



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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