CEPA & ISFTA INNOVATE TO WIN

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The liberalization of trade and globolisation has made it very difficult for exporters to survive in the face of severe competition. This has resulted in business partnerships being formed for mutual benefit of buyers and sellers. Similarly countries have found that bi-lateral and multi-lateral agreements are the way forward This has resulted in a huge growth in such agreements especially with the bigger trading partners and among the neighbouring countries and also among countries in the regions. There is an increasing growth in bi-lateral trade agreements compared to multi-lateral agreements due to the ease and lesser complexities in reaching agreement.

The Comprehensive Economic Partnership Agreement (CEPA) has once again came into the limelight due to speculation immediately prior to the recent visit to India by Sri Lanka's Prime Minister, Ranil Wickramasinghe that he will be signing the CEPA agreement during this visit. However, both the Sri Lankan Premier and His Excellency the President have denied of any talks whatsoever on CEPA during their recent visits to India. On the other hand, the Indian Premier on his last visit to Sri Lanka stressed the importance of going ahead with CEPA for the mutual benefit of both countries but many have strongly expressed their opposition by highlighting the dangers for Sri Lanka in entering into such an agreement. Media reports say that the Sri Lankan Premier had invited the Indian Prime Minister Narendra Modi to visit Sri Lanka next year to sign the 'Indo – Lanka Economic & Technological Agreement', but no details have been revealed of what exactly this agreement is.

India Sri Lanka FTA

On 28th December 1998, during Sri Lankan President Chandrika Bandaranaike's Indian visit, India convinced her to sign a Free Trade Agreement known as "Indo-Lanka Free Trade Agreement" (ISFTA), despite objections from Sri Lankan officials, as it had not been fully studied by the officials of the Department of Commerce in Sri Lanka. However due to this unwise political decision by the former President, ISFTA came into operation from the year 2000. It has not only been hugely in favour of India but it has also not been able to deliver the expected benefits to Sri Lankan entrepreneurs even after 15 years of operation. ISFTA covered "Free Trade in Goods" except for some products that were in the negative lists of each country. After the signing the FTA, India imposed many "Non Tariff Barriers" preventing Sri Lankan products from entering the Indian market.

Sri Lanka is India's major trading partner in South Asia. The historical trade between India and Sri Lanka in 2013-2014 was USD 5.23 billion with Indian exports amounting to USSD 3.98 billion and Sri Lanka's totaling to USD 678 million. As clearly evident from the graph depicted in Figure 1, in spite of having the FTA, in contrast to the negligible growth of Sri Lankan exports to India, Sri Lanka's exports to other countries have grown by 79% over the last 10 years and during the same period Indian exports to Sri Lanka have grown by over 280% thereby widening the trade gap between Sri Lanka and India in India's favour from 2003 to 2014.

Bilateral trade between India and Sri Lanka would have grown even in the absence of the ISFTA as majority of the trade is on items outside the FTA, The classic example is that there are more than 4000 items in the Sri Lanka positive list under the ISFTA but less than 4% of those items are exported This raises the question as to whether the balance 96% of the items in the positive list are not good business propositions.

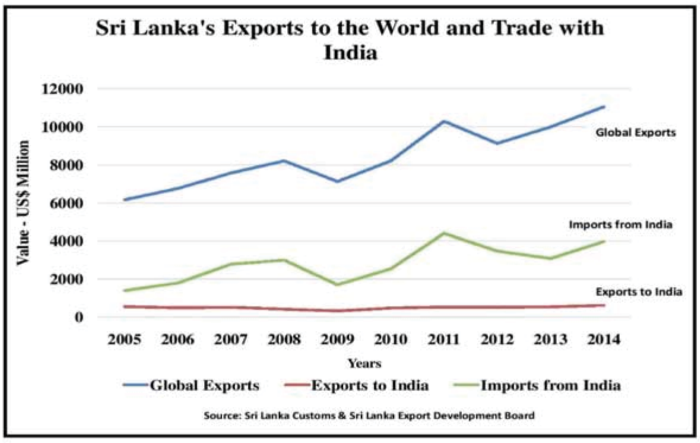

Figure 1

The exports from Sri Lanka to India were inclusive of Vanaspathi and Copper which were mainly handled by some organized Indian businessmen and these had no real economic benefit to Sri Lanka. However the Indian team and a couple of Sri Lankans supporting them have used these figures to mislead the Sri Lankan Government and the public.

BOI Enterprises

There are a number of Indian companies who have set up businesses in Sri Lanka by obtaining licenses through the Board of Investments (BOI). BOI gives most investors the concession of selling 5% or 10% of their output to the local market. Some of these investors are large scale manufacturers and the BOI does not realize that 5% of their output is sufficient to exceed the entire demand of the Sri Lankan market. The local SME cannot compete with them due to the advantages they have due to economies of scale and the concessions enjoyed under the BOI agreements. The end result is the local industrialists are forced to close down to the detriment of our country. BOI value addition businesses with 51% local to 49% foreign investment exploiting Sri Lanka's natural resources water, mineral sands, gems, oil and gas as well as enterprises focusing retail trade should be taboo. On the other hand advanced high tech machinery not produced in Sri Lanka should be tax free. The role played by BOI needs to be re-visited and restructuring may be required to play the required role.

ISFTA to CEPA

In June 2002, it was Mr. Ranil Wickremasinghe himself on a visit to India during his last tenure in office as Sri Lankan Prime Minister, had initial discussions of a Comprehensive Economic Partnership Agreement (CEPA), with the intention of expanding the FTA to a more integrated economic interaction. India described it as a solution to the many problems faced by Sri Lankan exporters under the FTA. However, Sri Lankan entrepreneurs and professionals were not satisfied with India's argument due to the very bad experiences of Sri Lankans with the FTA. On several occasions CEPA was to be signed by the then President of Sri Lanka but it was prevented by pressure exerted by local businessmen

The differences between FTA and CEPA are that whilst FTA covers only goods, CEPA covers: goods, services, investments and movement of people between the two countries. Therefore, CEPA, as the name indicates, covers the entire economic activities of the country including many issues related to national security. Therefore, CEPA cannot be taken simply as a trade agreement and must be reviewed extremely carefully by all stakeholders including the Ministry of Defence. Sensitive information covered in the document is cited as the reason for not having the draft agreement freely available in the public domain.

Background to CEPA

In April 2003, a Joint Study Group on CEPA was set up between Sri Lanka and India and its first meeting was held in May 2003. However, the discussions appeared to have been stalled with the change of Government consequent to the general elections held in Sri Lanka in 2004. Even after the new Government came into power, India continued to pursue the matter further by describing it as a means of ironing out all problems under the FTA. The few Indian agents in Sri Lanka praised it as a new and wonderful agreement to help the Sri Lankan economy.

The Department of Commerce started new discussions on CEPA in March 2005, and three Working Groups were appointed to proceed with the discussions: Director General Commerce headed the Trade in Goods W.G, Executive Director Institute of Policy Studies headed the Trade in Services W.G and Chairman Board of Investment headed the Investment and Economic Cooperation W.G.

The numerous problems faced under the FTA were highlighted at these discussions by the Sri Lankan industrialists and professionals. They insisted that until the problems of the FTA were resolved they did not want to move ahead on any further economic agreements with India. Although the Indian officials and few of their supporters in Sri Lanka portrayed CEPA as solution to all the problems of the FTA, the Sri Lankans were not satisfied. They went further by questioning as to why India was so keen on CEPA with Sri Lanka when it is such a small market to them. Was it due to the ulterior motive of paving the way to India's goal of becoming a world power? Obviously India would like to have full control of the SAARC region and these countries are all entering into agreements with China may be considered as a threat to India. Sri Lanka is strategically a very important location and India may want to ensure that what cannot be controlled militarily can be controlled economically.

Arguments against CEPA

Many reasons have been cited for the rejection of the existing CEPA proposals by the Sri Lankan Industrialists and Professionals. If the CEPA is implemented any Indian professional may come over and start a business in Sri Lanka other than: Money lending (banking is open), Pawn brokering, Coastal fishing (deep sea fishing is open) and Retail trade with a capital of less than $ 1 million (Large retail chains are open) which have been exclusively reserved for Sri Lankans. He/she can offer his/her service through the business. He/she can employ their spouse and dependents in the business. A letter from any association is sufficient to confirm professional status. The Government of Sri Lanka will be legally bound to grant employment visa to all of them.

Under the proposed CEPA any Indian company can also come and invest in any commercial industry and start supplying to the local market. Indian ownership up to 50% would be allowed for 25 physical cinema establishments. 40% of cinema time would be reserved for films imported from India. Some view this as a deliberate attempt to spread Indian culture in Sri Lanka.

Another important point to note is that all investments under CEPA are subjected to State Government approvals. Although State Governments are very powerful in India it's not be so in Sri Lanka. Therefore, Sri Lankan exporters and investors are bound to face very tough restrictions and resistance in India and be at the mercy of State Governments and also be subject to their different rules and regulations.

As reported in 'The Times of India ' of 23 June 2014, the Institute for Human Development, India, had reported that of the 15 million completely unemployed in India over 30% or 4.5 million were graduates or more qualified and were seeking work. Universities and colleges turn out over five million new graduates each year and thus the numbers are staggering. In India one in three graduates up to the age of 29 is unemployed, according to Indian labour ministry report released in November 2014. In such a situation the prospects even the professionally qualified Sri Lankans finding work would be futile. In this context it should be mentioned that traditionally India has not been a source of employment for Sri Lankans whereas the opposite has been observed even now. India will definitely stand to benefit from CEPA by the new job opportunities that will be available to them in Sri Lanka.

Only a few occupations in Sri Lanka are protected by the current statutory and regulatory provisions and foreign national who are admitted for employment could work in the country, There are some restrictions for the recruitment of Attorneys/Lawyers, Medical Doctors, Accountants (who certify balance sheets), Architects and structural Engineers to engage in designing of buildings and structures, while there are no statutory restrictions in respect of other professions to work in the country.

In addition the per capita income in India USD 1627 as against USD 3558 in Sri Lanka which is more than twice that of India and wagers in the lower segments in practically all the professional occupations in India are lower than those in Sri Lanka and the Indians will be more than willing to come and work in Sri Lanka. On the other hand there are vacancies in Sri Lanka in certain categories of labour. Already many illegal Indian immigrants are working in agricultural land as well as in business especially in the north and east of the country. A considerable number of Indians at both managerial and labour grades are employed in Sri Lanka by Indian businesses set up under licenses issued by Sri Lanka's Board of Investment.

The main threat is to the SMEs who contribute about 75 – 80% of the Sri Lanka's economy. Increasing inflow of Indian products into Sri Lankan market obviously gives rise to a number of issues in addition to the direct hit on the local manufacturers, 90% of whom are SMEs who contribute to the employment on average of 26%, will be wiped out from the market.

It is important to note that India is an industrialized country whereas Sri Lanka can only boast of a few FMCG industries that may succeed in a niche market against the Indian giants. The scale of operation in India is gigantic in comparison, and they stand to benefit from economies of scale. Therefore their unit cost of production is very much lower and has a huge competitive advantage over Sri Lankan products.

Large-scale advertising, which is affordable to the huge companies, would smother the local efforts. Besides, those advertisements are brought as a package in India, which includes Sri Lanka without any additional costs due to the comparatively very limited market potential. All production costs for the advertisements including artistes, and even the airing is paid in India. Furthermore, when necessary, the large conglomerates are able to sustain a long price war, which the industries in Sri Lanka cannot afford. The other disadvantages for Sri Lankans are the scarcity of raw materials in comparison with India, and the limited pool of skilled labour available.

In recent media reports it was highlighted that mutual recognition of standards and certain non tariff barriers as bottlenecks which have to be cleared for the smooth functioning of the FTA. There are complaints with regard to the undue delays experienced on testing formalities, inability to access information relating to trade, frequent revision of rules and unavailability of a sound mechanism to effectively address any complaints/grievances etc. Moreover the political prevalence over the southern port of India, especially in Tamil Nadu has also not been conducive to export of Sri Lankan products. These non-tariff barriers cannot be eliminated easily and unless they are re-negotiated the FTA will not be beneficial to Sri Lanka.

The Indian companies operating in Sri Lanka minimize their local profits so that it will swell their tax-free income in India. In effect the actual value addition is from employment and office expenditure. But even in employment large numbers are from India, both at the factory as well as in the managerial grades, drastically reducing the opportunities for locals to find employment. Furthermore, part of the wages of the Indian workers is paid in India, which again helps to swell the profit of the tax free income repatriated to India. Cheap Indian labour housed in congested rooms is profitable to the operators but is creating dissension amongst the local population and if allowed to grow unhindered may cause a serious situation. It nearly happened in the Horana industrial zone. When the tax-free profit is repatriated to the Indian owners, whether there is any real value addition to Sri Lanka needs to be questioned

The non-tariff barriers (NTBs) such as the frequent changes to the rules and regulations and the non-availability of information about the trade continues to be problem areas and the imposition of local Indian taxes were issues even before the FTA came into operation. However, no meaningful action appears to have been taken to resolve them at the time of negotiating the FTA. Another major hurdle that is unlikely to be overcome easily is India's attitude towards imports from Sri Lanka and there is resistance and harassment overtly displayed for Sri Lankan exports. Most Sri Lankan companies who tried to penetrate the Indian market have given up because of the harassment by Indian officials especially the Customs. Even the Indian authorities are aware that Customs officials are averse to imports from Sri Lanka which is very visible in Chennai Although on paper, Sri Lankans have ample opportunities to export their products to India in actual fact almost every company which did not have an Indian collaboration and tried to do so was not successful forcing them to give up their endeavors. Every Sri Lankan who has had a facility in India has sad stories to relate. The Ceylon biscuit operation in India is a good example and their issue was explained as follows:

"The Ceylon Biscuits (CBL)s' operation in India which was considered a flagship operation for a Sri Lankan industry but unfortunately we have had resistance from the beginning with the export of Tic Tac to India. The value addition was much more than the 35% as stipulated in the Asia Pacific Trade Agreement. Unfortunately the attitude should be not rejection at the slightest excuse but to assist and take a realistic approach as outlined in the FTA. The Sri Lankan Ministry of Commerce has time and again supported not only the Tic Tac issue, there are much, much more items too facing similar problems, but there has been no response from the authorities in Delhi despite the numerous times these have been taken up. I too have met secretaries and the Director of Commerce in India who assured that there is no issue with Sri Lanka but against other exporters. But after Tic Tac was established in the market, the decision was reversed, obviously for the selfish motive of starting the operation in India. The Tic Tac issue was over two years at that time and instead of postponing these issues and keeping them in abeyance we as industrialists would like a firm 'yes' or 'no'".

"In another instance when we exported by air our range of specialty chocolates to study the Indian market before venturing in to a manufacturing facility, we experienced Custom delays, pilferage and storage in non-A/C environment, which dissuaded us from proceeding further. Then again for a short time CBL was blacklisted by the Chennai authority, claiming that we were under invoicing. At that time the Indian operation was heavily subsidised and there was no logic in increasing the debt especially as the local banks and the Exchange Control were breathing down on us on overdue payments on exports. Another delay was encountered by subjecting the imports to a standard and quality evaluation that created inordinate delays, sometimes well over four weeks and the consignment incurred demurrage and product deterioration. At that time CBL was exporting to over 35 destinations. Today it has risen to over 52 countries".

A regular exporter of floor tiles to India for a number of years was suddenly called upon to pay duty as Customs challenged the validity of the HS Classification (which is used to determine the rate of Customs Duty applicable). He got redress after a long-drawn-out court case at great expense. These amply demonstrate that the Indian ethos is anti-imports and more pronounced towards Sri Lankans.

Arguments in favour of CEPA

The argument in favour of CEPA were put forward mainly by the Ceylon Chamber of Commerce the only Sri Lankan chamber supportive of CEPA. It claims that it has the concept of nation first, private sector second, and companies third at the heart of all its policies, advocacy and activities. Uplifting the quality of life of all the people of Sri Lanka is an over-riding objective. This is based on the premise that what is good for the country is good for the private sector whilst the reverse may not always hold true. In practical terms, this means focusing upon ways and means of achieving sustained increases in the incomes of the people on the basis of balanced and inclusive growth of the economy. In a country of 21 million people, this can only be achieved by supplementing the domestic market with a sharp focus on external demand. The transformative successes achieved by several Asian countries demonstrate this vividly.

* Trade from March - December

It is noteworthy that countries varying in size from China to Singapore have gone down this route. In a context, where multilateral trade negotiations and regional integration is constrained by tensions between India and Pakistan, there is a robust case for attaching high priority to bilateral agreements. In this connection, given the significant competitive advantages associated with proximity, The Chamber is of the view that Sri Lanka needs to deepen and extend the existing FTA with India. Sustained improvements of living standards cannot be achieved without increased investment to drive productivity-linked expansion of economic activity, particularly exports. The domestic pool of investment is inadequate to achieve the country's growth target of 8%. There is a savings/investment gap of about 5% of GDP. FDI, which is non-debt creating, offers the best option for filling this gap, with its added benefits of technology, know-how and markets. It needs to increase from the current disappointing level of $ 1 billion (2014) to $ 4 billion. The domestic market is not large enough to attract this magnitude of FDI. It would be possible only if the prospects of export growth are improved. Bilateral arrangements, which promote preferential access to larger markets and improve the investment climate, are therefore, a crucial component of the landscape for attaining an improvement in the living standards, of the people of Sri Lanka over a decade or more. Deepening the ISLFTA in goods and extending it to services and investment fits very much into this narrative.

It is important to understand the changing landscape within which these negotiations are taking place. India has reset its relations with the countries in South Asia. It has concluded that peace and prosperity in the region would not only benefit its own development but also create a more conducive environment for pursuing its ambitions as a rising global power. It does not want to be distracted by irritations in the neighbourhood. Significant advances are already underway in India's relations with Bangladesh, Nepal and Bhutan, particularly in the areas of power generation and grid connectivity, as well as land and rail transit which would boost trade. Sri Lanka should not be left behind. Mr. Modi's visit to Sri Lanka was the first in 28 years by an Indian Prime Minister. It reflects India's changed stance towards this region. The debate on the merits of the Indo-Lanka Comprehensive Economic Partnership Agreement (CEPA), as a means of taking advantage of our proximity to a resurgent India, seems to divide the protagonists on the basis of whether India is seen as an "opportunity" or a "threat".

Some critics also fail to take into account recent improvements in the bilateral trading environment. Modi clearly signaled the willingness to do more. It would be a mistake not to take advantage of this. Failure to do so would not be in the interests of Sri Lanka or its people. Other countries in the region and much of the rest of the world see India as an increasing opportunity. It would be a great pity if we ignore what is available at our door-step. We need to transcend our narrow-minded fears. The failure to do so would deprive Sri Lanka from taking advantage of a potentially transformative opportunity to boost its development prospects.

The argument that the asymmetry in the size of the two economies would preclude a mutually beneficial CEPA ignores some important facts. There are provisions in all trade agreements for negative lists and safeguards. There can also be differences in the time periods over which the parties liberalise trade in the items on the positive list. The Indian authorities have shown an increasing willingness to adopt the principle of non-reciprocity to take into account the asymmetry of the two economies i.e. Sri Lanka has room to maneuver when it comes to the negative list, safeguards and the speed of liberalisation. The focus, therefore, should be on negotiating to maximise the benefits for Sri Lanka through, among other things, effective use of these mechanisms. There are examples from the Asian region where deeper economic links have yielded substantial benefits despite asymmetry in the size of the economies involved. Singapore has been able to use its integration with the ASEAN economies, including Indonesia, to generate positive development outcomes for itself. Similarly, Hong Kong has benefited enormously from its link to the massive Chinese economy. It is also noteworthy that Mexico has benefited more than the US or Canada from the North Atlantic Free Trade Area (NAFTA). The economic asymmetry between Sri Lanka and India is going to increase in the future as the latter emerges as a major global player in an increasingly multi-polar world. This increases the need for a rules-based regime to manage Sri Lanka's bilateral trade and investment relations with India.

Sri Lanka can benefit from a larger market that will allow the realisation of economies of scale, the ability to integrate into large value chains as well as access to investment which can bring in technology, markets and know-how. India, for its part, can demonstrate the value of a productive partnership with a neighbour, which, if emulated, has the potential to stimulate growth and reduce political friction in the neighbourhood – a priority for India as it pursues its global ambitions.

The proposed Indo-Lanka CEPA can refine the existing disciplinary framework for the trade in goods by addressing major issues that have hitherto constrained benefits from the ISFTA. These include conformity assessment procedures and product standards. It can also introduce rules-based regimes for trade in services and investment as well as strengthen the dispute-resolution process at a time when the asymmetry between the two countries is going to increase as Indian growth accelerates.

Sri Lanka has a better competitive advantage in services (shipping, aviation, ICT / BPO / KPO, financial services, etc.). We should not forget that Sri Lanka is now a middle income country. Terefore we cannot go with a begging bowl any longer. The only way is to grow is by attracting Foreign Direct Investment to develop the country.

The debate on the proposed Indo-Lanka CEPA should be focused on a hard-nosed assessment of potential benefits and costs rather than on emotion and primordial fears. It should not be based on the premise that economic asymmetry precludes mutually beneficial bilateral trading agreements. The asymmetry can be addressed through negative lists, safeguards and differential transitional arrangements, particularly as India has accepted the principle of non-reciprocity. Furthermore, it is in the interests of smaller countries to seek a rules-based regime to manage relations with much larger trading partners. In the absence of a disciplinary framework everything has to be negotiated on a case-by case basis with a much more powerful partner. The challenge is to negotiate effectively and strive for good faith on both sides. Concern is often expressed that a combination of political interference, vested private sector interests and lack of capacity constrain the ability of Sri Lankan negotiators to pursue the country's objectives effectively in trade negotiations, particularly with a country as large as India. A more transparent process, which involves key stakeholders and mobilises technical expertise, both within and outside the government, can increase Sri Lanka's capability to achieve the desired objectives.

Another problem faced by Sri Lankan exporters has been delays owing to testing and certification requirements for certain products in India. CEPA provides for a Mutual Recognition Agreement (MRA) as well as adoption of common Sanitary and Phytosanitary standards. As a result, delays due to lab testing and certification processes will be avoided allowing Sri Lankan exports to enter India unhindered. Testing and certifications done in Sri Lanka would be recognized in India. The products that will benefit include: ayurvedic products, fish and fishery products, coffee, tea and spices, edible fruits and nuts, vegetable fats and oils, all kinds of animal and animal products, plant and products of plant origin, and other agricultural and related items.

Some exporters in Sri Lanka felt that the FTA rules of origin criteria were far too stringent in respect of certain commodities leading to effective denial of export possibility. At Sri Lanka's request, India has agreed to ease rules of origin criteria for 346 products. This will enable Sri Lanka to export these items of priority interest and also to be more competitive in the Indian market. Some of the products included are apparel items, jewellery, furniture, machinery, electrical and other appliances, agricultural and agro-processed items, fishery products, non-ferrous metals, and so on.

The Services Sectors opened by India include some of the areas where Sri Lanka has proven expertise and acknowledged advantages. These include: architectural and engineering services, tourism and travel related services, ITC and related services, transport, and maritime services. In the area of investments, too, India's schedule of commitment would be much larger than that of Sri Lanka. Concessions granted by India are unconditional and not time-barred unlike GSP+ concessions that are temporary, subject to periodic review and come with prescriptive non-trade considerations.

It is a fact that in certain industries are suffering due to lack of demand for the available jobs. For example, in the garment industry due to the experienced employees going abroad for better pay thousands of vacancies have been created which are yet to be filled. Growth forecast for employment opportunities and dearth of qualified personnel is an issue the country is already facing. Sri Lanka can no longer boast of low labour cost and therefore opportunities at the lower levels are bound to be at a minimum. In addition the government's goal of generating over one million jobs within the next five years will require a trained work force to grab the opportunities.

Foreign investment is important for the country to benefit from the transfer of modern technologies which is not available locally. This will not only create more jobs it will also facilitate on the job training opportunities for Sri Lankans.

This brings us to a more fundamental question of our education system which has not been designed with the needs of the potential employers. Sri Lanka will have to change the system of education so that the schools and universities produce people who will be in demand for the available jobs Since this will be an exercise which will take a number of years to reach the desired objective it is important to make a start immediately by having a new national education policy.

Negotiations with India

In the past and even now, the other countries wanted to engage with Sri Lanka, economically and politically mainly because of its location. The location advantage is often placed on being located closer to major shipping routes, and not enough emphasis is put on the advantage of being in close proximity to India. The presence of India makes Sri Lanka more attractive for business leaders from other countries because of the easy access it provides to the large and fast-growing Indian subcontinent.

The Colombo port has sustained its hub status because of India. The major shipping lines visit the port because of the transshipments from and to India. The port and logistics services of the country would not have done so well if the country had to depend only on cargo generated to and from Sri Lanka. Integrating with the Indian economy, is therefore, an economic necessity not a choice.

Sri Lanka cannot economically succeed and reap the benefits of its location without engaging with India. Improved market access to India and integration with the Indian economy is critical for Sri Lanka to sustain its economic growth by increasing foreign investments and export revenue.

CEPA was first discussed by the Mr. Ranil Wickremasinghe during a visit to India when he was the Prime Minister during his earlier tenure. It is unlikely that he will want to dump this now specially after his recent visit to India and the announcement that Mr. Narendra Singh Modi will visit Sri Lanka next year to sign an Economic & Technology agreement. What is frightening is that Prime Minister today is adopting a very autocratic approach. Immediately after his recent visit to India, the Indian media reported that a feasibility study commenced to build a road between India and Sri Lanka at a cost of USD 3.5 billion sea bridge with an underwater tunnel ADB is ready to finance it. However, he has neither confirmed it nor denied it and the Sri Lankan people are still being kept in the dark. Also the Indian media were reporting that agreement has been reached on CEPA which he has denied.

In negotiating any agreement with India, it is important take into account the following learning from past experiences, and ensyre that they all adequately addressed.

Action should be taken to resolve the problems encountered under the ISFTA. It is important that this is given priority since many of those who are opposing CEPA are doing so due to the bad experiences they had under the ISFTA. The negative list should be re-visited in order to facilitate the exports of Sri Lankan products having high potential in the Indian market which are presently included in the negative list.

ISFTA has been signed with a proviso that all investments are subject to State Government approval. This has been one of the main obstacles detrimental to Sri Lankan exporters as well as entrepreneurs who ventured to set up businesses in India. The experience has been that the State Governments introduce changes to their rules and regulations very often including introduction of new tariffs and upward revision of prevailing tariffs

It is obvious that the Indian negotiators are more professional and do their homework before they come to the negotiating table whilst for the Sri Lankans bi-lateral agreements is more to please politicians and bureaucrats who are more interested in the number of agreements signed than the real benefits under them for Sri Lanka.

Indians have traditionally been dominant partner in negotiating agreements with Sri Lanka. For example, the Indo-Sri Lanka Agreement signed by then President J.R. Jayawardena, the India Sri Lanka Free Trade Agreement, and in negotiations for the introduction of CEPA. The danger of entering into agreements like CEPA is that they are long term and once signed, we are bound by them and they cannot be easily reversed or cancelled.

CEPA would extend the coverage to include the services sector including the migration of natural persons for employment and work. Opening up of work opportunities to foreign nationals without collateral benefits that accrue to the local professionals reciprocally in the sending countries may be dangerous.

The key objective of CEPA from the point of view of Sri Lanka should be to increase the export revenue of the country by increasing exports to India. Then discussions on CEPA should be focused on; 'What are we going to export to India under CEPA?' Sadly, this is what is being least discussed and is the exact question the country does not have a clear and convincing answer for. Identifying current and potential exports, the current and potential barriers to export and how the proposed agreement can bring down the identified barriers is critical to the success of CEPA or any other agreement. If Sri Lanka does not have clear and convincing answers to these questions, then the agreement will fail to increase exports to India.

This is the same blunder Sri Lanka made when negotiating the FTA with India. As a result of the failure of the Government and the private sector to ask this critical question, the country agreed to terms that limited the ability of the exporters to reap the benefits of the agreement. For example, if the Government had answers to the question of exports, then they would not have agreed to the condition that tea exported from Sri Lanka could enter India duty-free only through specified ports, or apparel exported from Sri Lanka could enjoy duty concessions only if they were made using Indian fabric. As a result of these two conditions, not a single kilo of tea or a single piece of apparel was exported from Sri Lanka to India under the FTA during the first few years. This is despite these two products alone accounting for over 50% of Sri Lanka's total exports. Furthermore, Sri Lankans failed to identify potential exports and potential barriers As a result, both current and potential exports to India have performed poorly. The smart and shrewd Indians took the ill-prepared Sri Lankans for a ride. It took years to undo what was done

Sri Lanka does not need an agreement to import goods or services from India. This can be done without an agreement. The country needs an agreement in order to get access to its exports. However, CEPA discussions then and now centre more on imports than on exports. It is more about protecting: the domestic market of 20 million people without focusing on how to get at: the Indian market of 2 billion people.

The low export capacity and lack of competitiveness of local products and services is a matter of concern.. In order to revive exports through trade agreements, increasing capacity and competiveness of local products and services is critical. When local producers of goods and services have low capacity and competitiveness, it drives them to fear competition and seek protection, without looking at market access.

There are many internal barriers to exports from Sri Lanka. It is much easier to identify them unlike the external barriers. However, the lethargy in addressing them is appalling. They only shout about the external barriers.

Barriers to trade in services are far more difficult to identify. The trade in services is governed by domestic legislation, rules and regulations. The services trade involves a multitude of agencies that will be responsible for regulating different aspects of service delivery. For example the barriers can vary from limitations on foreign ownership, limitations on branch network, restrictions on employing foreign nationals, restrictions on geographical locations, restrictions on mode of delivery and restrictions on type of services, etc. The tendency to discriminate foreign service providers is far greater and the ability to identify in advance the measures that will lead to such discrimination is far more difficult in services than in the case of trade in goods.

Conclusion

There is no doubt that a properly negotiated CEPA will be beneficial to Sri Lanka. Although no direct statement has been made the indications are that the present government is keen in going ahead with it. Therefore the challenge now is how do we make it beneficial for Sri Lanka and increase our exports to India. We will have to work hard to innovate and find a winning solution to both the ISFTA and the CEPA.

For a start we need to address the opposition to CEPA. Towards this we also need to address all issues raised relating to the ISFTA in order to satisfy the industrialists who underwent who are canvassing against CEPA .The main issues have been the Non Tariff Barriers, removing from the negative list items for which Sri Lankan exporters have potential at present as well as the future. It may be desirable to refer to this agreement by another name and not to call it CEPA since it is poison to some of the industrialists and some politicians. Prime Minister Ranil Wickremasinghe has referred to an Economic & Technology Agreement with India and one wonders whether it is really another name for CEPA. It may be a step in the right direction.

The main reason for the problems faced by the Sri Lankans under the ISFTA is that their negotiating team had not done their homework. In addition they were more interested in the imports into Sri Lanka had no clear objective in relation to its exports. The politicians and the bureaucrats were more interested in numbers; the number of agreements signed, the number of items in the negative and positive lists rather than what items should be or should not be in each of the lists.

Sri Lankans must do their home work by having extensive discussions with all stakeholders prior to proceeding for negotiations. What should be the objective in having an trade agreement, what products or services have export potential, what are the barriers both internal and external and how should we approach to overcome them. Before looking at the external barriers we must take a closer look at the internal barriers and find solutions to eliminate them. Failure to do so may have an adverse impact on the potential for exports. There are many internal barriers faced within the country that reduce the capacity and competitiveness of exports. These vary from taxes, rules and regulations, ad hoc revisions to inefficiencies with which border agencies execute their functions. Therefore it is important to pay attention to detail from all angles prior to entering into such agreements. Since it is claimed that CEPA extends to issues covering national security experts in that fiels should also be consulted.

We must be live to the fact that the Indian team will be well prepared and come after doing their homework and as usual they will try to dominate the discussions. Therefore our team also should be strong and well informed so that we can take them on without being bulldozed. The negotiating team must be carefully nominated and selected representatives from the private sector should be included. It is important that industrialists and professionals have a fair representation in such negotiations. This would certainly assist in rolling-back any miasma of ignorance and lack of information that may exist. This is because public sector officials and private sector representatives view things from diametrically different perspectives: One the overall public good and the other straightforward private profit. Therefore, prior to finalization the Private Sectors of both countries should participate in the end-game negotiations.

These agreements are subject to State Government regulations and be subject to both Tariff and Non Tariff Barriers. This has been a major problem faced by the Sri Lankans. An innovative solution may be to get the State Governments also to be signatories to these agreements so that they have a better understanding of the objectives of these agreements and refrain from taking action which is detrimental to the agreements.

Unlike in the ISFTA the objective should be for a partnership agreement which means both parties must stand to benefit and more or less equally. Through effective negotiations, the team must ensure that outcomes are beneficial to the country and its people.

The likelihood of reducing the export potential by not doing homework can be higher in services than in goods. Therefore the identification of possible barriers and dangers need to be carefully studied beforehand. The negotiators should be alive to the danger of opening out the Si Lanka market to professionals under CEPA which may be result in loss of employment opportunities for Sri Lankans which may even cause a political uprising. Therefore a free flow of professionals and businessmen should not be allowed and a mechanism should be in place to control the inflow of foreign nationals so that they will be allowed only to fill gaps that exist. It must also remembered than similar opportunities to Sri Lankans to find employment in India,

Adequate safeguards and an efficient Dispute Resolution Mechanism should be in place which would settle any disputes efficiently and in keeping with the spirit of the agreement. The present arrangement is far from being efficient and effective. High level meetings should be held at regular intervals to ensure that the agreement is being operated properly for the mutual benefit of the two countries and that swift action is taken against any violations which may undermine the furthering of the good relations that exist between the countries. .

The news that India is taking steps to construct rail-road links over Adam's Bridge in the Palk Straits appears to have caused another public outcry. In order to avoid any resistance and political embarrassment it is necessary to take action to build trust between the people of the two countries before proceeding with this project. Sri Lanka and India should carefully re-examine the feasibility and viability of this project. Developing the Port of Trincomalee as a major port for Entrepôt trade with a direct link to India, Indian exports may find a convenient window to the Indian Ocean Rim countries to the East and the Pacific. Trincomalee may have immense possibilities not only as a port, a free trade zone but also as an exotic tourist destination.

The effectiveness of Board of Investment of Sri Lanka should be studied and guidelines should be put in place in order to ensure that their decisions are not unfair by the SMEs. It must take into consideration the existence of local industries and the market size prior to allowing sale of any item produced to the local market. Machinery with modern technologies should be encouraged whilst not permitting low quality technology transfers. Enterprise being set up with local collaboration to exploit local resources should not be entertained. BOI should have a clear vision of the enterprises it should try to attract which would be beneficial to Sri Lanka.

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INNOVATIVE CORPORATE CULTURE - A WINNING FORMULA FOR SUSTAINABLE COMPETITIVE ADVANTAGE

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Introduction

"Innovate or die. With markets becoming less and less local, Canadian companies are being advised to compete globally based on their ability to innovate successfully. ... The Canadian Advanced Technology Alliance said recently that "looking at a pure cost, Canada can't compete at the level of India or China; [but] when you move up in the engineering class or the highly innovative manufacturing talent, Canada ranks right up there."

Robert Angel

The above quote from a popular Business Management Journal in Canada is highlighted to emphasize the importance of innovation. "Innovate or die." There is no question about how big or small you are as a company or a country, if you are not ready to change or innovate, be ready to die!

What is 'Innovation'? It has been defined in many ways. In a management perspective, "innovation is the act that endows resources with a new capacity to create wealth" (Drucker, 1985). In the common usage, 'innovation is the introduction of new things, new ideas, or ways of doing something' (Oxford Advanced Learner's Dictionary). To understand the notion of innovation better, we look at many synonyms of the word 'Innovation', such as change, revolutionize,invent, transformation, alteration, newness, novelty, originality, freshness, modernism, modernization, or uniqueness etc. For a business organization, such as a bank, innovation could mean implementing new ideas, creating dynamic new products and services or improving the existing services/processes. In other words, innovation is 'looking at things in a unique, different way'. For example, it could be a new idea, new method, new device, new skill, new process etc. Thus, Innovation signifies 'change'. Innovation is considered to be creating new, more effective processes, products or services that could increase the prospects of a business proposition. Organizations that innovate thus could enjoy increased productivity and performance. Further, innovation could promote growth and success of business in the long run, helping the organization to adapt and grow in the market place.

Crafting innovation into practice can definitely be a challenge to any organization, since it needs a change in the mindset of people. Hence, creating an innovative culture is easier said than done. However, there is no magic formula for creating innovation, or any guarantee of a sustaining competitive advantage as a result of innovation. Generating new ideas and implementing them quickly as a team will bring the organization together, to transform product and service initiatives into sustained results. If the goal is an 'innovative culture' how should the CEO of an organization or the leaders of a country change the mindset of their people? How should the organization be mobilized as a team to effect the innovations or bring in the new ideas, new products and services to the market quickly? What would bring the organization together to transform the innovations in products and services into sustained results, to enjoy a competitive advantage in the market? What would be the importance of innovation for banks to achieve sustainable competitive advantage in the market? This article will address these questions, providing valuable insights for banks and top management of organizations.

What is an 'innovative corporate culture?

Why is it important to understand what is an innovative corporate culture? In order to encourage increasing the flow of new ideas required to generate innovation in an organization, there are a number of basic features which can be identified and developed. Developing an internal innovative corporate culture stands out among them all. Firstly, let us look at what is an internal corporate culture or an organizational culture? Organizational culture has been defined by scholars in many ways over decades: Organizational culture is a pattern of basic assumptions that are considered valid and that are taught to new members as the way to perceive, think, and feel in the organization' (Schein, 1985). It is' the shared beliefs of an organization's members' (Key, 1999). It is a set of shared values, beliefs, and norms that influence the way employees think, feel, and behave towards each other, within and outside the organization. Organizational culture is a cognitive framework that consists of attitudes, values, behavioural norms, and expectations shared by the members of a particular organization. Further, organizational culture is sometimes called as 'corporate culture' and identified as a system of shared beliefs and values that develops within an organization and guides the behaviour of its members (Schein, 1985). Based on these understandings, corporate culture can be considered as the social glue that binds members of the organization together. Further, the corporate culture of an organization is compared to the 'personality' of a human being, as it is unique in nature with regard to the individual, whether it is a human being or an organization. Hence, there is no particular standard definition for corporate culture or organizational culture, but there is a common understanding that, 'it is a set of values, beliefs, and norms or expectations unique to a particular group of people in the organization, which are shared by the members of the organization and be guided by them for their behaviour'.

Based on the above definitions, we could construct our own definition for 'innovative corporate culture'. Hence, it is 'a set of shared values, beliefs, and norms or expectations unique to a particular group of people in the organization, which guide them in their behavior towards generating new ideas or innovation'. However, there is no guarantee that an innovative culture will lead to innovation, but it certainly is a prerequisite for innovation.

Why is it important to have an innovative corporate culture?

Reading through many business and academic articles on innovation revealed that, the idea of innovation is a vital management concept which had matured over the past several years. Corporate and management leaders such as Clayton Christensen, Michael Porter and others have promoted the topics such as disruptive technology, competitive advantage and competitive strategy, highlighting the importance of generating new ideas and doing things differently, or bringing out 'innovation' as a unique management tool to gain competitive advantage in the market. For example, Porter sees strategy as resting on unique activities: "choosing to perform activities differently or to perform different activities than rivals, leads to sustainable competitive advantage and profitability (Harvard Business Review, November 1996). Christensen (Gartner Group Interview, April 2004) argue that, disruptive innovations need not be a breakthrough from a technological sense, but instead of sustaining the course of improvement that has been established in a market, it disrupts and redefines it by bringing to the market something that is simpler and different. Corporate world, specially the banking and finance industry, is faced with many challenges due to ever increasing intense competition. "Competitive Advantage (CA) is the ability that an organization can have to gain a relatively better market share and then a better profit or rate on investment compared with its competitors" (Opatha, 2009). In other words, CA is a status a firm could achieve when it gains a superior market position relative to its competitors. Once an organization achieves a CA it should be able to sustain it for a long period of time. This means, the organization should be able to enjoy in the market a superior position relative to its competitors or to enjoy a sustainable competitive advantage. Many strategies used by organizations to enjoy a CA in the market are unable to sustain it in the long run because their innovations can be easily copied by its competitors (Kleiman, 2000). In other words, a company could achieve a sustainable competitive advantage only if it is capable of producing goods and services that could not be imitated or copied by its competitors in the long run. Hence, the importance of an innovative culture or a conducive organizational environment for innovation is a prerequisite to produce unique products and services that cannot be copied by its competitors in the long run. Therefore, an innovative corporate culture is a precondition for an organization to achieve sustainable competitive advantage.

Catering to this long-term organizational requirement, innovators attend to their customers with products, services and processes that significantly shape customers' perceptions and needs, creating new and enduring markets. It is evident that innovations require advance creativity, out-of-the box thinking and instinct. Developing innovative products or services require insightfulness, imagination and agility or alertness. Implementing or executing the innovative plans require co-operation across the entire organization. Hence, it is obvious how an innovative organizational culture would facilitate innovation in the organization.

How to create an innovative corporate culture?

As already discussed, innovative corporate culture is 'a set of shared values, beliefs, and norms or expectations unique to a particular group of people in the organization, which guide them in their behavior towards generating new ideas or innovation'.Innovation requires a clear vision across business and a strong leadership to drive people in the organization towards it. There are many influences that affect the ability of a business or an organization to innovate. Out of them, the internal corporate culture and the external culture in which the organization operates would influence the ability of a business to innovate strongly. Another key influence on innovation is the risk-taking ability of the organization. Innovation is said to flourish in a corporate culture that is bold enough to take risks. Innovation process in an organization is usually a top-down process or is led from the top management of the company to the lower ranks of the hierarchy.To create an innovative corporate culture, the people in the organization, from top-to bottom, should be creative, flexible and open to new ideas. Top managers need to adopt a positive attitude and focus on the potential for enhancing competitiveness through innovation. They should listen to new ideas of the employees and find ways of doing business in different ways, even if this means it has to change the current business model.

The allocation of resources for innovation is another vital task for any business organization. Proper allocation of resources is dependent on top management understanding the benefits of new ideas or innovations. However, it is unfortunate that, business expenditure on innovation is often recognized as expenditure, rather than as an investment. Generally, improvements to current operational processes may not be seen as innovation at all. A free flow of information and ideas up, down and across the business inspires the development of new ways of performing tasks and can also lead to the development of new products. Processes which allow employees to suggest improvements and ideas circulate these ideas and be rewarded for their entrepreneurial behaviour can be implemented.

Another vital component of an innovative corporate culture is the interest the company is showing in their Research and Development (R & D) activities. Organization that promotes the value of experimenting or engaged in R & D, is adaptable and gain rewards in the long run, and gain sustainable competitive advantage. R & D is used as a management tool to find new ideas. Regular technology upgrades in organizations is another vital component in creating an innovative corporate culture. Upgraded technology is much influential in creating innovations and bringing them to the market. It enables consumers and businesses to do things not previously conceivable or affordable. It also can provide intelligent, inventive and complex automation to mitigate high labour costs or gives a cost benefit advantage in the long run, contributing to sustainable competitive advantage.

Further, an innovative corporate culture would be nurtured by a continuous learning culture in the organization. To build knowledge on innovation, employees should attend regular workshops, seminars and events about innovation.A culture of continuous learning can be encouraged by supporting training programs and on-the-job training, to enhance the innovative skills of employees. It is also important to explore networking and mentoring opportunities in organizations.

Benefits of innovative corporate culture

Everyone in the organization could contribute in the process to innovate. Incorporating innovation in the business could help find new ways to save time and money. Innovative culture drives the organization towards competitive advantage and helps to grow and adapt the business in the marketplace, leading to sustainable competitive advantage in the long run. Innovation means implementing new ideas, creating dynamic products/services, or improving the existing services. Innovation promotes business growth, and helps to adapt in the marketplace. Hence, innovation could change the organization's business model, adapting to changes in the business environment to produce better, quality, innovative output. Successful innovation should be an in-built part of the business strategy, where it enables to create a culture of innovation, and leads the way in innovative thinking and creative problem solving in the organization. Therefore, it is obvious, organizations that innovate or willing to 'change' create more efficient and effective work processes and have better productivity and performance, leading to sustainable competitive advantage.

Innovative Culture and Human Resource Management (HRM)

What is HRM? "HRM is the efficient and effective utilization of human resources (HR) to achieve goals of an organization" (Opatha, 2009). What is the link between HRM and innovation? Innovative organizations continuously try to manage their HR effectively to create and market new products and services. According to researchers, the human capital (resource) and the rate of innovation are interdependent and complementary to each other. Further, organizational innovation is concerned with deliberately designing and implementing incremental or radical changes to an organization's products/services or processes. Innovative capacity or capacity to adopt innovative practices in an organization is determined by the HRM practices of the organization. It has been identified that, innovation initiatives heavily depend on employees' human capital and behavior at work. Researchers also state that these are the key inputs in the value creation process of the organizations.It is crucial that, when organizations practice innovation, they need to have creative and innovative people, who are flexible, risk-taking, and adapt to tolerance of uncertainty and ambiguity. Further, it is important for an organization to adopt supportive HRM practices that can motivate and encourage employees to be creative and innovative. HR has the potential to inspire innovation and creativity in the organizations. Researchers have identified that, knowledge, skills and behaviours of employees can be the sources of innovation performance of an organization. Further, their also pointed out that the innovation capacity of an organization resides in its employees' competencies and motivation. Employee knowledge is the prime source of innovation or the motivation of innovation.

What is the role of HRM in organizations towards innovation? There is a positive relationship between HRM practices and innovation in both the processes and the products. According to a recent research in Sri Lanka on HRM and innovation (Arulrajah, 2014), there is a general identification about the importance of HRM as a determinant of innovation. HR and HRM practices of an organization have power to determine the innovation inputs, innovation occurrence and sustainable innovation performance of the organization. The reason behind this phenomenon is the innovative capacity of an organization resides in the intelligence, imagination and creativity of its HR in terms of innovation inputs. Similarly, for the innovation occurrence and retaining innovation potential in a sustainable manner, organizations require innovation focused HRM practices. Researcher suggests that HRM practices can contribute substantially to organizational innovation, mainly in three steps. Firstly, organizational innovation requires certain forms of inputs, such as creative and committed workforce and knowledge workers, and development of knowledge and skills. Though an organization satisfies these required inputs for innovation, it does not mean that innovation will take place voluntarily within the organization. Secondly, to materialize the real performance of innovation, some additional mechanisms are needed to trigger innovation in the organizations, such as culture and climate for innovation, motivation, innovation oriented behaviours etc. Finally, an organization needs to sustain its innovation potential for a long period of time in order to achieve sustainable competitive advantage(e.g. retaining creative workforce and experts). These three aspects can be considered as the key roles of HRM practices in organizational innovation. Thus, innovative HRM practices are important to nurture organizational innovation. Integrating organizational innovation processes with HRM functions and respective practices have significant and positive effects (directly and indirectly) on innovation performance of the organizations. In this process, HRM practices have to play three key roles. In this context, HRM practices should provide: firstly, required inputs for the organizational innovations (input role); secondly, required mechanism to bring innovations in the organizations (materializing role); and thirdly, required mechanism to retain the innovation potential of the organizations (retaining role).

Human Resource innovations for service firms: adding value in banking

Consumers in service industries are familiar with the service providers' competing on price. Hence, now consumers demand increasingly higher levels of service quality. For service companies, staying competitive in the new market environment means not only offering products at reasonable prices, but also modifying these products to meet individual customers' needs. Many companies have moved quickly to take advantage of this market shift(e.g. banks, credit card companies, mobile phone companies). These companies have redesigned their work practices to leverage information among different products and provide customers with quick, customized, price-competitive service offers. The companies have trained and empowered employees directly involved in service delivery to undertake a broad range of tasks. They have given priority to minimizing labour turnover on the theory that employees with long tenure better understand both a firm's customers and its internal work processes and so are better able to meet individual client's needs.

Banks and other service providers, however, can overcome these constraints by reforming their human resource policies and practices. By working with educational providers to smooth the school-to-work transition, firms will realize higher skill levels in the labour force at a lower cost. And a new employment contract that features stronger career paths in all positions, modularized training programs, and more internal recruiting will encourage broader skill formation and lower employee turnover. Together, these innovative human resource practices can make it much easier for services to meet the emerging quality demands of their customers.

Conclusion

Shaping innovation into practice is definitely a challenge to any business organization, since it needs a change in the mindset of people. Hence, creating an innovative culture is easier said than done. However, there is no magic formula for creating innovation, or any guarantee of a sustaining competitive advantage as a result of innovation. Generating new ideas and implementing them quickly as a team, will bring the organization together, to transform product and service initiatives into sustained results. If the goal is an 'innovative culture', the CEO of the organization has a key role to play to change the mindset of their people. Innovation requires a clear vision across business and a strong leadership to drive people in the organization towards it. Further, the organization should be mobilized as a team to effect the innovations, or bring in new ideas, new products and services, processes as a team to the market quickly.

This article discussed three major aspects that can be considered as the major roles of HRM practices in organizational innovation.Firstly,input role:required inputs for the organizational innovations; secondly, materializing role: required mechanism to bring innovations in the organizations; and thirdly, retaining role: required mechanism to retain the innovation potential of the organizations.Incorporating innovation in the business culture could help to find new ways to save time and money. Innovative culture drives the organization towards competitive advantage and helps to grow and adapt the business in the marketplace, leading to sustainable competitive advantage in the long run. Hence, an innovative corporate culture is a prerequisite for an organization to achieve sustainable competitive advantage. This article provides valuable insights on organizational innovation and sustainable competitive advantage, for banks and top management of organizations.

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