



## India-Sri Lanka ties

[sanskritiias.com/current-affairs/india-sri-lanka-ties](https://sanskritiias.com/current-affairs/india-sri-lanka-ties)



(Mains GS 2 : India and its neighborhood-International relations)

### Context:

External Affairs Minister S. Jaishankar on Saturday held talks with Sri Lanka's Finance Minister Basil Rajapaksa virtually with an assurance that India will support Sri Lanka "in all possible ways for overcoming the economic and other challenges posed by **COVID-19 pandemic**."

### Financial crisis:

- Sri Lanka is facing a deepening financial and humanitarian crisis with fears it could go bankrupt in 2022 as inflation rises to record levels, food prices rocket and its coffers run dry.
- The meltdown faced by the government is caused by the immediate impact of the **Covid crisis** and the loss of tourism but is compounded by high government spending and tax cuts eroding state revenues, vast debt repayments to China and foreign exchange reserves at their lowest levels in a decade.
- Inflation has meanwhile been spurred by the government printing money to pay off domestic loans and foreign bonds.

### Sought assistance:

- Sri Lanka has sought assistance from India, as it battles one of its worst economic crises in history, reflected in the rapidly draining foreign reserves, sharp price rise and a shortage of some essentials.
- Mr. Rajapaksa recalled India's long standing cooperation with Sri Lanka and deeply appreciated the gestures of support", and welcomed investments in Sri Lanka ports, infrastructure, energy, power and manufacturing.
- The Ministers noted the recent steps taken by the government of Sri Lanka for jointly modernising the Trincomalee Oil Tank Farms, with the Indian Oil Corporation subsidiary Lanka IOC playing a role.

#### **Decisive initiatives:**

- Both countries decided to work on a "four-pronged" initiative, that included **Lines of Credit** (LoC) towards the import of fuel, food and medicines, currency swap and debt deferrals from India to Sri Lanka, as well as the conclusion of the Trinco-oil farms project.
- The recent steps taken by the government of Sri Lanka for jointly modernizing the Trincomalee Oil Tank Farms, with the Indian Oil Corporation subsidiary Lanka IOC playing a role.
- Subsequently, India has extended \$400 million under the "SAARC currency swap" arrangement and agreed to a partial deferral of a \$500 million settlement from Sri Lanka by two months; the \$1.5 bn LoC for essential imports is reportedly under way.

#### **'Leveraging Trinco deal':**

- India's confirmation of the swap comes a week after the two countries signed a long-pending agreement on jointly developing the strategically located Trincomalee oil tank farm along the north-eastern coast of the island.
- While India's assistance seeks to help Sri Lanka meet its immediate challenge, the Trincomalee project has long-term implications both, in terms of investment from New Delhi and its strategic interests in the Indian Ocean.
- Apart from the obvious potential for storage in Trincomalee, the recent agreement gives both countries an opportunity to elevate "transactional" ties to a more "strategic level".

#### **Conclusion:**

- Amongst other issues, the friction over fishermen's rights and pending political solution for war-torn Tamil areas remain sticking points, while concerns over Colombo's strategic ties with China have often led to open disagreements.

- However, It is important to note that in times of peril, New Delhi and Colombo have established a robust channel of communication and demonstrated an ability to act on promises quickly, proving that adage about friends (and neighbours) in need.