

Sansad TV Perspective: Sri Lanka: Trouble in Paradise

In the series Sansad TV Perspective, we bring you an analysis of the discussion featured on the insightful programme 'Perspective' on Sansad TV, on various important topics affecting India and also the world. This analysis will help you immensely for the [IAS exam](#), especially the mains exam, where a well-rounded understanding of topics is a prerequisite for writing answers that fetch good marks.

In this article, we feature the discussion on the topic: Sri Lanka: Trouble in Paradise

Video link: <https://youtu.be/hkAG5PFIxsE>

Anchor: Teena Jha

Participants:

1. Dilrukshi Handunnetti, Senior Journalist, Columbo, Sri Lanka
2. Sheel Kant Sharma, Former Ambassador
3. Dr. A. Subramanyam Raju, Head, Centre for South Asian Studies, Pondicherry University

Context: Sri Lanka is experiencing a historic economic crisis with massive public unrest and suffering that are in demand of effective measures.

An overview of the Lankan Crisis:

- It is considered that Sri Lanka's massive economic crunch possesses a prominent political flavour behind it.
- This is perhaps the root cause of people's agony against the government led by Gotabaya Rajapaksa whose leadership has been questioned on the grounds of accountability and credibility.
- To tackle the public outrage, the President of Sri Lanka issued a 36-hour curfew which many protestors refused to agree with.
- A National Emergency was imposed by the President and that ignited further protests and was criticised by the opposition leaders. Consequently, the emergency was revoked.
- There exist long lines of fuel, cooking gas, essentials in inadequate supply along with long hours of power cuts.
- As the ruling political leadership failed to sustain the trust of the people, many leaders resigned from their posts with 41 lawmakers walking out of the alliance of the ruling party.

Possible Causes of the Crisis:

- According to experts, economic mismanagement and lack of credible financial policies are the fundamental causes of the ongoing economic crisis.
- Certain mismanagements have led to a twin deficit that includes a budget shortfall which means the country's national expenditure has exceeded its national income and a [Current Account Deficit](#).
- The country's foreign exchange reserves have fallen by 70% and were reduced to \$2.31 billion leaving Sri Lanka battling to import essentials including food and fuel.

- Deep tax cuts promised by Rajapaksha during the election campaign in 2019 and their enactment has wiped out a major chunk of the economy.
- The pandemic also contributed to the downgrading of Sri Lanka's lucrative tourism industry and foreign workers' remittances. This prompted the credit rating agencies to keep the country out of international capital markets.
- The government's decision to ban all chemical fertilisers affected the farm sector and triggered a drop in the production of critical rice crops.
- The international sovereign bonds constitute Sri Lanka's largest share of foreign debt at \$12.55 billion with Asian Development Bank ([ADB](#)), Japan and China among others.
- The [IMF](#) in its review reports asserted that Sri Lanka's public debt has risen to a steep height at unsustainable levels and the foreign reserves were insufficient for near-term debt payments.
- **The government has overlooked the economic crisis from a very early stage** and refrained from seeking assistance and advice from the experts of the IMF. The situation worsened as the oil prices rose considerably due to [Ukraine's invasion by Russia](#).

Helping hand to Sri Lanka:

- In the moment of crisis, both India and China have extended their support to Sri Lanka.
- A diesel shipment under a \$500 million credit line has been signed with India and will arrive to meet the fuel demand.
- A \$1 billion credit line for importing essentials including food and medicine has been signed between India and Sri Lanka. A request for another \$1 billion has been put forth by Sri Lanka to New Delhi.
- China has provided the Central Bank of Sri Lanka with a \$1.5 billion swap and a \$1.3 billion syndicated loan to the government.
- Apart from this, a credit facility of \$1.5 billion and a separate loan of up to \$1 billion have been assured from China's end.

Also read [Sri Lanka's Economic Recovery](#) in CNA dated 6th April '22.

An opportunity for India:

- The economic crisis in Sri Lanka is potent in opening up avenues for India to expand its influence in its neighbouring region which is of strategic significance for India's national interest.
- The [India-Sri Lanka relationship](#) became frosty during the period of 2005-15 especially when India faulted the country for human rights violations during the three-decade-long civil war. This resulted in the growing influence of China in Sri Lanka.
- The controversial Hambantota port and more than 15,000 acres of land have been handed over to Beijing in a 99-year lease. It was a major concern for India as China would use these ports as strategic points to operate in the Indian Ocean Region.
- After realising the limitations of economic and strategic cooperation with China, the Lankan government began to deepen its inclination towards India.
- A pro-India signal was conveyed when Sri Lanka declared its 'India first' policy acknowledging that India has always stepped in times of need for the island country.

- Similar warmth and compassion were expressed by India by calling Sri Lanka the core part of India's Neighbourhood First Policy. This was effective in diluting the anti-India sentiment and establishing better relationships with states in the region.
- India's assistance to Sri Lanka includes focus areas such as capacity building, human resources development and infrastructure development with additional support in financial management, agricultural development and humanitarian assistance.
- India still has the scope to prove itself as the traditional partner of Sri Lanka by boosting the production of essential medicines for which Sri Lanka lacks capacity, expanding the Indian pharmaceutical production facility to the neighbouring island country.
- The ongoing economic crisis in Sri Lanka can be an opportunity for India to restore the spirit of the Neighbourhood First policy and extend its support.

Ways suggested for Recovery:

- It is suggested that the time has been calibrated as suitable for Sri Lanka to undergo a much needed political transformation that ensures a credible and accountable leadership.
- Sri Lanka's monetary policy must be restructured to manage the situation of a massive current account deficit and diminishing foreign reserves.
- The domestic economy of Sri Lanka needs to be upgraded and transformed as the country did not find a place in the global industrial supply chain.
- The export domain of Sri Lanka needs to incorporate diversity which is at present mainly concentrated in textiles and agricultural products like tea and rubber. With significant improvement in global manufacturing, Sri Lanka's textile exports are losing their competitiveness. It is time to expand the areas of export.
- The country must give effect to policies that would favour the production capacity of essentials for which it is largely dependent on imports. This may act as a way to develop economic resilience.
- At present, attention must be to establish social stability without which other developments cannot take place.
- It is recommended that Sri Lanka makes sustainable strategic choices with its time-tested partners. For example, the Rubber-Rice Pact in 1952 signed between Sri Lanka and China played a key role in promoting the social and economic recovery and development of the two countries.
- The spirit of independence, self-improvement, unity and mutual assistance among bilateral partners must be restored in the country through a responsible government accompanied by accountability ensuring inclusive growth. This will result in a durable and stable recovery.

Read more summaries of Perspective in the link.