



## China's Aid to Sri Lanka

**For Prelims:** Export-Import (EXIM) Bank of China, [International Monetary Fund \(IMF\)](#), [Line of credit \(LoC\)](#), [Extended Fund Facility \(EFF\)](#), [Haircut](#), [Inflation](#), [Belt and Road Initiative \(BRI\)](#), [Debt-Trap Diplomacy](#)

**For Mains:** Impact of China's aid to Sri Lanka and the [Belt and Road Initiative \(BRI\)](#) on India's ties with the island country.

**Source:** [IE](#)

### Why in News?

More than a year after Sri Lanka plunged into an economic crisis, it has reached an agreement with the Export-Import (EXIM) Bank of China to cover about USD 4.2 billion of its outstanding debt.

- For India, China's assistance to Sri Lanka will be seen as another means through which it is investing in deepening its ties with the island nation.

### What is the Context of China's Present Aid to Sri Lanka ?

- **Sri Lanka's Economic Crisis Causes and Response:**
  - In April 2022, Sri Lanka declared its inability to repay its debt of over **USD 83 billion**, with more than half owed to foreign creditors.
  - Factors contributing to the crisis include **large tax cuts in 2019, the impact of the coronavirus pandemic on the tourism industry, and fuel shortages due to the war in Ukraine.**
  - Sri Lanka sought assistance from China and India, where India extended **USD 500 million credit line for fuel and a USD 1 billion credit line** for importing essentials.
- **Concerns and Challenges in Debt Negotiations:**
  - Sri Lanka initiated negotiations with bondholders and key bilateral creditors, **including China, Japan, and India, to meet IMF conditions.**
    - Sri Lanka received a USD 2.9 billion [IMF Extended Fund Facility](#), but had to secure financing assurances for debt sustainability from its creditors through debt restructuring.
      - For instance, Sri Lanka asked foreign investors for a 30% reduction in outstanding debt and hopes to reduce its overall debt by USD 16.9 billion.
  - The [Paris Group](#) attempted to bring China and India into negotiations as a whole, ensuring no nation receives preferential terms.
  - China has traditionally pursued bilateral negotiations with confidential terms, while **India had concerns about joining a common platform that does not include China** as it may have implications for military and strategic interests in the [Indian Ocean Region](#).

### How Strong are China-Sri Lanka Ties ?

- **Largest Creditor to Sri Lanka:**

- China is the **largest bilateral creditor** to the country.
- Sri Lanka heavily relies on Chinese credit to address its foreign debt burden.
- **Investment in Infrastructure Projects:**
  - China has invested about USD 12 billion in Sri Lanka's infrastructure projects between 2006-19.
- **China's Pursuit in the Indian Ocean:**
  - China enjoys friendlier waters in South Asia and the Indian Ocean than it does in Southeast Asia and the Pacific.
  - China faces opposition from Taiwan, territorial disputes in the [South China Sea](#) and East Asia, and myriad frictions with the US and Australia.
  - **Shifting Interests of Smaller Nations:**
    - Sri Lanka's economic crisis may further push it to align its policies with China's interests.
- **India's Concerns:**
  - **Opposition to SAGAR Initiative:** The Chinese-proposed "**Forum on the Development of Indian Ocean Island Countries**" sounded in opposition to India's [SAGAR \(Security and Growth for All in the Region\) initiative](#).
  - **Issues Emanating from Two Engines of Growth:** China 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.
    - 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.**
    - This Chinese strategy to encircle India is referred to as the **Strings of Pearls Strategy.**
- **Influencing India's Neighbours:** Other South Asian nations like Bangladesh, Nepal and the Maldives have also been turning to China to finance large-scale infrastructure projects.



## How have Relations Between India and Sri Lanka Been?

- **Historical Ties:** India and Sri Lanka have a long history of cultural, religious, and trade ties dating

back to ancient times.

- There are strong cultural ties between the two countries, with many Sri Lankans tracing their heritage to India. **Buddhism, which originated in India, is also an important religion in Sri Lanka.**
- **Financial Assistance from India:** India provided approximately **USD 4 billion worth** of aid to Sri Lanka during an unprecedented economic crisis, which was crucial for the country to survive the crisis.
  - **India became the first country** to hand over its letter of support for financing and debt restructuring of Sri Lanka.
- **Regional and Indian Ocean Context:** Both countries are significant **Indian Ocean** countries, and their relations are viewed in the broader regional and Indian Ocean context.
- **Economic and Technology Cooperation Agreement (ETCA):** Both countries are exploring the possibility of an **ETCA** to integrate their economies and foster development.
- **Agreement on a Multi-Project Petroleum Pipeline:** Both India and Sri Lanka have agreed to establish a multi-product petroleum pipeline from the southern part of India to Sri Lanka.
- **Adoption of India's UPI:** Sri Lanka has now adopted India's UPI service, which is a significant step towards enhancing fintech connectivity between the two countries.
  - The **use of rupee for trade settlement** is further helping Sri Lanka's economy. These are concrete steps to help Sri Lanka's economic recovery and growth.
- **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.
- **Defence:** India and Sri Lanka conduct joint military (**Mitra Shakti**) and Naval exercise (**SLINEX**).
- **Participation in Groupings:** Sri Lanka is also a member of groupings like **BIMSTEC** (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) and **SAARC** in which India plays a leading role.

## Note

The Indian Prime Minister and Sri Lankan President recently resumed the **ferry service**, nearly four decades after it was **canceled due to the Civil war in Sri Lanka**.

- The ferry links **Nagapattinam in Tamil Nadu (India) to Kankesanthurai in Sri Lanka's Jaffna**, aiming to bring both nations closer through enhanced connectivity and shared cultural and historical ties.
- It will cover the **60-nautical mile journey in approximately 3.5 hours**.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### Prelims

**Q1. Elephant Pass, sometimes seen in the news, is mentioned in the context of the affairs of which one of the following? (2009)**

- (a) Bangladesh
- (b) India
- (c) Nepal
- (d) Sri Lanka

**Ans: (d)**

### Mains

**Q2.** In respect of India-Sri Lanka relations, discuss how domestic factors influence foreign policy. **(2013)**

**Q3.** 'India is an age-old friend of Sri Lanka.' Discuss India's role in the recent crisis in Sri Lanka in the light of the preceding statement. **(2022)**

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