



## India-Sri Lanka Deteriorating Ties

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This article is based upon **“Sri Lanka’s economic crisis poses challenges for India”** which was published in Livemint on 09/09/2021. It talks about deteriorating ties of India and Sri Lanka in recent times, how the latter’s economic crisis are worsening it and what India can do to preserve this age-old relationship.

India’s development partnership with Colombo has always been demand-driven, with projects covering social infrastructure like education, health, housing, access to clean water and sanitation, besides industrial development.

India’s **‘Neighbourhood First’** policy towards Sri Lanka also resonated with Sri Lanka’s **‘India First’ foreign and security policy** in 2020.

However in recent times, due to Chinese intervention, the ties between the two countries have plummeted. The condition is likely to worsen with **Sri Lanka declaring the state of emergency** in the country.

To prevent India from losing significant ties with countries like Sri Lanka, it needs to nurture its international & diplomatic policies and make use of the regional platforms to the fullest.

### India and Sri Lanka

- **Economic Ties:** India is Sri Lanka’s **third largest export destination**, after the US and UK. More than 60% of Sri Lanka’s exports enjoy the benefits of the **India-Sri Lanka Free Trade Agreement**. India is also a major investor in Sri Lanka.
  - **Foreign Direct Investment (FDI)** from India amounted to around \$ 1.7 billion over the years from 2005 to 2019.
  - In July 2020, the **RBI signed a currency-swap agreement with the Central Bank of Sri Lanka (CBSL)** under the **SAARC Currency Swap Framework 2019-22**, for withdrawals of up to \$400 million.

- **Plummeting Relations:** The political and economic ties began to worsen between the two since February, 2021 when **Sri Lanka backed out from a tripartite partnership with India and Japan** for its **East Container Terminal Project** at the Colombo Port, citing domestic issues.

However, later, the **West Coast Terminal** was offered under a public private partnership arrangement to Adani Ports and Special Economic Zones Ltd.

- **Sri Lanka's State of Emergency:** Sri Lanka, running out of Forex reserves for essential imports like food, has recently declared a state of economic emergency.
  - Sri Lanka depends heavily on imports to meet even its basic food supplies, such as sugar, dairy products, wheat.

The **price of food items has risen** in tandem with the **depreciating rupee**.

- The **Tourism sector has also drastically suffered** since the terror attacks of 2019, followed by the pandemic and the **FDI inflows have halved** from \$1.2 billion (2019) to \$670 million (2020).
- Its public **Debt-to-GDP ratio was at 109.7%** in 2020 and the **external debt-to-GDP ratio stood at 62%** in 2020.

## Debt-to-GDP Ratio

- It is the metric comparing a country's public debt to its Gross Domestic Product (GDP). It is often **expressed as a percentage**.
- By comparing what a country owes (debt) with what it produces (GDP), the debt-to-GDP ratio reliably **indicates a particular country's ability to pay back its debts**.  
A country with a **high debt-to-GDP ratio typically has trouble paying off public debts**.

## Chinese Intervention in the Ties

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- **Largest Creditor to Sri Lanka:** China is the **largest bilateral creditor to the country**. Its loans to the Sri Lankan public sector **amount to 15% of the central government's external debt**.

Sri Lanka heavily relies on Chinese credit to address its foreign debt burden.

- **Surpassing Indian Exports:** China's exports to Sri Lanka surpassed those of India in 2020 and stood at **\$3.8 billion**.

**India's exports were at \$3.2 billion** for the same year.

- **Investment in Infrastructure Projects:** China has invested about \$12 billion in Sri Lanka's Infrastructure projects between 2006-19.
  - The country also has **formal control over Sri Lanka's Hambantota port** as a part of a 99-year lease.
 

Sri Lanka has decided to **establish a Special Economic Zone around the Colombo port city** and a new economic commission, **to be funded by China**. The Colombo port handles **60% of India's trans-shipment cargo**.
  - Leasing of Hambantota and the Colombo Port City project makes it almost certain for the **Chinese navy to have a permanent presence in the Indian Ocean** which will be worrisome for India's national security.
- **Shifting Interests of Smaller Nations:** Sri Lanka's economic crisis may further push it to align its policies with Beijing's interests.
  - This comes at a time when India is already on a **diplomatic tightrope with Afghanistan and Myanmar**.
  - Other South Asian nations like Bangladesh, Nepal and the Maldives have also been turning to China to finance large-scale infrastructure projects.

## Way Forward

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- **Preserving Strategic Interests:** Nurturing the Neighbourhood First policy with Sri Lanka is important for India to preserve its strategic interests in the Indian Ocean region.
- **Taking Advantage of Regional Platforms:** Platforms like the **BIMSTEC**, **SAARC**, **SAGAR** and the **IORA** could be leveraged to foster cooperation in fields like technology-driven agriculture, marine sector development, IT & communication infrastructure etc.
 

Indian foreign policy towards Sri Lanka, as part of its '**Island Diplomacy**', will also have to evolve in tune to the emergent realities and threats.
- **Restraining Chinese Expansion:** India will need to continue to work on the Kankasanturai port in Jaffna and the oil tank farm project in Trincomalee to **ensure that China does not make any further inroads in Sri Lanka**.
 

Both countries can also cooperate on **enhancing private sector investments to create economic resilience**.
- **Leveraging India's Soft Power:** In the technology sector, India can **create job opportunities in Sri Lanka** by expanding the presence of its IT companies.
 

These organisations can create thousands of direct and indirect jobs and boost the island nation's service economy.

### *Drishti Mains Question*

Discuss the recent decline in Indo-Sri Lankan relations and the role that China has played in it. Suggest the measures that both the countries can take to preserve their bilateral ties.

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