Economic and Technological Cooperation Agreement (ETCA)

1) Introduction

- The India-Sri Lanka Free Trade Agreement of 1998 was followed by efforts towards a Comprehensive Economic Partnership Agreement (CEPA) to liberalise trade in services and investment starting in the mid-2000s.

- However, the CEPA negotiations dragged on for nearly a decade in the face of increasing opposition within Sri Lanka, particularly by the business community.

- With the new momentum in closer bilateral ties, India is pushing for a new trade pact called the Economic and Technological Cooperation Agreement (ETCA).

- The Economic and Technical Cooperation Agreement (ETCA) is negotiated as an extension over the existing FTA.

2) The objectives of ETCA

- To strengthen and advance the economic, trade, investment and technology cooperation between the two parties.

- To promote further liberalization of trade in goods, liberalizing trade in services and gradually establish fair, transparent and facilitative trading, investment and investment protection mechanisms.

- To expand areas of economic cooperation and establish a cooperation mechanism.

3) Economic and Technological Cooperation Agreement (ETCA)

- ETCA, which replaces the CEPA will be a crucial reform towards an improved economic partnership with India.

- ETCA will establish an agreement on trade in services and technological exchange (which CEPA failed to do).

- ETCA agreement seeks to boost cooperation in technical areas, scientific expertise and research among institutions.

- ETCA boost standard of goods and services, able to compete on global market and improve opportunities for man power training and human resource development.

- Investments would be in oil farms in Trincomalee, renewable energy, and infrastructure and in other new areas of business.

- India is looking at the ETCA as a mechanism to enable it to participate in the post-war economic development of Sri Lanka through Indian investments in select areas.

- Sri Lankan government wants to use ETCA to become part of the Indian supply chain, exploiting India's "Make in India" movement to boost India’s manufacturing sector.
• ETCA will enable Indian manufacturers to set up factories in Sri Lanka to export their products to countries with which Sri Lanka has or is planning to have Free Trade Agreements.

4) **Advantages**

• This would be pivotal in transforming economic relations between the two countries.

• India is taking a proactive approach to Sri Lanka’s post-war economic development and both sides are seeking mutually beneficial, long standing bilateral relations

• From a Sri Lankan perspective, the ETCA offers an ideal opportunity to boost private investment, and will contribute to the growth of the emerging middle class.

• ETCA is likely to strengthen Foreign Direct Investments (FDIs) by both private individuals and private institutions

• At a time where Sri Lanka is pressured to achieve the targets set by the IMF under the Extended Fund Facility, FDI could play a major role in helping the country reach these targets.

• The trade agreement is expected to help Sri Lanka gain better access to India’s rapidly growing markets and provide a boost to its economy.

• Indian and Sri Lankan relations are now at its best and the ETCA provides an opportunity for investors who want to invest in Sri Lanka.

• ETCA has the potential to promote growth of USD 500 billion sub-regional economy.

• The agreement would be of mutual benefit to both countries “which will be win-win situation for all.”

• UK’s exit from the EU will impact Sri Lanka’s exports to the 28-nation bloc. so ETCA will mitigate the effect of Brexit

• India is planning to send professionals into the IT sector and Ship building, where there is a need for expertise and higher levels of training. These are also sectors that could boost Sri Lanka’s exports.

5) **Hurdles and criticism to ETCA**

• Conclusion of ETCA with India is opposed by some interest groups and political parties in Sri Lanka.

• The protest against ETCA is based in huge trade deficit.

• As per official Sri Lankan figures, Indian exports to Sri Lanka was US$ 4,268 million while Sri Lankan exports to India was just US$ 643 million in 2015. This huge trade deficit is not liked by the business community in Sri Lanka.

• They claim that ETCA is to be largely advantageous to India and oppose conclusion of any trade pacts with India.

• Sri Lanka is at present facing a major balance of payments (BOP) crisis. At this juncture, it would be difficult for the Sri Lankan government to push for the economic pact
• However, India has helped the Sri Lankan government to tackle the BOP problem by boosting the foreign exchange reserves of Sri Lanka by US $1.1 billion with a Reserve bank of India credit swap

• Critics have said the deal would pave the way for Indian professionals and semi-skilled and unskilled persons to “flood” Sri Lanka’s labour market.

• There is a widespread and deep rooted fear among professionals in Sri Lanka, that India will eventually find ways of exporting their services personnel to Sri Lanka and take over local jobs by offering their services as a lesser cost.

6) **measures to strengthen economic exchange and cooperation**

• Gradually reducing or eliminating tariff and non-tariff barriers to trade between the two Parties

• Gradually reducing or eliminating restrictions on in trade in services between the two parties

• Providing investment protection and promoting two way investment

• Promoting trade and investment facilitation and industry exchanges and cooperation

• Promoting Technology cooperation and transfer of technology and knowhow

• Intellectual property rights protection and cooperation, financial cooperation, trade promotion and facilitation, customs cooperation, and e-commerce cooperation

• Cooperation in major projects, and coordination of the resolution of issues that may arise in the course of industrial cooperation between the two Parties