

THE 2019 SRI LANKAN CRISIS AND ITS SPILLOVER EFFECTS ON INDIA: THE POLITICAL, ECONOMIC, AND SOCIAL DIMENSIONS

Ms. Benitta Thomas

Student (BA Sem VI Political Science)
The Bhopal School of Social Sciences
Bhopal
Email: benu62004@gmail.com

Ms. Shreya John)

Student (BA Sem VI Economics)
The Bhopal School of Social Sciences
Bhopal
Email: johnshreya22@gmail.com

Abstract

The Sri Lankan economic crisis, which escalated dramatically in 2022, marks a pivotal moment in the nation's history, stemming from a combination of internal mismanagement and external shocks. The crisis is primarily rooted in excessive foreign debt and fiscal mismanagement, particularly following significant tax cuts in 2019 that drastically reduced government revenue. This led to soaring budget deficits as the value-added tax was cut to 8% and corporate tax was reduced from 28% to 24%. Consequently, the Central Bank resorted to printing money, resulting in inflation and currency devaluation.

Additionally, poor agricultural policies, notably an abrupt shift to organic farming that banned chemical fertilizers, caused widespread crop failures and increased reliance on food imports. The COVID-19 pandemic further strained the economy by devastating the tourism sector, a crucial source of foreign currency. Coupled with geopolitical tensions from the Russia-Ukraine war, these factors culminated in Sri Lanka declaring its first-ever sovereign default in April 2022. The ensuing economic turmoil sparked widespread protests, leading to significant political changes, including the resignation of President Gotabaya Rajapaksa. In response to the crisis, Sri Lanka sought international assistance, securing a \$2.9 billion bailout from the IMF in early 2023. The socioeconomic impact has been severe, with poverty rates surging and challenges for micro, small, and medium enterprises exacerbated by reduced consumer spending power.

The purpose of this study is to analyse the 2019 Sri Lankan economic crisis and its repercussions on India from a political, economic, and social standpoint. It aims to

comprehend how trade, investment, and regional economic dynamics in India were impacted by Sri Lanka's financial instability. The study also looks at the political ramifications, such as diplomatic reactions and changes in Indo-Sri Lankan relations strategy. Social effects, such as migratory patterns and labour market disturbances, are also investigated. This study intends to emphasise the larger regional ramifications of Sri Lanka's crisis and provide insights into India's policy actions and future initiatives by conducting a thorough examination.

Keywords: *Sri Lankan Economic Crisis, 2019, 2022, Foreign Debt, Fiscal Mismanagement, Tax Cuts, Inflation, Currency Devaluation, Agricultural Policies, Organic Farming, COVID-19 Pandemic, Sovereign Default, Protests, Political Changes, IMF Bailout, Socioeconomic Impact, Poverty Rates, Geopolitical Dynamics, India-Sri Lanka Relations, Migration Patterns, Regional Stability.*

Introduction

Historical Context

One of the biggest problems the country has encountered since gaining independence in 1948 is the Sri Lankan crisis, which has had far-reaching effects on the economy, society, and politics. The origins of this complex problem go back many years, but in 2022, as a result of skyrocketing inflation, depleting foreign reserves, and general public unhappiness, the nation defaulted on its debt. The complicated chain of events that led to this crisis includes structural weaknesses, external shocks, and macroeconomic mismanagement that have afflicted Sri Lanka for many years. Even if there are indications of stabilisation as of early 2025, the nation is still facing severe socioeconomic problems and high rates of poverty.

The late 2010s saw the accumulation of several external shocks and governmental blunders that led to Sri Lanka's economic problems. At a time when budgetary restraint was essential, the government's 2019 decision to enact broad tax cuts drastically decreased state revenue. This was made worse by a badly handled switch to organic farming, which resulted in sharp drops in food security and agricultural productivity. In addition, the COVID-19 epidemic and the tragic Easter bombings in 2019 made matters worse by destroying important industries like tourism, which is one of Sri Lanka's main sources of foreign cash.

These interrelated variables made Sri Lanka susceptible to outside influences by 2021, especially as global commodity prices rose as a result of geopolitical tensions like the conflict between Russia and Ukraine. The nation became more vulnerable to economic shocks as a

result of its significant reliance on foreign debt, particularly high-interest commercial loans. With its move to middle-income status, Sri Lanka's access to concessional finance decreased, trapping it in a cycle of borrowing that made its financial problems worse.

The Emergence of the Crisis

In 2022, a major economic catastrophe resulted from the accumulation of these problems. The government was unable to pay its debts because of the fast-declining foreign reserves and the soaring inflation, which peaked in September at an incredible 69.8%. Sri Lanka declared its first sovereign default in April 2022, setting off a series of events that would drastically alter the political landscape. Due to severe shortages of necessities including food, gasoline, and medication, public outcry broke out throughout the country. President Gotabaya Rajapaksa resigned in July 2022 as a result of months of protracted demonstrations known as Aragalaya, or "struggle", which brought attention to the public's desire for accountability and change.

Foreign Aid and Economic Changes

Sri Lanka obtained a vital \$2.9 billion rescue from the IMF in March 2023 under an Extended Fund Facility (EFF). This deal required some significant changes aimed at re-establishing macroeconomic stability through debt restructuring and budgetary reduction. Important actions included expanding the tax base, improving tax collection methods, and reorganizing state-owned businesses that had been a financial burden for many years.

Despite these initiatives, there were still many obstacles to overcome. Even while inflation had decreased and several economic indicators, such as tourism receipts, were showing signs of recovery by the end of 2023, the nation was still grappling with high poverty rates, with an estimated 25.9% of the population living below the poverty line. Additionally, there was a significant drop in labour force participation, especially among women and urban populations impacted by the closure of micro, small, and medium-sized businesses (MSMEs), which were essential for employment before the crisis.

Dimensions of Geopolitics

The Sri Lankan issue has important global ramifications in addition to being a domestic one. The island nation is now sandwiched between China and India, two powerful regional powers. In addition to having interests that represent larger geopolitical goals in South Asia, both nations have offered differing degrees of assistance throughout the crisis.

In order to stabilise Sri Lanka's economy at its most turbulent times, India responded by providing prompt financial and humanitarian aid. This assistance was essential for both preserving India's influence in a nation that has long been seen to be within its sphere of influence and for easing immediate suffering.

China's engagement, on the other hand, has been more complicated; it has made investments and loans over a long period, but it has also come under fire for putting Sri Lanka in a debt trap that made its financial vulnerabilities worse. Maintaining sustainable growth while avoiding excessive dependence on any one partner will require striking a balance between these ties as Sri Lanka works through its recovery.

Taking a Forward Look

Sri Lanka is at a turning point in its history that presents both possibilities and problems as it moves into 2025. The administration is under pressure to manage public expectations for economic growth while enacting structural changes that address long-standing governance problems. In persistent economic hardship, political factions will compete for power in the next presidential elections, further complicating the situation. To achieve sustainable development over the long run, Sri Lanka has to address ingrained problems including income inequality, labour market inequities, and governance inefficiencies, even if recent data points to some stabilization and expectations of moderate growth.

In conclusion, the crisis in Sri Lanka is a reminder of how poorly managed interrelated economic policies may have serious repercussions. Both regional stakeholders and international observers will be keenly monitoring the country's recovery efforts as it battles both internal and foreign pressures. The way forward will include not only economic changes but also a dedication to openness and constitutional principles that may rebuild public trust and increase resilience to shocks in the future.

Scope of the Study

The economic crisis in Sri Lanka has significant implications for India, affecting various dimensions including economic ties, migration patterns, and geopolitical dynamics. As Sri Lanka grapples with its worst economic collapse since independence, the repercussions extend beyond its borders, particularly impacting India due to its geographical proximity and intertwined economies.

Economic Impacts: The crisis has led to a notable decline in trade between the two nations. India's exports to Sri Lanka have decreased from 2.16% of total exports in FY15 to just 1.3% in FY22, primarily due to Sri Lanka's inability to pay for essential imports amid severe foreign currency shortages. Indian automotive firms, such as Tata Motors and Mahindra & Mahindra, have halted exports of vehicle kits to Sri Lanka and ceased production at their assembly units there due to the island nation's precarious economic situation. This disruption not only affects Indian businesses but also poses challenges for sectors that rely heavily on exports to Sri Lanka, including textiles and metals.

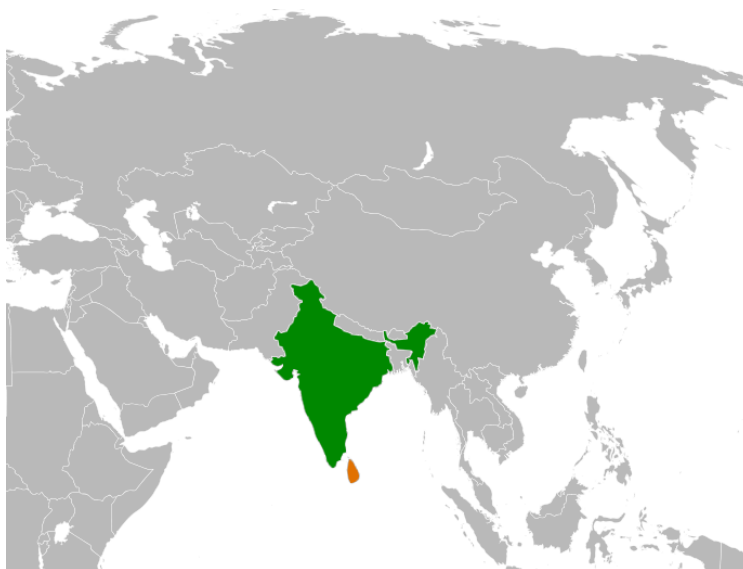
Conversely, the crisis presents opportunities for Indian industries. With Sri Lankan companies struggling, Indian firms may capture market share in sectors like textiles, which were previously dominated by Sri Lankan manufacturers. The ongoing humanitarian aid and credit lines extended by India, amounting to approximately \$4 billion since 2022, are aimed at stabilizing the Sri Lankan economy and ensuring that essential imports can continue. However, this assistance has strained India's budget and raised concerns about long-term financial commitments. **(Source: Air University, 2024)**

Migration Pressures: The socio-political fallout from the crisis has also resulted in increased migration pressures. A significant influx of Sri Lankan refugees, particularly from the Tamil community, has been observed along the southern coast of India. Historically, during periods of instability in Sri Lanka, India has seen a rise in refugees seeking safety across the Palk Strait. This situation poses challenges for India in terms of managing humanitarian needs while addressing potential social tensions arising from increased migration.

Geopolitical Considerations: India's response to the crisis is influenced by its strategic interests in countering Chinese influence in the region. China has already established a foothold in Sri Lanka through investments such as the Hambantota Port. As Sri Lanka's economic stability wanes, India views its support as crucial not only for humanitarian reasons but also for maintaining its influence over the island nation. The assistance provided by India serves to bolster its position as a regional power while mitigating the risk of increased Chinese presence in the Indian Ocean.

Objectives of the Study

- **To examine historical policy frameworks by investigating the historical economic policies and governance failures** that contributed to the crisis, including the role of state-owned enterprises and fiscal mismanagement.
- **To assess socio-political dynamics and analyse the socio-political impacts of the crisis** on various demographics, including how it reshaped public sentiment and influenced political stability in Sri Lanka and its implications for regional dynamics, particularly in India.
- **To evaluate recovery strategies, and identify and evaluate the recovery strategies implemented by stakeholders**, including governmental reforms, international assistance (notably from India), and community resilience efforts during the crisis.
- **To propose comprehensive policy reforms and provide actionable recommendations for policy reforms** aimed at enhancing fiscal responsibility, improving governance, and ensuring sustainable economic practices to prevent future crises.
- **To contribute to regional economic discourse and offer a detailed case study of Sri Lanka's economic crisis**, emphasizing its broader implications for regional economies like India, including lessons learned and potential collaborative strategies for economic stability.



(Source: Wikimedia Commons)

Review of Literature

Five Things to Know About Sri Lanka's Crisis

The USIP article “**Five Things to Know About Sri Lanka's Crisis**”, 2022 provides a succinct overview of the severe crisis that unfolded in Sri Lanka in 2022, characterized by economic collapse, widespread protests, and political upheaval. The country faced its worst economic downturn since independence, driven by years of mismanagement, a disastrous ban on chemical fertilizers, and an unsustainable debt burden exacerbated by external shocks like the COVID-19 pandemic. This economic distress sparked unprecedented civil unrest, with tens of thousands demanding the resignation of President Gotabaya Rajapaksa and Prime Minister Wickremesinghe. The government's heavy-handed response only fuelled public anger, leading to significant calls for political change. Following Gotabaya's flight from the country, Wickremesinghe assumed leadership but struggled to gain legitimacy amid ongoing discontent. The article emphasizes the urgent need for Sri Lanka to engage with the International Monetary Fund (IMF) for financial assistance while addressing deep-rooted political issues and ethnic divisions. Furthermore, it situates Sri Lanka's crisis within a broader geopolitical context, highlighting the implications for regional stability and international relations, particularly regarding the influence of China and India. Overall, the article serves as a critical resource for understanding the complex dynamics shaping Sri Lanka's current and future challenges.

A Little Bit of Luck: Sri Lanka's Impressive Turnaround from the Brink of Collapse

The article “**A Little Bit of Luck: Sri Lanka's Impressive Turnaround from the Brink of Collapse**,” published by Scroll.in (2025), examines the remarkable political and economic transformation in Sri Lanka following a period of severe crisis. From 1970 to 2021, the country faced escalating governance issues, including corruption, state violence, and ethnic conflict. However, the September 2024 presidential and November parliamentary elections marked a significant shift, leading to the rise of the National People's Power (NPP) government, which now holds 67% of parliamentary seats. The article attributes this turnaround to a combination of structural factors and sheer luck, particularly highlighting the catastrophic mismanagement by the previous Rajapaksa administration. The government's fiscal incompetence, including drastic tax cuts and a failure to address mounting debt, precipitated an economic collapse that fuelled public discontent. This discontent culminated in widespread protests and the eventual

ousting of the Rajapaksa regime. The NPP's emergence signals a departure from past governance patterns, emphasizing professionalism, anti-corruption measures, and alignment with middle-class values. The article suggests that while luck played a role in avoiding potential destabilization during this transition, long-standing socio-political changes also contributed to the establishment of a more democratic and accountable government in Sri Lanka.

Causes and Impact of Economic Crisis in Sri Lanka

The document titled “**Causes and Impact of Economic Crisis in Sri Lanka**” on ResearchGate (2024) explores the multifaceted origins and consequences of the economic turmoil that has gripped Sri Lanka. The literature identifies several key factors contributing to the crisis, including poor fiscal management, excessive borrowing, and the adverse effects of the COVID-19 pandemic, which severely impacted tourism, a vital sector of the economy. Additionally, the government's abrupt shift to organic farming in 2021, which banned chemical fertilizers, led to significant agricultural losses and food shortages, further exacerbating economic instability. The article emphasizes how these economic challenges have resulted in widespread social unrest, with citizens protesting against rising inflation, shortages of essential goods, and declining living standards. The analysis also highlights the political ramifications of the crisis, including the erosion of public trust in government institutions and calls for systemic reforms. Furthermore, the literature underscores the importance of international support and sound economic policies for recovery. Overall, this work provides a comprehensive overview of the intricate interplay between governance failures and socio-economic factors that have shaped Sri Lanka's current crisis, offering valuable insights for policymakers and scholars alike.

Sri Lanka's Economic Crisis

The case study “**Sri Lanka's Economic Crisis**” by Aarushi Kataria, Anupam Manur, and Sarthak Pradhan, published by the Takshashila Institution (2022), provides an in-depth analysis of the structural and proximate causes behind the economic turmoil that escalated in Sri Lanka from 2019 to 2022. The authors identify a combination of long-standing issues, such as poor fiscal management, heavy reliance on external debt, and a lack of industrialization as foundational factors contributing to the crisis. The study highlights critical missteps, including significant tax cuts that reduced government revenue and an ill-timed ban on chemical fertilizers that devastated agricultural productivity. The authors detail how these economic challenges were exacerbated by external shocks like the COVID-19 pandemic and the 2019 Easter bombings, which severely impacted tourism. The analysis underscores the consequences

of these policies, including rampant inflation, depletion of foreign reserves, and widespread shortages of essential goods. Additionally, the case study offers valuable lessons for other developing economies, emphasizing the need for diversified debt management, prudent fiscal policies, and a focus on sustainable economic practices. Overall, this comprehensive examination not only elucidates the complexities of Sri Lanka's crisis but also serves as a cautionary tale for similar economies grappling with governance and economic challenges.

Sri Lanka's Economic Crisis: Consolidation and Collaboration

The article “**Sri Lanka's Economic Crisis: Consolidation and Collaboration**,” published by the Observer Research Foundation (2024), provides a detailed examination of the complex factors contributing to Sri Lanka's economic crisis and the subsequent recovery efforts. The crisis, which began in 2019, was fuelled by poor fiscal policies, including significant tax cuts and a hasty transition to organic farming, alongside external shocks such as the COVID-19 pandemic and geopolitical tensions from the Ukraine-Russia war. These elements severely impacted critical sectors like agriculture and tourism, leading to a depletion of foreign reserves and escalating debt levels. The authors emphasize the role of International Sovereign Bonds (ISBs) in exacerbating the debt crisis, as access to concessional funding diminished with Sri Lanka's transition to middle-income status. The article highlights the importance of restructuring debt with major creditors like India and China as part of negotiations with the IMF for a bailout package aimed at stabilizing the economy. Furthermore, it discusses India's significant role in Sri Lanka's recovery, providing financial assistance and fostering bilateral ties amid shifting regional dynamics. Overall, the article underscores the need for strategic reforms and collaboration to navigate Sri Lanka's path towards sustainable economic growth while balancing geopolitical interests in a rapidly changing environment.

The Sri Lankan economic crisis, which has unfolded since 2019, is one of the most severe economic downturns in the country's history, marked by unprecedented inflation, a depletion of foreign reserves, and widespread public unrest. This comprehensive analysis explores the multifaceted causes of the crisis, its socio-economic impacts, and potential pathways for recovery.

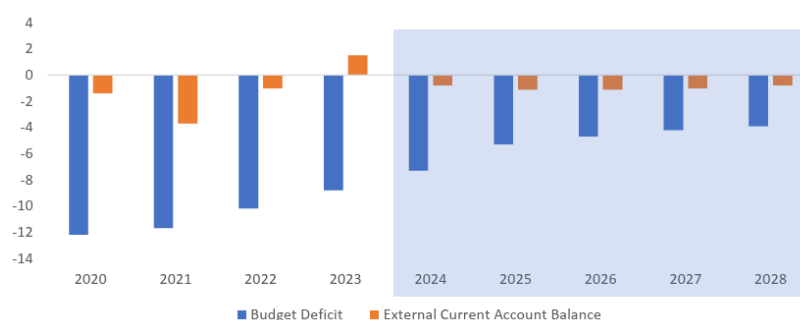
Sri Lanka's Economic Recovery

The document titled “**Is Sri Lanka's Economic Recovery Sustainable?**” authored by Dr. PKG Harischandra (2023), provides a comprehensive analysis of the current state and future

prospects of Sri Lanka's economy following a severe socio-economic crisis. The paper highlights a tentative recovery characterized by positive GDP growth in late 2023, driven by effective debt restructuring and improved fiscal policies. However, concerns persist regarding the sustainability of this recovery, particularly in light of potential political instability and external debt servicing challenges.

Key findings indicate that while Sri Lanka has recorded twin surpluses for the first time, the economy still grapples with structural weaknesses stemming from decades of fiscal mismanagement and external imbalances. The author emphasizes the importance of implementing a robust reform agenda, aligned with International Monetary Fund (IMF) guidelines, to address these vulnerabilities. The paper outlines a five-pillar strategy aimed at enhancing revenue generation, restoring public debt sustainability, and fostering financial stability.

Overall, the literature underscores that while there are signs of recovery, sustained economic growth will depend on overcoming historical deficits and ensuring effective governance and policy implementation. The insights provided serve as a crucial foundation for understanding the complexities of Sri Lanka's economic landscape and the necessary steps towards sustainable recovery.



(Source: IMF Country Report, 2023)

Research Methodology

The qualitative research study on the Sri Lankan economic crisis employs a comprehensive methodology that integrates diverse sources to provide an in-depth analysis of the multifaceted challenges facing the nation. This approach begins with a thorough literature review that encompasses academic articles, reports, books, and even multimedia sources like YouTube videos and news analyses. By drawing on such a wide array of materials, the study aims to

construct a well-rounded understanding of the crisis, offering historical context, expert opinions, and real-time developments that illuminate the complexities of the situation.

One of the primary objectives of this qualitative research is to identify and analyse the key challenges that have precipitated Sri Lanka's economic downturn. Among these challenges are unsustainable debt levels, characterized by a significant reliance on foreign loans and a lack of fiscal discipline. The study highlights how policy mismanagement, particularly the 2019 tax cuts that slashed government revenue by 33.5%, exacerbated the fiscal deficit, which ballooned to 15% of GDP by 2022. Additionally, external shocks such as the COVID-19 pandemic and geopolitical tensions have further strained Sri Lanka's economy, leading to severe inflation and shortages of essential goods.

The qualitative methodology allows for a nuanced exploration of these issues by synthesizing information from multiple sources. For instance, expert interviews can provide insights into the perspectives of policymakers and economists regarding the effectiveness of past measures and potential solutions. This depth of analysis is crucial for understanding not just the immediate impacts of the crisis but also its long-term implications for governance and societal stability in Sri Lanka.

Furthermore, the research delves into mitigation strategies adopted by various stakeholders, including the Sri Lankan government and international financial institutions like the IMF. The study examines how these entities have responded to the crisis through policy interventions aimed at stabilizing the economy and restoring investor confidence. For example, it discusses recent agreements for debt restructuring and financial assistance packages designed to alleviate immediate pressures on foreign reserves.

In addition to identifying root causes and mitigation strategies, this qualitative analysis emphasizes the broader implications of the crisis on Sri Lanka's economy, governance structures, and society at large. The hyperinflation experienced peaking at around 50% has not only eroded purchasing power but has also led to significant social unrest, culminating in widespread protests that challenged existing political leadership. This aspect of the crisis underscores how economic instability can catalyse political change, revealing deep-seated grievances among citizens regarding governance failures.

The study also highlights emerging research gaps that warrant further investigation. These include intra-regional economic comparisons with countries like India that face similar vulnerabilities, as well as micro-level impacts on micro, small, and medium enterprises

(MSMEs) crucial for employment generation in Sri Lanka. Understanding these dimensions is vital for formulating effective recovery strategies that balance austerity measures with social equity considerations.

Causes of the Crisis

Fiscal Mismanagement

The roots of the Sri Lankan economic crisis can be traced to significant fiscal missteps initiated by President Gotabaya Rajapaksa's government, particularly through substantial tax cuts. The value-added tax (VAT) was reduced from 15% to 8%, resulting in a dramatic decline in tax revenues, which plummeted from 11.6% of GDP in 2019 to 8.1% in 2020. (Source: LSE, 2022) Additionally, the corporate tax rate was lowered from 28% to 24%, further straining the fiscal budget and contributing to a significant drop in government revenue, exacerbating the fiscal deficit. (Source: Times of India, 2022) This series of tax reductions led to a drastic decline in registered taxpayers, with estimates indicating a loss of about 1 million taxpayers between 2020 and 2022; the number of registered taxpayers fell from approximately 1.55 million at the start of 2020 to around 412,000 by the end of 2021, representing a reduction of over 33%. (Source: Economic Times, 2022) These policies resulted in soaring budget deficits and compelled the government to resort to printing money to cover expenses, ultimately leading to hyperinflation and severe economic instability.

Agricultural Policy Failures

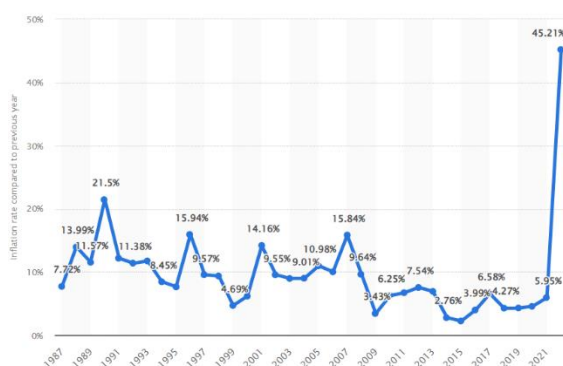
In May 2021, the Sri Lankan government implemented a controversial ban on chemical fertilizers as part of an abrupt shift towards organic farming, aiming to create a toxin-free agricultural environment. This sudden transition led to significant crop failures, particularly in staple crops like rice, resulting in a reported decline of agricultural output by approximately 20% and a staggering 52% yield loss in some sectors. (Source: Mongabay, 2022) The lack of chemical fertilizers not only diminished agricultural productivity but also exacerbated food insecurity, contributing to soaring inflation and increased reliance on imports to meet the nation's food demands. As a consequence, many farmers faced acute poverty and desperation, with nine out of ten families reportedly skipping meals due to the resulting food shortages. (Source: Vox, 2022)

External Shocks

The COVID-19 pandemic significantly strained Sri Lanka's already fragile economy, with key impacts including a drastic decline in tourism and global supply chain disruptions. As tourism is a major source of foreign currency for the country, the lockdowns and travel restrictions led to a staggering 73.5% drop in tourist arrivals from 1.8 million in 2019 to just 508,000 in 2020, resulting in a loss of approximately \$3 billion in revenue during the first eight months of 2021 compared to the same period in 2018. (Source: ADB,2021) Additionally, widespread disruptions in global supply chains affected imports, contributing to rising prices and exacerbating inflationary pressures across various sectors. (Source: EPW, 2021) The situation was further complicated by geopolitical events such as the Russia-Ukraine war, which disrupted global supply chains and intensified inflation, leaving Sri Lanka grappling with high unemployment rates, increased poverty levels, and a precarious economic outlook. (Source: Scrip,2022)

Socioeconomic Impacts

The consequences of the crisis have been profound and wide-reaching: Inflation rates in Sri Lanka skyrocketed during the economic crisis, peaking at an astonishing **69.8% in September 2022** (Source: CBSL, 2022), which severely impacted the cost of living for ordinary citizens. This inflation surge was accompanied by critical shortages of essential goods such as food, fuel, and medicine, leading to long queues for basic supplies as citizens struggled to meet their daily needs. The economic turmoil also resulted in a dramatic increase in poverty, with estimates indicating that **approximately 25.9% of the population fell below the poverty line by early 2023** (Source: Statista, 2024).



(Source: Statista, 2024)

The combination of rising prices and shortages triggered widespread public unrest, culminating in protests known as Aragalaya, which ultimately pressured President Gotabaya Rajapaksa to resign amid mounting demands for political change. These events highlighted the deepening crisis and the urgent need for effective governance and economic reform to address the challenges facing the nation.

The Impact of the Sri Lankan Economic Crisis on India

The economic crisis in Sri Lanka, which escalated dramatically in 2022, has profound implications not only for the island nation but also for its neighbour, India. As Sri Lanka grapples with hyperinflation, severe shortages of essential goods, and political instability, India faces a complex interplay of economic, social, and geopolitical challenges that arise from this crisis. This analysis delves into the multifaceted impacts of the Sri Lankan crisis on India, exploring the immediate economic repercussions, humanitarian concerns related to migration, geopolitical dynamics, and long-term implications for regional stability and cooperation.

1. Economic Repercussions

1.1 Trade Relations

The most immediate impact of Sri Lanka's economic crisis on India has been felt in trade relations. Before the crisis, India was one of Sri Lanka's largest trading partners, with bilateral trade reaching approximately \$5 billion in 2021. However, as Sri Lanka's economy deteriorated, its capacity to import goods from India diminished significantly. The decline in foreign exchange reserves and rampant inflation led to severe restrictions on imports, affecting various sectors. Indian exports to Sri Lanka have faced a downturn due to the island nation's inability to pay for essential imports. Key sectors impacted include automotive, textiles, pharmaceuticals, and agricultural products. For instance, Indian companies like Tata Motors and Mahindra & Mahindra halted exports of vehicle kits and suspended production at their assembly units in Sri Lanka due to fuel shortages and foreign exchange constraints. This disruption not only affects Indian businesses reliant on the Sri Lankan market but also impacts local employment and economic activity within Sri Lanka.

1.2 Supply Chain Disruptions

The crisis has also caused significant disruptions in supply chains between the two countries. With Sri Lanka facing acute shortages of essential goods including food, fuel, and medicine

there have been delays and congestion at Indian ports as cargo intended for Sri Lanka accumulates. This situation increases operational costs for Indian exporters and creates logistical challenges that could affect broader trade dynamics in the region. For example, Indian exporters have reported increased shipping times and costs due to the need for alternative routes or storage solutions as they await payment from Sri Lankan importers. The interdependence between the two economies means that disruptions in one can have significant repercussions for the other. Furthermore, as Indian businesses adjust to these new realities, they may seek to diversify their markets to mitigate risks associated with reliance on a single country.

1.3 Impact on Indian Businesses

Indian businesses that have historically relied on exports to Sri Lanka are **experiencing losses** due to reduced market opportunities. This situation is particularly challenging for small and medium enterprises (SMEs) that lack the resources to absorb such shocks or pivot quickly to other markets. Additionally, larger corporations may face pressure from shareholders to reassess their exposure to the Sri Lankan market. The crisis has also led some Indian firms to consider relocating their operations or diversifying their supply chains away from Sri Lanka. This shift could have long-term implications for investment flows into the country once stability returns. Companies may prioritize markets perceived as more stable or predictable over those facing significant economic turmoil.

2. Humanitarian Concerns

2.1 Migration Pressures

The humanitarian crisis unfolding in Sri Lanka has led to increased migration pressure on India. As economic conditions worsen marked by food shortages and skyrocketing prices many Sri Lankans are seeking refuge in India, particularly in Tamil Nadu. This state shares cultural and ethnic ties with the Tamil population of Sri Lanka, making it a natural destination for those fleeing instability.

Historically, periods of instability in Sri Lanka have resulted in an influx of refugees into India. The current crisis is likely to exacerbate this trend as individuals look for better living conditions and opportunities abroad. Reports indicate that illegal crossings by individuals fleeing the crisis have already begun, raising concerns about how India will manage this influx while addressing humanitarian obligations.

2.2 Challenges for Indian Authorities

The arrival of refugees poses challenges for Indian authorities who must develop robust policies to manage this influx while ensuring national security and social stability. The government must balance humanitarian obligations with domestic pressures to maintain order and address the needs of its citizens.

In Tamil Nadu specifically, local governments may face strain on resources as they attempt to provide shelter and support services for incoming refugees while also addressing the needs of their populations affected by economic challenges. Moreover, there is potential for social tensions to rise if local communities feel overwhelmed by an influx of newcomers or perceive that resources are being diverted away from them.

3. Geopolitical Implications

3.1 Strategic Concerns

Geopolitically, the Sri Lankan crisis presents both challenges and opportunities for India. The instability in Sri Lanka creates a vacuum that China may seek to exploit. China has already established a foothold in Sri Lanka through investments in critical infrastructure projects like the Hambantota Port a strategic asset located along major shipping routes in the Indian Ocean.

As India's influence wanes amid Sri Lanka's turmoil, there is a growing concern that China could increase its presence in the region, posing strategic challenges for India's national security interests. The potential expansion of Chinese influence could alter power dynamics in South Asia and threaten India's long-standing role as a regional leader.

3.2 India's Response

In response to this threat, India has taken proactive measures to support Sri Lanka during its crisis. Since early 2022, India has extended approximately \$4 billion in financial assistance aimed at stabilizing the economy and ensuring access to essential imports such as food and fuel. This assistance not only serves humanitarian purposes but also aims to counterbalance China's influence by reinforcing India's role as a reliable partner for its neighbours.

India's diplomatic strategy during this crisis is crucial for maintaining its geopolitical standing in South Asia. By providing timely support to Sri Lanka, India aims to strengthen bilateral ties and enhance its influence over strategic decisions made by Colombo. However, it must navigate carefully through domestic political sentiments within Sri Lanka that may harbour

anti-India sentiments due to historical grievances related to India's involvement during the civil war.

4. Long-Term Economic Integration

4.1 Opportunities for Deeper Engagement

In light of the ongoing crisis, there is an opportunity for India to deepen economic integration with Sri Lanka once stability returns. India's support during this challenging period could foster goodwill that facilitates future investments and collaborations across various sectors.

Strengthening trade ties through favourable agreements can help both nations recover from their respective economic challenges post-crisis. For instance, revisiting trade agreements such as the Comprehensive Economic Partnership Agreement (CEPA) could enhance bilateral trade by reducing tariffs and facilitating smoother cross-border transactions.

4.2 Infrastructure Development

Enhancing connectivity through infrastructure projects can bolster regional trade networks while reducing dependency on external actors like China. Initiatives such as developing ports or enhancing transportation links can create synergies that benefit both economies in the long run. For example, improving road networks connecting southern India with northern Sri Lanka could facilitate trade while promoting tourism between both regions once stability returns. Such initiatives would not only serve immediate economic needs but also lay a foundation for deeper integration over time.

S.W.O.T. Analysis

S.W.O.T. Analysis of the Impact of the Sri Lankan Economic Crisis on India:

Strength

- 1. Geopolitical Influence:** India's assistance to Sri Lanka during its economic crisis has reinforced its role as a regional power. By providing substantial financial aid, India has positioned itself as a key ally, which may enhance its influence in the Indian Ocean region and counter China's growing presence.
- 2. Economic Opportunities:** The crisis presents opportunities for Indian businesses to fill the void left by Sri Lankan exporters. Indian textile and tea industries, for instance, can capture

markets previously dominated by Sri Lanka, potentially increasing exports to Europe and the US.

3. Crisis Management Capability: India's swift response to the crisis, including a \$4 billion financial package, showcases its ability to manage regional crises effectively. This not only aids Sri Lanka but also stabilizes the region, which is beneficial for India's economic interests.

Weakness

1. Financial Burden: The extensive aid provided to Sri Lanka strains India's financial resources. The need for humanitarian assistance and credit lines could divert funds from domestic priorities, impacting India's economic stability.

2. Dependency Risks: Continuous support may foster dependency, making Sri Lanka less inclined to pursue necessary economic reforms independently. This could lead to long-term challenges in bilateral relations if Sri Lanka fails to stabilize economically.

3. Domestic Economic Impact: Indian businesses with significant exposure to Sri Lanka, such as automotive firms, have faced disruptions due to the economic instability in Sri Lanka. This can lead to financial losses and reduced market confidence among investors.

Opportunity

1. Market Expansion: The crisis allows Indian companies to expand their market share in sectors like textiles and tourism as they can replace Sri Lankan products that are currently facing supply chain issues.

2. Strengthening Bilateral Ties: The crisis provides an opportunity for India to strengthen its bilateral ties with Sri Lanka through strategic investments in infrastructure and development projects, enhancing long-term cooperation.

3. Increased FDI Potential: As Indian firms look for new opportunities amidst the crisis, there is potential for increased foreign direct investment (FDI) in Sri Lanka's key sectors such as manufacturing and services.

Threat

1. Geopolitical Rivalry: China's increasing influence in Sri Lanka poses a significant threat to India's strategic interests in the region. If China expands its foothold through investments or military presence, it could undermine India's influence.

2. Social Unrest and Migration: The ongoing crisis may lead to increased migration of refugees from Sri Lanka into India, particularly in Tamil Nadu, creating social tensions and humanitarian challenges within India.

3. Economic Spillover Effects: A prolonged crisis could lead to broader economic instability in the region, affecting trade routes and economic activities that are vital for India's economy.

P.E.S.T. Study

P.E.S.T. Study of the Impact of the Sri Lankan Economic Crisis on India:

Political Factors

Regional Stability: The political instability in Sri Lanka due to its economic crisis poses risks to regional stability. India's involvement is crucial for maintaining peace and preventing further unrest that could spill over into Indian territory.

Foreign Policy Dynamics: India's response strategy reflects its broader foreign policy objectives aimed at countering Chinese influence in South Asia. This situation necessitates careful diplomatic navigation to balance support without fostering dependency.

Economic Factors

Trade Relations: The economic downturn in Sri Lanka affects trade dynamics between the two nations. Indian exports have been impacted due to Sri Lankan traders' inability to pay for imports, leading to potential losses for Indian exporters.

Investment Opportunities: While there are challenges, the crisis also opens avenues for Indian investments in sectors where Sri Lankan firms are faltering, particularly in infrastructure and essential services.

Social Factors

Migration Issues: An influx of refugees from Sri Lanka into southern India could create social challenges, particularly in Tamil Nadu where ethnic ties exist. This situation requires robust policy responses from India to manage potential tensions.

Public Sentiment: The humanitarian aspect of aiding a neighbouring country can enhance public sentiment towards the government; however, prolonged crises may lead to public fatigue regarding foreign aid commitments if domestic issues remain unresolved.

Technological Factors

Digital Transformation Opportunities: The crisis may accelerate digital transformation efforts within both countries as they seek innovative solutions for economic recovery and resilience against future shocks.

Collaboration in Tech Sectors: Enhanced cooperation in technology sectors could emerge as both nations look towards sustainable development solutions post-crisis, fostering innovation and growth opportunities.

Conclusions

The Sri Lankan economic crisis that unfolded dramatically in 2022 serves as a stark reminder of the intricate interplay between governance, economic policy, and external factors. The crisis, rooted in a combination of excessive foreign debt, fiscal mismanagement, and misguided agricultural policies, led to unprecedented socio-political upheaval and the resignation of key political figures.

The subsequent sovereign default marked a critical juncture for the nation, highlighting vulnerabilities exacerbated by the COVID-19 pandemic and geopolitical tensions such as the Russia-Ukraine war. As Sri Lanka navigates its recovery journey, the \$2.9 billion bailout from the IMF represents a crucial lifeline aimed at restoring macroeconomic stability through structural reforms and debt restructuring. However, the path ahead remains fraught with challenges, including high poverty rates and labour market disruptions that disproportionately affect vulnerable populations.

The impact of the Sri Lankan economic crisis on India is multifaceted, encompassing economic disruptions, humanitarian challenges related to migration pressures, geopolitical implications regarding regional security dynamics, and long-term opportunities for deeper engagement between both countries. As India navigates this complex landscape shaped by its neighbour's turmoil, it must balance strategic interests with humanitarian responsibilities while reinforcing its role as a stabilizing force in South Asia. The path forward will require careful diplomacy combined with proactive measures aimed at ensuring both nations can emerge from this crisis stronger and more resilient.

The geopolitical dimension of this crisis cannot be overlooked, as it has significant implications for regional dynamics, particularly with India and China. India's timely humanitarian

assistance underscores its strategic interests in maintaining influence over Sri Lanka amidst rising Chinese investments. Moving forward, Sri Lanka's ability to implement comprehensive policy reforms that enhance fiscal responsibility and governance will be pivotal in preventing future crises and fostering sustainable development.

Ultimately, the lessons learned from this crisis extend beyond Sri Lanka, offering valuable insights into the importance of sound economic management and resilient governance structures in an increasingly interconnected world. As observers monitor Sri Lanka's recovery efforts, it is clear that rebuilding public trust and addressing long-standing socio-economic inequalities will be essential for achieving lasting stability and prosperity.

While immediate effects pose challenges for India's economy and society due to disruptions in trade relations and potential refugee influxes from Sri Lanka's ongoing turmoil; they also present opportunities for deeper engagement that could yield long-term benefits once stability is restored within both nations' borders. By addressing these challenges head-on through thoughtful policies aimed at fostering cooperation rather than competition; leveraging existing ties built over decades will be key towards navigating future uncertainties together while promoting mutual prosperity across borders amidst ongoing global shifts impacting regional dynamics today!

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