

IN DEBT CRISIS, SRI LANKA TURNS TO CHINA

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

Mahinda Rajapaksa sought India's help this February.

The Sri Lankan government is likely to once again turn to China for help with debt repayment, as it did in 2014, even as its request to India for a postponement of its debt repayment has been hanging fire for the last four months. After a conversation between Chinese President Xi Jinping and President Rajapaksa on May 13, Beijing has already approved an additional \$500 million loan from its development bank to help counter the impact of the pandemic.

Even prior to the coronavirus pandemic, Prime Minister Mahinda Rajapaksa had asked India for a debt deferment during a visit to Delhi in February, as he had confirmed in an interview to *The Hindu*. In April, the Central Bank of Sri Lanka sought a \$400 million currency swap with the RBI under the SAARC facility and again in May, President Gotabaya Rajapaksa sought a "special" \$1.1 billion currency swap facility from Prime Minister Narendra Modi, who had called him to discuss the responses to the pandemic and bilateral cooperation.

The situation could get more difficult for Colombo, as Japan's International Cooperation Agency (JICA) has put on hold funding for a proposed light rail transit system, local media reported, because of concerns over the island nation's rising debt. Sri Lanka's total foreign debt is approximately \$55 billion, which accounts for nearly 80% of its GDP, according to last year's official figures. Of that, China and the Asian Development bank each hold about 14%, Japan accounts for 12%, the World Bank holds 11%, while India holds about 2%.

When asked about talks on the moratorium, Chinese Embassy officials in Colombo confirmed that the two countries are working together on the financial cooperation "via different channels and mechanisms".

"More practical progress will be drawn in coming weeks," spokesperson at the Chinese Embassy Luo Chong told *The Hindu*.

Regional distress

Other countries in the region are also now seeking debt repayments. On Friday, Pakistan Prime Minister Imran Khan spoke to President Rajapaksa about joining a 'Global Initiative on Debt Relief' to mitigate the economic impact of the pandemic, a press release from the Pakistani High Commission in Colombo said.

In the Maldives, President Solih's government is talking to all its bilateral partners and international agencies. "We would also be seeking help from India, one of our closest friends," Presidential spokesperson Ibrahim Hood told *The Hindu*.

According to government sources, Maldives has very "small loans" from India, which prefers a more project-driven, development aid programme. In comparison the Maldives owes China a sum of nearly \$1.5 billion, including \$600 million from government-to-government, which could necessitate a shift from the Solih government's earlier tough stand on what it called the Chinese "debt trap" due to the Belt and Road Initiative projects. Reports suggest that China has now agreed to a partial repayment, to reduce the dues this year from \$100 million to \$75 million, a development New Delhi will watch closely.

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