



RACE IAS

# Editorial

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## Sri Lankan lessons for India

### Context:

Sri Lanka has been in the news so much of late that its current woes are the stuff of popular knowledge.

Everyone can see the **extreme deprivation** caused to its people due to the **absence of their staple food** at an affordable price in the market and the shortage of petrol at the pump.

Those with even a modicum of knowledge of economics can trace it back to the dwindling foreign exchange reserves which are needed not only to **import food** but also to **service external debt**.

### Balance of Payments (BoP) problem:

The Sri Lankan economy has been facing a **crisis owing to a serious Balance of Payments (BoP) problem**.

Its foreign exchange reserves are depleting rapidly and it is becoming increasingly difficult for the country **to import essential consumption goods**.

The current Sri Lankan economic crisis is the product of the historical imbalances in the economic structure, the International Monetary Fund (IMF)'s loan-related conditionalities and the misguided policies of authoritarian rulers.

But Sri Lanka's foreign exchange crisis is only the symptom of a larger malaise which needs to be understood.

### Factors that triggered the economic crisis in Sri Lanka were:

1. The **Covid-19 Pandemic** that put the tourism industry on hold. It accounted for 10% of Sri Lanka's GDP.
2. This led to a **dip in the forex reserve** (from \$7.5 billion in 2019 to \$2.8 billion in July 2021).
3. Dip in other sources of revenue led to high cost in importing of essential items, including food.
4. A **depreciated currency**, high dependence on imports and hoarding led to a steep rise in food prices in Sri Lanka.
5. The **Hambantota port** was another white elephant project by the present government to shorten its economic woes.
  1. Instead it only further **increased the debt problem** that Sri Lanka faced as it had taken \$1 billion from China.
6. The ongoing Russo-Ukrainian Conflict also is a factor which is affecting the already precarious economic condition of Sri Lanka.
7. The reason is that the both the Sri Lankan tourism relies on arrivals from Russia and Ukraine
8. Russia is also the second biggest market to Sri Lanka when it comes to tea exports.
9. Thus, the war in the Ukraine put a serious dent in the path of economic recovery of Sri Lanka.

### Linguistic disenfranchisement and consequences of Civil war:

1. The origins of the linguistic disenfranchisement of the Tamils owed partly to the appeasement of the Buddhist clergy, which is **almost exclusively Sinhala**.
2. It not only caused the alienation of the Tamil-speaking population but led to the **formation of the Tamil Tigers**, a terrorist organisation, and a civil war.
3. The Tamil Tigers were finally vanquished, but it took over two-and-a-half decades for the Sri Lankan state to achieve this.
4. In the meanwhile, there was an exodus of Tamils, the better-off leaving for the West and, those who could escape, heading for Tamil Nadu.
5. With the Tamils having had a significant presence in the professions, the country **experienced a loss of expertise in almost all spheres**.
6. The **impact of a loss of technical expertise** for an economy is slow and often indiscernible but sure to affect it adversely, which we see happening in India. The civil war is also likely to have held back investment.

7. While all uncertainty stalls investment, private investors would be particularly reluctant to commit their money in a time of near anarchy.
8. **A state pursuing a civil war** can hardly make up for this through public investment, as it is bound to be severely fund-constrained due to its military operations.
9. Nor would it have had much time to address stress points that arise from time to time in any market economy, let alone plan for economic development.
10. In diverse ways, then, social strife can hamper the development of the productive forces of a country and its economic growth gets affected.
11. So here we have the first cautionary tale from Sri Lanka for India. Sri Lanka's woes are **economic on the surface** but **stem from social strife** that have been exacerbated by majoritarian identity politics fanned by the State.
12. **Identity politics** between social groups is a recipe for economic disaster.
13. The strife between the Centre and the States and antagonism between religious communities are sure ways to deter investment even if there is some improvement in the ease of doing business.
14. The **exit of some high-net-worth Indians** from the country and the outflow of foreign direct investment are examples of this.
15. Inflow of foreign direct investment to India has been high since 2014 but has been unable to make up for the depressed domestic private investment.

**How is it that a country fails to produce sufficiently even the most basic of foodstuff, such as rice and milk powder?**

That is less easy to comprehend. Since the end of colonial rule, Sri Lanka's political arrangements have been an **amalgam of nationalism in politics and welfarism in economics**.

**Ethno-nationalism** was stoked to forge a nation state in terms of a Sinhala identity, the beginnings of which had emerged in the fifties.

It is recognizable in the **official "Sinhala Only" language policy** introduced at the time.

Though this may have been diluted subsequently, it empowered **ethnic chauvinism** and left the sizable Tamil-speaking population insecure.

## Political, economic lessons from Sri Lanka crisis:

1. If the first lesson from Lanka is about **how politics can affect the economy**, the second is about **how flawed economic policy can affect an economy's prospects**.
  1. The country first came into the world's reckoning in the 1950s when its economic policy was lauded for welfare programmes that included **subsidized rice**.
  2. In Sri Lanka, distributism seems to have run ahead of what could be guaranteed from domestic sources.
2. It would serve as smart advice not only for the three Sri Lankan economists now tasked to take their country out of the crisis but also to the political class of India.
3. As India's economy has grown, many of the States have **stepped up their welfare spending**. Some have distributed bicycles for girls and others television sets to families.
4. While no form of welfare need be precluded in principle, the public finances are subject to an accounting constraint.
5. When **revenues are limited**, free bicycles and televisions sets **crowd out spending on measures** that increase an economy's productive capacity, which includes its endowment of schools, hospitals and the infrastructure needed for production. There is also an ethical issue to be faced.
6. When **welfarism** is financed by borrowing rather than taxes, future generations pay for our consumption.
7. A third lesson from Sri Lanka is to **not treat openness to the world economy as a panacea**.
  1. In the 1970s, in a switch from avowedly socialist economic policies, Sri Lanka liberalized trade and capital flows.
  2. It is a moot question how this policy reorientation may have worked had a civil war lasting decades not intervened but the reliance on world markets that **it led to has not helped the country**.
8. A celebrated theorem in economics, the theory of comparative advantage, encourages a country to specialize in its production and to rely on foreign trade for goods that it does not produce.

This assumes that there will be a continuing demand for the country's product.

## Way Ahead:

Experts opine that Sri Lanka's forex reserves have **reached bottom-low** and it faces mounting challenges in the form of rising unsustainable public debts, low international reserves and the need for large financing in coming years.

Thus, there is a need for ambitious fiscal consolidation based on high-quality revenue measures, raising income tax and VAT rates and minimizing exemptions, complemented with revenue administration reform.

Overall, the nation requires **immediate economic reforms** to have **stable economic health in the long run**.

### Conclusion:

Sri Lanka's case shows us why it can be damaging for a country to **rely on trade for its essential consumption goods**.

By comparison, the States of India that face deficit of food are saved by being part of the Indian Union.

Unlike Sri Lanka, they need not earn foreign exchange to receive food from the national granary, Kerala being the prime example of this arrangement.

Sri Lanka's first task would be to **urgently revive its food producing sector**.

As for India it must learn from its neighbor's misfortunes and step-up domestic production across sectors, from oilseeds to renewable energy and defence equipment.

## The Inherent Benefits of Agroforestry

**Climate change** is highly likely to have negative consequences for agriculture all over the world. **Extreme weather events** which are consequences of climate change are likely to reduce overall productivity of agriculture. **Flash floods, droughts**, untimely rains, hailstorms, **heat waves and cold waves** bringing temperature unsuitable for crops will demand adaptation of agriculture practices to new climatic conditions. In this context **Agro-forestry is important for India as well as other developing countries**.

### What is Agroforestry?

- Agro forestry is a **land use system that integrates trees, crops and animals** in a way that is scientifically sound.

- It integrates trees and shrubs on farmlands and rural landscapes to **enhance productivity, profitability, diversity and ecosystem sustainability.**
- It is a dynamic, ecologically based, natural resource management system that, through integration of woody perennials on farms and in the agricultural landscape, diversifies and sustains production and builds social institutions.

### How is Agroforestry Significant?

- **Economic Value:** It meets **almost half of the country's fuelwood needs**, about two-thirds of the **small timber demand**, 70-80% of the **plywood requirement**, 60% of the **raw material for the paper pulp industry**, and 9-11% of the **green fodder needs.**
  - Tree products and tree services also **contribute robustly to rural livelihoods.**
  - Fruit, fodder, fuel, fibre, fertiliser, and timber add to **food and nutritional security**, income generation, and work as **insurance against crop failure.**
- **Carbon Sequestration:** Agroforestry or tree-based farming is an established nature-based activity that can **aid carbon-neutral growth.**
  - It enhances tree **cover** outside forests, works as a **surrogate for natural forests sequestering carbon**, keeps the pressure off natural forests, and helps increase farmers' income.
- **Lower Consumption of Fertilisers:** Nitrogen fixing trees grown in the agroforestry systems are **capable of fixing about 50 -100 Kg Nitrogen/ha per year** - one of the most promising components of the agroforestry system.
  - The leaf litter after decomposition forms humus, releases nutrients and improves various soil properties, it also **reduces the fertiliser needs.**
  - Due to lower requirement of chemical fertilisers agroforestry can supplement **organic farming.**
- **Ecology Friendly:** Use of lesser chemicals will also help in **mitigating anthropogenic effects on climate.**
  - Agroforestry helps in **erosion control and water retention, nutrient recycling**, carbon storage, biodiversity preservation, and cleaner air and helps communities withstand extreme weather events.
- **Global Climate Goals:** Agroforestry can also help India meet its international obligations on -

- **Climate** - creating an **additional carbon sink of 2.5 to 3 billion tonnes** of carbon dioxide equivalent through additional forest and tree cover by 2030 and **net-zero by 2070**.
- **Desertification** - achieving 26 million hectares of **Land Degradation Neutrality by 2030**, thus, meeting 9 of the 17 **Sustainable Development Goals**.
- **Better Agriculture Yields:** Higher yields of crops have been observed in forest-influenced soils than in ordinary soils.
  - Appropriate agroforestry systems **improve soil physical properties**, maintain soil organic matter and **promote nutrient cycling**.
  - Agroforestry will also help in generation and promotion of sustainable renewable **biomass based energy**.

### How has India Responded to Agroforestry?

- In 2014, India became the first country to adopt an agroforestry policy - **National Agroforestry Policy (NAP)** - to promote employment, productivity, and environmental conservation.
- In 2016, a under the NAP was launched, with nearly - **1,000 crore to transform agroforestry** into a national effort with the tagline: **“Har medh par ped”** (trees on every field boundary).
- In the **2022-23 Union Budget**, the Finance Minister of India announced that the Government of India would **promote agroforestry**.
  - However, the Ministry of Agriculture and Farmers’ Welfare **merged the SMAF with the Rashtriya Krishi Vikas Yojana** which deprived the agroforestry sector of its flagship implementation arm.

### What are the Issues in Adopting Agroforestry?

- **Lack of Information among Farmers:** Although agroforestry is not unknown in India, many farmers are not keen to take it up because of a **lack of information on tree rotation** and also the **legal aspects involved in the trade of matured trees**.
- **Ambiguous Categorisation of Agroforestry:** Agroforestry has not become the movement it should have. For a long time the subject **fell between the cracks of “agriculture” and “forestry”** with no ownership by either sector.



- The value and position of agroforestry in the national system remains **ambiguous and undervalued**.
- It has been disadvantaged by adverse policies and legal bottlenecks and its adoption by tenant-farmers is constrained due to insecurity of tenure.
- **Financial Constraints: Inadequate investment** in the sector is also a cause for neglect. Unlike the credit and insurance products available for the crop sector, the **provisions for growing trees-on-farms are minimal**.
  - Weak marketing infrastructure, **absence of price discovery mechanisms** and lack of post-harvest processing technologies further compound the situation.
- **Small and Marginal Fields:** Most of the farmers are small and marginal having **small fields (less than 2Ha)**. In this area it is **economically and spatially agroforestry is unviable**.

### What can be Done to Promote Agroforestry?

- The sector needs to be **institutionally bolstered and profiled from the perspective of its utility spectrum** that knits farm-forestry, environmental protection, and sustainable development.
- **Financial support should be provided to all small landholders**, rather than only Scheduled Caste and Scheduled Tribe farmers.
  - Protocols need to be developed where **smallholders can earn income through carbon trading**.
  - **Institutional credit with longer funding cycles**, a moratorium on interests, and insurance products suitable for agroforestry must also be designed.
  - The **private sector** too should **invest in agroforestry** both as a commercial enterprise as well as through the route of **Corporate Social Responsibility**.
- Farmer collectives – **cooperatives, self-help groups, Farmer -Producer Organisations (FPOs)** – must be promoted for building capacities to foster the expansion of tree-based farming and value chain development.
  - It is possible to **target at least 10% of farmland** to be covered by trees.
- The current situation of agroforestry calls for **amending unfavourable legislation** and simplifying regulations related to forestry and agriculture.
  - Policymakers should **incorporate agroforestry in all policies relating to land use and natural resource management**, and encourage government



investments in **agroforestry-related infrastructure** and in the establishment of sustainable enterprises.

- Scientists and researchers can develop **location-specific tree-based technologies that complement the crop and livestock systems** for sustainable livelihoods, factor in gender concerns, and incorporate the feedback from local communities.

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