



Pathfinder Economic Alert

Lead, Follow or be Left Behind.

Responding to a Changing World.

The global landscape is changing more quickly than at any time in human history. Geopolitics, technology, lifestyles and even the climate are all posing new opportunities and challenges. In geopolitics we are seeing the crystallizing of a new multi-polar world. Within that, the economic centre of gravity is shifting from West to East with the re-emergence of Asia as a dominant player. This is, of course, nothing new. China and India accounted for well over half of global GDP on their own, before the Industrial Revolution.

It is important that a relatively small country, like Sri Lanka, is proactively nimble in responding to these developments. Sri Lanka's economic structure, trading patterns and sources of capital inflows have been greatly influenced by the aftermath of the colonial period and the pre-eminence of the West in the global economic order. This is still reflected in the direction of Sri Lanka's exports, though there have now been qualitative changes in the sources of imports (reflecting the rise of Asian manufacturing) and capital inflows.

Taking Advantage of Economic Geography

The Pathfinder Foundation (PF) has been consistently arguing that export growth is crucial for achieving an accelerated growth trajectory. This cannot be achieved without taking advantage of the rise of Asia, particularly as traditional markets, especially Europe, are likely to remain sluggish for a number of years. The PF has also pointed out that the most dynamic element of the global trading system is intra-firm trade (supply chains) in East and South East Asia. Sri Lanka has not been part of this trading boom. The PF would like to reiterate that a key challenge for the country is to find ways and means of plugging into Asian supply chains i.e. vertical integration into manufacturing processes and horizontal integration in services. China, Indonesia and the rest of South East Asia are all fast-growing economies. However, economic geography makes India the most promising prospect in this regard.

Indo-Sri Lanka Relations

Sri Lanka and India have a shared history that goes back millennia, not least through the teachings of Lord Buddha. These links, like any close relationship, has had high points and

challenges, not least during the last 35 years when India first played a highly disruptive role at the beginning of the civil conflict and then was very supportive in bringing about the defeat of the LTTE. However, the two countries' interests are well aligned in many respects in today's world. This has been brought out in the Indo-Lanka Study Group Report which can be accessed at www.pathfinderfoundation.org. The communiqué released at the end of the recent Indo-Sri Lanka Joint Commission meeting also highlighted the potential that exists in various areas of the bilateral relationship. It is particularly interesting that there is an intention to evolve a framework for a "Special Economic Partnership" between the two countries at an early date. A dialogue is also to be initiated between the Secretary/Ministry of Finance and Planning, Sri Lanka and the Secretary/Ministry of Commerce, India.

While this is a welcome statement of intent, the challenge is to translate it into practical outcomes that result in increased trade, investment, transfer of technology and access to management expertise. In this context, there are three reasons for taking early action from a Sri Lankan perspective.

- I. The asymmetry between the two economies will increase over time as India evolves into a major global player in today's multi-polar world. There is a strong case, therefore, to place the bilateral economic relationship within a negotiated framework sooner rather than later.
- II. India is in the process of signing a series of preferential bilateral agreements with a number of major players, including ASEAN countries which are Sri Lanka's direct competitors. As a result, the advantages that could be gained from any Special Economic Partnership with India are likely to diminish day-by-day.
- III. The flagging investment and growth momentum in the Sri Lankan economy can be given a boost through strengthening economic ties between the two countries.

In terms of follow-up to the intentions expressed in the Joint Commission Communiqué, Sri Lanka has three options.

- I. It can **take the lead** in moving the agenda forward while negotiating vigorously to further the country's national interest by taking advantage of opportunities available through closer economic ties with the fast growing and large Indian economy on our doorstep.
- II. It can take no action and **follow** rather than lead by allowing the natural course of events to take place. As multi-polarity and regionalism gain increasing salience in the new world order, economic links between Sri Lanka and India will intensify with the weight of the much larger Indian economy driving future developments. In such a scenario, Sri Lanka will have greater difficulty in influencing events and ensuring that its national interests are promoted.
- III. The third option is to **be left behind** by resisting the deepening of economic links between the two countries thereby ignoring a major opportunity for boosting trade and investment as a means of increasing the prosperity of the people of Sri Lanka.

Our Leadership Have Demonstrated Ability to Lead, Not to Follow

Clearly, the first option where Sri Lanka takes the lead in negotiating a partnership that serves its interests best is the most favourable one. Its leadership has the capacity to lead rather than follow on this matter. They have demonstrated the ability to shape public opinion rather than be restricted by it. There is also an opportunity to lead the way in an area of the world where regional integration is least advanced.

Conclusion

In conclusion, the PF does not advocate that Sri Lanka should place all its eggs in one basket. Other opportunities in the rest of Asia should also be pursued, particularly China, Japan, Indonesia and ASEAN. However, for reasons of economic geography (proximity) and familiarity, India provides low hanging fruits.

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