5. India–Sri Lanka Economic Cooperation - Economy

The India–Sri Lanka Business Forum, organised by Confederation of Indian Industry in partnership with The Ceylon Chamber of Commerce in Mumbai, identified six priority sectors for enhanced bilateral economic cooperation.

1.Background

India and Sri Lanka share deep historical, cultural, and civilizational ties dating back millennia, with geographical proximity of just 30 kilometers separating the two countries at the Palk Strait creating natural interdependence in trade, security, and people-to-people exchanges. Post-independence, bilateral relations have evolved through various phases shaped by domestic political developments in both countries, regional geopolitical dynamics, and economic imperatives. The India-Sri Lanka Free Trade Agreement signed in 2000 contributed significantly toward expansion of trade between the two countries, with India traditionally being among Sri Lanka's largest trade partners and Sri Lanka remaining among India's important trade partners in the SAARC region.

India is also one of the largest contributors to Foreign Direct Investment in Sri Lanka particularly in sectors like telecommunications, petroleum, hospitality, and manufacturing. Cultural relations formalized through the Cultural Cooperation Agreement signed in 1977 form the basis for periodic Cultural Exchange Programmes between the two countries, while Buddhist and Tamil links enhance people-to-people connect and soft power creating natural affinity beyond governmental interactions. Tourism represents another significant dimension with India traditionally being Sri Lanka's top inbound tourism market followed by China, and according to latest data from Sri Lanka Tourism Development Authority, India remains the largest source for tourists in 2023 demonstrating resilience of people-to-people ties. Maritime security and defence cooperation have strengthened through mechanisms including the Colombo Security Conclave established in 2011 to further promote maritime security in the Indian Ocean Region, joint military exercise Mitra Shakti, trilateral maritime exercise Dosti, and naval exercise SLINEX reflecting shared security interests. However, bilateral economic cooperation faces persistent challenges including trade imbalance with Sri Lanka expressing concerns regarding trade deficits with India, regulatory barriers through delays in customs clearances and regulatory approvals affecting trade efficiency, infrastructure constraints with limited logistics and transport infrastructure increasing trade costs, economic instability following Sri Lanka's recent economic crisis affecting investor confidence, and geopolitical competition with external powers increasingly competing for influence in strategic sectors such as ports and infrastructure.

The India–Sri Lanka Business Forum organized by Confederation of Indian Industry in partnership with The Ceylon Chamber of Commerce in Mumbai identified six priority sectors—ports, transport and logistics, pharmaceuticals, digital payments, travel and tourism, and review of the India–Sri Lanka Free Trade Agreement—representing strategic areas where enhanced cooperation can yield mutual benefits, strengthen supply chains, promote inclusive growth, and deepen economic integration between the two neighbouring countries while addressing Sri Lanka's development needs and India's strategic interests in maintaining stability and prosperity in its immediate neighbourhood under the Neighbourhood First policy and SAGAR initiative ensuring Security and Growth for All in the Region.

2.Key Areas of Cooperation

Ports and Maritime Infrastructure

1. India and Sri Lanka are exploring cooperation in port infrastructure and maritime connectivity to strengthen trade and regional supply chains.
2. Sri Lanka's strategic location along major sea lanes of communication in the Indian Ocean makes port development crucial for regional trade.
3. Indian companies have expertise in port management, container handling, and logistics operations that can benefit Sri Lankan ports.

4. Collaboration can include joint development of ports, technology transfer for automation and efficiency, and integration of port operations for seamless cargo movement.
5. Maritime connectivity improvements through regular shipping routes, coastal shipping agreements, and multimodal transport linkages can reduce logistics costs.

Transport and Logistics

1. Improving shipping routes through regular container services, bulk cargo movements, and passenger ferry services enhances bilateral trade.
2. Rail connectivity including potential Rameshwaram-Talai Mannar link would revolutionize cargo and passenger movement between countries.
3. Warehousing infrastructure development in key locations reduces storage costs and enables efficient inventory management.
4. Cold storage facilities are critical for perishable goods including agricultural products, seafood, and pharmaceuticals ensuring quality maintenance.
5. Integrated logistics solutions combining road, rail, sea, and air transport create efficient supply chains.

Pharmaceuticals

1. Sri Lanka has shown interest in importing affordable generic medicines from India under the existing FTA framework.
2. India is the world's largest provider of generic drugs and vaccines, known as the "pharmacy of the world."
3. Quality Indian pharmaceuticals at competitive prices can improve healthcare access and affordability in Sri Lanka.
4. Pharmaceutical raw materials and active pharmaceutical ingredients from India can support Sri Lanka's domestic pharmaceutical industry.
5. Collaboration in drug testing, quality certification, and regulatory harmonization can facilitate smoother trade.

Digital Payments

1. Sri Lanka is exploring UPI-like cross-border digital payment systems with India for seamless financial transactions.
2. Unified Payments Interface has revolutionized digital payments in India processing over 10 billion transactions monthly.
3. Cross-border UPI integration would enable instant remittances, tourism payments, and trade settlements reducing transaction costs and time.
4. Digital payment infrastructure promotes financial inclusion, reduces cash dependence, and enhances transparency.
5. Technology transfer and capacity building can help Sri Lanka develop indigenous digital payment capabilities.

Travel and Tourism

1. Expanding tourism and travel connectivity through improved visa facilities including e-visa systems, visa-on-arrival schemes, and multiple-entry visas.
2. Travel circuits combining destinations in both countries like Buddhist circuit, heritage tourism, and eco-tourism can attract international tourists.
3. Enhanced air connectivity through more direct flights, code-sharing arrangements, and competitive fares promotes two-way tourist flows.
4. Cruise tourism connecting Indian and Sri Lankan ports offers unique tourism experiences.
5. Collaborative marketing of regional tourism packages in international markets leverages combined attractions.

Review of India–Sri Lanka Free Trade Agreement

1. The two countries are considering updating the FTA to include pharmaceutical raw materials reducing import costs for Sri Lankan industry.
2. Logistics equipment including containers, handling machinery, and transport vehicles can be covered under preferential tariff schemes.
3. Trade facilitation measures such as simplified customs procedures, mutual recognition of standards, and digital documentation reduce non-tariff barriers.
4. Expanding product coverage to emerging sectors including digital services, renewable energy, and technology products reflects evolving economies.

3.Challenges in Bilateral Economic Cooperation

Trade Imbalance

1. Sri Lanka has concerns regarding trade deficits with India as imports from India significantly exceed exports to India.
2. Trade imbalance creates balance of payments pressures for Sri Lanka and political sensitivities about economic dependence.
3. Addressing imbalance requires enhancing Sri Lankan exports to India through market access improvements, capacity building, and quality upgrades.
4. Diversification of Sri Lankan export basket beyond traditional commodities like tea, garments, and spices is necessary.

Regulatory Barriers

1. Delays in customs clearances due to documentation requirements, inspection procedures, and bureaucratic processes affect trade efficiency.
2. Regulatory approvals for products, investments, and projects face lengthy procedures creating uncertainty for businesses.
3. Non-tariff barriers including standards, certifications, and technical requirements can restrict market access.
4. Harmonization of regulations and mutual recognition agreements can reduce compliance costs.

Infrastructure Constraints

1. Limited logistics and transport infrastructure in both countries increases trade costs reducing competitiveness.
2. Port congestion, inadequate warehousing, poor road connectivity, and limited intermodal facilities create bottlenecks.
3. Investment in infrastructure modernization is capital-intensive requiring public and private funding.
4. Regional infrastructure projects connecting India and Sri Lanka need coordinated planning and implementation.

Economic Instability

1. Sri Lanka's recent economic crisis involving foreign exchange shortage, sovereign debt default, and IMF bailout has affected investor confidence.
2. Political instability and policy uncertainties create risks for long-term investments and business planning.
3. Recovery from crisis requires sustained economic reforms, fiscal discipline, and structural adjustments.
4. India's support during crisis through credit lines, fuel supplies, and essential commodities demonstrated solidarity.

Geopolitical Competition

1. External powers are increasingly competing for influence in strategic sectors such as ports and infrastructure in Sri Lanka.
2. China's significant investments in Hambantota Port, Colombo Port City, and other infrastructure projects create geopolitical concerns.

3. Balancing economic cooperation with multiple partners while maintaining strategic autonomy is challenge for Sri Lanka.
4. India's security interests in preventing hostile presence in neighbourhood require careful management of cooperation.

4.Significance of Sri Lanka to India

Strategic Location

1. Sri Lanka lies near the vital sea lanes of communication in the Indian Ocean through which over 60% of India's energy supplies and significant trade pass.
2. Control or influence over Sri Lankan ports can affect India's maritime security and commercial interests.
3. Proximity to Indian coast means developments in Sri Lanka directly impact India's security environment.

Maritime Security

1. Vital under India's SAGAR (Security and Growth for All in the Region) initiative for ensuring regional stability and countering China's naval presence.
2. Colombo Security Conclave established in 2011 provides institutional mechanism for maritime cooperation.
3. Joint exercises including Mitra Shakti, Dosti, and SLINEX enhance interoperability and trust between armed forces.
4. Cooperation in maritime domain awareness, search and rescue, and anti-piracy operations protects common interests.

Economic Interdependence

1. India is among Sri Lanka's largest trade partners with bilateral trade exceeding $5 billion annually.
2. Indian investments create employment, transfer technology, and contribute to Sri Lankan economic development.
3. Sri Lankan workers in India and Indian tourists in Sri Lanka create people-to-people economic ties.

Cultural and Civilizational Ties

1. Buddhist links with millions of Indian Buddhists sharing religious heritage with Sri Lankan majority create soft power.
2. Tamil population in both countries maintains cultural, linguistic, and family connections.
3. Cultural exchanges, educational scholarships, and artistic collaborations strengthen bonds.

5.India and Sri Lanka Relations - Multilateral Collaboration

Regional Organizations

1. India and Sri Lanka are member nations of the South Asian Association for Regional Cooperation (SAARC) working to enhance cultural and commercial ties.
2. Participation in South Asia Co-operative Environment Programme addresses shared environmental challenges.
3. South Asian Economic Union aims at regional economic integration though implementation remains slow.
4. BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) provides alternative platform given SAARC challenges.

6.Way Forward

Address Trade Imbalance

1. Enhance Sri Lankan exports to India through market access improvements identifying products with export potential, capacity building supporting quality upgrades and scale expansion, trade promotion through exhibitions and buyer-seller meets, and simplified import procedures reducing barriers for Sri Lankan goods.

Strengthen Infrastructure

1. Joint infrastructure projects in ports, roads, rail connectivity, and airports improving physical connectivity, leveraging India's Lines of Credit for infrastructure development in Sri Lanka with preferential terms, public-private partnerships combining government facilitation with private sector efficiency, and regional connectivity initiatives linking both countries with Southeast Asia.

Deepen Economic Integration

1. Comprehensive review of FTA expanding coverage to services, investments, and emerging sectors, harmonization of standards and regulations reducing compliance costs, digital trade facilitation through electronic documentation and online clearances, and supply chain integration creating complementary production networks.

Enhance People-to-People Ties

1. Simplified visa regimes for tourists, students, and business travellers, educational exchanges through scholarships, faculty exchanges, and joint research programmes, cultural festivals showcasing shared heritage and contemporary creativity, and professional collaboration in healthcare, education, and technology.

Institutional Mechanisms

1. Regular high-level dialogues ensuring political attention to bilateral economic cooperation, sectoral working groups on identified priority areas with clear timelines and deliverables, business councils facilitating private sector engagement and feedback, and grievance redressal mechanisms addressing business concerns promptly.

Conclusion

The India–Sri Lanka Business Forum organized by Confederation of Indian Industry in partnership with The Ceylon Chamber of Commerce in Mumbai identified six priority sectors for enhanced bilateral economic cooperation—ports and maritime infrastructure strengthening regional supply chains, transport and logistics improving shipping routes, rail connectivity, warehousing, and cold storage, pharmaceuticals with Sri Lanka importing affordable generic medicines from India under existing FTA framework, digital payments exploring UPI-like cross-border systems, travel and tourism expanding connectivity through improved visa facilities and travel circuits, and review of India–Sri Lanka Free Trade Agreement to include pharmaceutical raw materials, logistics equipment, and trade facilitation measures. Challenges include trade imbalance with Sri Lanka expressing deficit concerns, regulatory barriers causing customs clearance delays, infrastructure constraints increasing trade costs, economic instability following recent crisis affecting investor confidence, and geopolitical competition with external powers competing for influence in strategic sectors. Sri Lanka's significance to India stems from strategic location near vital sea lanes carrying over 60% of India's energy supplies, maritime security importance under SAGAR initiative, economic interdependence with bilateral trade exceeding $5 billion annually, and cultural-civilizational ties through Buddhist and Tamil links. Strengthening cooperation requires addressing trade imbalance through enhancing Sri Lankan exports, infrastructure development through joint projects and Lines of Credit, deepening economic integration via comprehensive FTA review, enhancing people-to-people ties through simplified visas and educational exchanges, and establishing institutional mechanisms including high-level dialogues and sectoral working groups.

Source - [https -//www.thehindu.com/business/india-sri-lanka-forum-identifies-ports-pharma-digital-payments-for-cooperation/article70974357.ece](https://www.thehindu.com/business/india-sri-lanka-forum-identifies-ports-pharma-digital-payments-for-cooperation/article70974357.ece)