agreement was the first step towards higher levels of trade and economic cooperation in the South Asian region. SAPTA was accordingly designed to liberalize the intra-regional trade in goods (all products, manufactures and commodities in their semi-processed and processed forms) through gradual exchange of tariff concessions, based on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all member states (article-3) and eventual elimination of non-tariff and para-tariff barriers to trade (article-4). The agreement also embodied the commitments of the member countries to undertake appropriate steps and measures, for developing and improving communication system, transport infrastructure and transit facilities for accelerating the growth of trade within the region (article -

**Sri Lanka's Trade with India  
1986-1990  
(Value in Rs. Million)**

Year	Imports	Exports	Balance of Trade
1986	2,221.9	830.3	1,891.3
1987	2,459.7	181.5	2,278.2
1988	2,893.6	611.6	2,282.0
1989	2,312.6	326.6	1,986.0
1990	4,730.6	809.6	3,921.0

Source: Sri Lanka Customs

2), while providing for intra-regional flow of investments and facilitation of trade through a set of rules of origin (article -16).

The envisaged gradual liberalization of trade in the region under the terms of the SAPTA agreement was expected to be achieved through periodical trade negotiations on tariff concessions and on other trade-related aspects, such as non-tariff and para-tariff barriers, rules of origin etc.. The initial round of trade negotiations concluded in April, 1995 in Kathmandu was meant to establish SAPTA.

#### **Indo - Sri Lanka trade under SAPTA**

There have been three rounds of trade negotiations under SAPTA, the first round having been concluded in 1995, second in 1996 and the third in 1998. Sri Lanka was able to secure tariff concessions from India, within the framework of the first round of SAPTA negotiations, for 37 products of direct interest to Sri Lanka, out of 106 products offered by India for concessions in respect of all member countries. The rates of tariff concessions obtained on the MFN rates of import duty ranged from 10% to 50% of reductions. The second round of trade negotiations concluded in 1996 resulted in Sri Lanka obtaining concessions of tariff reduction from India on 22 products of direct interest to Sri Lanka. Sri Lanka was, however, unable to utilize these tariff concessions fully and comprehensively as most of the products, offered with tariff reductions, were still subject to non-tariff barriers in India. Furthermore, the depth of tariff concessions granted were not attractive enough as India was still maintaining a high incidence of MFN tariff rates. In addition to boarder tariffs, India was

also maintaining a protective para-tariff structure, e.g, excise duties, also at a high rate.

The third round of trade negotiations under SAPTA, concluded in November, 1998 resulted in Sri Lanka obtaining from India, concessions for 25 products of direct interest to Sri Lanka. The concessions will come into force only with effect from October 1999. Hence, for purpose of an analytical assessment of the impact of SAPTA on Sri Lanka's trade with India, only the concessions granted under the first two rounds could be taken into consideration at present.

The products involved in the Indo-Sri Lanka trade in terms of recorded data by the customs in both countries are as follows:

**Exports from Sri Lanka** - Arecanuts, Fruits, Tea, Pepper, Nutmeg, Cloves, Glycerin, Petroleum Products, Essential oil, Rubber, Waste and Scrap Paper and Paper Board, Waste and Scrap Metal of Iron or steel, Copper Waste, Scrap, Zinc-Waste, Scrap and dust, Parts and accessories of machines, Article of Plastics, LAC Natural Gums, Resins Synthetic Filament Yarn of Nylon, Woven Fabrics of Synthetic Filament Yarn, Pile Fabrics of man made fibres, Electrical Transformers etc.

**Imports from India** - Fish dried, salted in Brine, Red Onions, Bombay Onions, Garlic, Dried Chillies, Corriander, Beedi Leaves, Beet Sugar, Cane Sugar & related products, Oil cake & Other residues of vegetable oils, Cotton, Structures of Iron and Steel, Vehicles other than railway or tramway, Rolling Stock & Parts thereof, Medicaments, Paper & Paperboard, Man made staple fibre, Machinery mechanical, Rice, pneumatic tyres of rubber, Portland Cement, vegetables, Malt extract, Antibiotics, Plywood veneered panels & similar laminated wood, Plastics & articles thereof,

Knitted or crocheted fabrics, Articles of stones, plaster, lement asbestos, MICA or similar material, Glass and glass ware, Electrical machinery & equipment & parts thereof, Diesel Electric locomotives, In organic chemicals.

Of the above products traded between the two countries, a study commissioned by the SAARC Chamber of Commerce & Industry revealed that despite the existence of non-tariff and para-tariff barriers in the Indian commercial policy regime, as far as the products which were granted concessions by both countries towards each other under the first two rounds of SAPTA negotiations are concerned, the share of preferential imports out of the total imports by India during the period 1995/1996 to 1996/97 increased from 1.10% to 8.64%, whereas the share of preferential exports by India to Sri Lanka declined from 5.09% to 4.47% during the same period. This was specifically due to an increase in export of Sri Lanka's agricultural products to India, under SAPTA concessions. The certificates of origin, issued by the Dept. of Commerce for shipments under SAPTA concessions reveal that the number of shipments to India and other SAARC countries, which stood at 144 in 1996 increased to 584 in 1998, registering an increase in value of exports to India and other countries from US \$ 2.6 million in 1996 to over US \$ 8 million in 1998. Of the number of shipments given here, for the period 1996-1998, more than 90% of them was destined to India. It could therefore be seen that taking into account the tariff concessions granted by India to Sri Lanka under the first two rounds of SAPTA negotiations, the tariff concessions granted by India under SAPTA did begin to have a stimulating effect on Sri Lanka's exports to India.

The positive effects of the concessions granted by India under the third round of the SAPTA negotiations, would be seen, once the customs data on value are released by end of the year 2000. The fourth round of negotiations under SAPTA, now scheduled to be conducted during September/October, 1999 in Kathmandu would also enable Sri Lanka to obtain concessions for more products of direct interest to Sri Lanka, which would also add to the positive trend of Sri Lanka's increased exports to India, under SAPTA concessions. SAPTA, has, therefore, assisted Sri Lanka at least to the extent of having a comparative advantage of an increase in the percentage of exports to India as compared to the percentage increase in India's exports to Sri Lanka.

In the historical perspective, the pertinent question however, during late 1997 and 1998, was whether the SAPTA process has adequately assisted Sri Lanka or was it capable of assisting Sri Lanka, as expeditiously as possible, to achieve the original objectives of a reasonable and satisfactory balanced trade with India and in reducing the escalating imbalance in the trade between the two countries. To go by the critics of SAPTA, the answer was perhaps a definite "no." and they in their own right substantiated their argument by the following statistical data showing the position of the bilateral trade between both countries, even after the establishment of SAPTA to prove that despite SAPTA concessions, the overall trade between the two countries has continued with similar scenario as experienced during late 80s, but still highly skewed in favour of India in proportion.

**Second stage of regional approach**

As shown in the table above, and as argued by the critics of SAPTA, despite some degree of positive

stimulation provided by SAPTA concessions to exports from Sri Lanka, imports from India continued to increase by several folds compared to Sri Lanka's exports to India. This was however, chiefly due to greater and continued demand created by Sri Lanka for import of products such as bombay onions, dried chillies, cotton, steel, vehicles, medicaments, paper and paperboard etc from India. The scenario however, by 1997, was that there was a compelling need on the part of Sri Lanka for stratification towards a further modality in order to attempt to bridge the ever-escalating imbalance in the bilateral trade of the two countries. In the past, however, from 1993, from the time of release of the WIDER report, there had been suggestions made for the necessity to conclude a Free Trade Agreement with India. The inadequate progress of SAPTA process and the growing necessity to bridge the widening gap in the trade between the two countries through the medium of a fast-track process eventually led Sri Lanka to give serious consideration in 1998 to the suggestion of concluding a Free Trade Agreement with India. The framework agreement towards establishing a Free Trade Area (FTA) between the two countries was finally concluded in December 1998.

Year	SL Imports	SL Exports	Balance of Trade
1986	2,221.9	330.3	- 1,891.3
1987	2,459.7	181.5	- 2,278.2
1988	2,893.6	811.6	- 2,282.0
1989	2,312.6	326.6	- 1,986.0
1990	4,730.6	809.6	- 3,921.0
1991	9,105.3	521.7	- 8,583.6
1992	13,230.2	501.0	- 12,729.2
1993	16,569.3	954.1	- 15,615.2
1994	19,984.9	1,047.7	- 18,937.2
1995	24,045.3	1,615.8	- 22,429.5
1996	31,055.6	2,256.1	- 28,799.5
1997	33,023.5	2,524.3	- 30,499.2

Value: In Million Rupees.  
Source: Sri Lanka Customs

**Indo-Sri Lanka Free Trade Agreement (FTA)**

Considering that the expansion of the domestic markets, through economic integration, was a vital prerequisite for accelerating the processes of economic development, bearing in mind the desire to promote mutually beneficial bilateral trade and being convinced of the need to establish and promote free trade arrangements for strengthening intra-regional economic co-operation and the development of national economies, India and Sri Lanka negotiated a Free Trade Agreement in September, 1998 to provide for progressive reductions of tariffs and elimination of obstacles to the bilateral trade between both countries. The Framework Agreement was subsequently signed on 28<sup>th</sup> December 1998 in New Delhi by the respective Heads of Government. The Agreement was expected to enter into force, after finalizing the respective lists which formed an integral part of the Agreement, within 60 days of signing the Agreement and after both countries have notified each other that their respective constitutional requirements and procedures have been completed.

The Agreement provided for, inter-alia, the following:

- (a) Upon entry into force of the Agreement, India agreed to grant zero duty access for 1352 items of exports from Sri Lanka, while India would grant 50% margin of preference on the remaining items (except the items specified in the Indian Negative List). The concessions on items in chapters 51 to 56 to 58 to 60 and 63 would be restricted by India to 25%. The margin of preference on the items granted with 50% would be increased by

India to 100% in two stages within three years of the coming into force of the Agreement, except for the textile items,

- (b) Upon entry into force of the Agreement, Sri Lanka agreed to grant zero duty access for 318 items of exports from India, while Sri Lanka would grant 50% margin of preference for 889 items. In respect of these items, the margin of preference would be deepened by Sri Lanka to 70%, 90% and 100% respectively, at the end of the first, second and third year of the entry into force of the Agreement. For the remaining items, except those mentioned in the Negative List of Sri Lanka, the tariffs would be brought down by not less than 35% before the expiry of three years and 70% before the expiring of the sixth year and 100% before the expiry of eight years, and
- (c) Rules of origin- For eligibility for preferential treatment in the case of products worked on or processed, the domestic value addition would be 35% of the f.o.b. value, permitting 65% of imported components from countries other than the contracting parties whereas if materials or parts of products originating from other contracting party are used, the domestic value addition would be 25%.

The FTA concluded between India and Sri Lanka could not however enter into force as envisaged due to issues arising out of the exchange of the concerned annexures (especially the Negative List of India, which contained certain products of immediate interest to Sri Lanka), which

were to become the integral part of the framework agreement in February 1999 after 60 days of signing the agreement

Negotiations between India and Sri Lanka followed thereafter in March and June to resolve the remaining issues. A finality, however, has not yet been reached on these issues. It is expected that further negotiations would follow as agreed between the two countries.

There are many who have so far expressed their points of view for and against the FTA. Those who have cast apprehensions over the FTA appear to be somewhat academic in their assessments. The importance of the FTA has to be, however, viewed in the context of the emergence of regionalism in global trade and its significance for regional integration, which has already been recognized the world over and by the provisions of GATT/WTO. Therefore, the argument as to whether the FTA is a brain child of the WIDER report in 1993 should not be the main concern, nor would it matter much to undertake a post-mortem as to whether the FTA is the best alternative to reduce the imbalance in the Indo-Sri Lanka trade. The FTA with India is not certainly anachronistic in the context of developments in the area of global trade. While the implementation of the FTA is being awaited, pending resolution of the remaining issues, India unilaterally announced in August, 1998 the dismantling of the non-tariff barriers relating to over 2000 of the 2600 items under restrictions and made the concessions applicable to imports from all SAARC member countries. More than 100 products in the list of those 2000 items are of direct interest to Sri Lanka, and in fact before the announcement itself, 71 of such products were being exported by Sri Lanka. The removal of non-tariff barriers on these products therefore will directly benefit Sri Lanka.

### Prospects of Indo-Sri Lanka Investments

At present, the Indian investors have invested in 42 projects in Sri Lanka, which are in operation. The value of these investments is estimated, approximately of Rs. 1950 million, while 10 projects are under construction, the value of which amounts to approximately Rs. 1600 million. The number of Indian investment projects in Sri Lanka, approved by the Board of Investment stands at 75, and the total value of the projects is estimated to exceed Rs. 6850 millions. The investments by the Indian companies include many sectors of Sri Lanka's economy, ranging from steel mills, light engineering, rubber and plastics, food processing, computer software, cement, textiles, metal working, pharmaceuticals, agriculture, dairy, hotel and restaurants. Though most of these Indian joint ventures in Sri Lanka are operating well Prof. Indra Nath Mukherji of Jawaharlal Nehru University, who is closely associated with analysing the implications of regional integration agreements in South Asia, is of the view that the Indian investors have not utilized the full potentials existing in Sri Lanka. Some of his further views are incorporated in this section. The two regional integration agreements, both SAPTA, at present, and the FTA in its framework agreement do provide sufficient stimulating provisions for increased prospects for Indo-Sri Lanka investment possibilities. One of the objectives of SAPTA is to provide for intra-regional investment flows. As regards the rules of origin under SAPTA, the DVA (domestic value addition) which stood at 50% was brought down to 40% with the initiative taken by Sri Lanka with a view to encouraging investment flows in the region, while under the FTA between India and Sri Lanka, the DVA has been agreed to be at the level of 35%. It could

even go down to 25% if the imported components are from each of the contracting states. Hence, SAPTA provides the opportunity to any prospective investor to import 60% of imported components from outside the SAPTA countries, while the FTA, when implemented, would provide for such facility to the extent of 65%.

What is essential is that the present effort by Sri Lanka should be continued on a concerted manner to provide wider publicity on the provisions in SAPTA as well in the FTA and on the incentives and the investment climate in Sri Lanka among the prospective Indian investors. The prevailing incentives for foreign direct investments in Sri Lanka include the following:

- 100% foreign ownership is offered for foreign direct investment and port-folio investment in almost all sectors of the economy, with no restrictions on repatriation of earnings, fees and capital and foreign exchange transactions relating to current account payments.
- The most educated and highly productive skilled and Semi-skilled labour in the region.
- Tax holidays from 5-20 years depending on the size of investment employment provided by the investment project and foreign exchange earned.
- State land allocation for foreign projects.
- Duty-free imports of capital goods and raw materials.
- Guarantee on safety of foreign investment by article 157 of the Sri Lanka constitution. Bilateral investment agreements with 22 countries including India have been signed.
- Provision of well developed infrastructure facilities, including power supply, treated water, tele-communication systems, private road network and security systems, etc.

In addition, the investment climate in Sri Lanka, from the point of interests to prospective investors from India would include,

- the development of one of the most advanced tele-communication systems in South Asia.
- BOI has developed 4 Investment Promotion Zones in Katunayake (190 hectares), Biyagama (180 hectares), Koggala (80 hectares) and Pallekele (100 hectares) with the development of 5 industrial parks.
- The capacity and importance of the Port of Colombo to handle increased containerized cargo with the planned expansion of ports of Colombo and Galle in addition to the availability of the natural harbour in Trincomalee. The strategic location of the port of Colombo and its significance as a hub of shipping facilities in the Indian Ocean.

Furthermore, from the point of view of direct interests to prospective Indian investors it should be mentioned that, with Sri Lanka signing a new Investment Protection Agreement with India in 1997, it could be expected that more Indian capital will contribute to industrialization and growth in Sri Lanka. Indian investors should also note that air Lanka operates two direct weekly flights from Mumbai, two flights from New Delhi and daily flights from Chennai, Trichi and Trivandrum. Air cargo facilities at Colombo airport have developed to handle 55,000 tonnes per year with capacity to double it by the year 2000. Added to these advantages, India has recently increased the ceiling on investment in SAARC countries for fast track clearance from existing US \$ 8 million to US\$ 15 million. This could be expected to stimulate more Indian investment in Sri Lanka. Indian joint ventures with buy-back arrangements would turn to be a positive contribution in facilitating the process of discovering niche markets by Sri

Lankan entrepreneurs in India, enabling them to secure a larger share of the Indian market. In fact, the liberalization of bilateral trade itself between both countries (with dismantling of non-tariff and para-tariff barriers) could induce Indian firms to set up businesses in Sri Lanka with buy-back arrangements. In this regard, manufacture of rubber products and ceramics may be considered to offer immediate hopes to Indian investors. Such buy-back arrangements could positively contribute to reduce the existing imbalances in the trade between the two countries.

### Conclusion

Statistically it has been proved that the first regional approach made by Sri Lanka namely, the proposal to establish SAPTA, has, though in a modest way, assisted Sri Lanka in her attempts towards narrowing down the imbalance in the Indo-Sri Lanka's trade. The concessions granted by India under the first two rounds of the SAPTA negotiations have to some extent stimulated growth of Indo-Sri Lanka trade. In particular, some of Sri Lanka's agricultural exports to India under SAPTA concessions have had a welcoming effect and certain other products too will benefit under the third round of negotiations (customs data on exports for the year 1999, when released, will reveal it), while the fourth round of negotiations, to be completed by end of October 1999, would also add to the list of Sri Lankan products for which India will have granted concessions under SAPTA. The overall trade between the two countries, however, is highly skewed due to the surplus in favour of India. This again is attributable to the diversified export ways of India and the comparative advantages accruing to Sri Lanka by her imports from India as compared from other sources.

Contd. on page 36

work agreement for the FTA with India in December 1998. It was conceived as a fast-track process to achieve the desired results as expeditiously as possible. The FTA, has, however, not yet taken off the ground due to delay in the resolution of certain remaining issues. When the FTA enters into force, it is expected that it will provide a fast-track process in narrowing down the chronic imbalance in the Indo-Sri Lanka trade and would pave the way for its expansion with mutual benefits accruing to both countries.

It is illogical to expect a fully-balanced trade with India due to obvious reasons. What is desired is a reasonable narrowing down of the escalating trade gap. The global developments at the WTO level can not be expected in the near future, to be of tangible and substantial benefits to the developing countries. The global trade scenario has been dominated by the developed countries. The much-publicized Third Ministerial Conference of the WTO in Seattle can not be expected to throw much hopes to the developing countries. In this context, though developing countries will have to inevitably pursue their efforts at the global level, regional integration has come to stay as a parallel alternative to increase the intra-regional trade and investment. Indo-Sri Lanka trade is of primary importance to Sri Lanka as India accounts for roughly 10% of Sri Lanka's total imports from all sources and 85% of imports from SAARC countries, while it accounts for 35% of Sri Lanka's exports to the SAARC region. It is through regional integration and action within the scope of regional integration agreements that Sri Lanka will have to continue to vigorously pursue efforts to narrow down the imbalance in her trade with India and to expand the flow of trade and investment between the two countries. Other trade promotional methods such as sponsors and visits of trade and investment missions and participation in trade fairs etc. will supplement those efforts.

### Contd. from page 13

While SAPTA though in a modest way, has resulted in the beginning of Sri Lanka's attempt to achieve the long term objective of a balanced trade with India, it is expected that the provisions for investment generation within SAPTA would facilitate increased investment flows into Sri Lanka with possibilities for buy-back arrangements by Indian entrepreneurs. The process has been facilitated by India's further liberalization of trade by its removal of non-tariff barriers on 2000 products in August 1998 and reduction of general import duties by 10% to 25% on 34 categories of products in August 1999 and enlargement of ceiling on Indian capital investment in SAARC countries. The SAPTA process itself is towards its transition to SAFTA (SAARC Free Trade Area) by the year 2008, for which the arrangements are underway to draft a comprehensive treaty regime by a SAARC Committee of Experts (COE) and that will be in place by the year 2001.

The second regional approach made by Sri Lanka in her effort to narrow down the imbalance in the Indo-Sri Lanka trade, was the conclusion of a frame-