INDIA’S POLITICAL ECONOMY: 
CHALLENGES AND OPPORTUNITIES FOR SRI LANKA 

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Abstract—India’s economy became the world’s fastest growing major economy from the last quarter of 2014 replacing the People’s Republic of China (DNA, 2015), a title which was held by China for more than three decades. India represents the second largest market in the world with a population of more than 1.2 billion people, which is nearly one fifth of the global population. India’s economy is the seventh-largest economy in the world measured by nominal GDP and the third-largest by purchasing power parity (PPP) (International Monetary Fund, 2015). In this background India is focusing heavily on becoming a future global super power and further strengthening its regional hegemony in the South Asian region as it contains all the necessary elements for that. Throughout the history India has been the most important external factor that influenced the political stability of Sri Lanka due to its massive size and close proximity. The recent growth of India’s Political Economy has both provided challenges and opportunities to Sri Lanka for its future economic growth and political stability. The already signed Indo-Sri Lanka Free Trade Agreement has provided a boost in trade, but in favour of India. The proposed bridge/tunnel, energy grid among the two countries and proposed Indo-Sri Lanka Economic and Technology Cooperation Framework Agreement (ECTA) are some of the proposed initiatives among the two countries. The research problem of the study is to examine the proposed economic development initiatives among the two countries and analyse the implications of these projects on Sri Lanka. Also the study will focus on identifying the importance of present and future of Indian Political Economy and will propose a hypothesis to gain opportunities while facing the challenges of dealing with a giant regional hegemony.

Keywords—Political Economy, Super Power, Regional Hegemony

I. INTRODUCTION

As an academic sub discipline political economy is described as “The social science that deals with political science and economics as a unified subject; the study of the interrelationships between political and economic processes.” (The Free Dictionary, 2016) A study on the current political economy of India is important to Sri Lanka as it is our regional hegemony and also to identify the opportunities and challenges it pose to Sri Lanka.

India is Sri Lanka’s only neighbour in a close proximity with a population of 1.3 billion which represents nearly 1/5th of the global population and is the 7th largest country in the world. For more than 2500 years India has had a profound impact on the political dynamics of the island nation.

II. INDIA’S POLITICAL ECONOMY

At the time of independence and till early 1990’s India was considered a highly poverty stricken country. The development of India’s economy was based on socialist-inspired policies after independence. It included state-ownership of various sectors, regulation and red tape which was known as ‘Licence Raj’ and protection from the world markets. The Political Economy of India has rapidly changed with the liberalization of the economy in the 1990s. India abandoned it highly protectorate economic policies after the end of cold war and opened up its economy to gain foreign investments and to modernize the country’s infrastructure. With a 1.2 billion people and the world’s third largest economy, India’s recent growth and development has been one of the most significant achievements of our times. India is now home to globally recognized companies in pharmaceuticals and steel and information and space technologies, automobile industry and a growing voice on the international stage that is more in keeping with its enormous size and potential. India’s diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of services. India has capitalized on its large educated English-speaking population to become a major exporter of information technology services, business outsourcing services, and software workers.

India is developing into an open-market economy, yet traces of its past autarkic policies remain. Economic liberalization measures, including industrial deregulation, privatization of state-owned enterprises, and reduced controls on foreign trade and investment, began in the early 1990s and served to accelerate the country’s growth, which averaged under 7% per year from 1997 to 2011. (CIA World Fact Book, 2016) The outlook for India’s long-term growth is moderately positive due to a young population and increasing integration into the global economy. The IMF released estimates predict that India’s economy will grow at 6.3 and 6.5 percent respectively over the next two years. This puts India’s projected growth in 2016 ahead of the organization’s estimates for China (which stand at 6.8 and 6.3 percent for 2015 and 2016, respectively), leaving
India the fastest growing major emerging economy in the world. (Panda, 2016)

The Indian economic growth increases its political power as well as its security capabilities. The rapid growth of Indian economy has increased its influence on the smaller South Asian neighbours. The increasing economic engagement with India by its neighbour states has created both fears and suspicion on its economic security. In this background Sri Lanka has to study how it can benefit from this growth of Indian economy, while not going under the total shadow of growing Indian economic influence in the island nation.

III. GROWING INDIAN POWER PROJECTION
India is considered as one of the possible emerging superpowers of the world. This potential is attributed to several indicators, the primary one being its population, which represents one fifth of the global population. The rapidly expanding economy and by GDP India became world’s fastest growing economy in 2015 with an economic growth exceeding 7 percent. In addition to its size and economic growth India is one of the largest countries of the world and by far the biggest in the region of South Asia. Since independence in 1947, India has showcased its regional hegemony in the region. Its annexation of Kashmir, Hyderabad, Goa and later Sikkim to the Indian Union was great examples for its historical rise. Its intervention in Bangladesh liberation war in 1971 and India’s involvement in Sri Lanka and signing of Indo-Sri Lanka accord in 1987 are further examples of the regional hegemony it’s exercised within the region of South Asia.

In recent times, India’s growth has been phenomenal. With its economic power in the rise, India is investing more and more on the military and space programmes to increase their power projection. India currently has the third largest military in the world with more than 1 million military personnel. To face both internal and external security threats and to maintain its regional hegemony, India is spending more and more in the modernizing of its military. According to Times of India (2016) India continues to remain the world’s largest arms importer, accounting for 14% of the global imports in the 2011-2015 timeframe. The growth of the political economy in India has made is policy makers to look beyond their traditional sphere of influence in the Indian Ocean region. In recent times India is spending large amount in its maritime naval capabilities. India is on an ambitious plan to develop a blue water navy to achieve a dominance in the strategically important Indian Ocean Region. India initially outlined its intentions of developing blue-water capabilities under the 2007 Maritime Capabilities Perspective Plan, with the navy’s priority being the projection of “power in India’s area of strategic interest”, the Indian Ocean Region. In this background, India is investing heavily on modernizing its naval capabilities to add new submarines and ships including aircraft carriers. According to Global security (2016) the Indian Navy (IN), the world’s fifth largest navy, is a well-balanced three-dimensional force consisting of sophisticated missile-capable warships, aircraft carriers, minesweepers, advanced submarines and the latest aircraft in its inventory. Many of the warships are of indigenous design and have been constructed in Indian shipyards. These ships compare well with the ships of similar capability constructed by advanced countries. The Naval forces are maintained and supported by modern dockyard facilities encompassing state-of-the-art technology.

The growth of India’s economy has enabled it to invest heavily on its military and space programmes and be ambitious to become a superpower in the future. As Sri Lanka is located to close to India, the growing power will have an immediate influence in the island nation.

IV. INDO-SRI LANKA ECONOMIC RELATIONS
India is the immediate neighbour of Sri Lanka. The growth of the political economy of India has had a profound impact on the Sri Lankan political economy. According to the Consulate General of Sri Lanka in Mumbai (2016) India is Sri Lanka’s largest trading partner globally, while Sri Lanka is India’s second largest trading partner in the SAARC. It is the number one source of supplies accounting for twenty percent of Sri Lanka’s total imports and third largest export destination for Sri Lankan products absorbing six percent of total exports. Among tourists, Indian visitors make the largest single group having a share of twenty seven percent of total arrivals. In the investment field, India is among the top five foreign investors in Sri Lanka.

India and Sri Lanka also share the membership in other regional and multilateral trading frameworks namely; Asia Pacific Trade Agreement (APTA), South Asia Free Trade Agreement (SAFTA) in the SAARC context, BIMSTEC (Bay of Bengal Initiative for Multicultural Technical and Economic Cooperation), Global System of Trade Preferences (GSTP) and the World Trade Origination (WTO) which were influential in strengthening and further advancing trade and economic ties. (Consulate General of Sri Lanka in Mumbai, 2016)

V. OPPORTUNITIES AND CHALLENGES FOR SRI LANKA
With the growth of political economy of India, Sri Lanka is provided with range of challenges and opportunities. There are many proposals by policy makers of the both countries to strengthen the economic interaction between the two countries and there are many issues that both the both countries strangled in a paradox.
Proposed Bridge between India & Sri Lanka, Proposed Energy Grid between India & Sri Lanka, Sampur Coal Power plant, The Fisheries issue in Palk Bay, Indo-Sri Lanka Free Trade Agreement, CEPA & ECTA, Indian Development Assistant and External Factors are considered the important factors to be considered in identifying the opportunities and challenges for Sri Lanka with the growing Indian political economy.

There is a proposal to build a land bridge or tunnel between India and Sri Lanka. The proposal came into limelight with Indian Road Transport and Highways Minister mentioned the proposal in the Indian parliament in 2015. (The Hindu, 2015) He stated “The Asian Development Bank (ADB) is ready to fully finance a bridge-building project connecting Rameshwaram to Sri Lanka. The project was also discussed by Prime Minister Narendra Modi with his counterpart during the latter’s recent visit. The government, right from the day it assumed office, has been focussed on enhancing regional cooperation. Subsequent to Modi’s announcement of ‘Act East policy’, India proactively engaged in building effective and credible links between South Asia and Southeast Asia through enhanced regional connectivity.”

This connectivity will give Sri Lanka the physical access, to the Indian sub-continent with more than 1.3 billion people. If it well managed, India can transport manufactured goods from India to Sri Lanka from trucks or railway and use Colombo and Hambantota ports to connect to the international shipping routes. Also, Sri Lanka can be a value addition destination for Indian products such as vehicles, where parts of vehicles can be transported to Sri Lanka and be assembled in Sri Lanka before export from the globally connected Sri Lankan ports. Apart from transportation of goods, the physical connectivity can be also used to promote to attract tourist from the Indians. But there is substantial opposition from the Sri Lankan public to this project as it can have an impact on our sovereignty. Sri Lanka was and island nation from the known ancient history and it will lose its island status with this initiative. Further, many Sri Lankans worry that, this can be an impetus for migration form massively populated India towards Sri Lanka and will create a change in the demographic structure of Sri Lanka.

The Indo – Sri Lanka electricity Grid Interconnection is a proposed project to link the national grids of Sri Lanka and India. The proposed project involves the construction electricity grid between Anuradhapura in north central province of Sri Lanka and Madurai in Tamil Nadu, Southern India, through the Palk Strait. The link would measure 285 kilometres (177 mi) in length, including 50 kilometres (31 mi) of submarine cables, and would take more than three years to construct. It would be implemented by the Power Grid Corporation of India Limited and Ceylon Electricity Board. (Global Energy Network Institute, 2009)

India’s as most centric country in the region of South Asia is already connected to Bangladesh, Bhutan, and Nepal. This project will link Sri Lanka with the rest of the South Asian grid. (Daily News, 2016) This proposed connection will give Sri Lanka the chance to connect with rest of South Asia.

According to the Ceylon Electricity Board (2011) connection will be developed in two phases, of which the first phase, scheduled to complete in the near-future, would enable the transmission of 500 MW between the two countries. The second phase would enable a 1,000 MW transmission capacity, the target capacity. Interconnection of India-Sri Lanka Electricity Grid.

If this project implemented properly, Sri Lanka will gain the opportunity to enter into India’s large energy market. This will also give Sri Lanka access to cheaper source of power generation in the South Asian region. Sri Lanka’s immediate neighbour, Tamil Nadu has a high usage of electricity in the day time due to high industrial activities and at night the consumption is low. The total opposite exists in Sri Lanka. Depending on this pattern, Sri Lanka can exchange electricity in daily basis with India for the benefit of both the countries.

Another project which was in the lime light of Indo-Sri Lanka energy sector was the Sampur Coal power plant. The power plant which was to be built by India’s state-owned National Thermal Power Corporation India was to be built at an estimated cost of US$ 600 million. (Colombo Telegraph, 2016)

The MoU for the first 500 MW phase was signed in December 2006, between the Government of Sri Lanka, Ceylon Electricity Board and the National Thermal Power Corporation India. The Power Purchase Agreement, Implementation Agreement, BOI Agreement, Land Lease Agreement and Coal Supply Agreement were signed in October 2013 by relevant parties including the Government of Sri Lanka, the Ceylon Electricity Board and the Trincomalee Power Company Limited. The power station was originally expected to commence operation in late 2017. (Ibid) India is ready to go ahead with the project but there is a clear reluctantly form the Sri Lankan side. There are many environmental groups that oppose the project saying it will have a negative impact on the environment due to coal usage. Other than the environmental issues, India gaining access to strategically important Trincomalee is another concern among the
some policy makers in Sri Lanka. Currently the project is on hold and both the sides are considering to have a LNG plant instead of a coal power plant.

The illegal fishing by Indian fisherman remains the biggest challenge to Sri Lanka. Fisherman from Tamil Nadu comes in large numbers and illegally involves in fishing in the Sri Lankan waters. It is well evident that the politics in Tamil Nadu is closely linked with the illegal fishing activities in the Sri Lankan waters. If any Tamil Nadu fisherman is taken into custody by the Sri Lankan authorities, Tamil Nadu tends to put pressure on the Central government of India.

According to a study by the Point Pedro Institute of Development (Sunday Times, 2015) the economic and livelihood losses caused by Indian fishermen poaching in Lankan waters estimated that the country is losing Rs 5,293 million ($41 million) annually contributing to a drastic impact on the national economy. Considering the above facts, illegal fishing by Tamil Nadu fisherman can be categorized as a serious challenge to the Sri Lanka’s economic security.

Highlighting the impact of this issue the Sri Lanka’s Ministry of Fisheries and Aquatic Development (2016) mentions that “The fishermen of the Northern Province of our country have started their fishing activities again after the war. They never cross the Indian borders for fishing. They do their fishing within their limits in the North. But when Tamil Nadu fishermen come in thousands of huge crafts and carry on fishing according to bottom trawling method, Northern Fishermen have no place left for their fishing. This bottom trawling method of fishing they are using is banned in our country. This method of fishing has also been banned by the world food and Agriculture Organization and by the Indian Ocean Tuna Commission (IOTC). Because of this method of fishing the bottom of our Northern sea and the marine environment get completely destroyed. In future there will be no fish left in the North”.

The following satellite picture taken by the Indian Coast Guard clearly shows how Tamil Nadu Trawlers are violating the international maritime boundary between Sri Lanka and India.

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With the rapid growth of India’s economy in recent it times has provided many challenges and opportunities to Sri Lanka. The already signed Indo-Sri Lanka Free Trade Agreement (ISFTA) and the agreements under discussion like Comprehensive Economic Partnership Agreement (CEPA) and the most recent agreement Economic and Technical Cooperation Agreement (ETCA) has generated debates among the people of various spheres in Sri Lanka. The Indo-Sri Lanka Free Trade Agreement (ISFTA), which was signed on 28th December 1998 and entered into force with effect from 1st March 2000, provides duty free concessions to a wide range of products traded between the two countries. Sri Lanka’s final tariff liberalization commitment under ISFTA came into effect since November 2008 and with this completion of the commitment, the ISFTA which came into effect from March 2000 has been fully implemented. After signing the Free trade agreement between the two countries there has been a tremendous growth in the trade between the two countries. But the trade growth has largely occurred in favour of the India. The following graph shows how Sri Lankan and Indian export growth has occurred form 2003. The Indian exports to Sri Lanka stood at 1076 million US $ in 2000 and by 2014 it has grown to 3977 million US $, while in 2000 the Sri Lankan exports to India stood at 241 million US $ and by 2014 it has grown to 625 million US $. This trend clearly shows that after signing of the free trade agreement between the two countries has grown in favour of India. The trade imbalance between the two
countries has grown form approximately 500 million US $ range to an imbalance of more than 2500 million US $ after signing the free trade agreement. Trade gap between India and Sri Lanka 2000 – 2014 (CEPA EPA, 2015)

This trade gap between the two countries clearly shows the weakness of the Sri Lankan economy. Sri Lanka should take necessary measures to identify the opportunities in 1.2 billion Indian market to develop export oriented industries in Sri Lanka.

To further the trade between India and Sri Lanka the two countries are negotiating to liberalise service sector between the two countries. Comprehensive Economic Partnership Agreement (CEPA) and the most recent agreement Economic and Technical Cooperation Agreement (ETCA) are addressing this issue. These agreements will allow Indians and Sri Lankans to work in their respective fields in long term. There is a large opposition from professional associations represented mainly by Doctors an IT professional in Sri Lanka, that this agreement will put their professions in danger. Sri Lanka as a smaller country has to analyse how to formalize the service trade agreement in the future with India. Sri Lanka can attain low cost labour from India to much needed industries such as apparel garments and construction industry. Also, as India has high unemployment rate, Sri Lanka has to be vary of what areas has to be open up to India.

VI. CONCLUSION

India is the regional hegemony in South Asia and historically the influence of India has had a profound impact on the politics and economy of Sri Lanka. Therefore it is paramount important to be aware of the Indian political economy and identify the challenges and opportunities it poses to Sri Lanka. At present, India is the fastest growing major economy in the world. India as a country represents the second largest market in the world with a population exceeding 1.2 billion people. In purchasing power parity terms India is the world’s third largest economy. Due to the rapid growth of Indian Economy at present, India’s Political Economy is in a stable stage. Historically India has exercised its power as the regional hegemony within its sphere of influence in South Asia. The rapidly growing Indian economy has allowed India to go beyond its sphere of Influence and make ambitions to become a future super power. The recent growth of India’s Political Economy has both provided challenges and opportunities to Sri Lanka for its future economic growth and political stability. The proposed physical connectivity to India will connect Sri Lanka to rest of the Asian continent and will give access to a large market. But there is a substantial opposition from some segments of Sri Lanka highlighting it will be an impetus for illegal migrants from India and further it will create problems for the sovereignty of Sri Lanka. If it well managed, India can transport manufactured goods from India to Sri Lanka from trucks or railway and use Colombo and Hambantota ports to connect to the international shipping routes. The Indo – Sri Lanka electricity Grid Interconnection is a proposed project to link the national grids of Sri Lanka and India. If implemented, Sri Lanka can exchange electricity in daily basis with India for the benefit of both the countries. The proposal to build Coal power plant in Sampur, Trincomalee has not been accepted well by thee Sri Lankans due to obvious environmental and geopolitical reasons. The illegal fishing by Tamil Nadu fisherman in Sri Lankan waters remains the biggest challenge to Sri Lanka. Sri Lanka should negotiate with the Indian government to achieve a permanent solution to this illegal activity which occurs from the Indian side. Finding a solution to illegal fishing by Tamil Nadu fisherman will save millions on money to Sri Lanka. After signing the Free trade agreement between the two countries in 2000, there has been a tremendous growth in the trade between the two countries, but the trade growth has largely occurred in favour of the India. The proposed agreement to liberalise service trade, namely Technical Cooperation Agreement (ETCA) has to be formulated in a way identifying the strength and weaknesses of the Sri Lankan working force comparatively to India.

Finally, India’s political economy remains an unavoidable influence for Sri Lanka due to its geopolitical location. Sri Lanka as a nation should identify the strength and weaknesses of the country and should make necessary steps to grab the opportunities provided by India’s political economy while identifying the challenges.

REFERENCES


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