



BRIDGING THE PALK STRAIT

A Deepening India-Sri Lanka Bond in the 21st Century

India and Sri Lanka though separated by the narrow Palk Strait, have a history of more than 2500 years of deep rooted cultural, religious and civilisational ties, which provides a robust foundation for their contemporary relationship. The consistent high-level visits between the two nations, vibrant cultural exchanges, economic partnerships, collaborative development initiatives, and enhanced connectivity projects, reflects the continuously expanding spectrum of cooperation. Prime Minister Narendra Modi's recent visit to Sri Lanka underscores India's consistent policy of fortifying relationships with its immediate neighbors, aligning with the tenets of the "Neighbourhood First" policy and its evolved "MAHASAGAR" vision.

During the three-day visit, the two sides signed seven MoUs on trade, digital connectivity, connectivity, energy partnerships and strategic defense cooperation. This visit holds particular importance as it represents Prime Minister Modi's first visit to Sri Lanka since President Anura Kumara Dissanayake assumed office in September 2024 and following his state visit to New Delhi in December 2024. PM Modi was also conferred with Mithra Vibhushan, Sri Lanka's highest civilian honour. During President Dissanayake's visit to India in December 2024, both

nations reaffirmed their commitment to enhancing collaboration across sectors such as tourism and energy, augmenting investment prospects and fostering regional security architectures.

Beyond Proximity: Deepening Economic, Strategic, and Cultural Links

The visit reinforced bilateral trade, which exceeded \$5.5 billion in 2024, with India being Sri Lanka's largest trading partner and primary source of imports. Additionally, India has supported Sri Lanka in enhancing digital infrastructure, with PhonePe's operations in Sri Lanka since May 2024 and further digital cooperation agreements signed in December 2024. India also provides substantial grant assistance for projects in Sri Lanka's northern and eastern provinces, focusing on education, health, housing and agriculture. Notably, India's economic support to Sri Lanka during its 2022 crisis, amounting to over \$4 billion and surpassing the IMF's \$3 billion bailout was significant. Earlier during Jaishanka's visit in October 2024, he conveyed that payments for 7 completed Line of Credit projects amounting to USD 20 million could be converted into grant and also confirmed India's support in the Official Creditors' Committee in

respect of Sri Lanka's agreement with International Sovereign Bond holders.

India and Sri Lanka have recently bolstered their energy cooperation through a series of agreements, including the Sampur Solar Power Plant, a joint venture between India's NTPC and Sri Lanka's Ceylon Electricity Board (CEB), and a tripartite agreement involving India, Sri Lanka, and the UAE which seeks to develop Trincomalee as a multi-product energy hub. In addition, the High Voltage Direct Current (HVDC) interconnection agreement will facilitate cross-border electricity trade. However, challenges persist, such as Adani Green's withdrawal from a \$1 billion wind project due to environmental concerns and tariff disputes. Financial pressures also remain, as Sri Lanka owes India \$1.36 billion, though a recent debt restructuring deal has eased fiscal strain. Strategically, these energy partnerships will help reduce Sri Lanka's \$5 billion annual fossil fuel import bill while supporting Sri Lanka's goal of achieving 70% renewable energy by 2030. Future prospects include joint offshore wind development in the Palk Strait and potential LNG supply agreements.

Highlighting the two sides' strategic interests in the region, India and Sri Lanka marked a significant milestone in their defense relations with the signing of a landmark defense cooperation agreement during PM Modi's visit. This five-year pact aims to institutionalize and enhance bilateral defense cooperation through joint military exercises, training programs, and high-level exchanges. Joint military exercises like 'Mitra Shakti' and naval exercises such as SLINEX 2024 have been instrumental in enhancing interoperability. Last year, the Maritime Rescue Coordination Centre (MRCC) was established in Sri Lanka, with an Indian grant of \$6 million. Additionally, Sri Lanka has reaffirmed its commitment not to allow its territory to be used against India's security interests or regional stability during the Sri Lankan President's visit to India in December 2024.

Finally, the close cultural and civilisational ties have strengthened people to people connect between the two nations. India offers substantial scholarships and training programs for Sri Lankan students and officials, enhancing cultural and

educational exchanges. Further, plans to resume ferry between Nagapattinam and Kankesanthurai, visa-free access from Sri Lanka to India, and expectations of reciprocity aim to boost tourism and people-to-people interactions. The profound cultural heritage with Buddhism serves as a pivotal pillar connecting the two nations. Recent gestures, such as PM Modi's visit to the Jaya Sri Maha Bodhi temple in Anuradhapura, highlight India's respect for Sri Lanka's Buddhist traditions. India has also announced plans to send relics of Lord Buddha found in Gujarat to Sri Lanka for exposition during Vesak Day celebrations.

Strains in the India-Sri Lanka Partnership

One of the most persistent and sensitive issues is the recurring arrests and injuries of Indian fishermen by the Sri Lankan Navy. Despite the International Maritime Boundary Line (IMBL) between the two countries, disputes over fishing rights in the Palk Strait and the Bay of Bengal still persist. While the release of fishermen following diplomatic interventions indicates attempts to address the problem, a long-term solution requires a consensus on fishing rights and sustainable practices. The domestic political factors in both countries also influence bilateral relations. In India, Tamil Nadu's resolution on retrieving Katchatheevu, a disputed island, further underscores these underlying tensions.

Second, despite the existence of the India-Sri Lanka Free Trade Agreement (ISFTA), trade relations face several challenges. Trade under ISFTA constitutes only a fraction of the total exports of both countries and Non-trade barriers (NTBs) impede the smooth flow of goods. For instance, Sri Lankan authorities often require their own certifications for textile exports, even when Indian exporters possess ISO certifications. Similarly, additional health certificates and specific requirements for rice imports add complexity and costs.

Third, China's increasing presence and influence in Sri Lanka introduces complex challenges to the traditionally strong bilateral relationship. China's Belt and Road Initiative (BRI) has led to significant loans to Sri Lanka, resulting in debt and the loss of key infrastructure like the Hambantota port,

which was leased to China for 99 years. This has raised concerns in India about China's strategic encirclement. Even China's hybrid energy project in 2021, secured initially by China's Sinohydro in islands close to the Indian coast, also caused concern. Sri Lanka's denial of permission for Chinese research vessels to dock at its ports reflects an awareness of India's strategic security concerns, but Sri Lanka also continues to balance ties with China, as witnessed during Dissanayake's visit to Beijing in January 2025.

To navigate these challenges, both India and Sri Lanka need to adopt a multifaceted approach. These frequent visits and continuous dialogue and negotiation are essential to resolve the fishermen issue and maritime disputes. Then streamlining trade processes, harmonizing standards, and reducing non-trade barriers can unlock the full potential of the ISFTA. Expanding areas of engagement especially, the energy sector, where public private partnerships can help meet renewable energy targets and help

Sri Lanka to counter the dual problem of economic development and climate change. Additionally, India and Sri Lanka are trying to secure a partnership to procure Sri Lankan graphite which is used in making batteries and Electric Vehicles (EVs).

In conclusion, Prime Minister Modi's visit has reaffirmed India's commitment to fostering a mutually beneficial partnership with Sri Lanka, rooted in a shared strategic and cultural neighborhood. The emphasis on defense, energy, trade, and cultural diplomacy underscores the comprehensive nature of this relationship. Both nations are actively seeking avenues for enhanced cooperation, with a focus on renewable energy, critical minerals, and improved connectivity. This renewed engagement holds the potential to unlock greater economic opportunities and promote regional stability, paving the way for a stronger, more resilient partnership in the years to come. ●

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