



India-Sri Lankan Relations Post Economic Crisis of Sri Lanka

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Abstract

The year 2023 marked the 75 years of diplomatic relations between India and Sri Lanka relations, to commemorate this relationship, on July, 2023, Sri Lankan President Ranil Wickremesinghe visited India; this was his first visit to India after he takes the reins of Sri Lanka into his hands and economic crisis. During this visit, India and Sri Lanka signed an ambitious agenda for bilateral connectivity. Both the countries also released ‘joint vision’ statement, it summarizes five areas of cooperation in **connectivity, trade, economic, finance and people to people contact**. India has already provided \$5 billion in economic assistance to Sri Lanka, and is now looking to expand its investment in it; Sri Lanka is also seeing interest from Indian private investment. Indian Ministry of External affairs stated, Sri Lanka as an important partner of India’s Neighbourhood First Policy and vision SAGAR. Indo-Sri Lankan relations show a positive sign after Sri Lanka’s economic crisis in 2022, the worst since its independence from Britain in 1948. India became the first country to hand over its letter of support for financing and debt restructuring of Sri Lanka to the International Monetary Fund (IMF). The present paper sets to analyze Indo-Sri Lankan relations after former’s economic catastrophe of 2022. The study is based on secondary data and the chronological analysis method has been used to analyze their bi-lateral relations.

Key words: *SAGAR; IMF;LTTE; Operation Poomalai; the Palk Strait; re-assessment.*

Introduction

Sri Lanka is one of the neighboring countries of India; both the countries are members of South Asia’s regional cooperation SAARC. Geographically, Sri Lanka is located just off the southern

coast of India, separated by the Palk Strait. This proximity has played a significant role in shaping the relationship between the two countries.

The geostrategic location of Sri Lanka is such that it is virtually in the center of Asia and the sea lanes between the Far East and the African and Arab World with its central position midway in the maritime trade route between West and East Asia. The island nation lies on an important Sea Lines of Communication [SLOC] stretching from the Strait of Malacca to the Strait of Hormuz and Bab al-Mandab. Thus, Sri Lanka exists close to a constant flux of economic activity. The island nation is also in close proximity to India's EEZ, which employs nearly 15 million people directly or indirectly in fishing activities, including deployment of around 2.5 lakh vessels of various kinds. Ships passing from Kolkata (Calcutta) and Yangon (Rangoon) going west to the Suez use the Sri Lanka's excellent harbours in Colombo and Trincomalee. Sri Lanka's location at the crossroads of major shipping lanes makes it a critical point of control for India.

Brief historical background of Indo-Sri Lankan relations

India has ancient links with Sri Lanka since the times of Ashoka; these relations are almost 2500 years old. Indo-Sri Lanka relations is based on multi-faceted partnership. The ties between the two countries have been shaped by a rich history of intellectual, cultural, religious, and linguistic intercourse.

During the colonial period, Sri Lanka (then known as Ceylon) was under British rule but was administered separately and not as a part of British India. In the 19th century, British colonial authorities brought indentured labourers from India, mainly from Tamil Nadu, to work in Ceylon and eventually many Tamils settled in the northern part of the country, and were called as Indian Tamils.

Sri Lanka got independence from British in 1948. After independence, Sri Lanka began to have fairly independent course in its foreign policy and it maintained cordial and warm relations with India. In 1956, Sri Lanka government formulated a Statute giving official Language status to Sinhalese only and was implemented in area of Tamil Majority also. This step proved to be the biggest prejudice against Tamils since independence. In 1958, anti-Tamil riots commenced and government patronized colonization of ethnic Tamils in east continued to exist. In July 1983, an attack by the Tamil militant group, the LTTE, provoked a violent backlash against Sri Lankan

Tamils. This referred as ‘Black July’ and the events marked the beginning of full-scale ethnic conflict which led the struggle for Tamils’ self-determination and sought a separate state. The Indian connection of Tamils was an issue of tension between India and Sri Lanka during the civil war of three decades.

Indo-Sri Lankan relations during and after former’s Civil War

The Black July programme and its aftermath marked a watershed in India’s Sri Lanka policy. The once calm and cordial relations were deteriorated to a great extent. The exodus episode of 73 refugees into Tamil Nadu and other security concerns changed the course of Indian attitude which resulted in Indian involvement in the Sri Lanka’s conflict by strengthening the Tamil military groups with arming and military training in India’s territory. Simultaneously Indian government under Indra Gandhi provided her good office to find a political solution for the conflict. The relations were further deteriorated when India under ‘**Operation Poomalai**’ send her air force fighter crafts to the Sri Lanka’s air space to drop the food shipments by air to Jaffna peninsula. The Indian intervention was compelled to the government of Sri Lanka to break the massive military blockade against the LTTE (Liberation Tigers of Tamil Eelam).

Then, Indo-Sri Lanka Peace agreement was concluded with President Jayawardena and Prime Minister Rajiv Gandhi which was mediated by India in 1987. The Indo-Sri Lanka agreement proposed a political solution to the Sri Lanka’s conflict followed by establishing a provincial council system based on devolution of power for nine provinces in Sri Lanka.

Moreover, Indian Peace Keeping Force [IPKF] were sent to Sri Lanka in the late 1980s to disarm the Tamil militant groups according to the agreement. However, it did not generate desirable results since the Sri Lankan population perceived Indian involvement as unnecessary and intrusive, which climaxed in the assassination of then Prime Minister Rajiv Gandhi in 1991 by a LTTE suicide bomber. That incident made the way for the Indian Government to ban the LTTE as a terrorist organization.

Sri Lankan civil war was officially ended on 19th May 2009, with the President Mahinda Rajapaksa delivering a victory address to the Sri Lankan Parliament stating that “Sri Lanka is liberated from terrorism”. During the last days of the war the Indian government was constantly in touch with Sri Lanka under the ‘troika’ arrangement consisting of India’s then-National Security Advisor, M. K.

Narayanan, then Defense Secretary Vijay Singh, and then Foreign Secretary Shiv Shankar Menon. From the Sri Lankan side, it was then Defense Secretary Gotabaya Rajapaksa, then Secretary to the President Lalith Weeraratunga, and member of Parliament Basil Rajapaksa. After the war India urged the Sri Lankan government and other stakeholders, such as the Sri Lankan Tamil parties, to find an amicable political solution, dealing with reactions in Tamil Nadu and avoiding international direct involvement in the post-war reconciliation process.

After the war victory, the President of Sri Lanka, Mahinda Rajapaksha visited India in June 2009. During bilateral talks between two premiers, Indian Prime Minister Manmohan Singh made an announcement that India would support to reconstruct the war affected areas and rehabilitate programmes, it provided Rs. 500 crores for relief, rehabilitation and resettlement work for the immediate relief of 300,000 Internally Displaced Persons (IDPs) within Sri Lanka. India's humanitarian efforts were also extended in later years to building nearly 65,000 houses in the North, East and Central provinces of Sri Lanka, construction of railway lines in northern Sri Lanka with a \$800 million Line of Credit, India has been involving for reconstruction of Duraiyappa Stadium, cultural center in Jaffna, assistance for developing health care facilities in Kilinochchi and Mulaitivu, reestablishment of the research institute of Palmyra development board in Jaffna, development of industrial zone, supplying fishing equipment, agriculture tools, buses, tractors and setting up a coal plant project in Sampur in the Eastern province of Sri Lanka is another important development project implemented by the Indian government during the post war period and other development projects. In 2010, India has contributed 15% of foreign finance commitment by major donors of Sri Lanka.

India's position on the ethnic issue in Sri Lanka has evolved over the years and has gone beyond the 1987 agreement expectations. India also believed that 'dialogue between the government of Sri Lanka and the Tamil parties, and building upon the 13th Amendment to the constitution could create necessary conditions for reconciliation and a political solution within the framework of a united Sri Lanka, acceptable to all communities.'

China Factor in Indo-Sri Lankan Relations

In 1990s Indian Peace Keeping Forces (IPKF) were withdrawn from Sri Lanka and India's denial of supply of lethal weapons to Sri Lankan government for using them against LTTE gave ample opportunity to China to come into the scene. Again in 2002, during the Oslo peace process, India's role as a passive spectator paved a way for China to increase its foothold in Sri Lanka. So, China has partly filled the vacuum created by India's reluctance by the political compulsions to actively participate in Sri Lanka's war efforts. China gained a strategic space and credibility in Sri Lanka with her timely help rendered during the war.

When Sri Lankan civil war came to an end in 2009 the warmth between China and Sri Lanka grew because China was one of the few countries that continued to supply arms and defense equipment to the Sri Lankan Army during its war against the Liberation Tigers of Tamil Eelam (LTTE). Beijing also prevented the issue of genocide and killing of Tamil civilians from being taken up by international organizations. The Sri Lankan government maintained that the Tamil situation was its internal affair, which it would handle itself. Russia, China and all developing nations supported it, but not India. It further escalates the tension between India-Sri Lankan relations.

China also remains the main financial contributor of Sri Lanka's development projects. In 2007, China reached a billion-dollar deal with Sri Lanka to develop a deep-water port at Hambantota, is one of the "string of pearls" strategy of China in the Indian Ocean region. Hambantota port costs (over US\$1.3 billion), the port city on reclaimed land off Colombo (US\$1.4 billion), a China-owned container terminal at Colombo Port (US\$500 million), Puttalam Coal Power Plant (US\$455 million), different water supply projects (over US\$850 million), and expressways and highways (worth more than US\$2 billion).

India has been greatly concerned about the growing China-Colombo nexus. India perceives China's growing presence in this region to be a means to secure a military foothold in Sri Lanka as part of its encirclement strategy to contain India. The growing Chinese investments in Sri Lanka have provided China with increased leverage in the South Asian region. These have also impacted the dynamics of the Sri Lanka-India relations.

India-Sri Lanka relations surged after former's economic crisis of 2022

Sri Lanka was hit by a catastrophic financial crisis in 2022, the worst since its independence from Britain in 1948, due to a severe paucity of foreign exchange reserves.

Due to the worst economic crisis the citizens of Sri Lanka faced with severe shortage of essentials including food, medicine, and fuel. Sri Lanka Economic Crisis was not due to a single event but a result of a series of shortfalls made by the government, which along with other factors, led to the backlash on economic grounds. First, the long 26 years of civil war during which Sri Lanka's budget deficits were high and the global financial crisis of 2008 drained its forex reserves which led to the country borrowing a loan of \$2.6 billion loan from the IMF in 2009.

When civil war came to an end in 2009, its GDP growth was reasonably high at 8-9% per annum till 2012. But in 2013 its average GDP growth rate almost halved after as global commodity prices fell, exports slowed down and imports rose.

In 2016 Sri Lanka again approached the IMF for another US\$1.5 billion loan; however the conditionalities of the IMF further deteriorated Sri Lanka's economic health.

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 ill-advised promises further exacerbated the problem. The Covid-19 pandemic in 2020 also made the bad situation worse. Due to a rise in government expenditures, the fiscal deficit exceeded 10% in 2020-21, and the debt to GDP ratio rose from 94% in 2019 to 119% in 2021. By June 2021, the Sri Lankan government announced a National Agricultural policy to promote the use of organic fertilizer. It became another cause of Sri Lanka Economic Crisis. These are some of the factors that pushed millions of poorer Sri Lankans to the brink.

When Sri Lanka was hit by economic catastrophe in 2022, India was the first country to extended multi-pronged assistance of about USD 4 billion through multiple credit lines and currency support, in line with India's 'Neighbourhood First' policy.

In January 2023, India became the first country to have over its letter of support for financing and debt restructuring of Sri Lanka to the Washington-based financial body International Monetary Fund (IMF). In May 2023, almost 17 countries have extended loans to Sri Lanka, moreover an official creditor committee' co-chaired by India, Japan, and France to discuss Sri Lanka's request for debt treatment.

According to India's deputy high commissioner Vinod K Jacob, "India was Sri Lanka's largest trading partner in 2022. Sri Lanka's exports to India have also grown. The use of Rupees for trade settlement is further helping Sri Lanka's economy. These are concrete steps to help Sri Lanka's economic recovery and growth. He also stated that India was once again the largest source of tourists for Sri Lanka last year with over 1,00,000 tourists."

To make relations further consolidated, Sri Lankan President Ranil Wickremesinghe visited India on 21 July 2023. The visit concluded with an ambitious agenda for bilateral connectivity. This was another step in the new partnership that Sri Lanka began with India in 2022. India called Sri Lanka an important partner in India's Neighborhood First Policy and Vision SAGAR [Security and Growth for All in the Region] and that the visit is a reflection of the "the longstanding friendship between the two countries."

Both the countries have also explored joint ventures, including an integrated energy grid, a proposal that has been under discussion for years. Sri Lanka recently convened a meeting with Indian officials in Colombo, on a proposal by the Indian Oil Corporation (IOC) for an oil distribution pipeline connecting Nagapattinam, Colombo, and the strategic city of Trincomalee on Sri Lanka's east coast, where India is helping restore World War II-era oil tanks.

The Indian energy and ports tycoon— Gautam Adani, got a USD 500 million renewable energy project in Sri Lanka's north. Earlier, Adani had bagged a USD 700 million project to build the West Container Terminal in Colombo Port. The government of the southern Indian state of Tamil Nadu decided to provide 40,000 metric tons of rice, 500 metric tons of milk powder, and medicines to Sri Lanka. Out of which, in May, a ship carrying 9,000 metric tons of rice, 50 metric tons of milk powder, as well as over 25 metric tons of drugs and other pharmaceutical supplies have already arrived at Colombo.

Recently, Sri Lanka's Parliament Speaker Mahinda Yapa Abeywardena too appreciated India's assistance, saying that India has remained a "close associate" and "trustworthy friend" of Sri Lanka and that without India's assistance, "there would have been another bloodbath for all of us."

India has become Sri Lanka's top lender in 2022, surpassing China and the Asian Development Bank. This shift away from a fair-weather friendship, which has been China's policy instead, has cultivated renewed goodwill amongst Sri Lankans for India. Moreover, Ranil Wickremesinghe has hinted that his governance is likely to steer Sri Lanka away from China's debt trap diplomacy and integrate with India's economy further. India's reputation and status in Sri Lanka have increased, while the flurry of economic arrangements has at a minimum, given India a public relations victory over its rival China.

Way Forward

After Sri Lanka's economic crisis of 2022, India got an opportunity to improve its relations with Sri Lanka, India wins greater confidence from Colombo by improving its standing as a reliable development partner, it will likely be able to secure longer-term strategic investments that offset China's influence.

Moreover, as India becomes a destination for manufacturing and services, it can foster supply chains in South Asia. Significant private Indian companies are investing in Sri Lanka. The Adani Group invested \$1.14 billion renewable energy in the Mannar Basin and the West Container Terminal at Colombo port. The Tata Group already has investments in Sri Lanka's tourism, agri-business, telecom and automobiles. All of them are allied to the Indian government's agenda for investing in renewable energy, infrastructure and tourism for Sri Lanka. Which in turn concrete their bilateral relations.

Strengthening people to people contact with Sri Lanka will be a huge advantage for India over the nature of relationship between China and Sri Lanka. India must exploit this leverage through greater investments in fields of education, agriculture, medicine and information technology that provides avenues for people of both nations to interact and build bonds of friendship. A step such as Tamil Nadu's provision of rice, milk powder, and medicine to Sri Lanka creates greater impact than any economic assistance whatsoever as these steps underline regional affinity.

Another impactful action has been New Delhi's help in deferring repayment of loans totaling USD 1 billion under the Asian Clearing Union. Sincerity of India's assistance can also be gauged from its insistence for Sri Lanka's securing IMF loans that have minimal interest rates.

Plan of establishing land connectivity across the Palk Strait, which in places is only about 25km (15 miles) wide, would give India access to the key ports of Trincomalee and Colombo and strengthen a millennia-old relationship between India and Sri Lanka.

Lastly, resuming of India-Sri Lanka ferry services from October 10, 2023 will further concrete the Indo-Sri Lankan relations as this service will cover the distance of 60 nautical miles between Nagapattinam in Tamil Nadu and Kankesanthurai near Jaffna just about 3 hours. It is a major leap towards boosting people-to-people contact.

Conclusion

India has acted with fervor to provide assistance to the island nation since the onset of Sri Lankan economic crisis. The unprecedented humanitarian and financial aid provided by India on such short notice showcases the country's unique position in terms of its proximity to Sri Lanka and its capacity as well as capability to extend aid at a strategic level. Indo-Sri Lankan relations which have been tumultuous over the years shows a positive sign after Sri Lankan economic crisis.

For years, free-flowing loans and infrastructure investments from China helped it gain an upper hand against New Delhi in the quest for influence. But the economic collapse gave New Delhi an opportunity to swing the pendulum back in its favor and reclaim its credibility and establish itself as a trusted partner of Sri Lanka and all neighbouring states. This calls for a re-assessment of the current foreign policy framework with a view to establishing enduring norms that build credibility and influence.

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