

# Transition of Accordance: The Next Step of India - Sri Lanka Economic Strategy

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**Abstract**— *Bilateral relationships of Sri Lanka with its' big brother, India was old as the literal history of both countries. Each time the foreign policy cogency, external influence and the domestic political forces of both countries played a vital role in implementing and lashing these agreements. The efficiency of these economic partnerships affected to the development of each other in either good or bad means, but these fluctuations hadn't affected to enduring further agreements. With Prime Minister Modi's neighbourhood first policy, best example was the very recent framework agreement, Economic and Technology Cooperation Agreement (ETCA) which was in the process of finalizing, came out as a result of the discussion of Prime Ministers of both countries. The approval of the framework by both countries had arose the ill-acceptance of the public; specially the working sector of Sri Lanka. However, a separate chapter in Comprehensive Economic Partnership Agreement (CEPA) ) which was in the process of finalizing, came out as a result of the discussion of Prime Ministers of both countries. The approval of the framework by both countries had arose the ill-acceptance of the public; specially the working sector of Sri Lanka. However, a separate chapter in Comprehensive Economic Partnership Agreement (CEPA) touches the grounds of intellectual property, high technological innovations, technicians and guidance, exchange of technology of both countries was the most significant point that changes this agreement from. Therefore, Sri Lanka's target should be achieving a fair share through this agreement. The aim of this study was to examine whether the content of this ETCA was favourable especially to the Sri Lanka's economy; how it was favourable to upsurge the economy and strategies and mechanisms proposed by both countries. This is an explorative qualitative study done by interviewing bureaucrats, diplomats and field experts of economy and using previously analysed data gathered from Indian High Commission of Sri Lanka. By reviewing and comparing the above collected data this essay has come up with the conclusion that the proposed system must be based on significant, on the rates of foreign direct investments in Sri Lanka. Since, it was in nature that the bigger country always achieved the highest advantage, but in any agreement both parties should be satisfied.*

**Keywords**— **Bilateral Relationships, Economic Partnership, Mechanism, Transparency, Intellectual property**

## I. INTRODUCTION

The political history of both countries; India and Sri Lanka provides adequate illustrations of series of economic partnerships that both countries had. It is fairly factual to say that some agreements has given a real benefit subsequently some agreements were not that efficient for the economic development of Sri Lanka. The fact which shouldn't underestimate is that this each agreement came into achievement from a political or diplomatic relation that two leaders of each country shared. Concerning to the present context, with India's neighbourhood first policy both countries are in the process of finalizing the recent agreement; Indo-Lanka Economic and Technology Agreement (ETCA) framework and to have final agreements in place for signing by Indian Prime Minister Narendra Modi and Prime Minister Ranil Wickremesinghe.

This framework agreement cause continuous disagreements came out from the various sectors of the country which signs that there could be a touch of inappropriate is going on through the process of this agreement. It is true that no country can survive in the current world arena without being connected to other each other. This inter-dependency has already become a part of the world economy and it has a greater impact to its partner-states. So as, Sri Lanka should enter into the world economy through agreements because owing of last few years the position Sri Lanka had in the world economy has loosen its tights and other regional developing economics have taken that place. Due to that 1.0% share that Sri Lanka owned in the world economy has deduced to 0.045% according to the current recordings. The argument is that, it does not mean any country should enter into bilateral or multilateral agreements because they are inter-dependent. Theoretically any agreement gives equal benefits to both parties and that is the reason countries should not restrained agreements. But it is necessarily important to examine whether the core content of that particular agreement is good for the future of the country or not. The Sri Lankan condition should be the same in that circumstance.

### A. India-Sri Lanka Economic Partnership History

Scrutinizing the recent economic partnership of India and Sri Lanka, which has closely two decades of history, gives more negative results than good achievements to Sri Lanka. The first agreement is Indo-Sri Lanka Joint Committee in Economic Corporation in 1968. This

agreement remained stagnant for much of the following two decades. India-Sri Lanka Free Trade Agreement (ISFTA) which came up with the aim of advancing trade relations of India at the same time meet Sri Lanka's import needs signed in 1998 and entered into force on 1st March 2000. It covers only trade in goods in duty free access (zero duty) or duty preferences which do not come under the negative list. One of the objectives of the ISFTA as stated in the agreement is "to contribute in this way, by the removal of barriers to trade, to the harmonious development and expansion of the world trade." (India, High Commission of India, 2013, p.09). But after the Free Trade Agreement (FTA), India imposed non-tariff barriers preventing Sri Lankan products from entering the Indian market and this dispute settlement mechanism couldn't make any effectiveness regarding this situation.

## II. METHODOLOGY

The study design is an explorative qualitative study which was done by interviewing bureaucrats, diplomats and field experts of economy of both countries; India and Sri Lanka and using previously analysed data gathered from Indian High Commission of Sri Lanka.

Further, the study analysis was purely based on comparing the opinions of the field experts and authorized and previously analysed data. The comparison was done by complete step aside of political reasons and background. It was mainly focused on economical background and the strategical importance of this agreement.

## III. REVIEWING THE ISFTA AGREEMENT

Reviewing the India-Sri Lanka Free Trade Agreement (ISFTA), it leads to two significant conclusions; the first one is, after the agreement, imports of Indian goods have highly increased. In 2014 it was US\$ 4023 million. But Sri Lankan export to India takes a very few amount of US\$ 625 million. Compared to India's export to Sri Lanka this is very small amount. The second one is, Sri Lankan export to India after 14 years still remaining in a lesser value. For an example Sri Lankan Export to USA takes about 24% and to UK 10% without any bilateral agreements. But to India it indicates as 5.6%. Exports out of Sri Lanka are listed as US\$ 0.6 billion, the imports from India are moving a US\$ 4.3 billion and as a ratio it is 7:1 in favour of India. This economic gap occurred because of not releasing Sri Lankan goods due to non-tariff barriers. This factor is very crucial point of discouraging local manufacturers and entrepreneurs like DSI and companies, Natures Secrets and who had unpleasant experiences like Ceylon Biscuits.

## IV. INDIA'S EAGER TOWARDS ETCA

Besides India has accept the fact that most of the trade activities took place within last few years happened outside the Free Trade Agreement (FTA) and furthermore Indian sources mentioned that through ETCA, India's

notion is to bring all those trade activities which are happening outside the FTA to get into the terms of the framework agreement. The reason why India always wants to keep every trade activity into the terms of the agreement rings the bell that these framework terms have a huge benefit to India's economy. It is a distinguished dynamic that any economic agreement that has equal terms which is going to happen or happening between two uneven powers has always been greatly profitable to major economic power country. Sri Lanka's situation is also the same. This asymmetry between the two countries was duly accommodated by recognizing the principle of Special and Differential Treatment (SDT) for the small country, a "win-win" situation could be worked out. But relating to the reality that principle existed as a hallucination. The argument which can bring up here is that if this principle of STD was effective; then there is no point of moving to a new bilateral agreement with a new name. Since both countries has decided to move to a pristine agreement yet haven't mention a word about Special and Differential Treatment in the framework gives a clue that either Sri Lanka or India hasn't compared India-Sri Lanka Free Trade Agreement (ISFTA) with ETCA framework. Further, Indian sources have confirmed this clue.

But regardless the larger share of the benefit, Sri Lanka should have the competence of possessing a reasonable share of the benefit. Otherwise the rumour that spreading saying this framework agreement is a trap for Sri Lanka can be a real. The problem is how Sri Lanka is handling such sensitive matter if Sri Lanka is in a hurry to get into this ETCA agreement. To that a proper mechanism and a proceeding is necessary which is the area Sri Lanka hasn't touched yet. Without having any clue or strategy of making a profit out of a bilateral agreement, signing one can lead to a great economic catastrophe of Sri Lanka.

## V. STUDY OF THE RECENT PROGRESS OF ETCA FRAMEWORK AGREEMENT

ETCA framework agreement which has already made a huge repartee in the society has mentioned of its few chapters as Basic fundamentals, Early Harvest, movement of natural person, Technological Corporation and other amenities. Approaching towards the ETCA framework agreement; the viewpoint that can ascertain is that Sri Lankan government is not ready to be transparent or give any clue about the framework agreement of ETCA to the public which inevitably ascended the public suspicion. The 19th Amendment bill tries to give the access to right to information, yet the Sri Lankan government being suspicious, it is reasonable for the public to show their denounce and ask for transparency of the framework agreement which two countries has agreed so far. The question is why the Sri Lankan government is being secretive in this framework agreement which is not

finalized at least. For that the hypothetical conclusion which can come up is that both countries has disagreements because still India hasn't showed any class of positive or negative reaction towards the framework agreement Sri Lanka has given to them in Sri Lankan side.

Anyway the Sri Lankan government is saying that ETCA is entirely different from Comprehensive Economic Partnership Agreement (CEPA) yet the Indian government has accepted that ETCA as a one step ahead from CEPA by correcting all mistakes that occurred through CEPA agreement. This contradictory, that two governments having two perspectives regarding the same matter leads to the conclusion that one government is not being realistic. Furthermore sources of the Indian High Commission of Sri Lanka stated that signing of the ETCA agreement is planning on the first three months of 2017 not in the middle of 2016. But the Prime Minister Mr. Ranil Wickramasinghe stated that ETCA agreement will be signing in the middle of 2016. But the Indian High Commission doesn't make any opinion relating to Sri Lankan government's statements which is again suspicious enough to up bring public incongruity. The assumption that can arrive is that Sri Lankan government is in a haste to implement this agreement although the Indian government wants to do it in the approved manner. If so, the Sri Lankan government is in an urgency it is hard to be certain of that the terms both countries accepted to agree could be favourable towards Sri Lanka as government. But it is hard to predict the future of the agreement because it is in the framework stage now. Nevertheless what is necessary is that signing the ETCA agreement favourable to Sri Lanka.

As a coin has its two sides; the ETCA framework agreement has some productive benefits too. From chapter two of the framework agreement the first priority has given to early harvest by both countries. Although Sri Lanka is earning profits from India-Sri Lanka Free Trade Agreement (ISFTA), non-tariff barriers can make difficulties in entering to different states of India. Concerning this factor, India has brought a new Goods and Services Tax bill to the Indian parliament to make a uniform tax rate in India's each state government and to reduce the delay in transporting merchandises by discussing both countries about a joint mechanism of checking goods entering to each country through a mutual agreement. Besides, according to the framework agreement, India's negative list is planned to reduce but Indian sources haven't mentioned anything about Sri Lanka's negative list which is about 1220 already. If these planning are practically going to take place, then it will be a huge sustenance for the mutual understanding of both countries but the issue in here is these plans need a better mechanism with proper understand of both countries and which is not here at the present situation. Promotion of joint ventures, draw much foreign direct

investment (FDI), tourism, custom, e-commercial activities, industries are the same criterias which already have in ISFTA but failed many times. Citing failed criterias to a new agreement can debilitate the agreement and Sri Lanka should find new ways to achieve these goals rather than relying on the same failed terms. Another factor is that ,before allowing India's to tough Sri Lanka's job market it is important to seek whether Indian job market to Sri Lanka is achievable or not. Because 7% means 37 million of the Indian population is unemployed and that percentage surely increase the Sri Lankan unemployment.

#### VI. TECHNOLOGICAL CHAPTER OF ETCA

Chapter V of the ETCA framework agreement which gives the special reference to the technological corporation of both countries have included vital and important Articles to the agreement. It is fair to say that this chapter is the most important part of the framework agreement and it can guide both countries to an innovative approach. The chapter which openly deals with the intellectual property of both countries and Article II subsection (a) gives access to technological guidance relating to experiments which leads to economical purposes. Subsection (b) mentions about high technological innovations, exchanging technology and inspirations of experiments that will encouraged from this agreement. Having a separate chapter in an agreement about something that has access with modern world is very much important. But the default in here is the framework agreement hasn't mention any mechanism or future mechanism they expect to imply to stimulate the technological corporation and haven't mentioned about the safety and the guarantee of protection of resource persons. Without having a sound knowledge and fully understand about the mechanism for any country it is dangerous and unfavourable to deal with intellectual property.

#### VII. LAW REFORMATIONS NEEDED WITH ETCA

Indian legal system is in a much more advanced step comparing to the Sri Lankan legal system when it comes to bilateral agreements because India has signed many more detailed economic partnership agreements with countries like China, South Korea and Singapore. Therefore India has standardized its legal system and regulatory framework. Nevertheless in that manner Sri Lanka has a long process to continue and it is doubtful whether the Sri Lankan government has even considered about this fact up to now. Besides the fact that Sri Lanka is in lack of professional authorization bodies to sign mutual recognition agreements, there are approximately 30 other pieces of legislation which need to be amended to give effect to trade in services between two countries. These laws need amendments from Immigration and Emigration Act, labour laws, banking laws, Inland Revenue Act, business registration laws, insurance laws, the Medical Council Act etc.

## VIII. TAMIL NADU INFLUENCE IN INDIA-SRI LANKA ECONOMIC PARTNERSHIP

On the contrary Tamil Nadu politics has always played a very crucial role in India- Sri Lanka partnership agreements. Enlightening that fact further, Prime Minister Modi's proposal of Goods and Services Tax Bill (GST Bill) which Indian government trying to pass regarding the tax they imposed on Sri Lankan harvests entering to Indian market is still wedged due to the Tamil Nadu election and their political dilemma. According to the prior experiences Sri Lanka has, it is very hard to come to a conclusion that Tamil Nadu state government will show a favourable concealment in this scenario. Therefore it is clear that when it comes to the Indian situation, one powerful state government can make a momentous change in the whole governmental decision making process and change won't be favourable towards Sri Lanka.

## IX. RESEMBLES IN ETCA AND ISFTA

As stated before, Sri Lankan government has specified that ETCA agreement is unlike any other agreement Sri Lanka had with India but relating the major sections of the ETCA framework agreement with India-Sri Lanka Free Trade Agreement (ISFTA) there are resemblances which can clearly identify. Both has Dispute Settlement Mechanism; in Article II of the chapter XII of ETCA framework and Article XIII of the ISFTA have resembles. Terms of the Dispute Settlement Mechanisms proposed to India by Sri Lanka has similarities to ISFTA but the fact is that Dispute Settlement Mechanism of ISFTA ended as a failure and India also accepted that dispute settlement mechanism is not functioning in a proper manner. Then the next argument come up is that even though there is a noble apex chamber, why it did not function as expected. The best example is non-tariff barriers imposed by India to Sri Lankan products after FTA. It reduced nearly US\$ 28 million in 2011 to US\$ 7 million in of the Sri Lankan economy. In this situation it is clearly high-lighted that Sri Lankan government is acting irresponsible and it is Sri Lankan government's responsibility to contemplate all those factors in outlining a new framework agreement. Therefore the purpose behind including this same mechanism to the new Framework agreement is a question.

## X. ACCESS TO WORLD TRADE ORGANIZATION

General Agreement on Trade and Services- (GATS) the international convention which governs the trades in services must be taken into the count in bilateral agreement and all the WTO members are instantaneously members of GATS. Even though Minister Malik Samarawickrema specifically remarks that ETCA will be based on the WTO agreement as well as 'other such' multilateral agreements GATS hasn't been cited in the

ETCA framework agreement. The reason why GATS has not been specifically mentioned in the ETCA framework agreement is obvious because opening the trade in services to India has become a contentious issue and the government would like to moderate it. Clarifying in advance, the GATS guidelines stipulate that after a state has accepted specific commitments to open certain service sectors to the partner state, that state is prohibited from applying any new licensing and qualification requirements and technical standards in that precise professional category. For that reason, according to the terms of GATS Sri Lanka has a backward regulatory framework for ETCA.

## XI. CONCLUSION

Evaluation terms of the ETCA framework agreement it is clear that Sri Lanka needs more foreign direct investments (FDI) and India being Sri Lanka's biggest partner in tourism can easily bring FDI to here. For that Sri Lanka must be more close to India as the closest neighbour. If Sri Lanka is planning on the huge step in economy, a suitable legal system will be obligatory. Joint commissions and joint venture has always plays a significant role in any country's economy and Sri Lanka has to focus in that arena more. Before getting into any agreement, Sri Lanka should be more thorough with information on how foreign agreements of India are going on and according to that Sri Lanka has to make its economic plans. It is in nature that the bigger country always achieve the highest advantage, but in any agreement both parties should be satisfied.

## XII. RECOMMENDATIONS

- i. The issue must be addressed in a very sensitive manner and government should take necessary steps to solve the burning problems of manufacturers and entrepreneurs who had to face non-tariff barriers which will give some merits to the government at the same time confidence to the system to lead bilateral relations of both countries.
- ii. Reconsidering about including sections like section V of the chapter VII of ETCA framework agreement is necessary because it can leads to economical traps in future.
- iii. With the help of law implementing authority, policymakers and chambers; the government needs to have long term joint venture proposals and some export brands which can take easy access to the Indian market.
- iv. Having a diversity in exporting group of product categories rather than relying on few major products can reduce being exporters getting disappoint and meanwhile helps to have a constant flow of money towards the country.
- v. Keep a uniform duty rate with India as already proposed by early harvest mechanism and Sri Lanka should contribute its support to GST bill and

- meanwhile take necessary discussion rounds to keep away raw materials from adding to the negative list.
- vi. Take necessary actions to make ETCA agreement with accordance to WTO and GATS is also necessary because it can affect to the future of both countries in dealing with international arena.

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