



## POLICY BRIEFS

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# Sri Lanka - India Relations: Opportunities for A New Connectivity Strategy

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## **I. Introduction**

Following Sri Lanka's Parliamentary Elections at the beginning of August, Indian Prime Minister Modi congratulated Prime Minister Mahinda Rajapaksa for the strong mandate given to the governing Sri Lanka Podujana Peramuna (SLPP). Both Prime Ministers indicated their shared interest in advancing bilateral cooperation, which was soon after followed by a phone call between the Foreign Ministers of both countries. Both ministers expressed their confidence in [strengthening bilateral cooperation](#) and discussed ways on how to deepen bilateral ties, including tourism and religious linkages.<sup>1</sup>

Sharing a land and maritime border, the South Asian neighbours are connected through important economic, diplomatic and cultural ties dating back 2,500 years. Bilateral relations are shaped through key agreements like the Indo-Sri Lanka Free Trade Agreement (ISFTA), which has provided much impetus for bolstering economic ties. In addition, joint participation in international platforms such as the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) have driven bilateral cooperation.

Despite existing linkages, some areas – including trade in services and investments - are underexplored, leaving room for deeper cooperation. Both countries have the opportunity to seize this untapped potential through a new connectivity strategy, the formulation and implementation of which may be fast tracked through a series of global and regional developments: India's call for regional connectivity in South Asia under its 'Neighbourhood First' policy has grown stronger after the emergence of global superpowers and a shift in soft and hard powers towards East Asia. In addition, the global spread of COVID-19 and the associated impact on countries' economies, is reshaping economic and diplomatic relations around the world and yields a valuable opportunity to reinforce ties between both neighbouring countries.

This *LKI Policy Brief* analyses the multi-faceted relationship between Sri Lanka and India and highlights areas for strengthened bilateral cooperation and associated policy implications.

## **II. Why Strengthen Ties with India?**

Showcasing strong economic growth, an expanding middle class, and increasing share in global trade, India has emerged as a key player in the 21st century global economy. The country is home to a population of 1.3 billion people, accounting for the world's second largest market and fifth biggest economy with a Gross Domestic Product (GDP) of US\$ 2.87 trillion (2019, in current US\$), providing ample opportunities for investment and trade of Sri Lankan businesses. [India's economy has exerted dynamic growth](#), with an average annual GDP growth of 7% between 2014 and 2019. As of 2019, India accounts for a total of 2.5% in global trade.<sup>2</sup>

India reoriented its trade and investment policy framework in the early 1980s. After pursuing import substitution and protectionist policies to insulate its domestic manufacturing sector from foreign competition during the post-independence era, it embarked on major reforms to liberalize its economy in 1991. India's global role has grown on the back of accelerated and stable growth in the post liberalization period, which has amongst others been attributed to the rapid growth of India's service sector. [India's growth has thereby been broadly resilient](#) to both domestic and external shocks, benefitting from the sheer scale, and diverse nature of its economy.<sup>3</sup>

Following economic liberalisation in the 1990's, India's new middle class, rose from a [share of 28.9% in 1999-2000 to a share of 50.3% in 2011-2012](#)<sup>4</sup> and is expected to [account for 75% of consumer spending in 2030](#).<sup>5</sup> Economic reforms and growth in per capita GDP have enabled India to move from [low income to lower-middle-income status in 2009](#), with more than 90 million people escaping poverty between 2011-15.<sup>6</sup>

India is one of Sri Lanka's top trading partners, with significant potential for deeper economic integration. The country's growing middle class and increasing levels of disposable income among its populace make it a vital market for a wide range of goods and services and provide increasing opportunities for Sri Lankan merchandise exports of tea, coffee, apparel, and services exports such as tourism.

**Strengthening Sri Lanka-India Ties**

- Important shared historical, cultural, political, diplomatic and economic ties that can be capitalised on.
- India has emerged as a key driver of global trade accounting for 2.5% of world trade.
- India's large market: With 1.3 billion consumers and at 60 times Sri Lanka's market, India provides excellent market potential.
- India is Sri Lanka's top trading partner and they are the biggest trading partners within SAARC, with potential to increase trade in services.
- India's dynamic market: It is the world's fifth largest economy (US\$ 2.87 trillion), with a 7% average annual growth (2014-2019).
- Both economies have been negatively impacted by COVID-19. Strengthening bilateral economic ties can fast-track recovery.

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*LKI illustration based on various sources.*

While India has displayed strong economic performance during the last decades, domestic challenges that have been exacerbated by the COVID-19 pandemic remain in its development trajectory. The Indian economy [slowed to an eleven year low of five per cent GDP growth in 2019](#)<sup>7</sup> partly as a result of tighter credit conditions in the shadow banking sector, which led to weak domestic demand and ended a consumer spending boom in the two preceding years. In addition, COVID-19 continues to spread in India, with the [country being the third most affected country worldwide at more than 2.7 million confirmed cases](#) (19 August 2020),<sup>8</sup> straining the domestic health system and economy. Indian exports plunged by a record of 60% and 37% in April and May respectively and are expected to contract by [10-12% in 2020-21 due to weakening global demand](#).<sup>9</sup> The International Monetary Fund projects the Indian economy to decline by [4.5% in 2020 following an extended lockdown](#).<sup>10</sup>

Economic recovery remains a top priority for both Sri Lanka and India. The pandemic presents an opportunity for both countries to re-evaluate their bilateral relationship, reinforce economic ties, and create a new connectivity strategy targeted at mutual gains to fast-track recovery. Shared diplomatic and political ties, consolidated by several high-level exchanges in the recent past, lay a strong foundation for leveraging bilateral ties.

### **III. Existing Sri Lanka - India Ties**

Historically, relations between Sri Lanka and India have been built on shared religious, cultural, and linguistic interactions over the course of 2,500 years. Both Sri Lanka and India fell under the colonial rule of the British in the 1800s and gained independence in 1947 and 1948 respectively.

#### **3.1 Diplomatic Ties**

Since independence, Sri Lanka and India have shared well established diplomatic relations. [Sri Lanka has multiple permanent missions in India](#), namely the High Commission in New Delhi, Deputy High Commission in Chennai and a Consulate General in Mumbai,<sup>11</sup> whilst [India maintains four missions posted in Sri Lanka](#), including the High Commission in Colombo, Assistant High Commission in Kandy, and consulates in Jaffna, and Hambantota.<sup>12</sup>

Both countries are members of SAARC and BIMSTEC - intergovernmental organizations that seek to promote regional cooperation within the South Asian region. Following the COVID-19 pandemic, there is renewed interest in both platforms to promote regional aid and future cooperation focused on post-COVID economic recovery, also providing a basis for deepening relations between Sri Lanka and India. Both countries are signatories of the South Asia Co-operative Environment Programme, South Asian Economic Union, and the Commonwealth of Nations.

In the past, diplomatic relations have at times been volatile, due to different national interests such as India's 'Look East' policy and Sri Lanka's growing orientation towards China. This has occasionally been exacerbated by fishing disputes in the Gulf of Mannar and Palk Straits and discussions around Sri Lanka's (lack of) implementation of the 13th amendment, which is based on the 1987 Peace Accord between Sri Lanka and India and calls for the devolution of power to provinces. Historically, India has urged Sri Lanka to implement the [13th amendment](#),<sup>13</sup> which is seen as a vital step towards reconciliation with the Tamil people, a community that India has an interest in the wellbeing of due to shared ethnic relations.

That said, since Sri Lanka's Presidential Elections in November 2019 and the Parliamentary Elections in August 2020, new impetus has been given towards strengthening diplomatic cooperation. Soon after his election in 2019, on his visit to India, President Gotabaya Rajapaksa expressed his aim to revitalise bilateral relations and "[bring the relationship between Sri Lanka and India to a very high level](#)".<sup>14</sup> Prime Minister Modi reciprocated, stating that India gives priority to relations with Sri Lanka under their '[Neighbourhood First](#)' policy.<sup>15</sup> Additional momentum has been provided through the recent appointment of Hon. Tharaka Balasuriya as Sri Lanka's first State Minister of Regional Cooperation, highlighting the Government's efforts to strengthen ties with its South Asian neighbours. Joint efforts to deepen bilateral relations have also been reflected through a recent webinar titled '[Deepening Economic Collaboration between Sri Lanka and India](#)' hosted by the Sri Lankan Ministry of Foreign Relations and the Federation of Indian Chamber of Commerce and Industry (FICCI), organised jointly by FICCI and the Lakshman Kadirgamar Institute (LKI), during which a series of high-level attendees discussed opportunities for closer economic collaboration.<sup>16</sup>

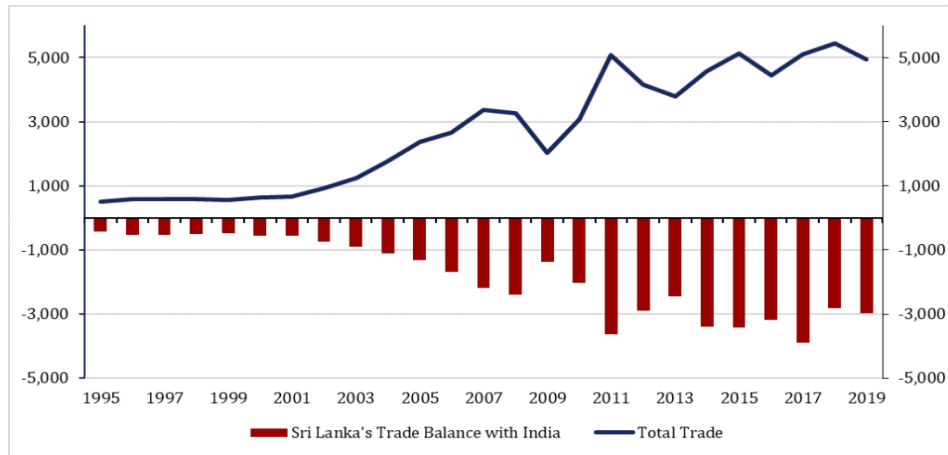
### 3.2 Economic Ties

Sri Lanka and India have long shared important economic ties, tracing back to pre-colonial times. India is Sri Lanka's most important trading partner and one of the top sources of Foreign Direct Investment (FDI). Against Sri Lanka's limited market size, Sri Lanka however plays a less significant role as an economic partner. Going forward, both countries, therefore, have the potential to deepen economic ties and to reinforce their economic importance regionally.

#### **Merchandise Trade**

Bilateral trade received a significant boost when the Free Trade Agreement (FTA) between India and Sri Lanka came into effect in March 2000. [As a result](#), import tariffs on 4,150 Sri Lankan products were waived, while tariffs on 3,932 Indian products entering the Sri Lankan market were abolished.<sup>17</sup> The agreement has buoyed trade ever since, with an exception being a temporary dip during the 2009 global financial crisis. (Figure 1). Bilateral trade increased nearly seven-fold from US\$ 645 million in 2000 to US\$ 4.9 billion in 2019, with significant trade surpluses in favour of India. In 2019, exports to India accounted for US\$ 993 million, whilst imports to Sri Lanka stood at US\$ 4.0 billion.

Figure 1: Sri Lanka - India Merchandise Trade, 1995-2019 (US\$ millions)<sup>18</sup>



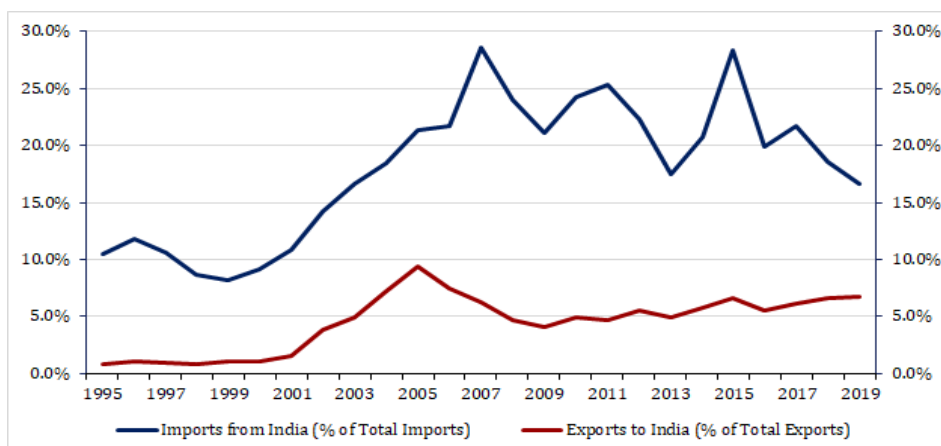
Note: Total trade measured on Cost, Insurance, and Freight (CIF) basis.

Source: LKI calculations based on IMF (2020).

Over time, India has emerged as Sri Lanka’s top trading partner, on [average accounting for 20% of total imports and 5% of total exports per annum between 2000 and 2019](#). (Figures 2).<sup>19</sup> The composition of Sri Lanka’s import basket has changed over the years, with mineral fuels and oils, as well as ships and boats, gaining in relative importance. In 2019, [main imports from India comprised of](#) 1) mineral fuels and oils, 2) ships and boats, 3) vehicles, 4) cotton, and 5) nuclear reactors and boilers.<sup>20</sup>

Pre-2000, Sri Lankan exports were centred around the country’s comparative advantage and included commodities (such as iron & steel) and agricultural products (such as rubber, coffee & tea). [In 2019, Sri Lankan exports to India primarily consisted](#) of 1) ships and boats, 2) residues, food waste and animal fodder, 3) edible fruits, 4) articles of apparel and accessories, and 5) knitted and crocheted fabric.<sup>21</sup>

Figure 2: Sri Lanka’s Merchandise Trade with India, 1995-2019<sup>22</sup>

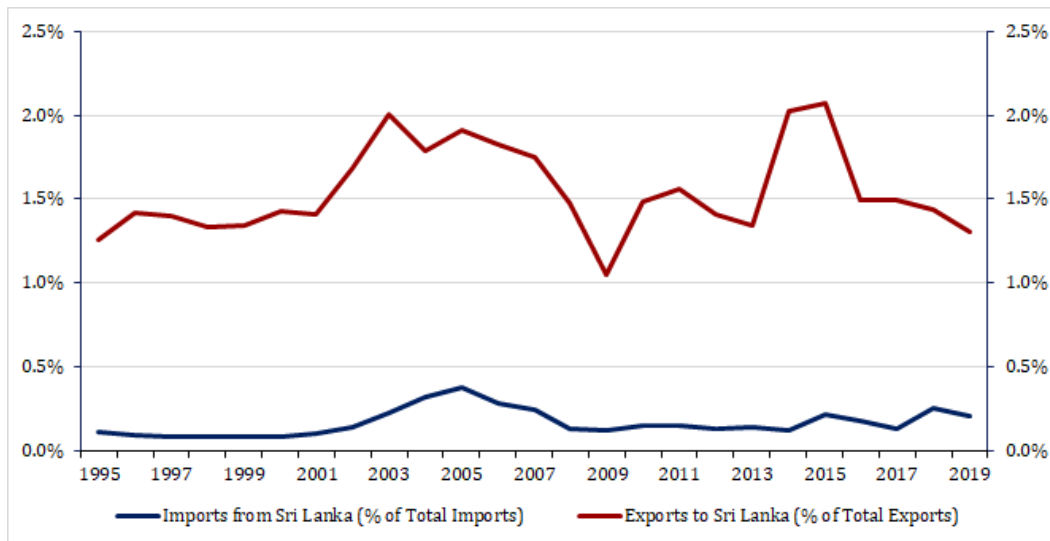


Source: LKI calculations based on IMF (2020).



In comparison, Sri Lanka takes a less prominent role as India’s trading partner, ranking [India’s 23rd largest export market and 50th largest import market in 2019](#).<sup>23</sup> Between 2000-2019, imports from Sri Lanka to India on average accounted for a mere [0.2% of total imports, whilst exports to Sri Lanka stood at 1.6% of total exports](#), indicating significant potential for future growth.<sup>24</sup>. (Figure 3).

[Figure 3: India’s Merchandise Trade with Sri Lanka, 1995-2019](#) <sup>25</sup>



Source: LKI calculations based on IMF (2020).

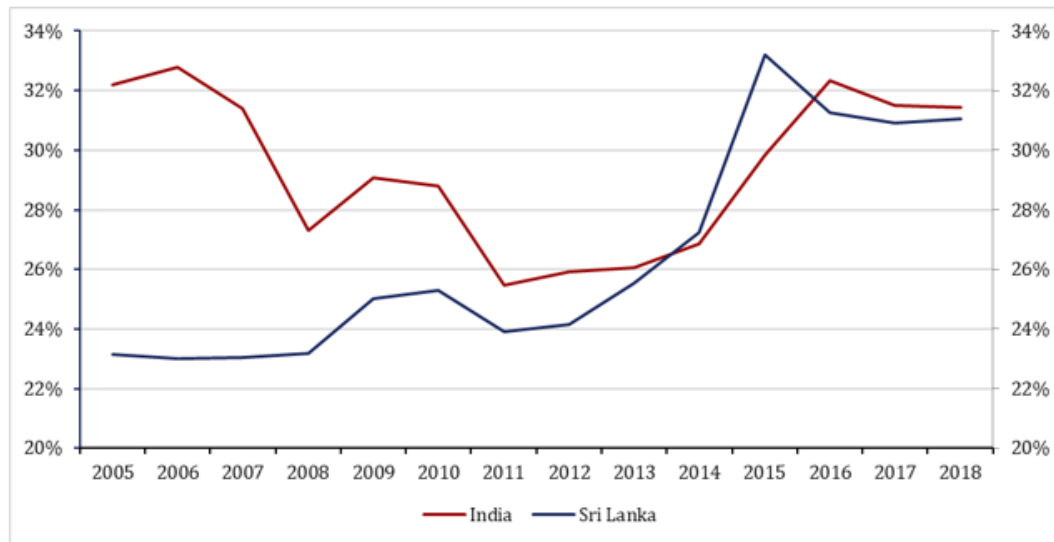
**Trade in Services**

Sri Lanka’s trade in services as a share of total trade has risen from 23% in 2005 to 31% in 2019. In contrast, India’s share in services has fluctuated considerably and temporarily dropped to 25% in the aftermath of the global financial crisis. During recent years, growth in services relative to total trade has slowed down in both countries. (Figure 4).

Sri Lanka and India share close tourism links related to their common religious heritage. India is Sri Lanka’s top source of tourists, with annual inbound travel on average [accounting for 18% of total arrivals between 2016 and 2018](#).<sup>26</sup> In comparison, [Sri Lankan tourists accounted for 3.3% of inbound tourism to India](#) during the same time period, highlighting potential for deeper regional cooperation in the tourism sector.<sup>27</sup>

A lack of data prohibits a deeper analysis of bilateral trade in services. However, the exclusion of services in the ISFTA means that bilateral services trade has remained below potential and could benefit significantly from liberalisation. To date, Sri Lanka and India have not signed an FTA in services. Eleven rounds of negotiations have discussed a proposed Economic and Technology Cooperation Agreement (ETCA), with the aim to strengthen cooperation in services trade, investment, and technology, with progress however having come to a halt.

[Figure 4: Trade in Services, 2005 - 2018 \(% in Total Trade\)](#)<sup>28</sup>



Source: LKI calculations based on UNCTAD (2020).

### **Foreign Direct Investment**

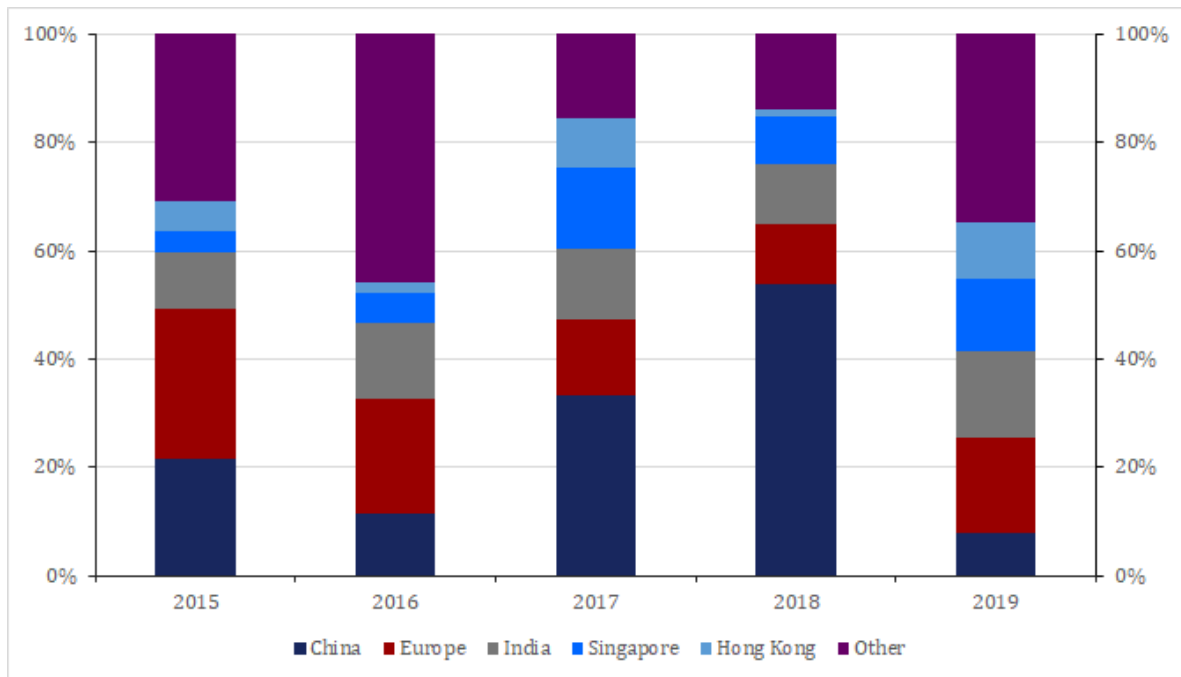
Both countries share a Bilateral Investment Promotion and Protection Agreement signed in 1997, fostering bilateral investment linkages. Sri Lanka and India have also signed a Double Taxation Avoidance Agreement in 2013 and linkages are further fostered through a series of Memoranda of Understanding (MOU) between chambers in either country, promoting economic relations and investments.

Historically, India has been one of Sri Lanka's top sources of FDI in terms of inflows as well as FDI stock. Cumulative investment inflows amounted to US\$ 676 million between 2015-2019, accounting for 13% of total FDI receipts and constituting the third largest source of FDI following China (31%) and Europe (17%). (Figure 5). Since 2016, India's FDI stock in Sri Lanka has increased significantly, rising to a total of US\$ 1.6 billion in 2019. [Inward investments target areas](#) such as manufacturing (metal industries, tyre, cement, and glass), construction (real estate and infrastructure development), and services (retail, financial services & banking, telecommunications, hospitality, and tourism).<sup>29</sup>

Well established Indian companies in Sri Lanka include Bharti Airtel Lanka (Telecommunication), Krrish Group (Real Estate), Lanka Ashok Leyland (Automobile), Lanka IOC PLC (Petroleum), State Bank of India (Financial Services), Taj and ITC Hotels (Hospitality & Tourism), Tata Communications Lanka Limited (Telecommunication), and Ultratech Cement (Cement). Sri Lanka just recently called on India for future investments in [domestic manufacturing, food processing, and tourism sector](#).<sup>30</sup>

In comparison, Sri Lanka is not a major source of FDI for India. In fact, Sri Lanka’s [FDI only accounted for 0.02% of India’s total receipts between 2000 - 2018](#),<sup>31</sup> leaving much room for deeper investment ties. A few examples of [outward FDI include leading private sector companies](#) such as MAS Holdings, Brandix, John Keells, Damro, LTL Holdings, Aitken Spence (Hotels), and Hayley’s. Sri Lanka also invests in India’s logistics sector and freight services.<sup>32</sup>

[Figure 5: Sri Lanka’s FDI Inflows by Origin Country, 2015-2019 \(% of Total FDI Inflows\)](#)<sup>33</sup>



*Note: Top FDI origin countries portrayed based on cumulative 2015-2019 FDI inflows. Europe comprises Belgium, France, Germany, Italy, the Netherlands, Norway, Sweden, Switzerland, United Kingdom.*

*Source: LKI calculations based on Central Bank of Sri Lanka (2020).*

### Overseas Development Assistance

India has been a long-standing development partner of Sri Lanka and supports people-oriented development through concessional financing and provision of grants. Over time, Sri Lanka has obtained concessional financing worth over US\$ 1.8 billion through Line of Credit Projects Funded by the EXIM Bank of India, with the majority going towards Sri Lanka’s railway sector. In addition, Sri Lanka has received a variety of grants to expand its island-wide emergency ambulance service and improve access to clean and safe water. To date, India’s rehabilitation and resettlement projects target the Northern and Eastern provinces. A [total of 46,000 houses were constructed in the region alongside a business centre](#) to enhance Information and Communication Technology (ICT) services and other professional services.<sup>34</sup>

## IV. SWOT Analysis

This *Policy Brief* has so far highlighted a strong connection between both neighbouring countries across a series of quantitative and qualitative indicators. Against their geographic and cultural proximity, ties are however underexploited. A Strengths, Weaknesses, Opportunities & Threats (SWOT) analysis is a useful tool to assess key determinants of Sri Lanka - India ties and the potential for deeper integration. (Figure 6).

### 4.1 Strengths and Opportunities

The *strength* of Sri Lanka - India relations lies in the countries' shared cultural and religious heritage, which dates back several millennia. Based on this, deep economic linkages have formed over time, which are supported and shaped by a juridical framework comprising an FTA, Bilateral Investment Treaty, a Double Taxation Avoidance Agreement, and a series of MOUs. Ties are further strengthened through participation in a variety of international platforms like SAARC, BIMSTEC, the South Asian Economic Union, and the Commonwealth of Nations. Recent calls by the respective heads of state to [foster the countries' multifaceted relationship](#) are likely to deepen bilateral ties further.<sup>35</sup>

Both countries have in the past benefited significantly from the ISFTA and the associated surge in merchandise trade, which generates important foreign exchange, provides valuable job opportunities at either side of the gulf and diversifies consumer baskets. An expansion of the agreement to include services or the implementation of a stand-alone trade agreement on services (such as the proposed ECTA) is an excellent *opportunity* for deeper bilateral economic integration and lays the foundation for a cross-border increase in services trade. This would also boost either countries' relative growth in services, which has slowed down during recent years. Such an agreement could also facilitate and regulate the movement of labour across borders and help Sri Lanka meet the supply-demand gap in its ICT sector.

Ample *opportunities* also present themselves in terms of inward investments into infrastructure development projects and Special Economic Zones (SEZs), which offer fiscal incentives for investors. The Port City Colombo SEZ aims to become South Asia's smartest city and global services hub by 2041 and is likely to provide investors with a series of financial and regulatory incentives. (Box 1). Additional investment opportunities lie in other SEZs like the Hambantota industrial zone, which provides an attractive investment opportunity for industries looking to export to regional markets. The zone's proximity to the Hambantota Port allows industries to capitalize on Hambantota's strategic location on the traditional east-west shipping route and easily connect to regional markets. Indian companies in Sri Lanka will further benefit from preferential market access to countries Sri Lanka shares FTAs with such as Pakistan, with [80% of Sri Lankan exports to Pakistan enjoying duty-free concessions](#).<sup>36</sup> Negotiations on FTAs with Thailand and China are underway and would provide easier access to large consumer markets.

### Box 1: Port City Colombo<sup>37</sup>

Initiated in 2014 with a planned completion in 2041, Port City Colombo (PCC) is the single largest FDI project in Sri Lanka's history, totalling US\$ 15 billion. It is a unique land reclamation and urban development project, adding 269 hectares of reclaimed land to the central business district of Sri Lanka's commercial capital, boosting Colombo's burgeoning services sector. A multi-purpose development project, PCC offers office, retail, residential, hospitality, and recreational facilities and aims to function as a catalyst to attract global firms in Sri Lanka's ICT/Business Process Modelling (BPM), IT-enabled services, financial, legal and tourism sectors. Planned facilities also include a medical centre, international school and convention centre.

PCC strives to become South Asia's smartest city and business hub and provides a plethora of investment opportunities: Port City's built-up area is expected to be 5.7 million square meters and will primarily cover residential (46%) and office space (26%). An additional 13% is allocated for retail facilities and 6% for hotels, providing ample investment opportunities for Indian investors in construction, real estate development, logistics and IT-related services. The project is expected to generate 83,000 new jobs and become home to 75,000 residents.

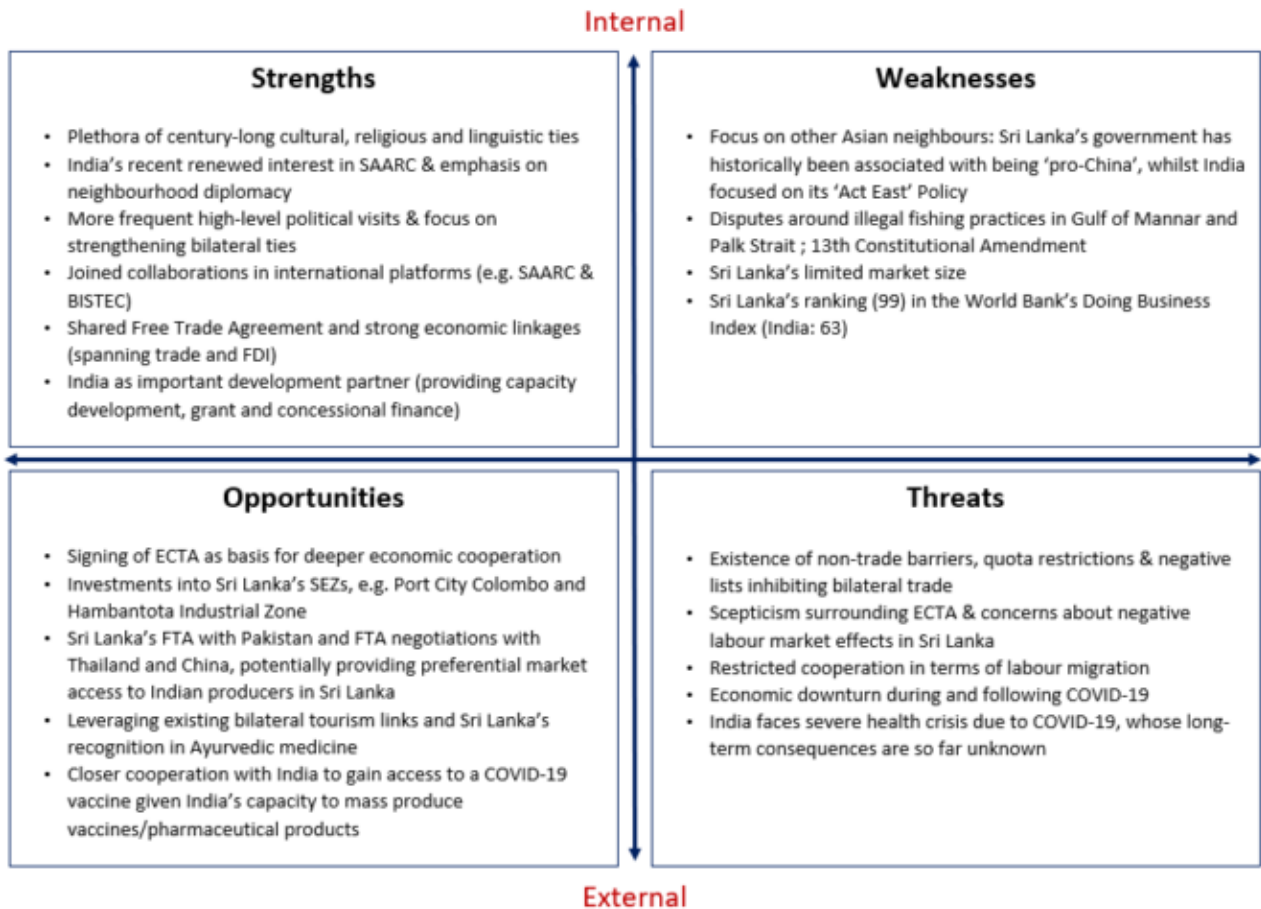
To ensure an attractive investment environment, PCC is expected to operate as a services-orientated SEZ with fiscal and regulatory incentives. Under Sri Lanka's Strategic Development Project Act, wide-ranging tax exemptions to eight different taxes and levies - including withholding and corporation tax - were recently announced. As such, income tax payments on dividends will be exempted for a period of 16 years and a number of project company employees will be exempted from Personal Income Tax during the implementation period. Further, VAT exemptions on project related goods and services imports apply for a period of eight years and customs duty will be waived for imports of construction-related items for an eight-year period.

*Source: Daily FT (2020) and LKI.*

Leveraging on the countries' geographical proximity, already well-established tourism linkages can be further strengthened. Sri Lanka's beauty as a travel destination has been internationally recognised, having been repeatedly voted number one travel destination globally by Lonely Planet (2013, 2018 and 2019), one of the world's top travel magazines. Sri Lanka's long history of Ayurveda fits well with the global demand for the wellness of mind and body. [Recognition by the World Health Organisation of Sri Lanka's holistic and natural healthcare system](#) also bolsters its authenticity and competitive advantage in the region.<sup>38</sup> Therefore, rising tourism segments such as religious and ayurvedic tourism provide potential avenues for Indian investors to tap into.

Another *opportunity* of strengthened ties lies in India’s role as mass producer of pharmaceutical products and capacity to manufacture vaccines in times of COVID-19. India has the potential to play a leading role in producing a vaccine and sell it at affordable prices across the globe including Sri Lanka. Closer cooperation with India would allow Sri Lanka to gain equitable access to a viable COVID-19 vaccine.

Figure 6: SWOT-Analysis of Sri-Lanka India Ties



LKI illustration based on various sources.

#### 4.2 Weaknesses and Threats

A series of *weaknesses* have to be addressed in order to reap the benefits presented by the above strengths and opportunities. Diplomatic relations between Sri Lanka and India have at times abated due to a lack of unanimity with regards to the [fishermen dispute and the 13th constitutional amendment](#),<sup>39</sup> which has hampered bilateral cooperation. What is more, both countries have in the past focused on building relations with more remote Asian neighbours rather than concentrating on their immediate neighbour. Sri Lanka’s government is economically intertwined with other Asian neighbours, particularly China, and [previously been associated with being ‘pro-China’](#).<sup>40</sup> Similarly, and under its ‘[Act East Policy](#)’, India’s focus has historically been on East Asian rather than South Asian neighbours.<sup>41</sup>



Further, businesses operating in Sri Lanka are subject to regulatory constraints that may keep investors at bay. The [World Bank's Ease of Doing Business Report](#) ranks India 63 (out of 190) and ahead of Sri Lanka (99), identifying various areas of improvement such as the number of procedures and costs associated with registering properties, paying taxes and enforcing contracts.<sup>42</sup>

What is more, deeper trade integration is currently prohibited through the existence of non-tariff barriers, quota restrictions and negative lists. Negative lists determine which products are exempt from tariff negotiations and are levied according to Most-Favoured-Nation tariffs. Skepticism surrounding ECTA and concerns about negative labour market effects associated with a saturation of Sri Lanka's market with Indian ICT workers may pose a *threat* to the successful implementation of a Sri Lanka – India services trade agreement. In addition, the global spread of COVID-19 and the significant impact on both, India's as well as Sri Lanka's economy may shift countries' focus inwards and inhibit future collaborative dialogues regarding a new connectivity strategy.

## **V. Policy Recommendations**

The above challenges and threats call for a new connectivity strategy between Sri Lanka and India. To improve flows of capital, products and services across adjoining borders and to capitalise on the opportunities presented through deepening ties, various policy recommendations are listed below.

### **1. Tackling Legacy Issues**

To leverage on the current positive momentum through recent state visits, Sri Lanka and India should seek a permanent solution to the fishing dispute in the Palk Strait and Gulf of Mannar, by revisiting previous dialogues and commitments. Progress of previously established Joint Working Groups has been slow and the last meeting has taken place in October 2017. Therefore, further commitment from either country is indispensable to ensure the success of the Joint Working Group and to fast-track a solution to the fishing dispute. Furthermore, diplomatic relations can be furthered by India's expressed desire that Sri Lanka continues with efforts at post-conflict reconciliation and by President Gotabaya acting on his promise to '[be the President of all Sri Lankans](#)'.<sup>43</sup>

## **2. Facilitating Trade and the Fast Tracking of ECTA**

There seem ample opportunities for either country to tap into their neighbour's market and increase their respective market shares by extending and deepening the existing trading partnership. As such the current ISFTA needs to be revised to include additional goods and allow for a diversification of product lists. Further, the removal of non-tariff barriers (e.g. time delays and packaging requirements) and the simplification of trade procedures and documents are imperative to facilitate merchandise trade. As such, an upgrade of IFTSA could be based on lessons-learned from the India-Singapore FTA. Better information campaigns for importers and exporters, who may not be fully aware of the tariff advantages, are required for improved utilisation of ISFTA. What is more, negative lists need to be carefully pruned and coverage of products which currently do not benefit from tariff reductions improved.

To allow for increased cross-border trade-in services, the implementation of ECTA needs to be fast tracked. In this regard, it is pivotal not to repeat issues experienced during negotiations of a comprehensive economic partnership agreement (CEPA), which were aborted over the public's negative perception after 13 rounds of discussions. Policymakers, academia, professionals from the private and public sector, traders and other stakeholders need to be consulted to understand their requirements and consider potential reservations, especially with regards to labour migration and potential negative outcomes for Sri Lanka's labour market. What is more, both countries need to carefully assess sector productivities and associated comparative advantages in services-trade as well as potential complementaries to maximise mutual benefits.

Faced with the shutting of global borders and severe restrictions to the movement of people, either country's tourism sector is currently - and in the foreseeable future – experiencing severe headwinds. Extending existing tourism linkages with sectoral heavyweights such as Indian TAJ and ITC hotels once it is safe to do so will allow both countries, which depend on tourism as a major source of foreign exchange, to speed up sectoral recovery. This can be triggered through targeted marketing campaigns and an expansion of religious tourism to medical and recreational tourism. An extension or air and ferry services should also be considered once borders open.



### **3. Promoting Investment Opportunities and FDI Flows**

To attract investor's interest and thus investment flows, Sri Lanka needs to provide a conducive business environment and investment climate through domestic reforms targeted at lowering transaction costs and regulatory complexities, whilst tackling obstacles raised in the World Bank's Ease of Doing Business Report. On the back of the recent parliamentary elections in early August, and under the purview of the newly appointed State Minister of Capital Markets, the importance of promotional campaigns and the facilitation of FDI into Sri Lanka and Port City has been given fresh impetus. As such, targeted marketing campaigns and frequent road shows with the support of leading marketing specialists need to highlight domestic investment opportunities like PCC and the Hambantota Industrial Zone. Regular participation in high-level investment summits, such as the Partnership Summit 2019 in India, that was attended by a delegation from the Ceylon Chamber of Commerce in association with the Indo Lanka Chamber of Commerce and Industry, will further facilitate to establish cross-country networks to promote, trade, investment and tourism. In addition, persisting administrative and regulatory constraints in agreements targeted at regulating FDIs, such as the Bilateral Investment Promotion and Protection Agreement and the Double Taxation Avoidance Agreement, need to be revised to improve effectiveness.

### **IV. Conclusion**

India is a large and fast-growing economy with untapped market opportunities for its smaller neighbour, whilst Sri Lanka offers attractive investment opportunities for Indian businesses. Both countries are close allies with deep historic links, which lay a strong foundation for reinforcing their multi-dimensional partnership through formulating and implementing a new connectivity strategy.

A new connectivity strategy requires dedication and close cooperation between state governments, private and public sector officials, and civil society representatives of both countries. It should primarily be targeted at reducing non-tariff barriers to merchandise trade and investments, whilst simultaneously liberalising bilateral services trade. At the same time, it needs to be complemented by efforts to foster diplomatic relations. As such, Sri Lanka should facilitate the promotion of investment opportunities through its High Commission in New Delhi and support dialogue with local industry players and industrial chambers. Extending links through Sri Lanka's Economic Diplomacy Programme will help deepen relations and identify economic opportunities. Ties can further be fostered through the continuation of frequent high-level political exchanges between both nations.

A new connectivity strategy has the potential to on the one hand enforce India's position as one of Sri Lanka's closest partners and on the other hand allow Sri Lanka - a small export-dependent country- to grow its stake in India's economy. This in turn will aid both South Asian economies to establish a counterweight to the increasing footprint of major superpowers in South Asia. Strengthened ties will also help both countries to manoeuvre the challenging post-COVID-19 landscape and explore avenues of cooperation in the areas of healthcare and pharmaceutical products.

## Notes

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