



## 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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PDF Reference URL: <https://www.drishtias.com/current-affairs-news-analysis-editorials/news-editorials/12-07-2022/print>

