

An Overview of Sri Lankan Economic Crisis 2022 and How it Affects India

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Abstract: Srilanka was one among the South Asian nations which have better living conditions and economic stability compared to other South Asian nations. But now Srilanka is facing the worst ever economic crisis in the year 2022, with electricity blackouts and shortages of essential goods. Srilanka's economic crisis is fast putting citizens in hardship. India, being the nearest neighbour has offered its support to help the island nation. The role of China in the affairs of Srilanka will be a trouble for India in future. India depends mainly on Colombo port for the trade purposes, at present the economic crisis should be tackled carefully by India because it will affect the economy of India. India trade relations with Srilanka is very important for overall growth sector for India. Economic crisis will affect the relations between both Countries.

Keywords: Economic crisis, Economic stability.

1. Introduction

The relations between two countries India and Srilanka go back to the times of the advent of Buddhism. Buddhism as a movement spread over Srilanka some 2000 years ago. When India advocated the idea of a federation based on mutual defence agreement with India, Srilanka became extremely suspicious of India. Srilanka's location in the Indian Ocean region as an island state has been of strategic geopolitical relevance to several major powers. India and Srilanka have a legacy of intellectual, cultural, religious and linguistic interaction. Recently, trade and investment have grown between the countries. The economic crisis of Srilanka will be a challenge as well as an opportunity for India.

2. Economic Crisis Reasons

One of the reasons for Srilanka's economic crisis was due to a shortage of foreign currency. The balance of trade crisis will affect the country's economy very badly. This has led to a huge reduction in importing essential goods. The country now has no money in the forex accounts to buy all this for its citizens. Such is the crisis that the island nation is not able to organize exams for students due to a shortage of paper. The government suspended operations at oil refineries recently due to a shortage of crude oil stocks.

The tourist sector contributes a large chunk of foreign currency to the country. But now, due to the reduction of tourists, a foreign currency shortage has been occurring. The

trade deficit is almost 10 billion dollars. The country imports more than what it can actually export. The series of bomb blasts in 2019 was also a reason for the tourist drop. The pandemic also affected the tourist sector very badly, eventually leading to the reduction in national income of Srilanka.

The major export designations, like the European Union and China, were having issues with Srilanka for trade after the pandemic. This eventually led to a reduction in Srilanka's Foreign Exchange earnings. Sri Lanka's FDI has seen a larger reduction since 2019.

3. Economic Crisis and India

The crisis has proved to be an opportunity for near-strained Indo-Lanka relations since China was occupying more space in Sri Lanka's foreign policy priorities. China was not the only country from which Sri Lanka sought support. India has also acted as a saviour and time-tested friend for Sri Lanka. The crisis has resulted in the strengthening of economic relations between the two countries. Over the last two years, Sri Lanka has sought India's support numerous times. India too has leveraged this opportunity to expand its economic presence in Sri Lanka in light of an increasing Chinese economic presence in India's close neighbour. The credit facilities extended by India to Sri Lanka would certainly result in India becoming the top source of imports for Sri Lanka, overtaking China. The crisis has also allowed India to further its geopolitical interests by increasing its presence in strategically important places in Sri Lanka. In totality, India has proved to be a more reliable neighbour to Sri Lanka than China.

Apart from the above opportunities India is facing some challenges also. Firstly, if the crisis continues there will be a large flow of migrants from Srilanka to India especially to Tamilnadu State this will be a great challenge since we need to prepare well to handle the migration crisis. Secondly, China is actively investing in Srilanka to counter India's relation with Srilanka. This will be a great threat to India in future. If China plays an active role in the internal affairs of Srilanka. Thirdly there will be a chance of social crisis in Srilanka and if social crisis happens there is a high chance for revamping of LTTE (Liberation Tigers of Tamil Eelam) which will be a great threat to India.

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The proper handling of economic crisis will be an advantage for India. India at present is following a Realist attitude in international affairs with other countries, Srilanka being a country which is having a lot of strategic importance should be considered as India's primary concern and should adapt proper strategy to build a strong relation between both the countries. Mainly the migrant challenge can be solved by allocating some special funds by both central and state government. At present if India helps financially to tackle the economic crisis of Srilanka then the relations between both countries will improve thereby reducing the impact of China. By doing the above-mentioned strategies India can retain its relation with Srilanka there by making a new Chapter in India - Srilanka relations.

4. Conclusion

History, cultural closeness, and the constraints of geography poise India and Sri Lanka as natural and permanent partners.

They need to explore cooperation in new avenues to further their respective economic and developmental aspirations jointly. The present situation actually affords an opportunity to India. It can step up its aid to help rescue Sri Lanka from this economic crisis. Assistance given at this particular juncture will carry major diplomatic weight than the assistance given during normal times. This crisis can jumpstart a new chapter in India-Sri Lanka relations. Even though India is facing many challenges during the crisis, these challenges can be turned into Opportunities.

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