



Sri Lanka's Crisis

This editorial is based on [“Sri Lanka uprising: A new social contract”](#) which was published in The Indian Express on 11/07/2022. It talks about the Sri Lanka Crisis and related issues.

For Prelims: Sri Lanka Crisis, International Monetary Fund, Balance of Payments, Forex reserves, China's Debt Trap Policy, Tamil community refugees, Neighbourhood First policy, G20

For Mains: Background of Sri Lankan Crisis, Impacts of Sri Lanka Crisis on India, India's Support to Sri Lanka

Political parties in Sri Lanka are scrambling to form an all-party government, a day after **President Gotabaya Rajapaksa and Prime Minister Ranil Wickremesinghe pledged to resign** in the wake of **historic citizens' protest**.

The **anti-government sentiment across various parts of Sri Lanka has triggered a state of political instability**. It is fueled by the anti-government **protests** and demonstrations by the public **due to the economic crisis in the country**.

The Sri Lankan economy has been facing a crisis owing to a serious **Balance of Payments (BoP) problem**. Its **foreign exchange reserves are depleting rapidly** and it is becoming increasingly **difficult for the country to import essential consumption goods**.

The **Sri Lankan rupee has lost more than 80% of its value**, food costs have skyrocketed by over 50% and **tourism- one of the country's main revenue sources has significantly diminished due to the Covid-19 pandemic**.

Let us understand what led to political and economic instability in Sri Lanka and its impacts.

What Led to the Sri Lankan 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 2.6 billion dollars loan from the International Monetary Fund (IMF) in 2009**.
 - It **again approached the IMF in 2016** for another **USD 1.5 billion loan**, however the conditionalities of the IMF further deteriorated Sri Lanka's economic health.

▪ **Sri Lanka's Fertiliser Ban:**

- **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.**
 - The lack of foreign currency, coupled with the overnight ban on chemical fertilisers and pesticides, has sent food prices soaring.

▪ **Recent Economic Shocks:**

- **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 promises further exacerbated the problem.
- The **Covid-19 pandemic in 2020** impacted exports of tea, rubber, spices, garments and the tourism sector.
- **[China's Debt Trap Policy](#)** played a significant role in **economic instability in Sri Lanka.**
- 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 in 2022.**

▪ **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.**

How is the Crisis in Sri Lanka Impacting India?

▪ **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.**

▪ **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 per cent** 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 Tamilnadu.

Why Helping Sri Lanka is in India's Interests?

- 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.**

How can Sri Lanka overcome the Crisis?

- **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.**
 - **Indian businesses can build supply chains that intertwine the Indian and Sri Lankan economies** in goods and services ranging from essential goods to Information technology services.
 - Since mid-March, over **270,000 metric tonnes of diesel and petrol have been delivered to Sri Lanka.**
 - In addition, around 40,000 tonnes of rice have been supplied under the recently extended USD 1 billion credit facility.
 - **India can charter the trajectory of Sri Lankan presence in Multilateral forums** like **G20** that will provide Sri Lanka a base of assistance from Developed Nations.
- **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.
 - The IMF can **restore macroeconomic stability and debt sustainability**, while **protecting the poor and vulnerable, safeguarding financial stability**, and **stepping up structural reforms to address corruption vulnerabilities** and unlock Sri Lanka's growth potential.
- **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.**

Drishti Mains Question

India's 'Neighbourhood First policy' can walk an extra mile to help Sri Lanka out of the current crisis. Substantiate your view.

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)

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