



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

- **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

- **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.