



## Sri Lanka's Crisis

**For Prelims:** Sri Lanka, Economic Crises, Foreign Exchange, Imports & Exports, IMF, Public Debt, Organic Farming

**For Mains:** Effects of Sri Lanka Crises on Indian Economy, India's role in Sri Lanka's crises, Effect of Policies and Politics of Countries on India's interest

### Why in News?

Sri Lanka, a country of 22 million people, is **under the grip of an unprecedented economic turmoil**, the worst in seven decades, leaving millions struggling to buy food, medicine, fuel and other essentials.

- Following the **political and economic instability**, hundreds of anti-government protesters stormed into the Sri Lankan President's residence demanding his resignation.



### What led to recent Sri Lanka Crisis?

- **Background:**
  - When Sri Lanka emerged from a 26-year long **civil war** in 2009, **its post-war GDP growth was reasonably high at 8-9% per annum till 2012.**
  - However, its average **GDP growth rate** almost **halved** after 2013 as global commodity prices fell, exports slowed down and imports rose.
  - Sri Lanka's **budget deficits** were high during the war and the **global financial crisis of**

**2008** drained its **forex reserves** which led to the country borrowing a USD2.6 billion loan from the **IMF** in 2009.

- It **again approached the IMF in 2016** for another USD1.5 billion loan, however the conditionalities of the IMF further deteriorated Sri Lanka's economic health.

▪ **Economic Factors:**

- **The Easter bomb blasts of April 2019** in churches in Colombo resulting in **253 casualties**, consequently, **dropped the number of tourists** sharply leading to a decline in foreign exchange reserves.
- The **newly led government by Gotabaya Rajapaksa** in 2019 promised lower tax rates and wide-ranging SoPs for farmers during their campaign.
  - The quick implementation of these ill-advised promises further **exacerbated the problem.**
- The **Covid-19 pandemic** in 2020 made the bad situation worse -
  - Exports of **tea, rubber, spices and garments** suffered.
  - **Tourism arrivals and revenues** fell further
  - Due to a rise in government expenditures, the **fiscal deficit** exceeded 10% in 2020-21, and the debt to GDP ratio rose from 94% in 2019 to 119% in 2021.
- The Crisis in Sri Lanka is triggered due to a **shortage of foreign exchange** (forex) reserves, which have dropped by 70% over the last two years to just USD 2 billion by the end of February 2022.
  - Meanwhile, the country has foreign debt obligations of about USD 7 billion for 2022.

▪ **Sudden Move to Organic Farming:**

- In 2021, **all fertiliser imports were completely banned** and it was declared that Sri Lanka would become a 100% **organic farming** nation overnight.
- This **overnight shift to organic fertilisers** heavily impacted food production.
- Consequently, the Sri Lankan President declared an **economic emergency** to contain rising food prices, a depreciating currency, and rapidly depleting forex reserves.

▪ **China's Debt Trap:**

- Sri Lanka has **borrowed heavily from Beijing** since 2005 for infrastructure projects, many of which became White Elephants (no longer needed/ useful).
- Sri Lanka also leased its **Hambantota port** to a Chinese company in 2017 after it **became unable to service the USD 1.4 billion debt** from Beijing used to build it.
- **Sri Lanka's total debt to China stands at USD 8 billion**, almost one sixth of its total external debt

▪ **Current Political Vacuum:**

- Prime Minister Wickremesinghe and President Gotabaya Rajapaksa **signalled the willingness to resign** making way for an all-party government to take over.

## Why should India worry about Sri Lanka Crisis?

▪ **Challenges:**

- **Economic:**
  - Sri Lanka's share in India's total exports has **declined** from 2.16% in FY15 to just 1.3 per cent in FY22.
  - **Automotive firms** like Tata Motors and TVS Motors have stopped exports of vehicle kits to Sri Lanka and halted production at their Sri Lankan assembly units due to its unstable forex reserves and fuel shortages.
- **Refugee:**
  - Whenever a political or social crisis has occurred in Sri Lanka, India has **witnessed a large influx of ethnic Tamil community refugees** from the Sinhala Land to India through the Palk strait and Gulf of Munnar.
  - However, India may find it difficult to handle such an influx and needs a robust policy in place to handle the crisis.
  - The state of Tamil Nadu **has already started feeling the impact of the crisis** with the reported arrival of 16 persons from Sri Lanka through illegal means.

## What Opportunities should India look for?

▪ **Opportunities:**

- **Tea Market:**
  - Amid the sudden halt of [tea supply](#) by Sri Lanka to the global tea market, **India is keen to plug the supply gaps.**
  - India could **strengthen its footprint in Iran** and as well as new markets such as Turkey, Iraq.
  - Big Sri Lankan tea importers from Iran, Turkey, Iraq and Russia are reportedly **visiting India for tea plantations in Assam and Kolkata.**
  - As a result, at recent Kolkata auctions, the average price for orthodox leaf saw an increase of up to 41% compared to corresponding sales last year.
- **Apparel (Clothing) Market:**
  - Many apparel orders from the United Kingdom, European Union, and Latin American countries **are now being diverted to India.**
  - Several orders have been given to companies in Tirupur, the hub of the textile industry in Tamil Nadu.

## Why Should India assist in Helping Sri Lanka?

- Sri Lanka has been a **strategically important partner for India.** India can make use of this opportunity to **balance its diplomatic ties with Sri Lanka**, which have been **distant owing to Sri Lanka's proximity with China.**
  - As the disagreement between Sri Lanka and China intensified on the fertiliser issue, **India's fertiliser delivery to Sri Lanka on the latter's request is seen as a positive development in the bilateral relations.**
- Extending diplomatic ties with Sri Lanka will **ease India's effort to keep the Sri Lankan archipelago out of China's 'string of pearls' game in the Indo-Pacific.**
  - To the extent India can extend help to alleviate the hardships of Sri Lankans, it should be done with due care keeping in mind that the optics of its aid matters too.

## Way Forward

- **Implementing Democracy in True Spirit:**
  - There is a need for **strong political consensus in Sri Lanka** for better crisis-management. Militarisation of Administration can be reduced.
    - Considerations are needed to **help the poor and vulnerable** get back on their feet and prevent long-term scarring.
    - The steps include an **increase in agricultural productivity, increased job opportunities in non-farming sectors, better implementation of reforms and reviving the tourism sector.**
- **Support from India:**
  - India, which has followed the **"Neighbourhood First policy"** to cement bonds with its neighbours, can walk that extra mile to help Sri Lanka out of the current crisis and help Sri Lanka towards realising its potential, to reap the rewards of a stable, friendly neighbourhood.
- **Bailout from International Monetary Fund:**
  - Sri Lanka has approached the IMF for the bailout. The IMF can support Sri Lanka's efforts to overcome the current economic crisis.
- **Prospects of Circular Economy:**
  - With reference to economic instability in Sri Lanka, the dependence on imports can be minimised by the circular economy, it will offer a sustainable alternative to aid a recovery.

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

**Q. 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)**

**Explanation:**

- Elephant Pass, an isthmus, links the northern mainland of Sri Lanka known as Wannu with the Jaffna Peninsula.
- During the Dutch occupation of Sri Lanka, elephants were exported from Karaitivu, one of the islands lying off the Jaffna peninsula and an annual sale of elephants was also held in Jaffna. Elephants caught in other parts of the country were driven into the Jaffna peninsula across this lagoon, which was later bridged and given the name Elephant Pass.
- In the history of the Liberation Tigers of Tamil Eelam (LTTE) and Sri Lanka, fall of Elephant Pass marked, for the first time, that the Tamil Eelam controlled the strategically important link between Sri Lankan mainland and Jaffna peninsula.
- **Therefore, option (d) is the correct answer.**

**Source: IE**

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