



EVENT REPORT

Sri Lanka-EU Relations: Potential for Stronger Ties and New Economic Opportunities – A Vision for Sri Lanka

30 January 2024

Brussels

On 30 January 2024, the European Institute for Asian Studies hosted a briefing seminar and related discussion on potential collaboration, trade and investment between the European Union and Sri Lanka. His Excellency Mr Ali Sabry, the Sri Lankan Minister of Foreign Affairs, gave a speech highlighting the achievements and challenges that Sri Lanka has faced in recent years, stressing the importance of greater commercial ties with the EU for Sri Lanka's continued growth and economic stability.

H.E. Ali Sabry began his speech discussing the challenges that the 2022 Sri Lankan economic crisis has brought to the government. Specifically, three main obstacles to continued prosperity were identified: unsustainable populist policies, stark policy differences within the government, and politically-led societal division. Furthermore the minister highlighted the shared values that unite the EU and Sri Lanka, including a commitment to free and fair elections, on which the country has already improved, especially after it suffered an extensive civil war a decade ago. The efficiency of the government, however, still has much to be improved.

Talking about recovery after the 2022 economic crisis, the Minister expressed the importance of strong institutions, a realistic, consistent, and sustainable economic policy. The country's inflation has decreased exponentially since 2022, while their foreign currency reserves, essential for the import of all kinds of essential goods, have increased to over 2 billion USD from an unprecedented low of 30 million USD. Despite these successes, however, exports have not risen since the crisis, and with the EU being an important export market for Sri Lanka, the need for deeper commercial partnerships to revive and increase exports was noted as crucial in order to solidify the fiscal position of the Sri Lankan government.

The restructuring of the Sri Lankan foreign and domestic debt was done in collaboration with the IMF and Paris Club support, who keep working with it to strengthen the resilience of the Sri Lankan economy and debt burden. Minister Sabry announced that local debt restructuring had already been completed, while negotiations with international creditors were still ongoing but proceeding steadily. Looking towards the future, Sri Lanka is opposed to decoupling, but the Minister supported the EU's de-risking plan, suggesting that his country can be an attractive alternative destination for firms looking to de-risk.

Minister Sabry reaffirmed his country's commitment to create a fair and equitable society, to be achieved through a competent and fair justice system. Although Sri Lanka is ready to collaborate with anyone, he stated that his country upholds an independent foreign policy and



will not accept foreign military bases on its territory. Domestically, the main challenges Sri Lanka will need to address are the devolution of power, the prevention of terrorism and to increase its accountability.

Following Minister Sabry's speech, the floor was opened to questions, which focused on the recent economic crisis in Sri Lanka, collaboration with the EU, Sri Lanka's export basket and prospects for involvement in peace-keeping missions worldwide. The Indo-Pacific Forum, happening in the same week of the event, functioned as an effective background to the Q&A session, being referenced several times. Multiple avenues to increase and facilitate EU investment in Sri Lanka were discussed, referencing the example of GSP+, which according to the Minister has greatly benefited the country's business community. Sri Lanka is especially interested in growing its textile, manufacturing, green energy and seafood industries which currently make up the majority of its export basket. The country is also expected to continue seeing exponential tourism growth, adding another important and growing sector to its economy. The three main challenges of unsustainable populist policies, stark policy differences within the government, and politically-led societal division will continue to be a challenge for Sri Lanka's continued growth and prosperity. It will therefore need to focus on improving its human rights situation, attracting foreign investments and securing a better world for all through the building of stronger regional partnerships in the Indian Ocean.