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HOW INDIA AND SRI LANKA CAN GO FROM AID TO TRADE

Sri Lanka's President Visits India: Strengthening Bilateral Ties

Significance of the Visit

- **First State Visit to India:**
 - President Anura Kumara Dissanayake selected India as his first state visit destination, highlighting the priority given to Indo-Sri Lankan relations.
- **Warm Reception by Indian Leadership:**
 - Received by President Droupadi Murmu and Prime Minister Narendra Modi, underscoring India's commitment to fostering ties with Sri Lanka.

Key Announcements during the Visit

1. **LNG Supply Agreement:**
 - India pledged to supply LNG to Sri Lanka, addressing energy security and economic needs.
2. **Enhanced Trade Settlements:**
 - Focus on improving bilateral trade mechanisms for smoother economic collaboration.
3. **Education and Technology Exchanges:**
 - Initiatives to bolster educational ties and promote technological advancements.
4. **Indian FDI Promotion:**
 - Emphasis on encouraging Indian investments in Sri Lanka to support economic recovery.

A Shift in Sri Lanka's Domestic and International Politics

Leadership Transformation

- **Victory in Elections:**



- President Dissanayake won the presidency in September and secured a two-thirds parliamentary majority in November, reflecting public trust.
- **“Clean Sri Lanka” Manifesto:**
 - Campaign focused on anti-corruption, modernizing agriculture, and governance reforms, garnering widespread support across ethnic and economic groups.

Shift in Bilateral Focus:

- Transition from a **security-oriented relationship** to a broader **economic partnership** aligned with South Asia's development priorities.

Bilateral Agreements: A Boost for Economic Recovery

Sri Lanka's Economic Challenges:

- **Decline in GDP per capita:**
 - Notable economic contraction over the past five years.
- **IMF Program Implementation:**
 - Focus on poverty alleviation through targeted social spending.

India's Support:

1. **Digitalization of Public Services:**
 - Efforts to reduce corruption and improve governance efficiency.
2. **Trade Collaboration Over Aid Dependency:**
 - Agreements emphasizing trade-led sustainable growth over aid dependency.

Opportunities for Enhanced Cooperation

Expanding Business-to-Business (B2B) Ties:

1. **Increased Trade Between Indian States and Sri Lanka:**
 - Expansion beyond Tamil Nadu to include other southern states.
 - Potential sectors: food processing, textiles, auto parts, and IT services.
2. **Stimulating MSME Economies:**
 - Trade fairs and business chamber collaborations to foster mutual growth.



Regional Production-Linked Incentive (PLI) Schemes:

1. Integration of Manufacturing Sectors:

- Collaborations in solar panel production and renewable energy.

2. Support for India's China+1 Strategy:

- Building regional supply chains and reducing dependency on China.

Advancing the India-Sri Lanka Free Trade Agreement (FTA):

1. Reviving Negotiations:

- Opportunities to expand trade in goods, services, and investments.

2. Phased Approach:

- Investment agreement by 2025.
- Comprehensive FTA targeted by 2026.

3. Asymmetrical Treatment for Sri Lanka:

- Aid for trade initiatives to address domestic concerns.

Connectivity and Infrastructure Development:

1. Enhanced Connectivity:

- Air links, ferry services, and port modernization showing promising results.

2. Energy Security Projects:

- Proposals for an undersea oil pipeline and electricity transmission line.

3. Digital Infrastructure Upgrades:

- Inspired by India's success in digitalization.

4. Skepticism Around Land Bridge Proposal:

- Need for realistic and mutually beneficial infrastructure projects.

Sri Lanka's Stabilizing Economy and Regional Context

Economic Stabilization Efforts:



1. Tourism Recovery:

- Boosted by support from India and IMF, contributing to foreign exchange earnings.

2. External Debt Challenges:

- Upcoming debt repayments from 2028 highlight the importance of trade-led growth.

Regional Strategic Importance:

1. India-Sri Lanka Cooperation:

- Model for regional partnerships under India's **Neighbourhood First Policy**.

2. Support from Global Institutions:

- Collaboration with IMF and World Bank crucial for sustained economic recovery.

Conclusion: A New Era for Indo-Sri Lankan Relations

- President Dissanayake's visit signifies a **reinvented partnership** focused on:
 - **Trade:** Strengthening economic cooperation.
 - **Technology:** Enhancing innovation and connectivity.
 - **Infrastructure:** Supporting mutual growth and regional stability.
- Collaborative initiatives such as B2B ties and strategic infrastructure projects position India and Sri Lanka as key partners in shaping South Asia's future.

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