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RBI Signs Currency Swap for Sri Lanka

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Why in News

Recently, **India and Sri Lanka** had a **virtual meeting** in the wake of the **Covid-19** pandemic.

It was attended by the officials from the Ministry of External Affairs, Ministry of Finance, representatives of the Sri Lankan government and the **Export-Import (Exim) Bank**.

Exim Bank is the premier export finance institution of India.

Key Points

- The **Reserve Bank of India** has agreed to a **USD 400 million currency swap facility** for **Sri Lanka till November 2022 to boost the foreign reserves and ensure the financial stability of the country**.
 - **Currency Swaps** are used to obtain foreign currency loans at a better interest rate than could be obtained by borrowing directly in a foreign market.
Central banks and Governments engage in currency swaps with foreign counterparts **to meet short term foreign exchange liquidity requirements** or to **ensure adequate foreign currency to avoid Balance of Payments (BOP) crisis** till longer arrangements can be made.
 - The decision comes five months after **Sri Lankan Prime Minister Mahinda Rajapaksa had visited New Delhi** and a recent bilateral discussion on rescheduling Colombo's outstanding debt repayment to India.
 - Sri Lanka owes USD 960 million to India.

- Government and industry representatives from both countries also participated in a webinar on ‘**Deepening Economic Collaboration between India and Sri Lanka**’, organised by the **Federation of Indian Chambers of Commerce and Industry** (FICCI) in association with other institutes.
 - Sri Lanka highlighted that **non-tariff barriers in receiving countries create difficulties** in market access.
 - A **nontariff barrier** is a way to restrict trade by using barriers other than a tariff. These include quotas, embargoes, sanctions, and levies.
 - To resolve that, it **urged FICCI to collaborate with the Sri Lankan Mission** in New Delhi to **help boost the export of its spices and concentrates** to the Indian market.

Current Dynamics of India-Sri Lanka Relations

- Sri Lanka has not commented anything on the ongoing **conflict between India and China**, both of which are its closest partners.
- Sri Lanka has **not taken any final decision on the East Container Terminal (ECT) project** at the **Colombo Port**.
 - There have been widespread protests alleging the Sri Lankan Government of giving away national assets to India even though **Sri Lanka’s Port Authority will retain 100% ownership** of the facility.
 - In **2019, Sri Lanka, India and Japan signed a tripartite Memorandum of Cooperation** and **agreed to jointly develop the ECT Project**.
- In **November 2019**, India announced a **USD 450 million Line of Credit to Sri Lanka**, to **help strengthen its infrastructure and economy** which showed a proactive, relation-building approach.
- India **assisted Sri-Lanka in tackling Covid-19** and also **helped in the ‘Suwa Seriya’ ambulance service**. The assistance shows **good links in the health sector**, including telemedicine, between both countries.

- **Popular Tamil leaders in Sri Lanka still invoke India** on the pending political solution to the **Tamil question**, which at times **can give an impression of India interfering in internal matters of Sri Lanka**.
 - In **1983**, India played an active role in the war between **Sri Lankan Tamils and the Sinhalese majority**.
 - In **1987**, the **Indo-Lanka Accord** was signed to provide a political solution to Sri Lanka's conflict.
 - It proposed the **establishment of a provincial council system and devolution of power** for nine provinces in Sri Lanka (also known as **The Thirteenth Amendment**).
 - However, Tamil leaders **feel helpless and keep appealing to India** but with its growing geopolitical concerns in the region, **India is unlikely to take any strong position** on the issue now.
- **Concerns:**
 - The Sri Lankan President pointed towards **India's varying amounts of developmental assistance in the northern Tamil region** and **highlighted the discriminatory tendencies**.
 - **India's attitude and relationship with her immediate neighbours** depend on their **appreciation of India's regional security concerns**.
India expects her neighbours to **serve as buffer states** in the event of an extra-regional threat and **not proxies of the outside powers**.
- **Suggestions:**
 - Both countries can **explore possible collaborations in textiles, information technology and agribusiness**, few of the sectors on which India has a stronghold.
 - Sri Lanka should **facilitate, protect and promote a liberal ecosystem for Indian investors** and welcome Indian businesses in **developing industrial zones, automotive components, pharma, textiles and engineering**.
 - There should be **continued high-level engagement on building economic and people-to-people links**.
Both of them should focus on increasing the volume and quality of people-to-people links, without assuming they will naturally result from geographical proximity.

Way Forward

- Relations between India and Sri Lanka have been great as friends and neighbours, comparatively.

- In the current times of pandemic, the fact that several Indian companies are involved in the race to develop a vaccine presents India with a potentially huge, once-in-a-generation opportunity to cement its goodwill with the neighbourhood by securing regional access to these vaccines.
- The bilateral relationship between both countries is an important cornerstone of a peaceful and prosperous South Asia. Examples of Singapore-Malaysia and New Zealand-Australia indicate that a smaller country's economic success is tied to having a strong or at least stable relationship with its larger neighbour.

Source: TH