

“India-Sri Lanka cooperation in the South Asian Littorals”

Speech by Hon. Harsha de Silva, Deputy Minister for Foreign Affairs, at the “Oceans Dialogue-2017”, organized by the Observer Research Foundation, Thiruvananthapuram, Kerala, 20th April.

Introduction

Distinguished ladies and gentlemen, good afternoon. I bring greetings from Sri Lanka! Believe it or not, it is my first visit to your exciting city which is about the same size as Greater Colombo.

To Sri Lanka, India is our closest neighbor in many aspects. India is also our dear friend and one of our most important economic partners. Today, I would like speak on how our two nations’ location in the Indian Ocean and proximity to each other have shaped our history and will play a key role in our future relationship; in the context of a common prosperity framework, as it is the theme of this conference.

Our historical relations date back several thousands of years. Over two millennia ago, the introduction of Buddhism to Sri Lanka by Emperor Asoka, who sent his own son and daughter as missionaries, was one of the most important moments of Sri Lankan history as it laid the basis of our civilization. Sri Lanka remains the one country that preserved Buddhism over millennia since then and we are proud to host the UN International Vesak day mid next month with the honored presence of Honorable Narendra Modi as the Chief Guest of the global celebration of the birth, enlightenment, or attaining Buddhahood and the passing or Parinirvana of Gauthama Buddha.

Fast forward to today; India is the fastest growing large economy in the world. Look at this city. I referred to Trivandram as an exciting city as it showcases the transition of India from its traditional economy to multiple new technology led growth areas. A city that is growing rapidly, already larger than Colombo and a growing middle class with significant consumer demand and increasing appetite for further investments. For Sri Lanka, our prosperity is certainly linked to that of India; particularly Southern India.

We seek to utilize the huge opportunities presented by India’s growth and our proximity to India in our own development strategy. The infrastructure that is necessary to leverage these emerging ocean centric opportunities are prerequisites for our shared journey of common prosperity.

Our Government is keen to utilize Sri Lanka’s enviable geo-strategic position to reinvent ourselves as the hub of the Indian Ocean as well as the primary transshipment port for

Bay of Bengal trade. Our success, to a great extent, will depend on the strong and mutually beneficial relationship we have with India.

Sri Lanka's historical role in the Indian Ocean

The beginning of the Indian Ocean Maritime Trade goes as far back as 5000 years; initially with trading amongst coastal settlements. And it is a historical fact that the political orders that emerged from time to time in the Indian Ocean were fundamentally committed to maritime trade. By 2500 BC, vigorous sea borne trade was taking place between the Persian Gulf and the Indus civilizations. And between the Chinese Kingdom and regions of Berenice; situated in the Egyptian side of the Red Sea. Sri Lanka (or Taprobane, Serandib, Ceylon) was in the thick of the action. It featured prominently in the Spice Routes which were also known as Maritime Silk Roads. Cinnamon from Sri Lanka and Cassia from China found their way along the Spice Routes to the Middle East as far back as 2,000 BC.

Much of this trade along the maritime Silk Road was in luxury goods, and in this respect, Sri Lanka was a transit point as well as a terminal point, the latter due to Sri Lanka's own considerable luxury products such as gems and pearls. From a historical context of Sri Lanka; it was only after the collapse of the ancient hydraulic civilization towards the end of the Polonnaruwa period in the 13th century that the country's rulers began to pay greater attention to the economic possibilities of trade.

Then it was foreign merchants who dominated the island's international trade; a position which they retained till the early decades of the sixteenth century. During the period 13th-15th centuries, Sri Lanka's position as a trade hub on the East-West maritime route had been established, as had its position as a gateway to India. During the colonial rule by the Portuguese, Dutch and lastly the English, the volume of foreign trade expanded. The tea trade which was started by the British still plays a significant role in the Sri Lankan economy. However, in the last 500 years the Indian Ocean region lost its geo political and geo economic relevance; first to colonial dictates and in thereafter post-colonial cold war concerns.

Sri Lanka's strategic role in the Indian Ocean

The Global Political Order has undergone radical transformation since the end of the cold war. The bi-polar cold war period was superseded by the Uni-polar-post-cold war period, which in turn, is today transforming itself into a multi-polar world.

Now, for the first time in five centuries, global economic balance of power is once again shifting towards Asia. It is estimated that by 2030, Asia will surpass North America and

Europe combined in global power based on GDP, population size, military spending and technological investments.

All this has resulted in a massive transition of economic and military power to Asia with the Indian Ocean region and the Pacific emerging as two central points. The blue-water naval capabilities of key Asian States have ushered a new strategic environment, and the Indian Ocean has become an extremely important geo-strategic space. Along with many economic opportunities, emerging competition among major naval powers introduces an element of vulnerability to the region.

While the maritime space of Asia is strongly connected to the Indian and the Pacific Ocean through trade and commerce routes, there is a difference in the power dynamics of the Pacific and the Indian oceans. The power play in the Pacific is dominated by its proximity to the US, centrality to US security policies, and now the rise of Chinese naval power. In contrast, the Indian Ocean Region has maintained a multipolar characteristic. As a small country, we are especially mindful of the geo-political realities of the region surrounding us. Sri Lanka has historically resisted being relegated to one camp of competing major powers.

Once again, Sri Lanka's situation in the nautical corridor between the East and West is of importance not only from a geo-strategic perspective, but very much from maritime economics and security perspectives. The busy East-West shipping route passes just six to ten nautical miles south of the island with more than 60,000 ships plying this route annually carrying two-thirds of global petroleum supply and half of all containerized cargo.

History teaches us that peace and prosperity along the maritime Silk Road helped increase the volume of trade via the Indian Ocean, from which Sri Lanka naturally profited.

Therefore, with our strategic interests in mind, Sri Lanka is determined to leverage our location in the Indian Ocean for peace and long term prosperity; not discord or short term gains. It is with this objective that we are striving to position Sri Lanka as an Indian Ocean nation, to transform our country as the Hub of the Indian Ocean.

Ocean Governance/ Indian Ocean Order

Unlike the Asia Pacific, the Indian Ocean region is not economically integrated. It is unlikely that any one single power or a coalition will be able to maintain peace and stability on their own in the Indian Ocean. In capacity terms also, no one country is capable of handling the maritime security threats and challenges in isolation, no matter how advanced and developed it might be. I had a personal experience of dealing with the only piracy situation to have occurred in the Indian Ocean in a long time, just two months back.

It is certainly the coming together of various actors that we were able to defuse the situation without calamity. It is in such a background, all maritime nations have a role to play in ensuring the overall balance of strategic weight.

Smaller nations such as Sri Lanka, even with comparatively limited maritime resources can become an integral element of maritime security in the region. Therefore, it is our view that the Indian Ocean is in need of a mutually benefiting security architecture established on a multilateral basis. There is space for an effective multilateral governing structure. In this regard, the Prime Minister of Sri Lanka has expressed an interest in crafting an Indian Ocean Order with accepted rules and agreements that would guide interactions between states.

Speaking in Singapore last year at the inauguration of the Indian Ocean Conference and in Australia earlier this year, Prime Minister Ranil Wickremesinghe called for this Order to be built on a consensual agreement and with no singular State be allowed to dominate the system. This Order would have the primary responsibility of upholding the freedom of navigation in the Indian Ocean, ensuring that shipping and air routes to East Asia and beyond are kept open, building closer economic cooperation amongst countries in the region. Sri Lanka has expressed a willingness to initiate exploratory talks by calling for a conference to discuss these issues. Our view is that the Indian Ocean Rim Association (IORA) is ideally suited to initiate the conference by inviting all coastal states, permanent members of the Security Council and the major maritime users. The outcome of such a conference should be an Agreement for Indian Ocean Navigation, incorporating the skeleton for a Code of Conduct.

Repositioning Sri Lanka

We have a clear vision of what we want Sri Lanka to be in the world tomorrow. That is why we are repositioning ourselves to maximise our relationships with both our historic and new trading partners to leverage our geo-strategic position to make us the hub of the Indian Ocean as well as a transshipment port for the Bay of Bengal trade.

To fully tap this potential, we are engaging in initiatives with regional players who have major economic stakes in the Indian Ocean. Unlike ASEAN which provides its members with a largely stable and peaceful regional environment to focus on economic development at formative stages of their countries' development, SAARC has not been able to achieve the same level of regional integration. These geo-political realities require that Sri Lanka build strong bilateral relations with Bay of Bengal members of ASEAN in addition to its fellow South Asian members. In addition, we cannot be content with our traditional markets, and we must look beyond for new opportunities.

Sri Lanka is now pushing towards further integrating with the world by undertaking reforms to facilitate trade, and encourage productive foreign investment. But, in order to do so, we need to develop world class connectivity infrastructure. That is where some of our major projects take significance:

- The Western Region Megapolis project
- Colombo International Financial City project
- Hambantota Port and Airport plus Industrial Zone project
- Trincomalee Development project

However, infrastructure expansion alone will not create trade hubs. We have to integrate into global production networks and create a liberal trade and investment climate. In this context we are in discussion with a number of countries towards entering into mutually beneficial trade and investment agreements; led by our discussions with India on expanding the FTA into an ETCA. Besides FTAs we are also hopeful that by 15 May this year we will have completely duty free access, to the EU through the GSP+ benefit that we lost in 2010, albeit only for a few more years.

A concerted effort is also underway to improve the business climate domestically. Far-reaching governance reforms that are rules based have made investment and business more secure and certain.

Sri Lanka's multi-faceted cooperation with India

Defence/maritime cooperation

Let me spend a few minutes on our defense and maritime cooperation. No nation today is capable of addressing present day maritime issues in isolation due to the sheer vastness of the ocean space and complexity of maritime security threats and challenges. It is in this context that the theme of Galle Dialogue in 2016 was "Fostering Strategic Maritime Partnerships"; that achieving maritime security and prosperity is necessarily a partnership oriented process.

We have been partnering for a long time. Naval cooperation between Sri Lanka and India has been traditionally strong in a wide array of interactions focusing on the common maritime operational challenges in the region. Naval interactions and cooperation between the two nations continue to solidify through Bilateral Exercises, Training, Port Calls, Hydrographic Co-operation, Special Forces interactions, Capability Building and Capacity Augmentation initiatives.

Meanwhile, two Advanced Offshore Patrol Vessels (AOPVs) are also being constructed for the Sri Lankan Navy at the Goa Shipyard Limited. Staff talks, defence dialogue, Coast

Guard meetings and Joint military training exercises are carried out on regular basis. India is also the largest provider of training opportunities for Sri Lanka defence personnel. However, the only irritant between our two countries is the fishermen issue. Now here, naval cooperation is important. India and Sri Lanka held Ministerial level talks on the fishermen issue earlier this year in Colombo. As perhaps you are aware the issue revolves around banned bottom trawling. In any case, we hope that this issue can be resolved in a sustainable manner as it involves the livelihoods of thousands of fishermen on both coasts of the Ocean.

Political and development relations

Since independence, our two countries have developed close ties in many spheres. Along the way, there have been many twists and turns in our relationship which really tested the foreign policy resolve and leadership of our countries. However, I am happy to mention that even during the most difficult periods, the two countries and the governments worked together to overcome setbacks. Now, going forward, much of our eventual success in becoming the Hub of the Indian Ocean will depend on our relationship with India.

Thankfully, the relationship between India and Sri Lanka is the strongest it has been for several decades. We certainly hope to keep it that way. As this audience is fully aware, Sri Lanka lost many opportunities for development during the decades long conflict. Now we need India's support and understanding as we navigate through the many blocks thrown our way by extremists on either side to block reconciliation.

Let me assure you that the Unity Government is steadfast in its resolve to create a Sri Lanka that provides equal opportunities to all its citizens immaterial of ethnicity or faith. We welcome India's assistance in our efforts to revitalize and rebuild the Northern and Eastern Provinces. India's development project which aims to construct 50,000 houses in the 2 Provinces is greatly appreciated.

Also, I wish to extend Sri Lanka's deep gratitude and appreciation for India's generous grant facility of US\$ 7.55 million to establish Sri Lanka's only free pre-hospital care emergency ambulance service "1990" in July 2016 in which I played and continue to play a guiding role. It is a very potent and visible symbol of the close and constructive relationship between India and Sri Lanka. We hope to expand the service island wide with further assistance from the people of India.

People-to-people and cultural links form an important part of our relationship. Recently there has been a sharp increase in tourism between India and Sri Lanka. India is today the

largest source of tourists to Sri Lanka. There are now 154 flights a week between Colombo and eight destinations in India.

Economic relations

During the last decade or so Sri Lanka lost its focus on exports. Exports to GDP fell from 34% of GDP to less than 14%. So, it is critical that we revitalize the export drive. As I mentioned earlier, India and Sri Lanka hope to finalize an Economic Technology Cooperation Agreement (ETCA) by this year. The ETCA will enhance the scope of our existing Indian Sri Lanka FTA to extend freer movement of goods and services with the added emphasis of cooperation in the development of technology and in investments.

It is our belief that the ETCA will provide an impetus to the existing synergies and has the potential to promote rapid growth of the sub regional economy between Sri Lanka and the five South Indian states; Tamil Nadu, Kerala, Karnataka, Andhra and Telengana which today accounts for an economy of over 400 billion dollars.

But, there are issues. Particularly with non-tariff barriers that need to be addressed. Nevertheless, several Sri Lankan exports have made a mark in the Indian market. Some of these are furniture manufacturer Damro, Lingerene brand Amante and an integrated apparel supply chain city managed by Brandix called Brandix India Apparel City. These successful companies have studied the Indian market and have tailored their production and marketing to meet the demand. But, not enough businesses adopt such an approach. The deepening and broadening of the current FTA through the ETCA will serve to create a more conducive business environment that encourage companies to focus on the potential of the Indian Market.

On the other side of the Palk straits Indian products and services are pretty much everywhere in Sri Lanka; from 2 and 3 wheelers and small cars to busses and trucks to cement and oil to FMCG to banks, insurance and mobile telephony to now growing presence in the leisure sector and real estate

Cooperation with other strategic partners in the region.

I would like to now take a few minutes to describe our engagement with some of our key strategic partners in the Indian Ocean, as it will certainly have implications, not necessarily negative, on our relations with India.

CHINA

There are concerns in some quarters that growing Chinese investments in Sri Lanka pose a threat to India. We have been careful to reiterate that our friendship with one is not at the expense of the other.

As I mentioned at the beginning, we have historically resisted being relegated to one camp of competing major powers. As a small country, we are aware of geographic realities and that we will have to remain open to strategic relations with various countries. China and its State-Owned Enterprises offer commercial infrastructure opportunities that few counterparts can compete with. Therefore, we have extensive commercial dealings with China in Hambantota and Colombo. But at the same time, we have maintained strong defense and maritime ties with Japan and the US, besides India.

Sri Lanka is also supporting the One Belt - One Road economic initiative, in line with the major historical role we played in the Maritime Silk Route. This will certainly consolidate our ambitions in the Indian Ocean while further integrating us with Asian markets. We are also negotiating a FTA with China as a part of this initiative.

The Chinese investments in Sri Lanka will be primarily directed to:

- The creation of a Financial City in Colombo, under English Law, to fill the vacuum for offshore financial service between Singapore and Dubai. Under this, a 1.4 billion US dollar reclamation is now underway adjacent to the city of Colombo for the creation of a 560-acre new city.
- Industrialization and further development of Hambantota Air Sea Hub in southern Sri Lanka. Hambantota is a smaller harbor than Colombo and Trincomalee, built using a loan from China's EXIM Bank. Due to our debt-situation we have decided to lease Hambantota to a Joint Venture Company comprising China Merchants Company and Sri Lanka Ports Authority.

We have stated very clearly that Hambantota will not be a military port. The Joint Venture Agreement precludes the harbor from being used for any military purposes except by the SL Navy. As with the other two ports, any warship can come in provided the Government of Sri Lanka agrees to it. If these conditions are violated we can take the port back without any payment of compensation. The land and harbor belongs to the Sri Lanka Government. Port security, customs and immigration will be by Sri Lanka Government.

Sri Lanka recently inaugurated the 15,000 acre, that is 50 square kilometer, 'Sri Lanka China Logistics and Industrial Zone' also in Hambantota, to become a serious player in

global production networks. Chinese investors are expected to bring in 5 billion USD in investments in to the zone in the next 3 years.

JAPAN

The economic cooperation with Japan is important to Sri Lanka. Over the years, Japanese donor assistance has made a significant impact on our economic and social developments. Japan is involved in several major infrastructure projects in Sri Lanka including Light Rail, expressways, water and sanitation projects and digitalization of terrestrial TV.

Recently, Japan has been increasing its maritime relations with Sri Lanka. Japan considers the Port of Colombo as a convenient transit and rest and recuperation harbour for their counter piracy operations. As a result, it is observed that a number of Japanese Maritime Self Defence Forces (MSDF) ships have arrived in Sri Lankan ports, mainly the Port of Colombo during 2008 to 2017, second only to Indian warships visiting Sri Lanka.

The MSDF also participated in 'Pacific Partnership 2017', a multilateral exercise with the participation of military and non-military personnel from the USA, Australia and Sri Lanka. This is the 12th year of this exercise and the first time it was conducted in Sri Lanka. The aim of this exercise was to enhance regional cooperation in the fields of medical readiness and preparedness for Humanitarian Assistance and Disaster Relief (HADR) situations.

In fact, Prime Minister Wickremesinghe was in Japan last week and arrived at a number of broad understandings with Japanese Prime Minister Abe. There, Sri Lanka welcomed Japan's "Free and Open Indo-Pacific Strategy" and its greater engagement in the region under this strategy. Under this program, Japan is expected to strengthen strategic collaboration with India. Sri Lanka is expected to participate as an observer in the next Japan-India joint exercise between coast guards to be held in India.

Related to Japan, but with India as a solid partner, Sri Lanka is embarking on another significant project centred around the Trincomalee harbor; in the North East of the Island. Trincomalee is the second largest natural harbor in the world; and it is said to be one of the finest deep sea ports as well. The proposed container terminal at the Trincomalee Port is expected to serve trade in India's east coast as well as Bangladesh and Myanmar.

A treasure in Trincomalee is the a large 99-unit tank farm built by the British during the war which remains mostly unused, except for some 15 tanks by the Lanka Indian Oil Company. It is expected that Prime Minister Modi will agree on the proposed Joint Venture between IOC and Sri Lanka in the USD 300-500m dollar investment to bring the facility up to the finest international standards as a part of the port centered the larger Trinco development zone. Surbana-Jurong of Singapore has already been contracted to draw up a city master plan with the inputs of India and Japan based on our objectives.

Conclusion

In conclusion, having gone through a fairly comprehensive narrative of what Sri Lanka is planning and implementing in its Ocean based strategy, I would like to point out that those of us who are geographically located in the Indian Ocean region have a primary interest in the security of the Indian Ocean, which is directly linked to our economies.

The importance India attaches to its nearest neighbors is reflected in the Neighborhood First policy. Under this policy and in the context of our close bilateral relations, there is a huge potential for further strengthening of Sri Lanka-India ties for our common prosperity.

A certain amount of tension, such as between large countries and their smaller neighbors, is natural in any relationship. However, we have more in common in terms of history, culture and religion, than what sets us apart.

Sri Lanka, as others in the region, stand to gain from India's growing economic and political importance in the world stage. Our two countries have robust partnerships in several fields but we should establish even more partnerships to integrate our economies in to the global production networks; producer driven ones.

Before I conclude, I think it is worth reminding ourselves that we are still developing countries facing critical development challenges in poverty, inequality and health among others. There are many areas we could learn from best practices.

I hope that our two countries can build a partnership that brings out the best in both our nations and can serve as an example of cooperation to the rest of the region and benefit mutually from those partnerships; in the ocean and on land.

Thank you.
