



# Trade relationship between India & Sri Lanka

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## Abstract

India and Sri Lanka have extended and far-reaching trade, dating back to ancient times. In several years, bilateral trade has grown very fast, thanks in part to the India-Sri Lanka Free Trade Agreement (FTA), which was signed in 1998 and came into force in 2000. In 2021, India became Sri Lanka's largest trading partner, with bilateral merchandise traded for total US\$ 5.45 billion. India's main exports to Sri Lanka include petroleum products, pharmaceuticals, textiles, and machinery etc. Sri Lanka's main exports to India include tea, apparel, rubber products, and spices etc.

**Keywords:** Bilateral trade, FTA, Trade.

## Introduction

India and Sri Lanka have a long and rich history of trade relations, dating back to the ancient Silk Road. In recent years, these relations have grown even stronger, with India becoming Sri Lanka's largest trading partner in both imports and exports. There are many reasons for the growth of trade between India and Sri Lanka. Both countries have a strong economic complementarity. India is a major exporter of manufactured goods, such as textiles, pharmaceuticals, and engineering products, while Sri Lanka is a major exporter of agricultural products, such as tea, rubber, and coconut products. The two countries have close geographical proximity. This makes it easy and cost-effective to transport goods between the two countries. In addition, the two countries have several preferential trade agreements in place, like the Indo-Sri Lanka Free Trade Agreement (ISLFTA). The trade relationship between India and Sri Lanka has been mutually beneficial. India has benefited from access to Sri Lanka's markets for its manufactured goods, while Sri Lanka has benefited from access to India's markets for its agricultural products. In addition, the trade relationship has helped to create jobs and promote economic growth in both countries by helping each other in trading. Overall, the trade relationship between India and Sri Lanka is strong and mutually beneficial. The two countries have a strong economic complementarity and close geographical proximity, which have contributed to the growth of trade. In addition, the two countries have several preferential trade agreements in place, such as the ISLFTA. The trade relationship has been mutually beneficial, helping to create jobs and promote economic growth in both countries.

## Literature

## review

Informal traders have developed mechanism for information flows of risk sharing. The transaction cost of trade in the informal trade are lower than the formal trade such trading networks have been developed to continue the informal trade for reducing the costs and minimizing the risks. The functioning of informal trading markets the information channels have been developed; risk mitigation network has been developed. The distribution network is an important source of both India and Sri Lanka. Foreign aid and growth nexus Empirical evidence from India and Sri Lanka - In these study that examine the relationship between India and Sri Lanka is an annual time series data that 1960-61 to 2014 the illegal smuggling of products and goods like drugs, weapon etc. Which throw light the negative impact of foreign and the economic growth of the foreign aid on India and Sri Lanka. Foreign aid is one of the major roles to play for development process of India and Sri Lanka. The economic base of both countries financial market and human resource more developed. Both the countries have created high rate of growth to create more employment. Both the country has focused the utilization of foreign aid where the return will be greater than investment. Bilateral trade between India and Sri Lanka - India – Sri Lanka free trade agreement since 2000 to growth economic as well as political relation between the two countries they are neighboring country so that they are more focus on trade between each other both the countries have fully implemented the tariff concession for larger amount of trade between India and Sri Lanka that's why the result of these bilateral trade between the two countries during these period have reached the maximum amount of trade between the two countries both India and Sri Lanka are huge amount of labor countries that's why they have expect India have export as well as import of goods from Sri Lanka whose are rich in labor than the capital. The factor of bilateral trade as worked out before the paper have confirmed the expectation that is why they must indicate the export of India to Sri Lanka are in labor not in capital. Indo – Sri Lanka trade relations - India and Sri Lanka exchange tariff concessions under the agreement. India and Sri Lanka have focused involvement of trade relations between the two nations over the years. The paper has signed both the countries have examine the bilateral trade between the two countries the major products descriptive the Sri Lanka leading export in Indian market by using revealed comparative advantage they have to try to set the trend and way forward the trade relations between India and Sri Lanka. The India and Sri Lanka free trade agreement and the proposed comprehensive economic partnership agreement - In India and Sri Lanka FTA agreement increasing export for the purpose of the economy partnership increasing export of India requires change in the prescription of Sri Lanka exporter a process that has been taken a time despite the geographical between the two countries India is not been a major export market to Sri Lanka since independence there was many Sri Lanka exporters to India has increased in the number of products exported from India to Sri Lanka . The FTA have matured over a long decade Sri Lanka investor have moving increasingly in the Indian market these investors have more secure under a rule-based system. Contraband trade between India and Sri Lanka - A two-way contraband trade between India and Sri Lanka they have to legal imports by air cargo and sea cargo contraband trade shows that the physical contraband trade intermingled with legal imports is considerable the physical contraband trade between the two-neighboring country. The physical contraband trade between Sri Lanka to India is marginally greater than the official exports of India in 1996. India is largest single source of imports in 1996. The role of the exchange between Sri Lanka and India during the mediterranean Trade - The trade pattern after the roman empire at the time of first century the Indians were take care of trade with the west and Sri Lanka away of it direct transaction of merchants the non-direct connection of Sri Lanka with the western areas the late empire and after from the fourth and fifth century a well known route of Sri Lanka appear to have taken a direct route Sri Lanka is a crossroads for international trade the role of Sri Lanka western part of the Indian ocean was close relation India playing an intermediary role . India Sri Lanka FTA lessons for SAFTA - the bilateral trade between India and Sri Lanka has been growing the 1990 s largely because of two countries. Trade have faster in early 2000 with the implementation of new foreign trade policy a significant improvement in political relations between the two countries from the late 1990 the key factor behind it India pursuit in FTA was Sri Lanka was further expand its import penetration to the country access to the large and growing Indian market Comprehensive Economic partnership agreement between India and Sri Lanka - It has been mentioned in the Sri Lanka will continue to have limited market access have India through agreements India has a open market to other country and it is actively engaged to the other country Sri Lanka lost their opportunity in Indian market . Sri Lanka is bilateral framework between with a rule-based discipline structure India provides a guaranteed access to Indian market which is one of the fastest growing emerging economies Sri Lanka has a very concepted export market. AS Indian economy is

growing fast and wages and other cost of production are bound to increase. The agreement provides a legal framework the rules and regulation under the trade occurs between the two countries.

### Interpretation

The trade relationship between India and Sri Lanka is prosperous and expanding. India is Sri Lanka's largest trading partner globally, accounting for over 20% of its total trade in 2021. India's largest trading partner in South Asia is Sri Lanka, accounting for over 5% of its total trade in 2021. India-Sri Lanka Free Trade Agreement (FTA), which came into force in 2000, has played a major role in boosting bilateral trade. The FTA has eliminated tariffs on a various range of goods traded between the two countries. By these Indian goods more competitive in the Sri Lankan market. India exports main item like petroleum products, pharmaceuticals, textiles, chemicals, and machinery. The main items Sri Lanka exports include apparel, tea, rubber, and spices. In several years, growing interest in Indian investment in Sri Lanka.

### Conclusion

The trade relationship between India and Sri Lanka in 2023 is expected to be strong and growing. The two countries have a long history of economic cooperation, and this is being further strengthened by the India-Sri Lanka Free Trade Agreement (ISFTA), which has been in place since 2000. In 2022, India was Sri Lanka's largest trading partner, with bilateral merchandise trade of US\$ 5.45 billion. This is a significant increase from 2020, when trade stood at US\$ 3.6 billion. The increase in trade is a reflection of the deepening commercial engagement between the two countries. India is also a major investor in Sri Lanka. In 2021, India was the largest source of FDI in Sri Lanka, with investments of US\$ 142 million. The main areas of Indian investment in Sri Lanka include petroleum, telecommunications, tourism, and infrastructure. The outlook for the trade relationship between India and Sri Lanka in 2023 is positive. Both countries are committed to further strengthening their economic ties. In July 2023, Prime Minister Modi and President Wickremesinghe signed a joint statement that outlined a vision for the India-Sri Lanka Economic Partnership. The joint statement emphasized the importance of trade and investment in deepening the bilateral relationship. The two countries are also working on a number of initiatives to improve connectivity and trade infrastructure. For example, they are exploring the possibility of building an oil pipeline from India to Sri Lanka and connecting the two countries' electricity grids. These initiatives will help to further boost trade and investment between the two countries. Overall, the trade relationship between India and Sri Lanka is expected to be strong and growing in 2023. The two countries have a number of factors in their Favor, including a long history of economic cooperation, a free trade agreement, and a commitment to further strengthening their economic ties.

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