



A decadal analysis of Indo-Sri Lanka Free Trade Agreement (ISFTA)

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ABSTRACT

There has been a free trade agreement between India and Sri Lanka for approximately 20 years. The study charts the development of a trade pact between two nations. Comparing the levels of imports and exports throughout time. In order to determine if the countries had gained or lost anything, a comparison study was done. Free trade's negative effects, such as the problem of imports of cheap black pepper, are also covered.

Keywords: ISFTA, SAARC, FTA, Trade barriers.

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Introduction

Since the 4th century, India and Sri Lanka have been known to have economic ties. Sri Lanka's strategic location in the Indian Ocean and its nearness to India impacted early trade between the two countries, resulting in significant cultural and historical ties. These ties survived the colonial era, when the main objectives of economic cooperation between the two countries were to address food shortages and to supply the colonial powers with goods. Legal restrictions to the movement of people and goods practically vanished during this period and India was Sri Lanka's main supplier of basic foodstuffs. Indian merchants, traders, and plantation workers were central to the island's domestic economy. India has also been a major supplier of vital human resources to Sri Lanka. During World War II, about half of Sri

Lanka's total exports were absorbed by India. For example, plantation labour made up a major portion of Sri Lanka's imports from India in 1938, accounting for 42.5% of the country's total import bill.

Since the early post-independence phase, despite shut political ties, the economies of each countries have deteriorated due to narrow economic policies such as tight exchange managements, inflated state control over all aspects of economic activity, lesser opportunities for personal sector participation, an aversion to foreign investment and halting Indian labour inflows. By the late 1940s, a pattern that continuing into the 1950s, Sri Lankan imports from India had dropped to about 15% of total



imports, whereas exports to India had dropped to about 2% of total imports. exports. To facilitate trade, the 2 countries signed a bilateral trade agreement in 1961. The main objective of this agreement was to encourage trade between the two countries as much as possible while considering the evolution of production methods and consumption of basic products. However, the agreement had little impact on trade. In 1968, a joint Economic Cooperation Committee between India and Sri Lanka was established with the aim of promoting trade cooperation, manufacturing, agriculture and tourism. This group was later renamed the Joint Commission for Economic, Trade and Technical Cooperation between India and Sri Lanka. Despite these efforts, bilateral trade between India and Sri Lanka continued to remain flat for almost next 20 years. In the mid-1990s, India caught Japan as Sri Lanka's largest importer; the handover first passed in 1996.

Although sweats to enhance bilateral trade cooperation between India and Sri Lanka proceeded in the early 1990s, including the birth of an indigenous action in the form of a preferential trade agreement for South Asia (SAPTA) in 1995 and the choice to move to the South Asian Free Trade Agreement (SAFTA) in 1996, the SAPTA process allowed for only veritably limited liberalization, while the transition to SAFTA was relatively slow. With the current boom in exchange and investment, the democratic socialists of Sri Lanka and India have sturdy and developing monetary and exchange relations. Trade among India and Sri Lanka has multiplied up to eight instances because the Free Trade Agreement (FTA) got here into impact in 2000, surpassing US\$ five billion in 2011-2012. As a

result, the loose exchange settlement has established to noticeably enhance bilateral exchange. The country's exports to India are the primary supply of products from the South Asian region, with over US\$720 million of extra imports from Sri Lanka in 2011-2012. This turned into an enormous boom over Sri Lanka imports of US forty five million in 2000-2001, whilst it turned into India's fourth biggest supply of products within the region. In reality, exports from Sri Lanka to India multiplied almost sixteen instances over this period, in comparison to much less than 7 instances greater exports from India to Sri Lanka. So it's miles clean that Sri Lanka has benefited greater from the loose exchange settlement than India. It must be noted that the best 30% of Indian exports to Sri Lanka use the FTA desired delivery route, in comparison to approximately 70% of Sri Lanka exports to India.

Similarly, important Indian agencies have proven eager hobby in Sri Lanka through making an investment in various sectors inclusive of infrastructure, services, production and construction. The overall quantity of FDI allowed to Indian buyers given that 2003 has handed US\$1 billion, with funding inflows of US\$ one hundred sixty million in 2012. Indian agencies have dedicated over US\$2 billion in FDI at some point of the subsequent 5 years. Bilateral financial cooperation presently takes region in lots of distinctive regions of activity, which include change in items and services, tourism, infrastructure, education, studies and technology, and agriculture. The range of flights connecting Colombo to 8 Indian towns has expanded significantly, with one hundred twenty flights in keeping with week.

Bilateral financial cooperation is presently found in many one-of-a-kind sectors, together



with alternate items and sectors such as services, tourism, infrastructure, education, studies and technology, and agriculture. The variety of flights connecting Colombo to 8 Indian towns has expanded significantly, with a hundred and twenty flights in keeping with week. However, even ISFTA has its critics. The operational shape of ISFTA has attracted a few criticisms. Both aspects have on occasion expressed disapproval of numerous limitations to the total use of ISFTA. For example, Sri Lanka frequently criticizes India for financial limitations within the shape of non-tariff limitations (NTB) to marketplace entry. It is stated that if those regulations had now no longer been delivered in India, Sri Lanka may have exported more.

ISFTA most effectively applies to change associated with merchandise. Provides tax-unfastened (obligation-unfastened) or (ii) preferential excise obligation get right of entry to for items that aren't at the terrible listing. While 4227 Sri Lankan items may be imported obligation unfastened into India, 2802 Indian gadgets may be imported obligation unfastened into Sri Lanka. India offers obligation-unfastened get right of entry to many classes of merchandise in certainly all HS chapters besides HS bankruptcy 46 (Manufacture of straw, and other different plaiting materials; wicker & wicker) and HS chapters 50- 63 for textiles and fabric articles. India and Sri Lanka are granted buying and selling rights below the South Asian Free Trade Agreement (SAFTA), which got here into pressure in January 2006. In a few product classes now no longer protected with the aid of using ISFTA, each international locations can gain from extra preferences. Compared to ISFTA's 431 tariff traces, SAFTA's terrible listing of 865 traces for Sri Lanka with regards to India is plenty longer. The terrible listing, in place of 1220. for India to Sri Lanka a complete of 1065

tariff traces. Sri Lanka's terrible listing below ISFTA includes a complete of 139 merchandise which aren't on Sri Lanka's listing below SAFTA. As a result, Indian exporters are eligible for obligation remedy for those gadgets. However, as compared to ISFTA, the fee of SAFTA blessings is pretty small. As of September 2012, India had decreased the quantity of tariff traces on its SAFTA Negative List for No Least Developed Contracting States (NLDC) eleven with the aid of using 264 gadgets, or 30%. Since September 2006, unique method had been in region for the importation of pepper from Sri Lanka, with India's Director General of Foreign Trade (DGFT) permitting the import of 2,500 heaps of pepper consistent with year. These permits, alongside the CoO furnished with the aid of using the Sri Lankan government, make it less difficult for Pepper to by skip import shipments obligation-unfastened.

Literature Review

On December, 1998 one of the major bilateral free trade agreements, ISFTA (India-Sri Lanka Free Trade Agreement) was signed. This was not only the result of the Sluggish growth of regional initiatives in South Asia, but also the increased political trust among the two nations. While India's desire to improve trade relations is understandable given Sri Lanka's wider industrial base and capacity to meet its import needs, Sri Lanka's desire is primarily for early entrant access to a large market offer. Motivated by the opportunities presented by This was seen as helping the country diversify its industrial base and increase its attractiveness as a foreign direct investment (FDI) destination based on preferential market access. Despite these perceived benefits for Sri Lanka, the agreement met with opposition from the country's industrial sector, with some sectors in India fearing the potential negative impact of



increased competition from cheaper imports. concerned (Institute of Policy Studies, Sri Lanka, 2013).

The India-Sri Lanka Free Trade Agreement (ISLFTA) came into force in 2000. Sri Lanka being one of the most important trading partners of Indiawhen SAARC region is considered. India and Sri Lanka's bilateral trade has quadrupled since last nine years, from US\$658 million (2000) to her US\$271.9 million (2009). Sugar, pharmaceuticals, pharmaceuticals, fine chemicals. Sri Lanka's major exports to India include spices, transport equipment, non-electronic electrical machinery, pulp and waste, natural rubber and cardboard (Gol, 2021).

When we consider a scenario of perfect bilateral free trade agreement, it turns out to be a myth and negotiating trade agreements is a daunting task. It is comparatively simpler than multilateral and regional levels but strenuous at bilateral level and regional level as stated by negotiations of SAFTA (Institute of Policy Studies, Sri Lanka, 2013).

These tariff cuts had the biggest impact on the Indian spice business. After the deal was signed, Kerala was hit hard by a surge in duty-free imports of cardamom and cheap black pepper acquired via Sri Lanka.

Imports of black pepper from Sri Lanka in 2015 are still high. The cheaper type of plant costs between \$9,500 and \$9,750 per ton against the Indian proposal of \$11,400 per ton. Moreover, in Kerala pepper is subject to her 4.6% purchase tax whereas in India her CST is only 1%. In 2012, Sri Lanka's total non-pepper imports of spices reached 15,000 tons. Since the signing of AIFTA, the majority of pepper imports have come from Vietnam and Indonesia, two of the world's

largest exporters of black pepper (as shown in the next section). In 2015, Indonesia and Vietnam each sold a tonne of black pepper for between \$9,700 and \$9,800, which is much lower than Indian prices.

In addition to increased imports of spices, ISLFTA was partially responsible for increased imports of coconut oil, oil cakes, vanaspati and tea. Coconut oil imports increased from 3753.72 tons in 1999-2000 to 11427.14 tons in 2004-2005. 2016 (Fisherman).

On one hand where FTA met major requirements of Sri Lanka except lack of supply capacity of selected commodities, it was unable to fully address the market access issues of India. Due to misunderstandings among the general public and the lack of business and political leadership in Sri Lanka, many of the downsides of free trade agreements within the broader framework of economic integration was aimed to address by the Indo Sri Lanka Comprehensive Agreement. Economic Partnership Agreement failed to enter into force (Keregama, 2014).

Methodology

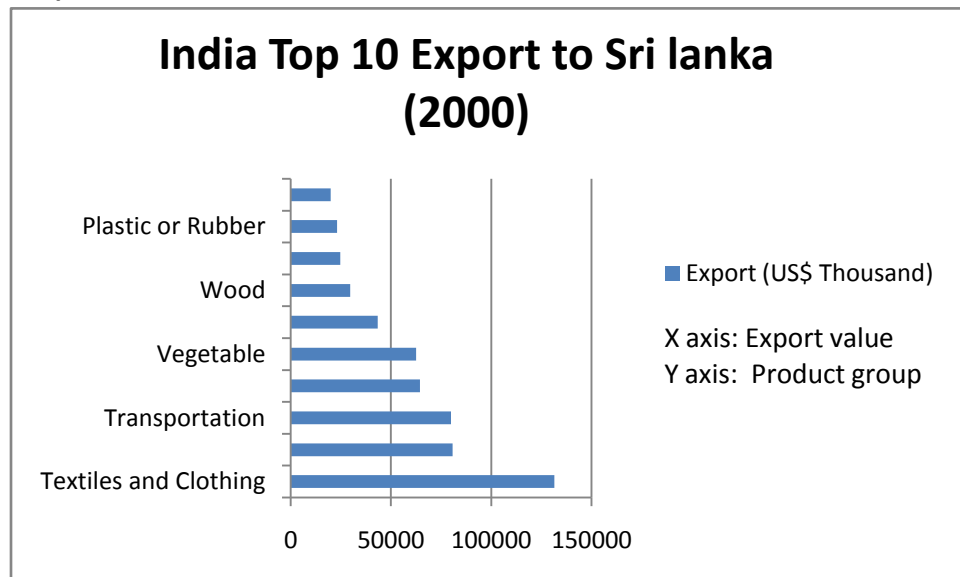
The research was conducted using secondary sources such as government reports, magazine articles and newspaper articles. Data is collected by Indian Ministry of Commerce, Sri Lanka Ministry of Commerce, UN Comtrade, WITS and EXIM Bank. Statistical methods were used to further analyze the data.

Data

Export and import parameters are highlighted. Importing black pepper from Sri Lanka also highlights the loss of local producers. Top 10 imports and exports of India to Sri Lanka in 2000 and 2018 are highlighted. Comparisons were made between these years.



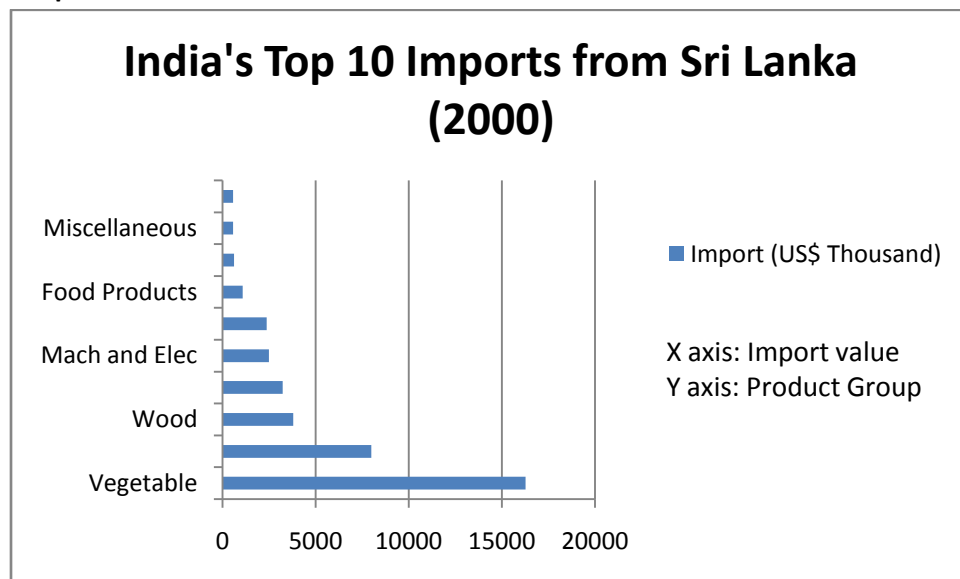
Graph 1



Source: UN Comtrade (2000)

The graph above depicts top ten exports from India to Sri Lanka in 2000. Textiles and clothing contribute the most, followed by metals, transportation, chemicals, and vegetables. The tenth contribution is a food product.

Graph 2

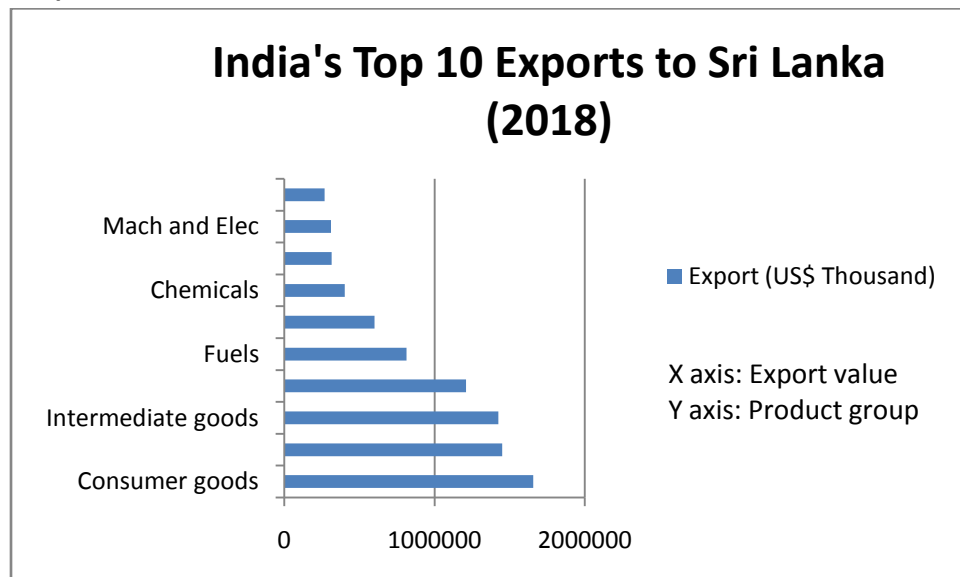


Source: UN Comtrade (2000)

The graph above displays the various product group imports from Sri Lanka in 2000. Vegetables, metals, wood, plastic or rubber, machine and electrical items are at the top of the import list. The last product on the list is animal.



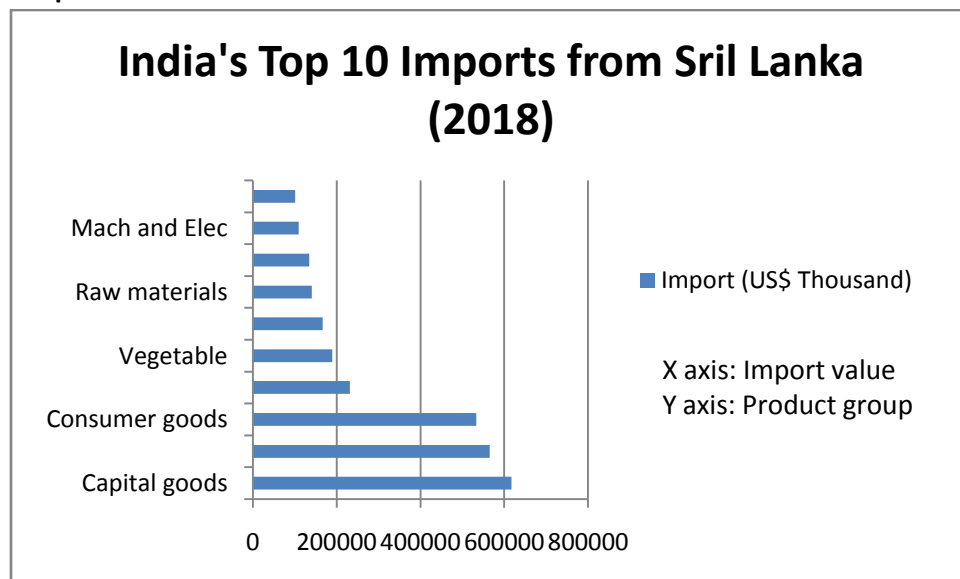
Graph 3



Source: UN Comtrade (2018)

The top ten Indian exports to Sri Lanka in 2018 have been noted here. In 2018, consumer products contributed the most, followed by capital goods, intermediate goods, and transportation. Metals, on the other hand, was the last contributor.

Graph 4

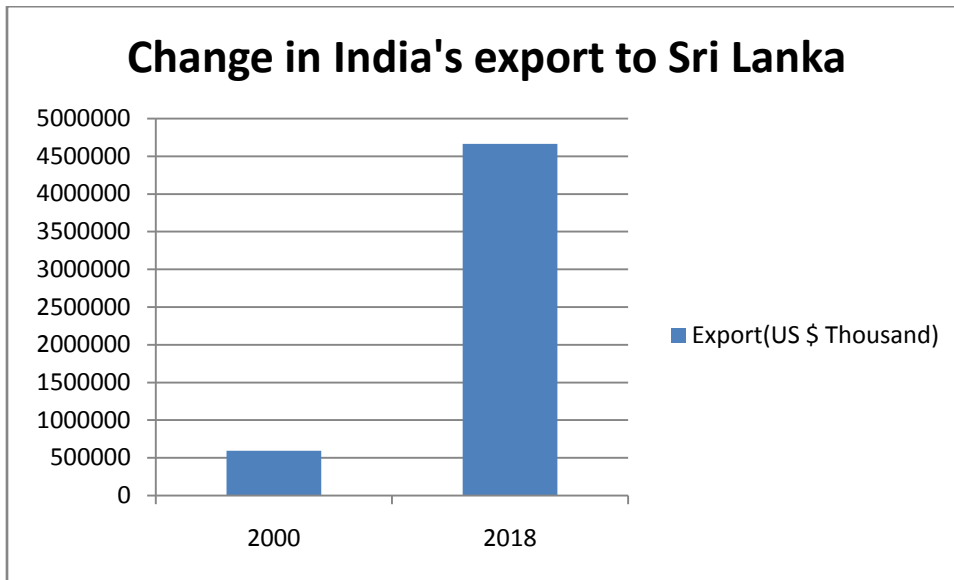


Source: UN Comtrade (2018)

The graph above depicts the import situation from Sri Lanka for the year 2018, with capital goods being the most important product group, followed by transportation and consumer products. Metals are at the very bottom of the list.



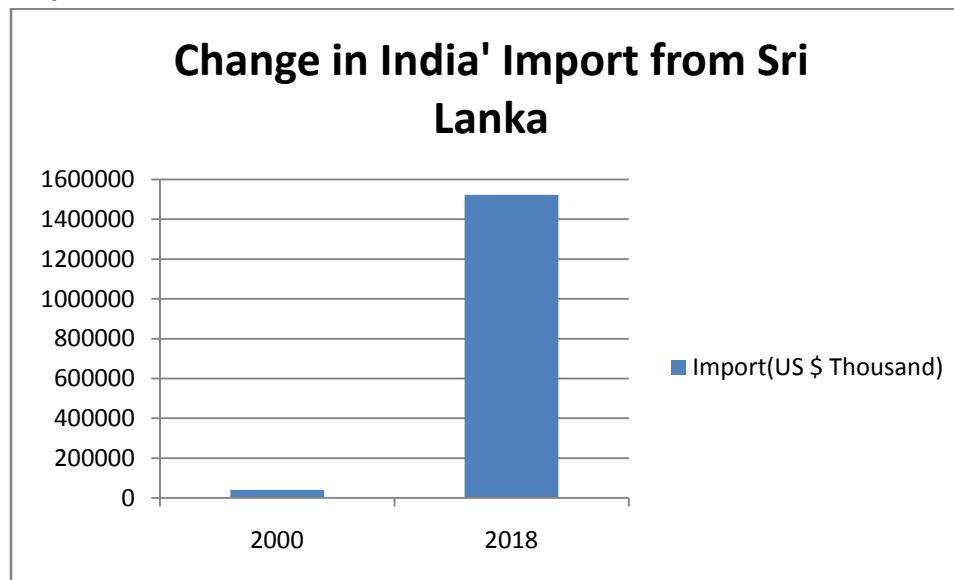
Graph 5



Source: UN Comtrade (2018)

A comparative analysis of exports from India to Sri Lanka for the span of 2000 and 2018 has been made. For the year 2018, there is a significant increase in the level of export value. It is possible to see a range of 6 lakhs US \$ to 47 lakhs US \$.

Graph 6

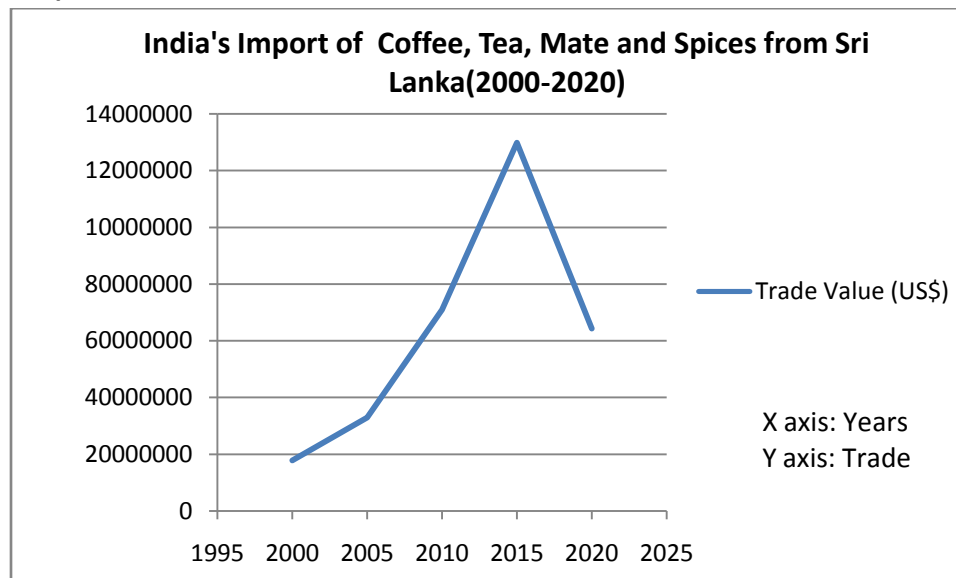


Source: UN Comtrade (2018)

A comparison of imports of India from Sri Lanka between 2000 and 2018 is shown in graph 6. For the year 2018, there is a significant increase in the level of export value. In the case of Imports, the proportion of rise in both years is more than in the case of Exports.



Graph 7

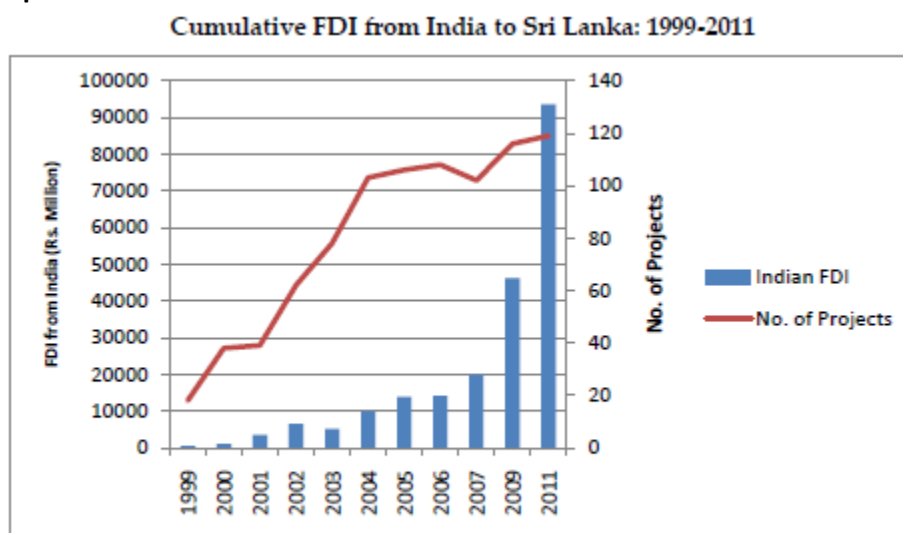


Source: UN Comtrade (2020)

In graph 7, India's imports of HS Code 09 are shown for the period 2000-2020. Initially, the graph shows a rising trend that continues until the year 2015. Imports of coffee, tea, mate, and spices have been dropping since 2015.

Implication of Agreement on India and Sri Lanka

Graph 8



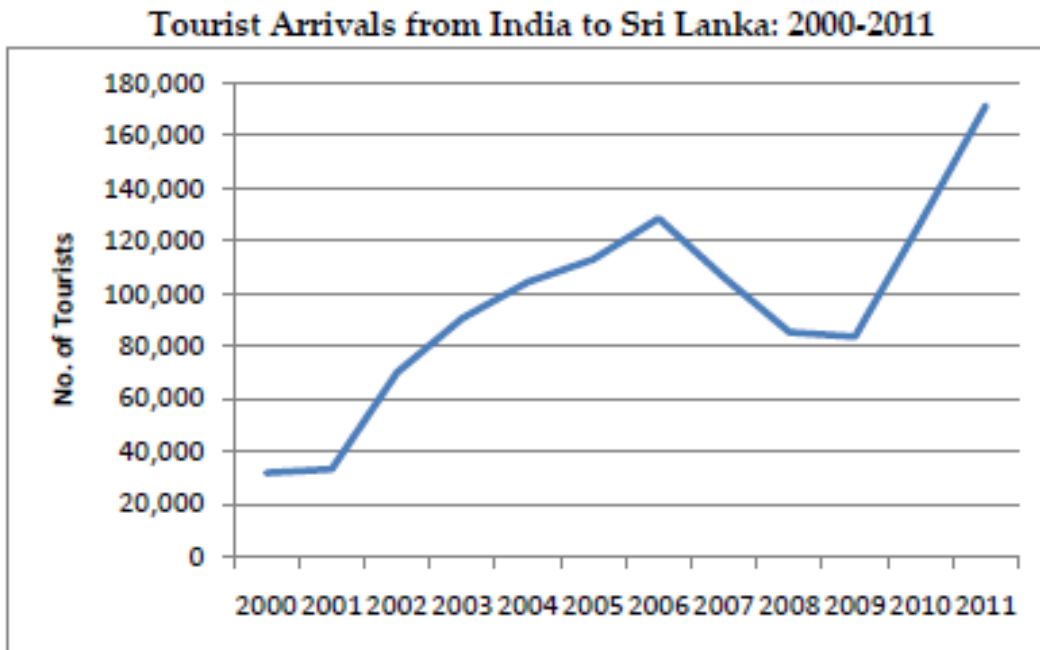
Source: Board of Investment of Sri Lanka, 2012.

In 1999 there were a total of 18 projects with Indian investors and it shot up to 119 in the year 2011. Most of the profits came from the service sector. Most of his FDI in India has flowed into sectors such as steel, auto parts, electrical appliances, cement, rubber, food, chemicals and printing, while most of India's investments in Sri Lanka in recent years have come from telecommunications services are



pouring into the service sector, including transportation through Ashok Leyland, banking and financial services via State Bank of India, Bharti Airtel and Tata Communications, leisure services from Taj (Vivanta) Hotels. Services dominance suggests that free trade agreements (FTAs) that deal only with trade in goods have non-significant impact on investment decisions, but that FTAs were a key part of his 2000-2011 investment boom.

Graph 9



Source: Central Bank of Sri Lanka, *Annual Report, Various Issues*.

An increase in Indian visitors is attributable to improved relations between the two countries as well as Sri Lanka's unilateral reform of its visa policy. Infrastructure pertaining to tourism has been developed in tandem with rising tourism. If we take the case of The Taj Group who owns hotels in Sri Lanka along with SITA Travel, a travel agency, has an entirely owned subsidiary there. On the other hand, the majority of tourists from Sri Lanka are businessmen or pilgrims who travel to India for religious or

business purposes. For the benefit of Sri Lankan tourists, the nation has built a number of small motels in India. It has been observed that in recent years there is an upward trend of Sri Lankan students choosing India for their higher education. To add to the previous trend, India offers a significantly less expensive and more economical alternative to developed nations like the United Kingdom, the United States and Australia. India evolving as a vital centre for information technology has facilitated this.



Table 1: Case of Sri Lanka

Year	India-Sri Lanka Merchandise Trade: 2000-2011					
	Sri Lanka			India		
	Exports to India (\$mn)	Imports from India (\$mn)	Share of total exports (%)	Share of total imports (%)	Share of total exports (%)	Share of total imports (%)
2000	58	600	1.0	9.0	1.4	0.1
2001	72	601	1.5	10.5	1.2	0.1
2002	170	832	3.6	13.8	1.7	0.1
2003	245	1076	4.6	16.1	2.0	0.2
2004	391	1439	6.8	18.0	1.8	0.3
2005	566	1835	8.9	20.7	1.9	0.4
2006	489	2173	7.1	21.2	1.8	0.3
2007	515	2610	6.7	23.1	1.8	0.3
2008	418	3447	5.2	24.5	1.7	0.3
2009	322	1820	4.5	17.8	1.3	0.1
2010	466	2570	5.6	19.0	1.4	0.1
2011	519	4431	4.9	21.9	1.4	0.1

Sources: Central Bank of Sri Lanka Annual Report Various Issues.

The hike in earning from export to India has outpaced overall export growth by a wide margin since the beginning of 2000s assisting to minimize the trade gap between the two nations in Sri Lanka's favour. There was a spike in the number of goods exported by Sri Lanka to India increased during this period. In addition, India received 505 tariff lines from Sri Lanka in 1999; by 2005, this number had increased to 1062; and by 2011, it had increased to 2100. Sri Lanka started exporting goods with a higher value since the FTA developed. Sri Lanka's top exports to India in the year 1999 were areca nuts, dried fruit, cloves, waste paper, waste and scrap steel. In 2008, the top exports to India included furniture, refined copper products, ceramics, vegetable fats and oils, and pneumatic tyres (Dept. of Commerce). It was observed that India's exports to Sri Lanka encountered a hike over the past ten years from the level of US\$ 600.1 million in 2000 to US\$ 4431 billion in 2011, India's imports more than doubled. The spike in imports was a result of high price of petroleum products on international markets. However, petroleum imports are on negative list of Sri Lanka, the FTA

has no impact on the import of petroleum products from India.

As more than 65 percent of Sri Lanka's value of import from India comprises of goods on the MFN duty exemption list or on the negative list, the majority of imports of India to Sri Lanka (including petroleum, pharmaceutical products, vehicles, sugar, cotton and iron and steel) do not comply for tariff reductions under the FTA (Institute of Policy Studies, Sri Lanka, 2013). If the FTA would have been there initially, the trade balance between these nations would have been more in favor of India. The assertion that India benefited remarkably more from the free trade agreement because of the size of bilateral trade deficit is untrue and incorrect.

Conclusion

It has been noted that there always pertain negative externalities in bilateral trade. Rather than lamenting the trade imbalance or the export mix, Sri Lanka should work towards maximising free trade agreements with the rest of the economies. The ISFTA (India-Sri Lanka free trade agreement) has undoubtedly favoured Sri Lanka, but much more needs to be



done to deepen and expand it in order to maximise Sri Lanka's potential benefits in an equitable manner. Given the discussions surrounding the expansion of the Free Trade Agreement, the momentum appears to be in favour of Sri Lanka (FTA).

Despite numerous hurdles, India managed to be Sri Lanka's major as well as most maintained trading partner alongside sizeable amounts of both exports and imports. When we examine the export-import ratio between the two countries, we can clearly see that there has been significant relationship growth over time. The welfare of a nation's domestic producers and consumers must also be taken into account in addition to the trade agreement. To better safeguard the interests of regional producers, additional clauses should be added to laws or approved contracts.

The CEPA (Comprehensive Economic Partnership Agreement) will present a significant opportunity for proximity in economic integration among the two nations. Also, it was observed that a model of small and large economy integration in creating a favorable scenario when applied with the proper regulatory mechanisms to account for the inequalities among the nations.

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