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India-Sri Lanka Relations in Wake of Sri Lankan Economic Crisis: Analysis and Way Forward



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Abstract

India and Sri Lanka are closest maritime neighbours and shares close, multi-dimensional relations built upon the legacy of religious, linguistic, intellectual and cultural interactions. Sri Lanka is currently undergoing through an unprecedented economic crisis that has assumed humanitarian dimensions of epic proportions. This crisis has been triggered primarily due to the mismanagement of economic policy that trapped Sri Lanka in China's debt diplomacy. India, in keeping with the spirit of 'Neighbourhood First' Policy, was quick to provide assistance. Although, a new government is in place in Sri Lanka, however, the political and economic instability still continues. This scenario holds several lessons for Indian policymakers to analyse, as there are other nations in India's

Key Points

- India-Sri Lanka shares a complex history of bilateral relations despite cultural and ethnic similarities.
- Recent economic crisis in Sri Lanka has strategic and security implications for India, especially due to China gaining strategic space in Hambantota Port.
- The humanitarian nature of Indian response to this crisis, as opposed to a transactional approach by China, has given India a definitive advantage.
- India's Foreign Policy approach must be defined by a 'People Connect' and measured steps to enhance military capacity while countering China's influence in Sri Lanka.
- India must strengthen regional forums and elevate the Colombo Security Dialogue to Summit status.
- Bilateral issues such as 'fishermen issue' and 'Katchatheevu issue' are the low-hanging fruits that can be resolved by a better understanding of the regional sensitivities between Sri Lanka and Tamil Nadu.



neighbourhood that are on the verge of similar economic distress and potentially have serious security and strategic ramifications for India. This article traces the strength of India-Sri Lanka bilateral relations that have endeared through the ages and has defined the Indian response to the Sri Lankan economic crisis of 2022 in the backdrop of increased Chinese hegemonic designs in the region. The author aims to present a fresh perspective that can influence policy formulation.

A Complex Neighbourhood

Sri Lanka is important to India by virtue of its strategic location in the Indian Ocean— close to one of the busiest sea trade routes in the world. With a majority Sinhalese population, Sri Lanka is home to a sizeable Tamil population in its Northern and Eastern provinces and has cultural affinity with Tamil Nadu. Both India and Sri Lanka are signatories to a Free Trade Agreement (FTA) since 1988 and Sri Lanka is India's second largest trading partner in SAARC with considerable business generation in fields of infrastructure, tourism and education.

Sri Lanka is undergoing an unprecedented economic crisis that has now worsened to become a humanitarian crisis— years of mismanagement and faulty economic policies, adopted by the government, have landed the nation into a debt-to-credit ratio of 111 %. This means that the nation owes more than it produces. From a pro-market approach, Sri Lanka switched to a welfare driven mode with the President announcing tax cuts and embargo on using chemical fertilisers that hit the economy hard. Further, Covid overhang plunged the economy into deep recession with Tourism taking a massive hit, concerned by the economic and humanitarian crisis in Sri Lanka in the backdrop of Beijing's strategic interests in the region. Given the nature of Chinese investments in the island nation, India has supported Sri Lanka with an economic package— close to 4 billion dollars and assisted in Sri Lanka's attempts at securing loans from IMF.



India-Sri Lanka Through the Ages

Mythological Connect

The earliest relation between India and Sri Lanka are dateable to 3rd century BCE¹. The first Hindu reference to Sri Lanka is found in the Ramayana from a time when Sri Lanka was ruled by the Yaksha King— Kubera. Rama's bridge between India and Sri Lanka, which was built with rocks with the aid of Hanuman and others, finds mention in the epic. The chain of sandbar connecting Sri Lanka to India (Ram Setu), visible in satellite images, is believed to be remnants of that bridge. Archaeological evidence also supports the worship of Shiva in parts of Sri Lanka.

Spread of Buddhism

King Ashoka's son—Arahant Mahinda, introduced Buddhism to Sri Lanka. According to the Sri Lankan chronicles, the king of Sri Lanka, at the time, converted to Buddhism shortly after Mahinda's arrival.² The Sinhalese embraced Buddhism while Tamils remained Hindus. The connect with Hindus of Tamil Nadu set had set the stage for Hinduism's survival in Sri Lanka. Tamils, who were predominantly Shaivites, were the source of most of Sri Lanka's Hindu knowledge, philosophy and temple architecture in Sri Lanka's North.

Post-Independence

North and Northeast region of Sri Lanka has been economically integrated to India. India became independent in 1947 while Ceylon in 1948. After independence, the Sinhalese Government discriminated against Tamils, thereby deepening the void in Indo-Ceylon relations.³ The Sinhalese Government 'instituted' Sinhala as the official language under the infamous 'Sinhala-Only Act', sidelining Tamil language. Post the 1971 India-Pakistan War, India grew closer to USSR and Sri Lanka gradually drifted towards the US. JR Jayewardene, Former Prime Minister of Sri Lanka, favoured a liberal and open economy and oriented Sri Lanka westwards. The situation further deteriorated in 1977 and 1981 due to Tamil riots. The Research & Analysis Wing (R&AW) of India was assigned the responsibility to train and equip Tamil rebels in Sri Lanka.⁴ The aim was to train rebels to fight for Tamil Rights as also ensuring that, these Tamil rebels does not threaten Sri Lankan sovereignty. It was in 1976 that the Liberation Tigers of Tamil Eelam (LTTE), a separatist and insurgent militant force



formed by V Prabhakaran, emerged as a powerful force as the sole representative of Tamils in Sri Lanka.

Perilous Intervention (IPKF [1987-89])

The India-Sri Lanka Accord (ISLA) was an attempt to conclude the ethnic war of Sri Lanka through constitutional and political means. The ISLA was to provide India an opportunity to shape post-war political trajectory of Sri Lanka and primarily had two goals, *first*, to persuade the conflicting ethnic groups to join mainstream politics and *second*, to seek political devolution in Sri Lanka, by altering the Constitution of the state to get autonomy for the Tamil community. The Accord was rejected by the LTTE and it resorted to violence against India and Sri Lanka that continued till 2009. The IPKF was sent to Sri Lanka to secure the implementation of the Accord. The core of this agreement was a desire to secure the best possible deal for the Tamils within the Territorial unity of Sri Lanka. The failure of the Accord must therefore be attributed to the inability to obtain the cooperation of both parties involved in the dispute.⁵ The Sinhalese began to perceive India's role as an undue interference in Sinhalese' internal affairs that was not in Sri Lanka's best interests, while the LTTE lost faith in IPKF, over perceived betrayal, by non-inclusion during formalisation of the Accord. The change of government in India ended the IPKF mission and the troops were recalled. Thereafter, India adopted a fresh look towards its foreign policy post this intervention.

The Fourth Eelam War and After

As the Cold War ended, India opened up its economy and gave itself a fresh outlook to explore relations with the outside world including Sri Lanka. The subsequent Heads of State of Sri Lanka viz. CB Kumaratunga and Ranil Wickremesinghe, also took steps to improve relations. India-Sri Lanka Free Trade Agreement (FTA) was signed in 1988. India encouraged dialogue and ceasefire between Sri Lanka and the LTTE without being formally involved in the process. Mahinda Rajapaksa became President in November 2005, commenced military operations against LTTE and launched Eelam War IV from 2006 to 2009. LTTE leader Prabhakaran was killed in 2007 and by May 2009, the LTTE was wiped out. During this period, India did not intervene while Sri Lanka grew closer to Pakistan and China, who provided Sri Lanka training and arms along with substantial economic aid. China was granted access to the Hambantota Port during Ranil Wickremesinghe's Presidency in

2017— this was when India had earlier declined to develop this port citing financial reasons.⁶ Chinese involvement increased Indian fears as the possibility of any Chinese civilian–military nexus with Sri Lanka could potentially threaten India’s security. The focus, thereafter, was to ensure that Pakistan and China remain outside India’s strategic space in IOR.

The Economic Crisis in Sri Lanka

Massive tax cuts by the Rajapaksa Government, in late 2019, led to a drop in government revenue that was soon compounded with the onset of COVID-19 pandemic and saw its lucrative USD 3 billion tourism industry plummet. Although, the export sector picked up by 2021 and tourism began recovering, Sri Lanka faced its most severe economic crisis, since its independence, due to loss of revenue from tax cuts, rampant money printing and unsustainable borrowings.⁷

By end of 2021, Sri Lanka was facing a debt crisis with a possibility of sovereign default. The administration avoided debt restructuring, opposing an IMF bailout in favour of a homegrown solution for the debt crisis. This strategy depleted foreign currency and gold reserves to bolster the Sri Lankan Rupee and repayment of sovereign bonds. By early March 2022, there was a 30% depreciation of the Rupee against the dollar in days following major shortages of fuel, food and medicine. The Rajapaksa Administration reached out to the IMF as public protests increased in the face of these shortages. IMF report published in late March 2022, reported that Sri Lanka was facing a solvency problem with unsustainable debt. Following severe shortages of fuel, the state owned Ceylon Electricity Board was forced to implement 10-hour power cuts across the island in late March. On 3 April, the entire cabinet resigned and Mahinda offered to form a national government with other political parties in Parliament.

Factors that Led to the Crisis

- **‘Welfare-Driven’ Policy.** ‘Welfare driven’ policy led to economic downfall in Sri Lanka. In December 2019, President Rajapaksa introduced a series of tax exemptions, including reduction of the Value Added Tax (VAT) from 15% to 8%, coupled with an increase in income threshold to exempt more people from personal income tax.⁸ This led to the share of government revenues (in GDP) falling from 13%

in 2019 to 9% in 2020. Banning import of chemical fertilisers further gave an irrecoverable blow to agricultural production in the country. The country could not recover from the impact of these welfare driven policies on economy.

- **Impact of Pandemic.** Covid led to a sharp downturn in several macroeconomic factors such as employment, growth rate, foreign investments etc. and impacted Sri Lanka's tourism industry that accounts for over 10% of the nation's GDP.⁹ More than 200,000 people, connected with the tourism industry, lost their jobs during the pandemic that pushed another 500,000 people below poverty line.
- **Food shortages.** Agricultural output of the country witnessed a sharp decline, primarily because of the decision of the government to ban synthetic fertilisers and encourage organic farming. It appears that this decision was taken by the government in haste, without making adequate preparations for executing this change in policy. Sri Lanka's rice production fell by 13.9% in 2021-22 (April-March) and average yield per hectare fell by 14.4%, even as imports soared to a five year high.¹⁰
- **Chinese Debt Diplomacy.** In the backdrop of Russia-Ukraine crisis and Covid, China's 'debt trap diplomacy' has been a major contributing factor to the Sri Lankan economic crisis. Beijing has been Sri Lanka's biggest creditor, accounting for almost 10 % of the country's foreign debt— between 2000 and 2020, China extended close to USD 12 billion loans to the Sri Lankan Government for major infrastructure projects that turned into white elephants — including a costly port facility in the Rajapaksas' hometown i.e. Hambantota. The Port was effectively leased to Chinese control, half a decade ago, after Sri Lankan authorities recognised that they could no longer pay off the loans. Sri Lanka opted for this path rather than opting for restructuring its debts in dialogue with the IMF or pushing through austerity measures to appease the Paris Club. Beijing loaned Sri Lanka an extra USD 3 billion without debt restructuring or even a policy correction on its existing USD 35 billion. Beijing's debt diplomacy worked in two ways— *first*, it encouraged expensive infrastructure projects that failed to produce major economic returns. *Second*, politically, Beijing actively supported the ruling Rajapaksa family. These political failures are at the heart of Sri Lanka's economic collapse.¹¹

The Sri Lankan Political Establishment: Major Players

The Rajapaksa Brothers

Mahinda Rajapaksa is the patriarch of the Rajapaksa family. He is the leader who spelt out the politico-military objective of eliminating the LTTE militarily and fully backed the military in this endeavour in 2006-2009. Further, he garnered diplomatic support from China and Russia. The Air Force and the Navy, which were marginal players in previous three wars, were brought to the fore to play a significant role in Eelam War IV. Mahinda's younger brother Gotabaya Rajapaksa was a non-career politician and former military officer. He was appointed to the post of Permanent Secretary to the Ministry of Defence in November 2005 by President Mahinda. In this capacity, he oversaw the military operation which eventually defeated the LTTE in May 2009 and ensured complete synergy among the three services. Sri Lankan Journalist C A Chandraprema's famous book *Gota's war: The Crushing of Tamil Tiger Terrorism in Sri Lanka*, chronicles the role played by Gotabaya Rajapaksa in ending the Sri Lankan war with LTTE. The Rajapaksas were in favour of the Communist Party of China and their rule saw Sri Lanka inch towards Beijing. The Rajapaksa Government's isolationist policies distanced Sri Lanka from the western world. The fallout of the Covid Pandemic led to dissolution of the Parliament on 2 March 2020 and Gotabaya took over as President.¹² His welfare driven policies on tax reduction, money printing and organic farming are said to have caused the Sri Lankan economic and food crisis.

Ranil Wickremasinghe

He has been the leader of the United National Party since 1994. He led six governments as Prime Minister in five separate stints from 1993 to 1994, 2001 to 2004, 2015 to 2018, 2018 to 2019, and in 2022. His foreign policy objectives aimed at re-balancing relations with India and the West that were strained during the Rajapaksa regime and, at the same time, he maintained good relations with China also. He attempted to restart discussions to solve India-Sri Lanka fishing dispute but also strongly defended the Sri Lankan Navy's right to shoot Indian fishermen who crosses over to Sri Lankan waters. His policies were seen to attract investments and financial aid. His government allowed a 99-year lease of Hambantota Port to a Chinese company which caused protests in 2017. He was elected as the 9th President of Sri Lanka, by the Parliament of Sri Lanka in July 2022.

Fallout of the Crisis in Sri Lanka

- ***Political and Economic Instability.*** Till recently, Sri Lanka imported USD 3 billion more than it exported every year and this has been the primary reason for the nation's running out of foreign currency. At the end of 2019, Sri Lanka had USD 7.6 billion in foreign currency reserves, which dropped to around USD 250 million. Discontent has been mounting for months over severe food and fuel shortages. The political instability led to civic strife in the country where the population took to streets and protested the government policies. Following widespread disorder and anarchy, Gotabaya Rajapaksa fled to Singapore and resigned, paving way for Ranil Wickremasinghe to be President.¹³ On the economic front, inflation is at an all-time high of 60.8% in July 2022. The country was negotiating a bailout package with the International Monetary Fund (IMF). The talks with the IMF, however, have hit a snag over the need to restructure debt. Meanwhile, people face daily power cuts and shortages of basics such as fuel, food and medicines. The country lacks fuel for essential travel and medical services.
- ***Dependence on China.*** After China joined the World Trade Organization in 2001, its economy became increasingly integrated with the rest of the world. Over the years, China became the center of global trading system, overtaking the US.¹⁴ Several big global companies, including Apple and Tesla, have large manufacturing bases in China and its share in world exports has quadrupled from 4% in 2001 to 15% in 2021. China has emerged as the leading world economy on PPP basis and has become the world's largest official creditor, surpassing the World Bank and the IMF. Half of China's official lending to developing countries goes unreported in the most widely used official debt statistics. China has been able to lure smaller nations with loans as it does not insist on procedures and collateral that the other lending bodies (World Bank, IMF) insists on. These 'hidden debts' have important implications for debt sustainability. Apart from its massive scale, the most notable feature of China's capital exports is its opacity¹⁵— data is scarce and the process of lending is not transparent. China's official lending abroad typically involves relatively high interest rates and short maturities, in contrast to the mostly concessional lending terms of other official lenders such as the World Bank.

- **Food and Fuel Shortages.** Low foreign exchange reserves have made it difficult to import food and fuel in a country that relied on overseas essential commodity items. An abrupt switch to organic farming further compounded the problem and shrank local harvests by about half of last year's rice crop. The chemical fertiliser ban has since been lifted but the shortages have made food scarcer.¹⁶ The World Food Program (WFP) has launched an emergency program aiming to reach over USD 3 million of the most vulnerable segments of the population, such as pregnant & lactating women and school children. The food shortage has been compounded by shortages in fuel as crops in one part of the country cannot be sent to another due to diesel and petrol shortages.

Chinese Interests in Sri Lanka and IOR

Strategic Interests

China's 'out of area operations' in the IOR can be traced to the mid-1980s, when the People's Liberation Army Navy (PLAN), began focusing on 'beyond coastal and near-sea operations'. The 2008 Defense White Paper indicated China's focus on a rising global competition for resources and expressed the need for PLAN to build up the capabilities to conduct 'cooperation in distant waters'.¹⁷ Doubts about the scope of China's blue-water ambitions were laid to rest with the 2015 Defense White Paper, which delineated eight 'strategic tasks' for the PLA: "...effectively safeguard the sovereignty and security of China's territorial land, air and sea; resolutely defend the unification of the motherland; safeguard China's security and interests in new domains; safeguard the security of China's overseas interests; maintain strategic deterrence and carry out nuclear counterattacks; participate in regional and international security cooperation and maintain regional and world peace; strengthen efforts in operations against infiltration, separatism and terrorism.....; and perform such tasks as emergency rescue and disaster relief, rights and interests protection, guard duties, and support for national economic and social development".¹⁸

Security Interests

China's security relationship with Sri Lanka is robust, as China leverages the legacy of Beijing's military support to Colombo in the later stages of Sri Lanka's long civil war. PLAN

has also used Colombo as an ‘occasional port of call’ and the two militaries have engaged in joint exercises. PLAN has donated a frigate to the Sri Lankan Navy and is constructing facilities at the Sri Lankan Military Academy.¹⁹ The Chinese Government insists that Hambantota is an exclusively commercial venture, though questions have been raised about the prospect that Beijing could use its financial leverage with Colombo to extract concessions related to military presence or access to the port. Most visible, and perhaps surprising, has been the sustained counter-piracy deployments in the Gulf of Aden, and the establishment in 2017 of a naval logistics facility in Djibouti that will enable the PLAN to undertake activities more effectively, and project power in the IOR. China is developing an array of military platforms including its aircraft carrier, a submarine fleet, guided missile cruisers, destroyers, frigates, six large amphibious transport docks, a fleet of large amphibious assault ships, hospital ships and transport vessels.

Economic Interests

As part of its multi-billion dollar China–Pakistan Economic Corridor (CPEC)— part of the Belt and Road Initiative (BRI), Beijing has helped to build out Pakistan’s fiber optic infrastructure and has provided grants and loans to develop the remote deep water port at Gwadar.²⁰

Bangladesh is the second-most significant recipient of Chinese military equipment and engagement. Bangladesh have reportedly declined several Chinese offers to develop ports with more strategic potential, likely out of concern that it would antagonise India. China’s BRI efforts have also been focused on Myanmar. As part of the so-called China–Myanmar Economic Corridor (CMEC), China has proposed significant investments in oil and gas pipelines that would link its Yunnan province with the Bay of Bengal, terminating at a new deep water port at Kyaukpyu in Myanmar. This project has been plagued by delays and local protests and has been scaled down from its original ambitions to contain costs. Myanmar’s leaders have been careful to preserve their sovereignty and has the option of pointing to the Constitutional prohibition on the deployment of foreign military forces within its territory.²¹

Implications for India

- ***Strategic and Security Concerns.*** The very nature of Chinese investments in the island nation is a cause of concern, especially so, during this crisis. Chinese investments in Sri Lanka have repeatedly failed to generate the kind of employment

or revenue expected of them to justify the debt. These have led the Sri Lankan Government's default in payment that forced surrender of strategically located townships and ports in exchange such as the Hambantota Port. In several instances, Sri Lanka has simply leased out land in exchange of Chinese investments. The Port of Colombo project is a case in point wherein Beijing received over 100 hectares in exchange for USD 1.4 billion investment. China has thus secured a substantial territorial foothold in the country. As the economic crisis worsens, Sri Lanka could stand to lose control of even more of its land in such strategically located port cities. India fears greater Chinese presence in this region, given its proximity to some of the busiest shipping routes in South Asia especially since it considers the island nation a crucial part of its 'sphere of influence'.

- **Economic Concerns.** In monetary terms, any major disruption of the normal functioning of the Colombo Port, due to the crisis, would be a source of major concern for India as it handles over 30 % of India's container traffic and 60 % of its transshipment. Sri Lanka is also a major destination for Indian exports —receiving over USD 4 billion annual worth of merchandise from India. Any worsening of the economic crisis will potentially deny Indian exporters these markets for selling their produce. India has a substantial investment in Sri Lankan real estate, manufacturing, petroleum refining, etc., all of which could be adversely impacted by the crisis.
- **Political Instability.** Immediate political instability, arising out of the current crisis, could also become a source of major concern for India. Already, scores of people have fled from Sri Lanka to India in search of employment. Officials estimate a further increase in the number of 'economic refugees' arriving in India if the crisis continues. This spike could further trigger apprehensions of public safety and refugee resettlement that could stoke conflict with the local population over the use of common resources. There are also fears of a possible return of the Tamil-Sinhalese conflict and its potential spillover into India. It is in India's interest to play a role in ensuring a speedy end to the Sri Lankan crisis.²²

Indian Response to Sri Lankan Economic Crisis

Overall Response Strategy

Sri Lanka, given its location along critical shipping lanes, has been a source of competition between India and China. The current economic and political crisis in the country appears to have put India at a position of advantage to pursue its foreign policy objectives in Sri Lanka. India never was a major lender to the island nation, but that is changing now. India is gradually establishing itself as a major assistance provider, but in an inclusive and democratic manner, making sure that the nation does not become dependent on India in the long run.²³ A press release by the High Commission of Sri Lanka in India observed that, “India was the first country to support Sri Lanka in a manner so that it could secure finance required by Sri Lanka until the debt restructuring with the IMF could be negotiated”. This reflects a mature response from India making sure that an internationally recognised lender is part of the process who would track the progress of the assistance extended by the country.

Economic Initiatives

India extended lines of credit totalling USD 4 billion for food, fuel, fertiliser and medicines. This fact was acknowledged by then Prime Minister Ranil Wickremesinghe’s statement in Parliament in June 2022. As per a recent press release from the Indian High Commission, India has so far given USD 5 billion to Sri Lanka as development assistance with more than USD 600 million as grants. In March 2022, a MoU was signed on setting up the Trincomalee Power Company in eastern Sri Lanka. 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.²⁴ By May, India had supplied 400,000 metric tons of fuel to Sri Lanka through a USD 500 million credit line. The following week, it sent another 80,000 metric tons of diesel and petrol to Sri Lanka. According to Indian media, New Delhi has helped Sri Lanka defer repayment of loans totaling USD 1 billion under the Asian Clearing Union.²⁵ 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. The consignment, which is worth over USD 5.5 million was handed over to Minister of Foreign Affairs– GL Peiris by India’s High Commissioner in Colombo– Gopal Baglay. India has also assured Sri Lanka that it will supply 65,000 metric tons of urea.

Political and Diplomatic Actions

Under Prime Minister Narendra Modi’s ‘Neighbourhood First Policy’ and ‘Security and Growth for All in the Region’ (SAGAR) project, India is continuing to send ship loads of daily necessities to Sri Lanka. To get the backing of Indian political parties, External Affairs Minister of India — S Jaishankar met many of them and secured their support. In a follow-up, New Delhi sent a high level delegation of senior officials, led by Foreign Secretary to Colombo, on 23 June to discuss about recovery plans with Former President Gotabaya Rajapaksa and Incumbent President Ranil Wickremesinghe.

Indian Foreign Policy Essentials for Way Forward

Beyond ‘Neighbourhood First Policy’

With the realisation that there is a strong security imperative to the India-Sri Lanka relationship, India will have to look beyond its ‘Neighbourhood First Policy’. Our outlook and responses in this context will not only impact India- Sri Lanka relations but will also be critically looked at by various neighbours, some of whom are dealing with economic crisis and are likely to follow Sri Lanka’s path towards debt default. India’s mature handling of the situation would, therefore, impact our credibility and broader security dynamics in our immediate neighbourhood. India’s handling of the case of China’s Yuan Wang 5, a Chinese scientific research vessel, docking at Hambantota Port is a case in point. This event must be viewed from the prism of Sri Lankan political predicament as it faces huge Chinese debt and is looking to restructure its repayment schedule with China. Not only should India display maturity by not raising the ante beyond a certain level, but it must also capitalise on this opportunity by further extending magnanimity like it did by way of presenting Sri Lankan Forces with a Dornier aircraft recently. Notwithstanding India’s security concerns, any hard pushback from India is fraught with risking and pushing Sri Lanka further into China’s influence. India’s broad policy outlook must also make allowances for Sri Lankan sensitivities



that dates back to the 1980s when India-Sri Lanka Accord was signed. India must balance Chinese transactional relationship, with its mature and inclusive approach, towards bilateral relationship. The Colombo Security Conclave, currently comprising India, Maldives, Mauritius, and Sri Lanka, needs to be elevated to a summit level dialogue that expands into a regional Quad like structure of nations having similar threats and security interests in the IOR.

The 'People' Connect

Though, economic activity defines the relation between India and Sri Lanka, cultural affinity must be the face of this relationship. The Indian diaspora in Sri Lanka must be leveraged. People-to-people contact of both nations must be leveraged and basis of Indian economic initiatives. While the importance of economic outlook, towards gaining strategic advantage in terms of India's indulgence in Trincomalee and the Western Port Terminal is well understood, any activity that strengthens people- to- people contact will be a huge advantage 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. Steps 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. India must leverage the cultural and religious affinity by opening institutions of Buddhist Learning, Tamil and Sanskrit centers that will strengthen regional connect with India. There is a need to enhance the existing educational scholarship schemes and technical cooperation schemes through a healthy infusion of the private education sector. This exchange programme must also be extended to the strategic security community (the Think Tanks) to gain a nuanced understanding of the security dynamics of both states to identify and evolve common doctrines for regional security.

Non-Transactional Nature of Assistance

Though, India may not yet match China's capabilities of economic assistance, the nature of India's economic initiative transcends the strictly transactional orientation that is characteristic of Chinese assistance. During the extant crisis, Indian assistance has been 'humanitarian' in outlook. In extending the current lines of credit, the margin of monetary

benefit to India must be the lowest possible, while majority of financial assistance must be viewed as an aid for which no remuneration is sought. Another impactful action has been New Delhi's help in deferring repayment of loans totalling 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.

Countering Chinese Influence

India has been quite wary of the growing Sino-Pak influence in Sri Lanka. Both nations provided military support to Sri Lanka during 2009 civil war— while China supplied arms to the government of Sri Lanka, Pakistan was involved in training its forces. China has been the primary financier of Sri Lanka's development projects and extends her military and diplomatic support to Sri Lanka, understanding the importance of its strategic location in the Indian Ocean. China voted against the UNHCR Resolution in 2012 and 2013 and confirmed the sovereignty of Sri Lanka.²⁶ Sri Lanka attends the Shanghai Cooperation Council meetings as a dialogue partner while Pakistan is one of the major sellers of arms and ammunition from 1999. It is this influence that India must tackle. Missions such as 'counter-piracy' and 'humanitarian assistance' are no longer a befitting justification for Beijing's capability development. India needs to build up capabilities to counter growing Chinese Maritime Domain Awareness (intelligence gathering) capacities in the IOR. This can be achieved by forming robust information sharing agreements with Myanmar, Bangladesh and Sri Lanka. India must counter China's cultural influence steadily growing through the otherwise innocuous 'Confucius Institutions' that have mushroomed in South Asian Nations over the last decade. The Centre for Contemporary Indian Studies at Colombo University is an excellent initiative and soft power projection; however, more are needed.

Enhancing Military Capacity

A third Aircraft Carrier is no longer a luxury. India must invest in increasing capacities in maritime patrol by increasing the inventory of long-range P8-I maritime surveillance aircraft. Development of maritime capability will also deter China from attempting to employ 'Grey Zone' tactics, it has so successfully employed in the South China Sea, to coerce smaller states. A scenario wherein PLAN plants a surface vessel just beyond an IOR littoral (example: Mauritius), as a show of force during a political crisis, will be detrimental to the

stability and Indian influence in the region. The surest sign that the PLA is building capabilities for higher-end missions, focused on potential state adversaries, would be its efforts to invest in specialised warehouses for prepositioning military equipment and ordnance, or construction and deployment of multiple afloat prepositioning vessels; building or securing access to robust repair, re-supply, and refueling facilities including ones tailored for submarines; hardening existing facilities at Djibouti; establishing robust medical and mortuary services; deploying secure and redundant area-wide communications and command-and-control systems, perhaps with dedicated satellites and investing in other capabilities that are primarily oriented towards force protection against state adversaries.²⁷ It is, therefore, critical to monitor the nature of Chinese missions and infrastructure development activities in the IOR littorals with a view to analyse whether they could be converted to a definitive military advantage in time of conflict. India's providing of naval floating dock to the Sri Lankan Navy, Dornier aircraft to the Sri Lankan Air Force and recent setting up of state-of-the-art Maritime Rescue Co-ordination Centre (MRCC) in Colombo, are steps in the right direction— towards enhancing Sri Lankan military capacity.

Strengthen Multilateral Forums

China's attempt to increase its influence in Bangladesh and Myanmar raise questions about its intent in the region. India must explore the possibility of aligning these nations as an expanded Quad, which currently comprises India, Japan, Australia and the United States. China exerts considerable influence over other Asian regional forums (such as ASEAN) to the extent that these forums fail to address the concerns on Chinese hegemony in the region. Joining regional forums with powerful states, having similar security interests, will impose due caution on China and create mechanisms for greater regional cooperation.

Address Regional Sensitivities

The need for national reconciliation, through a political settlement of the ethnic Tamil issue, has been reiterated by India at the highest levels. India's consistent position is in favour of a negotiated political settlement, which is acceptable to all communities within the framework of a united Sri Lanka and which is consistent with democracy, pluralism and respect for human rights. Tamil Nadu's recent proposal to send relief material can help build closer ties between the two nations.

The Low-Hanging Fruit

Resolution of the long-standing dispute over fishing rights in Palk Strait is one issue that can be resolved through joint working mechanisms and a nuanced understanding of the underlying problem. When viewed from a regional context, it clearly emerges that it is essentially a problem between the government of Tamil Nadu and Sri Lanka. This also brings to the fore the aspect of regional sensitivity that happens to be the root cause that prevents consensus. An approach to resolve this conflict with an inherent understanding of the regional context can lead to an amicable resolution of the problem. Similarly, the issue of Katchatheevu Island can also be attributed to regional sensitivities rather than being a core security concern as it is made out to be. The resolution of such problems would go a long way in mitigating the trust deficit that has affected bilateral relations especially since 1986. This could be the beginning of a new era of trust and strengthening of bonds between the two neighbours.

Conclusion

The relationship between India and Sri Lanka is built upon a common legacy of religious, linguistic, intellectual and cultural interaction. By all accounts, the relationship between both neighbours should have been stronger and more endearing than it is. In past, India's approach towards this relationship has not been steady and governed by an overriding sense of regional sensitivity. With recent attempts by China at occupying strategic space in the IOR, there has been a renewed realisation of the strategic importance of Sri Lanka towards securing India's maritime strategic interests and influence. The recent crisis in Sri Lanka, triggered by 'debt diplomacy', lays bare the transactional nature of relationship exhibited by China in its relationship with smaller states. This mandates serious study and indulgence by India as there are possibilities of China adopting the same approach with other neighbours in its quest for strategic advantage in the region. At the same time, this crisis presents an opportunity for India to 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.

End Notes

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