

INDIA-SRI LANKA ECONOMIC AND TRADE ENGAGEMENT

OVERVIEW

India is Sri Lanka's closest neighbour. The relationship between the two countries is more than 2,500 years old and both sides have built upon a legacy of intellectual, cultural, religious and linguistic intercourse. Relations between the two countries have also matured and diversified with the passage of time, encompassing all areas of contemporary relevance. The shared cultural and civilization heritage of the two countries and the extensive people to people interaction of their citizens provide the foundation to build a multi-faceted partnership. In recent years, the relationship has been marked by close contacts at the highest political level, growing trade and investment, cooperation in the fields of development, education, culture and defence, as well as a broad understanding on major issues of international interest.

India and Sri Lanka enjoy a vibrant and growing economic and commercial partnership, with bilateral trade growing rapidly in the last decade and a number of leading Indian private sector companies investing in Sri Lanka and establishing a presence in this country. Sri Lanka is India's largest trade partner in SAARC. India in turn is Sri Lanka's largest trade partner globally. Much of the impetus for the current level of our economic interaction stemmed from the signing and entry into force of the Free Trade Agreement (FTA) in 1998 and 2000 respectively.

During January-August 2015, the bilateral trade amounted to US\$ 3.23 billion. Sri Lanka's imports from India amounted US\$ 2,776.65 million and exports to India amounted US\$ 454.42 million.

During the year 2014, Sri Lanka continued to be one of the largest trading partners of India in South Asia. According to Sri Lankan Customs trade data the bilateral trade amounted to US\$ 4.6 billion in 2014. Sri Lanka's imports from India amounted US\$ 3,977.18 million and exports to India amounted US\$ 624.67 million registering an increase of 24.83% and 14.86% respectively as compared to corresponding period of 2013. India had a share of 20.62% and 5.64% respectively in the global imports and exports of Sri Lanka during 2014. It may be noted that in 2014 Sri Lanka's exports to India has reached a new peak of US\$ 624.67 million which is the highest since the introduction of ISLFTA in 2000.

While Sri Lankan exports to India have increased substantially during past 12 years since 2000 when ISFTA came into force, they have lagged behind the high growth in India's exports to Sri Lanka, resulting in a widening of the balance of trade. This is largely because of the lack of export capacity from Sri Lanka to service Indian requirement and also due to increase in imports from India because of competitiveness of our exports. Interestingly, over 80% of our exports to Sri Lanka are outside the list of products covered by the FTA, thereby indicating their overall competitiveness in the Sri Lankan market.

During January-June 2015, Indian Investment amounted to US\$ 33.05 million out of total investments of US\$ 515.09 million in the country. In 2014, Indian Investment amounted to US\$ 51.8 million out of total investments of US\$ 1616 million in the country. India emerged as the eighth largest overall investor in Sri Lanka with investments of US\$ 50.52 million in 2013. The main investments from India are in the areas of petroleum retail, hospitals, telecom, real estate, telecommunication, hospitality & tourism, banking and financial services, IT and food processing (tea & fruit juices). The notable Indian investments committed in 2014 are as follows: i) ITC Ltd., hotel project (US\$ 300 million) and ii) Tata Housing project for real estate development (US\$ 400 million).

On the other hand, the last few years have also witnessed an increasing trend of Sri Lankan investments into India. Significant examples include Brandix (about US\$ 1 billion to set up a garment

city in Vishakapatnam), MAS holdings, John Keells, Hayleys, Aitken Spence (Hotels), Ceylon Biscuits (Munchee brand) and Carsons Cumberbatch (Carlsberg), apart from other investments in the freight servicing and logistics sector.

After the end of armed conflict in 2009, substantial opportunities for reconstruction, infrastructure development and revival of local economy emerged. India announced a package of Rs. 500 crores as grant for rehabilitation/reconstruction activities, apart from assistance for construction of 50,000 houses for IDPs in Northern and Eastern Sri Lanka. Several large infrastructure projects supported by Lines of Credit (LOC) amounting to over US\$ 1 billion are being funded by Government of India for restoration of arterial railway lines connecting the north and south of Sri Lanka, wreck removal, dredging and port revival at Kankesanthurai (KKS) and the development of a civilian airport at Palaly. NTPC has incorporated a Joint Venture in partnership with Ceylon Electricity Board (CEB), for construction of a 500 MW coal-based power plant in Sampur, located south of the Trincomalee harbour. Government of India has pledged a separate Line of Credit of US\$ 200 million to enable construction of key infrastructural facilities associated with this project.

There has been resistance from some section of the Sri Lankan businessmen for concluding Comprehensive Economic Partnership Agreement (CEPA) with India. There has been no progress for finalization of the document since January 2011.

In tourism India continued to be the largest source of tourists coming to Sri Lanka. The total number of tourist arrivals from India to Sri Lanka during January-September 2015 was 220,907 i.e. approximately 16.8% of the total tourist arrival into Sri Lanka. In 2014, out of the total 1,527,153 tourists, 242,734 were from India and showing an increase of 16.25% compared to 2013. Sri Lankan tourists too are among the top ten sources for the Indian tourism market. In 2014, more than one lakh ninety five thousand visas were issued by the High Commission in Colombo to facilitate travel between India and Sri Lanka.

BILATERAL AGREEMENTS

The juridical framework for the relationship is provided by a Free Trade Agreement, a Double Taxation Avoidance Agreement, a Bilateral Investment Protection and Promotion Agreement. Bilateral agreements/MoUs on Air Services, Small Development Projects, Cooperation in Small Scale Industries and Cooperation in Tourism and an Agreement on Cooperation in Science and Technology also exist. A Comprehensive Economic Partnership Agreement (CEPA) is under negotiation.

India-Sri Lanka Free Trade Agreement (ISFTA)

The main framework for bilateral trade has been provided by the India-Sri Lanka Free Trade Agreement (ISFTA) that was signed in 1998 and entered into force in March 2000. The basic premise in signing the ISFTA was asymmetries between the two economies, local socio-economic sensitivities, safeguard measures to protect domestic interests, and revenue implications so as not to impact high revenue generating tariff lines in the short term. In a nutshell, India sought to do more without insisting on strict reciprocity from Sri Lanka. This is reflected in the respective obligations of the two countries under the ISFTA where India agreed to open more tariff lines upfront and within a shorter time span of three years as against smaller and more staggered openings by Sri Lanka which was provided a longer time of eight years.

As a result of ISFTA, currently 4150 Indian tariff lines have been made zero duty for Sri Lankan exports to India. Similarly, 3932 tariff lines have been made zero duty for Indian exports to Sri Lanka. In addition to these steps, India has offered quotas to Sri Lanka on certain tariff lines (a) 15 million tonnes of Tea (5 tariff lines) with 50% margin of preference with no port entry restrictions since June 2007; (b) Textiles, where there is a 25% tariff reduction for 528 Textile items; and (c) Garments where

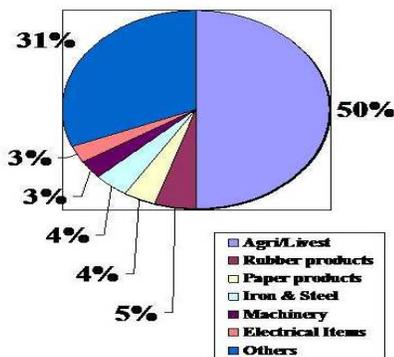
the 50% margin of preference on 8 million pieces over 233 tariff lines. The Garments quota terms have been further liberalized through a MoU on October 5, 2007 by which the Government of India has issued a Custom Notification No. 52/2008 dated 22 April 2008 giving immediate effect to the MoU. As a result, India has reduced duty to zero and removed restrictions on entry ports and sourcing of fabrics from India for 3 million pieces of apparel products from Sri Lanka. India has also removed port restrictions on the balance 5 million pieces of apparel products. These 5 million pieces of garments will be allowed to enter India at zero duty or Margin of Preference of 75% depending on the product category provided that they are manufactured using Indian made fabrics. India has recently decided to do away with the condition of 'Indian made fabrics' and a formal notification is expected soon.

<u>Obligations</u>		
	Sri Lanka's Commitments	India's Commitment
Tariff lines to become Zero duty in March 2000	319	1351
Tariff lines to become Zero duty in March 2003	889	2799
Garment Quota – 8 Million pieces	Nil	233
25% MOP – Textile Items	Nil	528
50% MOP – Tea 15 million Kgs	Nil	5
Tariff lines to become 35% in March 2003 and decreased progressively to Zero by March 2008	2724	Nil
Negative List	1180	429

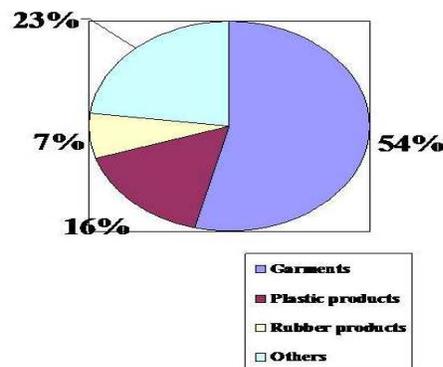
As of now, 1180 tariff lines remain in the Sri Lankan negative list that includes Agriculture/livestock items, rubber products, paper products, Iron and Steel, machinery, and electrical items. On the Indian side, there are 429 items in the negative list, which include garments, plastic products and rubber products etc.

Negative Lists - Comparison

Sri Lanka



India



ISFTA Rules

of Origin

In order to receive ISFTA benefits, the merchandise exported between India and Sri Lanka should comply with the following Rules of Origin criteria.

Wholly Obtained Products

All wholly obtained products such as tea, fish, spices etc. will be able to enjoy duty free benefits at each other's markets without difficulty, provided they are eligible for duty concessions.

Products not Wholly Produced or Obtained

These include the products manufactured using imported raw materials. In order to enjoy ISFTA benefits, the products should comply with the following criteria.

- The Domestic Value Addition (DVA) in the exporting country should not be less than 35% of the FOB value of the finished product and
- HS Codes of the imported raw materials and the finished products should be different at 4-digit level. (Change of Tariff Heading criteria)

Cumulative Rules of Origin

The Cumulative Rules of Origin encourage the contracting states (India and Sri Lanka) to source raw materials needed for their exports from each other. Accordingly, an exporter has to show only a minimum DVA of 25% of the FOB value of the finished product, provided the raw materials imported from the other contracting state accounts for not less than 10% of the FOB value of the particular product. (In other words, the aggregate value addition should not be less than 35% of the FOB value of the finished product, while the DVA in the exporting country should be minimum 25% of the FOB value)

Under SAFTA, the Rules of Origin and Cumulative Rules of Origin are slightly different and the SAFTA agreement text must be consulted before making use of this provision.

Operational Certification Procedures (OCP)

Both ISLFTA and SAFTA specify Operational Certification Procedure for obtaining Certificates of Origin (COO) to make products eligible for concessions in the country of export under the relevant agreements. These must be carefully consulted and followed to avoid disappointment. The validity of the COO under SAFTA is 12 months and can be issued within 3 working days of the shipment of the product. The ISLFTA is silent in this regard and it is advisable to obtain COO before the consignment is shipped to avail benefits under the ISLFTA.

Designated authority for the issue of certificates of origin

In Sri Lanka

Director General of Commerce,
Department of Commerce,
4th Floor, Rakshana Mandiraya,
21, Vauxhall Street,
Colombo-02.
Tel: 94-11-2329733
Fax: 94-11-2430233
E-mail: fortrade@doc.gov.lk

In India

Export Inspection Council of India

(Department of Commerce)
(Ministry of Commerce & Industry, Government of India)
3rd Floor, NDYMCA Cultural Centre Building,
1, Jaisingh Road,
New Delhi-110001.
Tel: +91-11-23341263/ 23748189/ 23365540
Fax: +91-11-23748024
E-mail: eic@eicindia.gov.in

Website: www.eicindia.gov.in

For more information on ISFTA please visit:

Department of Commerce, Govt. of Sri Lanka - <http://www.doc.gov.lk/>

Department of Commerce, Govt. of India - http://commerce.nic.in/trade/international_ta_indsl.asp

High Commission of India, Colombo - <http://www.hcicolombo.org/page/display/76/48>

South Asian Free Trade Area (SAFTA)

The Agreement on South Asian Free Trade Area (SAFTA) came into force from 1st January, 2006. India, Pakistan and Sri Lanka are categorized as Non-Least Developed Contracting States (NLDCS) and Bangladesh, Bhutan, Maldives, Afghanistan and Nepal are categorized as Least Developed Contracting States (LDCS). With SAFTA in force the concessions under SAPTA signed in 1995 ceased in respect of Sri Lanka and India as they are classified as NLDCSs.

Article 7 of the SAFTA Agreement provides for a phased tariff liberalization programme (TLP) under which, in two years, NLDC would bring down tariffs to 20%, while LDCS will bring them down to 30%. Non-LDCS will then bring down tariffs from 20% to 0-5% in 5 years (Sri Lanka 6 years), while LDCS will do so in 8 years. NLDCs will reduce their tariffs for L.D.C. products to 0-5% in 3 years. This TLP would cover all tariff lines except those kept in the sensitive list (negative list) by the member states.

The salient features of the four Annexes of SAFTA Agreement are as under:

(i) Rules of Origin

For giving preferential access to the Member Countries under SAFTA, the goods shall have undergone substantial manufacturing process in the exporting countries. The substantial manufacturing processes are defined in terms of twin criteria of Change of Tariff Heading (CTH) at four-digit Harmonized Coding System (HS) and value content of 40% (30% for LDCSs).

Apart from the general rules, SAFTA provides for Products-Specific Rules (PSR) for 191 tariff lines to accommodate the interest of LDCSs given their limited base for natural resources and undiversified industrial structure. The Products Specific Rules have been provided clearly on technical grounds i.e. where both inputs and outputs are at the same four-digit HS level.

Sensitive List or Negative List

The summary of the Sensitive Lists are as under:

	Participating countries	No. of Tariff Lines for LDCS	No. of Tariff Lines for NLDCS	Consolidated List
1	Bangladesh	1249	1254	--
2	Bhutan	--	--	137
3	India	744	865	--
4	Maldives	--	--	671
5	Nepal	--	--	1335
6	Pakistan	--	--	1183
7	Sri Lanka	--	--	1065

As can be seen above, the Negative List for Sri Lanka with regard to India is 865 (much larger than under the ISFTA where is it 429 tariff lines only). The Negative List for India with regard to Sri Lanka is 1065 tariff lines which is somewhat smaller than 1180 tariff lines under the ISFTA. However, in real

terms the value of SAFTA benefits as incremental to ISFTA is marginal for both countries. There are a total of 139 items in Sri Lanka's Negative List under the ISFTA that are absent from the Sri Lanka's list under SAFTA. Zero duty benefits under these are, therefore, available to Indian exporters.

Comprehensive Economic Partnership Agreement (CEPA)

Following the FTA, the two Governments emboldened by the positive outcomes and success of the FTA, felt that more action was required to unleash the full potential of our bilateral economic relations. Accordingly, during the visit of Prime Minister of Sri Lanka to India in June 2002, the two governments decided to set up a Joint Study Group to explore possibilities of starting negotiations for a CEPA, modeled on the India-Singapore CECA. Based on the report of the JSG in October 2003, the two countries began negotiations on a CEPA in early 2005. Thirteen rounds of negotiations have been completed, the last round having been held in Colombo on July 8, 2008. Following the last technical level meeting, the Commerce Secretaries of the two countries met on July 9, 2008 to finalize the remaining issues and officially declared that CEPA negotiations have been completed. However, the agreement is yet to be signed. CEPA seeks to build on the momentum generated by the FTA and take the two economies beyond trade in goods towards greater integration and impart renewed impetus and synergy to bilateral economic interaction. The discussion on CEPA has resumed in December 2010. The salient features of CEPA as presently negotiate include:

- i. Incremental measures to reduce the negative lists of both countries and to deepen the tariff liberalization programme contained in FTA.
- ii. Additional concessions in garments and textiles sectors by India.
- iii. There is a proposal to create new Product Specific Derogations (PSRs) for a large number of Sri Lankan products by easing the rules of origin norms criteria for a range of products. This was to address concerns among some exporters in Sri Lanka who felt that the FTA rules of origin criteria were far too stringent leading to effective denial of export possibility. Some of the products likely to be included are apparel items, jewellery, furniture, machineries, electrical and other appliances, agricultural and agro-processed items, fishery products, non-ferrous metals, and so on.
- iv. Revise the provisions of Rules of Origin and Operational Certification Procedures in keeping with progress on these issues in SAFTA and other FTAs.
- v. Commitment to identify and root out all non-tariff barriers;
- vi. Provision for a close cooperation mechanism between the Customs Authorities; for transparency of laws, rules and regulations through prompt publication, adoption of risk management techniques to allow expeditious clearance to low risk consignments, adoption of paperless trading methods, adoption of advance ruling system etc.
- vii. Provision for a Mutual Recognition Agreement (MRA) as well as stipulation to adopt common Sanitary and Phyto-sanitary Standards (SPS). This measure is aimed at dealing with delays due to lab testing and certification processes. Testing and certification done in Sri Lanka or India would be recognized in each other's country. The products that will benefit include: ayurvedic products, fish and fishery products, coffee, tea and spices, edible fruits and nuts, vegetable fats and oils, all kinds of animal and animal products, plant and products of plant origin, and other agricultural and related items.
- viii. The main new opening in CEPA would be the inclusion of trade in services. A positive list approach as under WTO would be followed and reflected in the Schedule of Commitments of both countries. Like in the trade in goods covered under FTA, there would larger and deeper

openings by India than by Sri Lanka. India will open far more sectors upfront and grant deeper concessions in each of these areas. In return, Sri Lanka will adopt a more gradual approach, open only selected areas and restrict openings in these sectors to levels it is comfortable with.

- ix. The Agreement will also update the Bilateral Investment Protection and Promotion Agreement (BIPPA). It will contain a schedule of commitment on investments which would larger for India than for Sri Lanka.
- x. Provision for bi-annual meetings at the level of Commerce Secretaries and annual meeting of the Commerce Ministers to deal with unresolved issues and to ensure that all concerns are addressed at a very high level and on a regular basis.
- xi. Provision of dispute resolution mechanism for redressal through non-governmental means by providing for arbitration.
- xii. Provides for economic cooperation in a wide range of areas. These include: Energy; Manufacturing; Services; Transport and infrastructure; Science and technology; Human resource development; and SMEs. This would help in creating capacities and developing human resource potential in Sri Lanka to better leverage the new openings envisaged in CEPA.

During the 8th session of India-Sri Lanka Joint Commission held in January 2013 at New Delhi, both countries have agreed to hold intensive consultations towards forging a special economic partnership for comprehensive and sustained economic cooperation.

BILATERAL TRADE

Bilateral Trade Figures (US\$ Million)

Year	Imports from India	Exports to India	Total Trade	Trade Deficit for Sri Lanka	EXIM Ratio SL Imports: SL Exports
All figures in US \$ million, (FTA implemented in March 2000)					
1999	512	49	561	-463	10.4:1
2000	600	58	658	-542	10.3:1
2001	602	72	674	-530	8.4:1
2002	835	171	1006	-664	4.9:1
2003	1076	241	1317	-835	4.5:1
2004	1358	385	1743	-973	3.5:1
2005	1439	560	1999	-879	2.6:1
2006	1800	489	2289	-1311	3.7:1
2007	2782	516	3298	-2266	5.4:1
2008	2845	419	3264	-2426	6.8:1
2009	1694	325	2019	-1369	5.2:1
2010	2548	474	3022	-2074	5.4:1
2011	4351	525	4876	-3826	8.3:1
2012	3534	571	4105	-2963	6.2:1
2013	3186	544	3730	-2642	5.9:1
2014	3977	625	4602	-3352	6.4:1
2015 (Jan-Aug)	2777	454	3231	-2323	6.1:1

Source: Sri Lanka Customs

Percentage of Total Sri Lanka Trade with India

Year	Exports (%)	Imports (%)
2002	3.57	13.81
2003	4.79	16.49
2004	6.84	17.25
2005	9.09	17.31
2006	7.24	18.46
2007	6.82	24.43
2008	5.12	20.81
2009	4.56	17.97
2010	5.63	20.62
2011	5.16	22.08
2012	6.21	19.77
2013	5.44	17.77
2014	5.64	20.62

2015 (Jan-Aug)	6.55	21.89
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SRI LANKAN EXPORTS TO INDIA

Top ten Articles exported to India from Sri Lanka – 2014

S.No	HS Code	Description	% Share	US\$ M
1	08028090	Areca nuts	10.14	63.34
2	27101960	Fuel oil	6.97	43.55
3	23099030	Poultry feed	6.27	39.17
4	890190	Vessels for the transport of goods and other vessels for the transport of both persons and goods	4.73	29.52
5	854430	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	3.47	21.65
6	470790	Unsorted (waste and scrap) paper or paperboard	3.40	21.21
7	09041120	Pepper: Neither crushed nor ground : Mutured Berries of pepper with a density exceeding 450grams per liter	3.04	18.99
8	09041111	Pepper: Neither crushed nor ground : Light berries of pepper with a density not exceeding 450g per liter: Organic pepper	3.03	18.93
9	680221	Worked monumental or building stone articles thereof, simply cut or sawn, with a flat or even surface : Marble, travertine and alabaster	2.35	14.68
10	850720	Lead-acid accumulators	2.09	13.08
		Others	54.52	340.55
		Total	100.00	624.67

Source: Sri Lanka Customs

SRI LANKAN IMPORTS FROM INDIA

Top ten Articles exported to Sri Lanka from India - 2014

S.No	HS Code	Description	% Share	US\$ M
1	27101940	Gas oil/ Diesel	8.93	355.19
2	100630	Rice - Semi-milled or wholly milled rice	5.4	214.76
3	87112010	Motorcycles and cycles	5.1	202.71
4	27101220	Light oils and preparations : Petrol	4.61	183.44
5	30049090	Medicaments	3.76	149.55
6	25232930	Portland cement	3.56	141.73
7	252310	Cement clinkers	2.85	113.44
8	87032154	Motor cars and other motor vehicles	2.51	99.74
9	27101960	Other : Fuel oil	2.48	98.56
10	72071110	Semi-finished products of iron or non-alloy steel	2.31	91.8

	Others	58.49	2,326.26
	Total	100.00	3977.18

Source: Sri Lanka Customs

INVESTMENTS

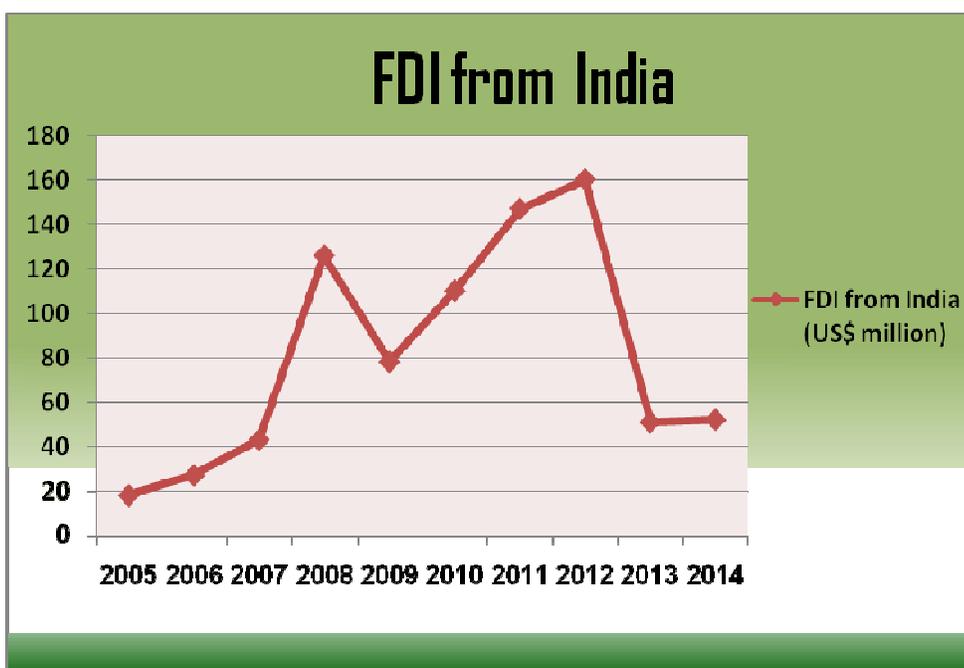
India is among the top investors in Sri Lanka with cumulative investments of over US\$ 800 million since 2003. The investments are in the areas of petroleum, retail, IT, financial services, real estate, telecommunication, hospitality & tourism, banking and food processing (tea & fruit juices) vanaspati, copper and other metal industries, tyre, cement, glass manufacturing, infrastructure development (railway, power, water supply) etc.

According to figures of Board of Investment of Sri Lanka (BOI), During January-June 2015 overall India FDI to Sri Lanka was around US\$ 33.05 million out of total investments of US\$ 515.09 million. In 2014 overall India FDI to Sri Lanka was around US\$ 51.8 million. Total FDI received by Sri Lanka during this period is US\$ 1616 million. In 2013 India was amongst the eight largest overall investors in Sri Lanka with total investments of around US\$ 50.52 million. Total FDI received by Sri Lanka during this period was US\$ 1391.41 million.

In 2012, total FDI from India to Sri Lanka was about US\$ 160.17 million. India was the fourth largest investor behind UAE (US\$ 213.59 million), Hongkong (US\$ 200.04 million), China (US\$ 184.96 million). Investment from India to Sri Lanka for the period 2005 to 2014 in tabular and graphical format is given below:

Foreign Direct Investment from India for the period 2005 - 2014

Year	FDI from India (US\$ million)
2005	18
2006	27
2007	43
2008	126
2009	78
2010	110
2011	147
2012	160
2013	51
2014	52



Year	FDI from India	Total FDI	Rank
2003	53.81	158.35	1
2004	25.23	214	4
2005	17.86	249.02	4
2006	27.05	506.20	9
2007	42.88	644.70	4
2008	126.00	779	2
2009	78.00	601	3
2010	110.20	516.30	1
2011	147.00	1067	2
2012	160.17	1279.15	4
2013	50.52	1391.41	8
2014	51.84	1616.26	8
2015 (Jan-June)	33.05	515.09	6

Source: Sri Lanka Board of Investment

Several Indian companies have planned investments in Sri Lanka, including ITC Ltd, Tata Housing, Shree Renuka Sugars. Similarly, investments by Sri Lankan companies in India too are surging as Sri Lankan businesses take advantage of India's dynamic economy and large market.

Following Indian companies have made progress in their business venture in Sri Lanka:

(i) The Ground Breaking Ceremony of the Commercial and Residential Complex of the Slave Island Re-Development Project (Phase-I) took place on May 12, 2014. An investment agreement was also signed between the Tata Housing and the Urban Development Authority of Sri Lanka. The project is expected to be completed in 30-36 months and would create 1500-2000 new employment opportunities in Sri Lanka. The proposed project aims to improve the existing standard of families residing in the area. Phase I of the project would provide 536 residential units and about 100 commercial shops within the said area; and Phase II would be a Mixed Development Project providing Commercial Office Space, Residential Apartments, and Hotels etc. with modern amenities. The proposed investment is nearly US\$ 430 million (including FDI of nearly US\$ 110 million).

(ii) The ground breaking ceremony of the 'ITC Colombo One' project took place on November 19, 2014 in Colombo. ITC Ltd who entered Sri Lanka in 2012 for a US\$ 140 million mixed development project would increase its commitment by a further US\$ 160 million considering the country's economic conditions, to an investment outlay of around US\$ 300 million.

Many companies from India, including Ion Exchange, Pratibha Engineering, Kirloskar Brothers Ltd, J. K. Cement and Parasakti are looking for opportunities in Sri Lanka in diverse sectors including sanitation, renewable energy and cement.

Linkages between Business Chambers

There are healthy linkages between the business chambers of the two countries. The Indian Merchants' Chamber, Navi Mumbai signed an Memorandum of Understanding (MoU) with the

National Chamber of Commerce of Sri Lanka to promote trade and economic relations, investments between India and Sri Lanka during their visit to Sri Lanka in January 2015. The Confederation of Indian Industry (CII) has a MoU with Ceylon Chamber of Commerce. The Federation of Chambers of Commerce and Industry of India partners the FCCISL under which a Joint India-Sri Lanka Business Council functions. An exclusive Indo-Sri Lanka Chamber of Commerce and Industry was inaugurated by Shri P. Chidambaram, the then Finance Minister in September 2006.

TOURISM

Tourism also forms an important link between India and Sri Lanka and India is the largest source market for Sri Lankan tourism. In tourism, India is the largest contributor with every fifth tourist being from India. The total number of tourist arrivals from India to Sri Lanka during January-September 2015 was 220,907 i.e. approximately 16.8% of the total tourist arrival into Sri Lanka. According to the Sri Lanka Tourist Development Authority, a total of 1,527,153 tourists visited Sri Lanka during 2014, an increase of 19.81% as compared to 2013. In 2014, out of the total 1527,153 tourists, 242,734 were from India constituting 15.89%. Sri Lankan tourists too are among the top ten sources for the Indian tourism market. In 2014, more than one lakh ninety five thousand visas were issued by the High Commission in Colombo and Posts to facilitate travel between Indian and Sri Lanka. Visitors from India were among the top 5 foreign visitors to India in 2014.

OTHER ECONOMIC ENGAGEMENTS

Civil Aviation Agreement

Sri Lanka enjoys a very special relationship with India in the field of civil aviation. It is the largest foreign airline operator to India. Both sides had a meeting in New Delhi on 20-21 April, 2011 under the framework of the Air-Services Agreement signed on 21 December, 1948. It was decided that the designated airlines of each side shall be entitled to operate 112 flights per week. In addition to the 112 frequency entitlements, the designated airlines of each side shall be entitled to operate any number of services with any type of aircraft with capacity not exceeding that of a B747 to/from points specified in their respective Route Schedule. During the meeting Indian side shared a revised Air Services Agreement with the Sri Lankan side. During the 8th Joint Commission meeting held at New Delhi on 2 January 2013, it was decided that the Civil Aviation officials from the two sides would meet at the earliest to review the provisions of the Bilateral Air Services Agreement so as to explore the possibility of signing a new and upgraded Civil Aviation Agreement. A bilateral Air Services Talk was held in Colombo on 12-13 September 2013 during which both sides finalized and initialed the revised Air Services Agreement.

S&T Co-operation

The first meeting of the India-Sri Lanka Joint Committee on Science & Technology was held at New Delhi on 22 September 2011. The Indian and Sri Lankan delegations were led respectively by Dr. Arabinda Mitra, Adviser and Head, Bilateral Cooperation Division, Department of Science & Technology, Government of India and Mrs. Dhara Wijayatilake, Secretary, Ministry of Technology & Research, Government of Sri Lanka. During the Joint Committee meeting, both sides agreed to step up bilateral cooperation in science and technology. The two sides signed a Programme of Cooperation (POC) in the Field Science & Technology for the period 2011-14. A call for submitting project proposal was jointly issued by both and 54 proposals were received. Both sides identified nine projects for joint research and two workshops. The POC is under implementation. The first workshop

was organized in Vijayawada in February 2013 and the second workshop in Colombo from 25-28 March 2013. The second meeting of India-Sri Lanka Joint Committee took place on 18-19 April 2013 at Colombo. The Indian delegation was led by Secretary, DST. The two sides reviewed the POC and also discussed cooperation in space technology sector. The Programme of Cooperation is under implementation.

MOU on Ferry Service

A Memorandum of Understanding (MoU) was signed on 7th January 2011 between India and Sri Lanka on Passenger Transportation by Sea. The MoU envisages putting in place ferry services between Colombo and Tuticorin and Talaimannar and Rameswaram. Resumption of these services signals an important step in the restoration of the traditional links between the two countries. The ferry service between Colombo and Tuticorin started operations on 13th June 2011 but was discontinued by the operator in November 2011, because of unviable nature of their operation. Both sides are looking into the possibility of resuming the ferry service between Colombo and Tuticorin. Infrastructure facilities need to be upgraded on both the sides to resume ferry service between Talaimannar and Rameshwaram. Discussions are ongoing for early recommencement of the ferry service.

MOU on Agriculture

A Memorandum of Understanding (MoU) between the Government of the Republic of India and the Government of the Democratic Socialist Republic of Sri Lanka on Cooperation in the field of Agriculture Cooperation was signed on 17 January, 2012 by High Commissioner and Mr. W. Sakalasoorya, Secretary, Ministry of Agriculture during the visit of EAM to Sri Lanka. Under the MOU, both sides shall promote development of cooperation in the agreed fields to be effected through biennial Work Plans and joint activities in areas like agricultural crops, agricultural extension, horticulture, agricultural machinery, post harvest technology, plant quarantine measures, credit and cooperation. The Work Plan for 2015-16 was signed during the visit of President Maithripala Sirisena to India in February 2015.

MOU on Telecommunications

An MoU was signed on 17th January 2012 by Dr. J.S. Sarma, Chairman, Telecom Regulatory Authority of India (TRAI) and Mr. Anusha Palpita, Director General, Telecommunication Regulatory Commission of Sri Lanka (TRCSL). The MoU provides for establishing a mechanism of technical and institutional cooperation in the field of telecommunications, with the purpose of development of telecommunications in both the countries.

Lines of Credit

Government of India has extended Line of Credit of US\$ 167.4 million for rehabilitation of Southern Railway line in Sri Lanka. The project implemented by IRCON International & RITES was completed by April 2012. Government of India also provided concessionary credit facilities amounting to about US\$ 800 million to the Government of Sri Lanka to undertake the Northern Railway Rehabilitation Project in Sri Lanka. IRCON International implemented this project, track upgradation and setting up of signalling and communication infrastructure under this project was completed in March 2015. Prime Minister of India inaugurated the Talaimannar Pier Railway section and flagged train on the Talaimannar Pier-Madhawachchiya railway track on March 19, 2015.

Buyer's Credit Agreement

Mr. T.C.A. Ranganathan, Chairman and Managing Director, EXIM Bank of India and Dr. P.B. Jayasundera, Secretary, Ministry of Finance and Planning, Government of Sri Lanka signed a Buyer's Credit Agreement for US\$ 60.69 million on 17 January, 2012 during the visit of EAM to Sri Lanka. The Buyer's Credit will be utilized for the purpose of financing Greater Dambulla Water Supply Project. Sri Lanka Cabinet on 25 May, 2011 approved the award of the contract to an Indian company M/s. V A Tech Wabag Limited. The project will be funded under Buyer's Credit Scheme of EXIM Bank under National Import Insurance Account (NIEA). On 4 April, 2013 EXIM Bank of India and Government of Sri Lanka signed an MOU for buyer's credit funding of US\$ 124 million (approx) by EXIM Bank for supply of two Offshore Petrol Vessels by Goa Shipyard Limited. Many other Indian companies in infrastructure sector including Ion Exchange, Pratibha Engineering, Kirloskar Brothers Limited are exploring the possibility of obtaining Buyer's Credit to implement projects in Sri Lanka.

Co-operation between Reserve Bank of India and Central Bank of Sri Lanka

During his visit to Sri Lanka, Prime Minister Modi announced a Currency Swap Agreement of US\$ 1.5 billion between the Reserve Bank of India and Central Bank of Sri Lanka.

PROJECTS IMPLEMENTED UNDER CREDIT LINES

a) Reconstruction of Southern Railway under a \$167.4 million Line of Credit

- Track laying on the Kalutara-Galle and Galle-Matara; (Galle-Matara completed)
- Track-laying in the Colombo-Kalutara sector;
- Supply of rolling stock
- Training to SLR personnel and setting up of a maintenance facility



b) Reconstruction of Northern Railway Lines under \$800 million Line of Credit

- Omanthai-Pallai
- Madhu-Talaimannar
- Medawachchiya-Madhu
- Pallai-KKS (after inauguration of the Pallai Jaffna section in October 2014 the iconic 'Yal Devi' Express entered Jaffna again after a gap of nearly 25 years)
- Construction of Signaling and Telecommunications Network



Only reconstruction of the Talaimannar Pier remains under the project.

OTHER MAJOR PROJECTS

- **Rehabilitation of Kankensanthuari Harbour:** Aimed at restoring critical infrastructure in the north that will also help connectivity as well as regional and domestic connectivity. Being implement in multiple phases:
 1. Hydrographic check survey [completed].
 2. Wreck removal [completed].
 3. Dredging of harbour and approach channel [completed].
 4. Repair and strengthening of breakwater.
 5. Construction of new pier.

6. Final survey and publication of harbour chart

- **Palaly Airfield:** Proposal to assist GoSL in rehabilitation of Palaly airfield and its utilization as a domestic/regional airport. India will assist by providing a grant as well as a loan.
