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Sri Lanka crisis



- A day after President Gotabaya Rajapaksa and Prime Minister Ranili Wickremesinghe announced their resignations under pressure from historic citizens' protests, various Sri Lankan political parties have stepped up efforts to form an all-party government.
- The continuous spread of anti-government sentiment in various parts of Sri Lanka has created a situation of political instability in the country. In the event of economic crisis in the country, people have come out on the road and anti-government protests are becoming fierce.
- Sri Lanka's economy is facing an unprecedented crisis due to serious balance of payments (BoP) problems. Its foreign exchange reserves have been depleting rapidly and it is becoming increasingly difficult for the country to import essential consumption items.
- The Sri Lankan rupee has depreciated by more than 80%, food costs have risen sharply by over 50% and tourism (a major revenue source for the country) has declined sharply due to the COVID-19 pandemic.

- In this scenario, it would be relevant to consider the causes and effects of the rise of political and economic instability in Sri Lanka.

Why Sri Lankan Crisis?

Background:

- When Sri Lanka came out of a 26-year-long civil war in 2009, its post-war GDP growth was at a fairly high level of 8-9% per annum and remained so until 2012.
- But after 2013, its average GDP growth rate fell to almost half as global commodity prices fell, exports slowed and imports increased significantly.
- Sri Lanka's budget deficit remained high during the wartime and the 2008 global financial crisis depleted its foreign exchange reserves, forcing the country to borrow \$2.6 billion from the International Monetary Fund (IMF) in 2009 was.
- In the year 2016, he again approached the IMF for a loan of \$ 1.5 billion, but compliance with the terms of the IMF worsened the economic health of Sri Lanka.

Sri Lanka's Fertilizer Ban:

- In the year 2021, the government imposed a complete ban on all fertilizer imports and announced to convert Sri Lanka to 100% organic farming country overnight.
- This accelerated move towards organic farming badly affected the food production in the country.
- In the deteriorating scenario, the government declared an economic emergency in the country to control rising food prices, devaluation of currency and rapidly depleting foreign exchange reserves.
- Shortage of foreign exchange as well as overnight imposed restrictions on chemical fertilizers and pesticides have led to a sharp rise in food prices.

Recent economic shocks:

- The April 2019 Easter bombings in Colombo's churches resulted in 253 casualties, resulting in a sharp drop in tourist numbers, leading to a decline in the country's foreign exchange reserves.

- The Gotabaya Rajapaksa-led government, which came to power in 2019, had promised lower tax rates and wider SoPs for farmers in its election campaigns.
- The prompt implementation of these promises by the new government added to the problem.
- In the year 2020, the COVID-19 pandemic affected the exports of tea, rubber, spices, clothing and tourism sector.
- China's Debt Trap Policy also played an important role in causing economic instability in Sri Lanka.
- Sri Lanka's crisis mainly stemmed from the depletion of foreign exchange reserves, which had declined by 70% over the past two years to just \$2 billion by the end of February 2022.
- While the country currently has a foreign debt obligation of about \$ 7 billion.

Current state of political vacuum:

- Prime Minister Wickremesinghe and President Rajapaksa had indicated that they would resign to pave the way for the formation of an all-party government.

How is the Sri Lankan crisis affecting India?

Challenges:

Financial:

- The share of Sri Lanka in India's total exports, which was 2.16% in FY15, has come down to just 1.3 percent in FY22.
- Automotive firms such as Tata Motors and TVS Motors have stopped exporting vehicle kits to Sri Lanka and halted production at their Sri Lankan assembly units in view of the country's volatile foreign exchange reserves and fuel crunch.

Refugee Crisis:

- Whenever there has been a political or social crisis in Sri Lanka, India has faced a large influx of refugees from the ethnic Tamil community through the Palk Strait and the Gulf of Munnar.

- Handling a large number of Tamil refugees can be very difficult economically, politically and socially for India, so there is a need for a sound policy to deal with this crisis.
- The state of Tamil Nadu has also started to feel the impact of the crisis with 16 illegal arrivals from Sri Lanka being recorded.

Opportunity:

Tea Market:

- India is keen to fill this supply gap amid the sudden shutdown of Sri Lankan tea supply in the global tea market.
- India can strengthen its presence in Iran as well as in new markets like Turkey, Iraq.
- Big Sri Lankan tea importers from Iran, Turkey, Iraq and Russia are reportedly coming to India in search of tea gardens in Assam and Kolkata.
- As a result, the average price of conventionally grown orthodox leaves in the recent auctions in Kolkata has increased by 41 per cent over the same sale last year.

Apparel Market:

- Many apparel orders from United Kingdom, European Union and Latin American countries are now being shipped to India.
- Many such orders have been received by companies located in Tiruppur, a major center of textile industry in Tamil Nadu.

Why Sri Lanka's help is in the interest of India?

- Sri Lanka has been a strategically important partner for India. India may use this opportunity to balance its diplomatic ties with Sri Lanka, which has been somewhat affected by Sri Lanka's proximity to China.
- Due to the disagreement on the issue of fertilizer between Sri Lanka and China, the fertilizer supply by India is being seen as a positive development in bilateral relations.
- Expanding diplomatic relations with Shrilanka will help India to help the Sri Lankan archipelago from China's 'String of Pearl' policy in the Hind-Pacific region.

- India's assistance to the extent possible for mitigating the hardships of the people of Sri Lanka should be proceeded with the care that its help is also visible so that a goodwill spread for India in Sri Lanka.

How can Sri Lanka overcome this crisis?

Implementing democracy in real sense:

- Stronger political consensus is needed in Sri Lanka for better crisis management. Reducing the militarization of the administration would also be an appropriate step.
- Various measures need to be considered to re-enable the poor and vulnerable population and help prevent long term damage to the economy.
- These measures will include increasing agricultural productivity, increasing job opportunities in non-farm sectors, better implementation of reforms and revitalizing the tourism sector.

Support from India:

- India, following the 'Neighborhood First Policy' to strengthen its relations with neighboring countries, should provide additional assistance to Sri Lanka to overcome the current crisis and realize its potential, which will benefit from a stable and friendly neighbourhood. India itself will also get it in the form.
- Indian businesses can build supply chains that interconnect the Indian and Sri Lankan economies across a wide spectrum of goods and services, from essential goods to information technology services.
- India has supplied over 270,000 metric tonnes of diesel and petrol to Sri Lanka since mid-March.
- In addition, about 40,000 tonnes of rice has also been supplied by India under the recently extended \$1 billion line of credit.
- India can also facilitate Sri Lanka's presence in multilateral fora such as the G20, which will provide a base for Sri Lanka to get aid from developed nations.

Relief from International Monetary Fund:

- Sri Lanka has approached the IMF for a 'bailout'. The IMF may support Sri Lanka's efforts to overcome the current economic crisis.

- The IMF can contribute to the restoration of macroeconomic stability and credit sustainability by advancing structural reforms to protect the poor and vulnerable, safeguard financial stability and address corruption-related vulnerabilities and realize Sri Lanka's growth potential.

Utilizing Possibilities of Cyclical Economy:

- Dependence on imports in the context of economic instability in Sri Lanka can be minimized by circular economy which will provide a sustainable alternative to aid recovery.

Swadeep Kumar

