

ECONOMIC DIPLOMACY, ASIAN CENTURY AND SRI LANKA'S FOREIGN POLICY

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Abstract- The 21st century has been widely regarded as the Asian century and this global power shift is characterized by unprecedented economic growth, investments and enhanced regional cooperation. This global power shift continues to underscore the importance of economic diplomacy. Today we are living in a highly complicated and interconnected world where economic diplomacy knits the fabric of international relations. Thus, in a situation of worldwide acceptance of global power shift from West to East coupled with the rising importance of economic diplomacy, as an Asian country, Sri Lanka certainly has great opportunities of yielding greater results of these developments in the international arena. Against this backdrop, this study looks into Sri Lanka's current foreign policy trends to understand and analyze how Sri Lanka has adopted itself to welcome these developments in the international arena. The main objective of this study is to understand and critically evaluate the new developments in country's foreign policy over the last three years. It looks into what measures Sri Lanka have already taken and what more can be done in order to maximize the benefits from this global power shift. This is a qualitative case study research which takes into account both primary and secondary data. The study remains significant as this shift in country's foreign policy has yet to be addressed adequately. The study reveals that the country has made great strides in its foreign policy approach in the context of adjusting itself to the developments in the international arena. A significant reorientation of country's foreign policy is observed, particularly in terms of strengthening ties with Asia while effectively balancing its ties with China and India.

Keywords- Economic diplomacy, Asian Century, Sri Lanka's Foreign Policy, Global Power Shift

I. INTRODUCTION

The Asian Development Bank in its report "Asia 2050: Realizing the Asian Century" notes that Asia is in the midst of a truly historic transformation. If it continues to grow on its recent trajectory, it could by 2050, account for more than half of global Gross Domestic Product (GDP), trade and investment, and enjoy widespread affluence (ADB 2011, p.01). As the ADB notes the Asia's rise will be led by PRC, India, Indonesia, Japan, Republic of Korea, Malaysia and Thailand. Asia's rise looks set to continue and the roughly two centuries of global dominance by the European continent and the United States are drawing to a close (ESPAS 2015, p.08). This global power shift has also been identified as a geopolitical revolution (ibid). In understanding the global power shift from West to East, it should be understood with a study of changing dimensions of 'power' in international relations. Before understanding the concept of power, it should be noted that despite power is one of the most used terms in the field of international relations, it lacks a common definition. According to Nye (2004,p.01), power is like weather. Everyone depends on it and talks about it but few understand it. Until the recent history, power in international relations is often seen from a realist perspective. Power is considered by some realists to be an end in itself, while others assert that it is a means to an end (Schmidt 2007, p.45). Hans Morgenthau, in his work "Politics among Nations" claims that international politics, like all politics, is a struggle for power. Whatever the ultimate aim of international politics, power is always the immediate aim (Morgenthau 1948, p.13). As per Mearsheimer (2001, p.12), power is the currency of great-power politics, and states compete for it among themselves. What money is to economics, power is to international relations. At its core, for realists

power is about military and other material capabilities and for them power is about force and coercion. According to Mearsheimer, power in international politics is largely a product of the military forces that a state possesses (ibid). However, (neo) liberals hold a different perception on power. For them, power is not all about force and coercion. For them, it's about attraction. This aspect of power is explained in the concept of soft power. Joseph Nye (2004) defines soft power as the ability to get what you want through attraction rather than coercion or payment, which includes culture, values and foreign policies. Explaining diminishing significance of military power in international politics, Nye (1990) claims that while military force remains the ultimate form of power in a self-help system, the use of force has become more costly for modern great powers than it was in earlier centuries. As a result of these changing perceptions on power, economic diplomacy has able to gain greater prominence international relations over the last few decades. Today, economic diplomacy knits the fabric of international relations. In today's globalized world, characterized by economic interdependency of different countries, economy has become the decisive element in international relations (Tomšić 2008, p. 35). Economic diplomacy is a significant part of a much larger set of international arrangements that breed trust between countries (Amariei 2014, p.11). As per Berridge and James economic diplomacy refers to diplomacy which employs economic resources, either as rewards or sanction, in pursuit of a particular foreign policy objective. This is sometimes known as 'economic statecraft' (2003) According to Tomšić (2008) the term economic diplomacy refers to the diplomatic service activities focused on the increasing of export, attracting foreign investments and participating in the work of international economic organizations, i.e., the activities generally focused on the affirmation of economic interests of a country on the international level. Imbert (2017) identifies three common aspects of all definitions of economic diplomacy. They are (1) facilitating access to foreign markets; (2) attracting foreign direct investments; and influencing international rules. At present, given the highly interdependent nature of world affairs, particularly from an economic perspective, economic relations have gained greater prominence in world affairs. Today, no country in this world is self-sufficient which has underscored the significance of international trade. Furthermore, investments are often considered as a major pillar of economic growth which has prompted all countries to attract more and more Foreign Direct Investments (FDI).

Looking at Sri Lanka's context over the last three years, since the Presidential election in 2015, followed by the establishment of the coalition government, a noteworthy reorientation is observed in country's foreign policy. On one hand, Sri Lanka has made a significant effort in adopting an Asia centric foreign policy. Addressing the first session of the 8th Parliament, President Maithripala Sirisena stated;

"I would like to remind you that the 21st century is the century of Asia. It must be stated that we are fortunate to be naturally endowed with a geo-political location that enables us to derive maximum benefits in the context of Asia rising as the center of global economy. One of the prime responsibilities of all of us is to design our future economic policies, plans and strategies to make maximum use of this worthy opportunity gifted to us by the nature.....I wish to declare that from here onwards, my government would concentrate more on following an Asia-focused foreign policy middle path."

While making efforts to strengthen its relations with Asia, Sri Lanka has given greater prominence to its economic interests in its foreign policy formulation. For instance, looking at country's economic vision which has been documented in 'Vision 2025', Sri Lanka will position itself as an export oriented economic hub at the center of Indian Ocean. Furthermore, the country also aspires to raise per capita income to US\$ 5,000 per year, create one million jobs, increase FDI to US\$ five billion per year, and double exports to US\$ 20 billion per year (Vision 2025, 2017). These objectives cannot be achieved without a holistic foreign policy approach. Against this background, the study attempts to understand and evaluate the major measures which have been taken by the Sri Lankan Government to make maximum use of the developments in international relations and to critically evaluate these measures. Basically, the study attempts to answer the following research question.

- i. What changes have been made in Sri Lanka's foreign policy to make maximum benefits out of the recent developments in world affairs?
- ii. How has Sri Lanka benefitted from these policy measures?

II. METHODOLOGY

This study is a desk study qualitative research based on both primary and secondary data. According to Astalin (2013, p.118), there are four major types of qualitative research designs which are commonly used. They are; (1) Phenomenology, (2) Ethnography, (3) Ground theory, and (5) Case Study. This study is a case study of Sri Lanka which looks into its foreign policy behavior since 2015 to first half of 2018 period. As this research is based on both primary and secondary data, main sources of data collection includes speeches, Hansard reports, government documents, annual reports, journal articles, magazines etc.

III. RESULTS AND DISCUSSION

As noted earlier, today Asia is indeed at a crucial juncture. Asia is all set to become the economic powerhouse in the world.

Table 01. GDP growth rate forecast-2018

	GDP growth rate
Central Asia	3.9
East Asia	5.8
South Asia	7.0
Southeast Asia	5.1
The Pacific	3.2
United States	2.4
Euro area	1.8

Source: ADB (2017), Asian Development outlook update 2017

Table 01 and Table 02 reflect the growing economic strength of Asia. As indicated in Table 01, Asia is projected to grow at a higher rate than the United States and the Euro area. Furthermore, Asian share of global output is expected to increase from 27.4% in 2010 to 50.6% in 2050. Moreover, for the first time, by 2050, Asian GDP per capita (PPP) (US\$) will be greater than the Global GDP per capita. Given the emergence of Asia as the economic powerhouse, it is pivotal for a country like Sri Lanka to strengthen its ties with Asia. Looking at the recent history, Sri Lanka has taken a number of initiatives to strengthen

Table 02. Asia's share of global output (2010-2050)

	2010	2020	2030	2040	2050
Global output (Market exchange rates, US\$ trillion)	62	90	132	195	292
Asian Share of global output (%)	27.4	33.5	38.9	44.5	50.6
Global growth (prior decade ending in column year (%))	-	4.0	3.9	3.8	3.6
Asia growth (%)	-	5.8	5.2	4.8	4.4
Asian share of global growth (%)	-	55.7	59.3	62.8	66.0
Global GDP per capita (PPP)	10,700	14,300	19,400	26,600	36,600
Asian GDP per Capita (PPP) (US\$)	6,600	10,600	10,500	25,400	38,600

Source: Asia 2050: Realizing the Asian Century, Asian Development Bank, 2017 (p.32)

its ties not only with a handful of Asian countries, but with Asia as a whole. One such laudable initiative is the ongoing discussions on Free Trade Agreements (FTA).

In addition to the two bilateral FTAs the country was having with India and Pakistan, earlier this year Sri Lanka entered into a FTA with Singapore, one of the resilient In addition to these three trade agreements, discussions are being carried out with regard to FTAs with a number of Asian countries including China, Indonesia, Thailand, Bangladesh and Malaysia. At the same time, the country is also having discussions with India on the proposed Economic and Technology Cooperation Agreement (ETCA). As noted earlier, in the coming years, Sri Lanka expects to double its exports US\$ 20 billion. In this regard, the realization of these trade agreements will certainly play a pivotal role. If Sri Lanka to achieve this target, it should certainly expand its exports, both in terms of

products as well as markets. Looking at Sri Lanka's export sector, it relies heavily on a small number of products and markets. In terms of products, tea and textiles account for more than 60% of country's total exports while the USA and Europe absorb over 50% country's exports. This overreliance on few products and markets has been the main cause of stagnant performance of country's export sector. Furthermore, the current developments in the Europe and the USA don't seem encouraging for Sri Lanka's export sector. Brexit for example would have a significant adverse impact on Sri Lanka's export sector. The UK accounts for 10% of total exports of Sri Lanka and around 30% of country's total export volume to Europe. Garments are the main export product to the UK, accounting for about 80% of total exports to UK. Thus, UK leaving the European Union means Sri Lanka will not be fully benefitted from the hard earned GSP+ facility. Against this backdrop, it is vital for Sri Lanka to diversify its exports in terms of both products and markets and this can be done only through effective practice of economic diplomacy. For example, most of the markets in Southeast Asia and Africa still remain untapped while there are so many emerging export products which have the potential to secure greater international demand.

One major reason which makes Asia such a crucial trading partner is its market. These ongoing discussion on

the FTA, if materialized, would give effective access to a market over 3 billion.

According to ADB, the emerging middle class will become a key driver of Asia's economic growth. For a country like Sri Lanka the emerging middle class indicates a significant market for country's exports. Thus, as stated earlier, now the discussions are being carried out for FTAs with China and Indonesia. Such trade agreements with huge markets like China and Indonesia would benefit country's economy immensely.

Over the last three years, Sri Lanka's strengthened ties with Asia is reflected by the number of state visits made by President Maithripala Sirisena. Out of the total state visits made by the president, the vast majority of those have been to Asian countries including India, Pakistan, China, Bangladesh, Malaysia, Japan, Indonesia and Republic of Korea. Some of these visits were made after lapse of decades. For example, the state visit of the president to Indonesia in 2017 was the first state visit made by a Sri Lankan Head of State in 40 years. This is a good example to show the reorientation of country's foreign policy towards Asia. All these visits have proved effective and fruitful. Table 04 indicates some of the main benefits Sri Lanka was able to derive from these state visits.

Table 03. Rising middle class of India, China and Indonesia

Country	2030			2050		
	Middle Class population (Million)	Upper class population (Million)	GDP per capita (PPP) (US\$)	Middle class population (Million)	Upper class population (Million)	GDP per capita (PPP) (US\$)
PRC	1,120	40	21,100	1,240	190	47,800
India	1,190	15	13,200	1,400	210	41,700
Indonesia	220	5	13,500	250	40	37,400

Source: ASIA 2050: Realizing the Asian Century, Asia Development Bank

Table 04. Outcomes of President Sirisena’s state visits to selected Asian countries.

Country of visit	Year	Outcomes
Malaysia	2016	Signing of five Memorandum of Understanding (MoU) <ul style="list-style-type: none"> • MoU on Tourism Related Activities. • MoU on cooperation in the field of Youth Development. • MoU on the Recruitment, Employment and Repatriation of workers. • MoU in the field of Culture, Arts and Heritage. • MoU between Sri Lanka Council for Agricultural Research Policy (SLCARP) and Malaysian Agricultural Research and Development Institute (MARDI) on Scientific Research and Technical Cooperation.
Republic of Korea	2017	Agreements on economic cooperation, Economic Development Cooperation Fund (EDCF) and cultural cooperation. MoU on investment Cooperation and the Employment Permit System (EPS)
China	2015	MoUs on cooperation for special aid in public health, development of water treatment methods and technologies in kidney disease affected areas, research and development of the coconut industry and refurbishment of the Superior Court complex in Sri Lanka.
Republic of Indonesia	2017	Signing of two agreements on maritime and fishing cooperation and the cooperation on traditional industries.

Source: Created by author based on President’s Official website

Considering the recent developments in the Asian region, it’s no exaggeration to claim that the success of Sri Lanka’s Asia centric foreign policy to a greater extent shall be determined by how well it maintains and balances its ties with China and India. However, this is by no means an easy task. China-India relations over the years have been both controversial as well as complicated. Given the geopolitical rivalry between China and India for the supremacy of the Indian Ocean, it’s vital for Sri Lanka to be cautious in balancing its relations with the two giants.

In understanding the nature and scope of Sri Lanka’s relations with India and China, it is vital to have brief understanding of Sino-India relations. Despite

unresolved territory dispute, mutual suspicions over each other’s military strength, and geopolitical rivalry for the supremacy in the Indian Ocean, both countries continue to maintain strong economic ties, particularly in terms of trade and investment. Looking at trade statistics, the bilateral trade between India and China in 2017 rose by 18.63% year-on-year to reach US\$ 84.44 billion. It’s registered as a landmark as the volume of bilateral trade for the first time touched US\$ 80 billion, well above the US\$ 71.18 billion registered last year (THE TIMES OF INDIA, 2018). Looking from an economic perspective, over the last decade both India and China have able to achieve healthy economic growth, and projected to continue that success in the coming years as well (Figure 01).



Figure 01. Economic growth rates of China and India (2015- 2019)
 Source: Asian Development Outlook 2018, Asian Development Bank

From geopolitical and geo-economic perspective, Sri Lanka can ill afford losing any of the two giants in Asia. Particularly from an economic perspective, as it stands now, Sri Lanka is highly benefitted from both India as well as China.

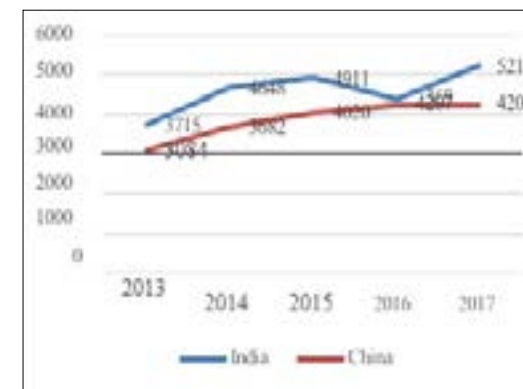


Figure 02. Sri Lanka’s total trade with India and China (Value in US\$ million)
 Source: Central Bank Annual Report 2017, Central Bank of Sri Lanka

As given in figure 02, India and China have been major trading partners of Sri Lanka. The Graph 02 indicates Sri Lanka’s total trade with China and India. There has been a significant increase in total trade with both China and India during the period 2013-2017. In 2017, India was Sri Lanka’s main import partner followed by China while during the same year India was the third largest destination for Sri Lanka’s exports.

When it comes to tourism sector also India and China (P.R) remain vital as they generate highest number of

tourists to Sri Lanka. Furthermore, as far as Investments are concerned, both countries have made investments worth billions of dollars. According to the Indian High Commission in Colombo, Sri Lanka, India is among the top four investors in Sri Lanka with cumulative investments over USD 1 billion since 2003. On the other hand, today china remains Sri Lanka’s largest lender and the investor. When it comes to investments, the Colombo International Financial City or Port City Project, invested and developed by the China Communications and Construction Company Limited (CCCC), is Sri Lanka’s largest FDI with an estimated total of US\$ 15 billion. This is also the largest project between China and Sri Lanka under One Belt and One Road project initiated by China. In addition, a significant number of infrastructure development projects have been funded by China, including the Hambantota port, which is now being leased to China for a period of 99 years.

Considering these facts, Sri Lanka can ill afford losing any of these giants. The present government has made laudable effort in terms of balancing relations between both these countries. For instance, from a geo political perspective, this increasing Chinese presence in Sri Lanka is certainly a matter of concern for India. Yet, this Chinese presence has not hampered Sri Lanka’s relations with India. This can be identified as one of the greatest achievements of Sri Lanka over the last three years.

However, the Asia centric foreign policy is not only about strengthened relations between China and India, but it is also about strengthening ties with rest of the Asia as well. In this regard also Sri Lanka has made a significant progress over the last three years. As stated earlier, the ongoing trade talks with a number of Asian countries reflect the concrete measures taken during the last three years to strengthen country’s ties with Asia as a whole.

Further, in the context of effective implementation of economic diplomacy, maintaining friendly relations with countries alone is not sufficient. The success of economic diplomacy relies on two main aspects. First would be the presence of an open and dynamic foreign policy and second aspect is effective and systematic liberalization of the economy. This will be the perfect combination for successful practice of economic diplomacy. When it comes to economic liberalization, despite the open market economic policy brought on during the late 1970’s, Sri Lankan external trade has always been adversely affected by rigid protectionist policies.

However, the present government has taken a number of initiatives to liberalize the economy in an effective way for the best interest of the country. Some of these initiatives include; removal of para tariffs, opening up the shipping and logistics sector etc. Effective liberalization of the economy will be critical in Sri Lanka's journey towards becoming the commercial hub of the Indian Ocean. Furthermore, Sri Lanka's ratification of World Trade Organization (WTO) Trade Facilitation Agreement (TFA) in 2016 can be cited as another major stride forward towards greater level of trade facilitation. Meanwhile, the Organization for Economic Co-operation and Development (OECD), while acknowledging Sri Lanka's performance (period 2015- 2017) in many of trade facilitation indicators including documents, automation, internal border agency cooperation, has noted that country's progress remains stagnant in the areas of procedures, trade community involvement, information availability and governance and impartiality (Figure 03).

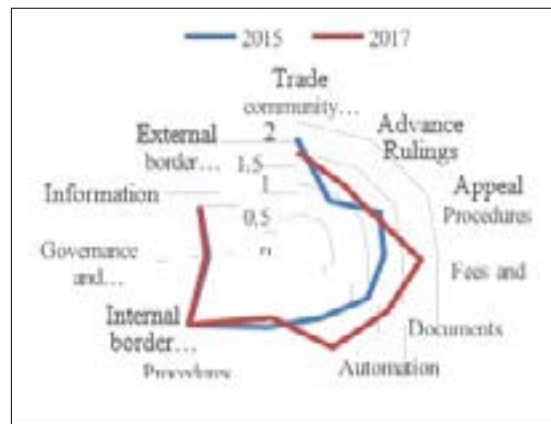


Figure 03. Sri Lanka's performance in Trade Facilitation Indicators (2015-2017)*
 *2 = best performance that can be achieved
 Source: OECD trade indicators

IV. CONCLUSION

Considering the initiatives taken by Sri Lanka over the last three years, it can be said that the country has made a significant effort to reorient its foreign policy in such a way to yield maximum results out of the current developments in international relations. Over the last three years, significant effort is made in terms of strengthening country's ties with Asia. Here, the most noteworthy aspect

of this new approach of foreign policy is that Sri Lanka while effectively balancing its ties with China and India, has also been able to create a broader partnership with the rest of Asia as well. This remains the most outstanding aspect of Sri Lanka's Asia centric foreign policy. As noted at the outset, the Asia's rise will be led not only by China and India. Countries like Indonesia, Malaysia, Thailand, and Republic of Korea too will play a major role in this regard. Therefore, understanding these developments will remain vital for Sri Lanka if it to yield significant results from these developments in the international arena. However, with regard to its practice of economic diplomacy, there are loopholes which need to be rectified with immediate effort. Especially, areas of procedures, trade community involvement, information availability and governance and impartiality need greater attention. However, the progress which has been made so far in country's foreign policy approach is highly commendable and if Sri Lanka can rectify the shortcomings in country's trade facilitation frontiers, for certain Sri Lanka will be the commercial hub of Asia.

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