The Crisis in Sri Lanka
Economic and Political Dimensions

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Abstract

This article seeks to chart the trajectory of the Sri Lankan protests that began in early March. The first section will examine the causes of the crisis and how the government contributed to it. Economists, policy makers, and commentators cite different reasons for the economic crisis. This article classifies these reasons under two headings: orthodox and heterodox. The orthodox camp generally criticizes the government’s fiscal and monetary policies, including a series of tax cuts in 2019. The heterodox camp traces the crisis to longer-term structural causes, like Sri Lanka’s failure to industrialize and to diversify into manufacturing. The article concludes that we cannot view these two sets of causes in isolation from each other, and that whatever side one takes, we must consider the political dimensions of the crisis as well.

Keywords: Sri Lanka, protests, Rajapaksa, economic crisis, aragalaya, Indo-Pacific
When Gotabaya Rajapaksa took office as Sri Lanka’s seventh executive president in November 2019, the country’s foreign reserves stood at nearly USD 8 billion. By the end of the following year, that number had fallen to less than 4 billion. By December 2021, it was down to less than 2 billion. Coming out of a series of lockdowns that had paralyzed the economy, the island nation entered 2022 with very little foreign reserves to finance its ever-increasing import bill, particularly for fuel, gas, and electricity.

Since then, Sri Lanka’s economy has unraveled. Fuel supplies took a hit from mid-January. Blackouts extending to 90 minutes a day lengthened to more than 10 hours. Once seen as essentials, medicines and drugs have now become hard-to-find luxuries. Food supplies have been threatened, largely because of the fuel crisis: the shortage of diesel has meant that vehicles transporting vegetables, fruit, and fish cannot operate. The situation is so bad that experts estimate acute malnutrition to rise from 13 percent to 20 percent, while the number of severely malnourished children is expected to double from 35,000 to 70,000.

Not surprisingly, what was, in essence, an economic predicament has spiraled out of control into a political crisis. In February, Sri Lankans from every corner of the country began taking to the streets in unprecedented numbers, demanding the resignation of the president and his government. On 31 March, they held a demonstration in front of the president’s personal residence. In mid-April they rallied at a coastal front in the country’s capital, Colombo, and created a makeshift community, naming it Gotagogama: literally, Gota go village. Through social media, they popularized the tagline #GoHomeGota, reinforcing popular demands for his exit. After a three-month struggle, they succeeded in their aim.

Rajapaksa has since become the first president in Sri Lanka’s post-independence period to be forced out of office by a popular uprising. He is not its first leader to be pushed out this way: in 1953, in the face of a massive island-wide campaign against the elimination of rice and other subsidies, the then government was forced to move into a ship off the coast of Colombo and later resign. Rajapaksa’s resignation is more intriguing, however, in that he is its first head of state to flee due to protests. Considered Asia’s oldest democracy, Sri Lanka has traditionally ejected leaders through the ballot box. Gotabaya Rajapaksa’s conundrum, in that sense, remains unprecedented in the country’s history.

The crisis has forced the country to rethink its foreign policies as well. Even before fuel supplies threatened to come to a halt and the government imposed hours-long power cuts, economists urged authorities to enter into an arrangement with the International Monetary Fund (IMF) and World Bank. The Rajapaksa government instead struck currency swap and other credit arrangements with several countries, including India, Bangladesh, and China. Of these, India
was quite generous in its response: since January 2022, it has extended more than USD 3.5 billion in fuel credit lines, grants, and other forms of aid.\textsuperscript{20}

Perceived as a victim of China’s much vaunted debt-trap diplomacy, Sri Lanka has, since the crisis reached its peak, turned the other way, appealing to New Delhi for consignments of fuel, food, and medicine. India, naturally, has taken this opportunity to exert its influence in South Asia, portraying itself as Sri Lanka’s benefactor at a time of crisis. The Narendra Modi government has constantly reminded authorities and journalists that it will stand by the Sri Lankan people.\textsuperscript{21} Beijing has offered little by contrast, instead reaffirming its commitment to the island.\textsuperscript{22} China has urged the Sri Lankan government to treat its creditors equally, as Colombo gears up to restructure its external debt vis-à-vis the IMF. At the same time, Beijing has angrily refuted allegations that China is not doing enough to help Sri Lanka.\textsuperscript{23}

This article seeks to chart the trajectory of the protests that began in early March. The first section will examine the causes of the crisis and how the government contributed to it. Economists, policy makers, and commentators cite different reasons for the economic crisis. The article classifies these reasons under two headings: orthodox and heterodox. The orthodox camp generally criticizes the government’s fiscal and monetary policies, including a series of tax cuts in 2019. The heterodox camp traces the crisis to longer-term structural causes, like Sri Lanka’s failure to industrialize and to diversify into manufacturing.

This article’s argument is that we cannot view these two sets of causes in isolation from each other, and that whatever side one takes, we must consider the political dimensions of the crisis as well. In particular, the image of Sri Lanka as a deeply authoritarian, militarized society, in which the government’s response to dissent is to deploy soldiers and use force, is at odds with the ground reality in the country. The protests themselves represent a wide array of political views; a vast section among them are former supporters of the very government they now oppose. The withdrawal of several groups after Rajapaksa’s resignation indicates that, so long as it focused on Rajapaksa’s exit, they cut across ideological divisions, and that now that this objective has been achieved, those divisions have returned.

The Economic Roots of the Crisis

Sri Lanka’s troubles long predate the current crisis. Much of the commentary, naturally enough, has focused on the past two years, laying the blame for the country’s economic collapse on the Rajapakas. Very few analyses have examined the structural causes for that collapse, but the few that do fall within either of two camps: what this article terms the \textit{orthodox} and the \textit{heterodox}. Both emphasize the structural nature of the crisis, but from two different standpoints: while the ortho-
dox camp highlights the government’s failure to liberalize the economy, the heterodox camp focuses on country’s failure to industrialize.

Fundamentally, the crisis has to do with the island’s external debt, which stands at more than USD 55 billion. Its debt-to-GDP ratio, which stood at 87 percent in 2019, has ballooned to almost 120 percent today. Sri Lanka has debt obligations of USD 6 billion in 2022 alone, against a paltry USD 1.9 billion in foreign reserves, of which USD 1.5 billion is from China in the form of a swap arrangement, which cannot be used for dollar payments. The gap between what the country owes and what it possesses has more or less paralyzed the economy. Having failed to resolve its balance of payments crisis, notwithstanding arrangements with several countries, Colombo was forced to default on its debts for the first time in Sri Lankan history last April.

With a GDP estimated at USD 84.52 billion, Sri Lanka’s economy has historically depended on three income sources: tourism, foreign remittances, and commodity exports. These have effectively been Sri Lanka’s mainstays. Marketed as a tropical paradise, the country has long entranced travelers and explorers. In 2019 it welcomed two million tourists, earning more than USD 4 billion in foreign exchange. That same year remittances by expatriates, in particular poor expatriates working in the Middle East, brought in USD 7.26 billion, while exports contributed another USD 20 billion or so.

These sectors, not surprisingly, took a hit from the COVID pandemic. Tourist arrivals reduced to a paltry 540,000 in 2020, recording a further decline to 194,000 in 2021. The numbers began to improve in 2022. While 1,682 tourists made their way in January 2021, more than 82,000 entered the island a year later. However, most of them hailed from Russia and Ukraine. With the onset of Russia’s invasion of Ukraine, not surprisingly, tourist arrivals began to drop—and fast. The impact on commodity and fuel prices worsened the island’s prospects: while it had spent USD 330 million on fuel in December 2019, escalating prices now forced it to spend more than USD 500 million per month. This translated into longer power cuts and queues at filling stations. To cut back, the government enforced fuel quotas.

Economists usually describe Sri Lanka as export dependent. The more correct characterization would be that it is heavily import dependent. According to Harvard University’s *Atlas of Economic Complexity*, the country has very few dynamic export sectors. Its main exports are textiles and commodities like tea, which face fierce competition from emerging markets in Africa and Asia. These export sectors are themselves reliant on supplies of intermediate goods and raw materials from developed countries. Global price and supply-side shocks have disrupted these sectors severely: to give one example, the country’s textile factories, once
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considered vibrant and promising, have come to a screeching halt because of power cuts.

The orthodox interpretation of these problems is that the economy has failed to liberalize. According to this reading, the present crisis is a result of the Sri Lankan government racking up debts via inefficient state-owned enterprises and unsustainable welfare measures, such as subsidies. Specifically, economists fault the Rajapaksa government for policy decisions that turned the country toward bankruptcy, in particular a series of tax cuts in 2019 which, in effect, deprived the treasury of billions of rupees. To finance the resultant fiscal deficit, these economists allege that the government went on a money printing spree, heating up the economy and exerting a downward pressure on the rupee.

Several ill-conceived decisions, taken in 2020 and 2021, exacerbated the situation. Top among these was the government’s decision to ban imports of chemical fertilizer. Sri Lanka’s agricultural sector has, since the 1960s, when the island nation enacted a Green Revolution, critically depended on such fertilizers. The government’s justification of its volte-face was that it wanted farmers to go organic. To be fair, farmers have been advocating such a shift themselves, especially due to health worries about pesticides. However, the government did not properly phase or plan out this transition to organic. The result has been a double whammy: harvests are predicted to decline by as much as 70 percent, while global fertilizer prices have risen more than twofold, making it difficult if not impossible to reverse the damage.

While many local economists fault the Sri Lankan government for enacting ill-conceived policies and refusing to engage with multilateral institutions until the last minute, a few among them trace the crisis to its failure to shift to industry. While manufacturing (value added) as a percentage of GDP (18 percent) is higher than the average in South Asia (15 percent), it lags behind countries like Malaysia and South Korea, which average between 20–25 percent. As Shiran Illanperuma, a Colombo-based economic analyst, contends, as early as the 1960s, Sri Lanka found it unable to finance imports of manufactures with exports of primary products and commodities, forcing the government to resort to the IMF for assistance. The country has engaged with the IMF 16 times since then, the most recent engagement marking the seventeenth occasion.

The orthodox camp criticizes the Rajapaksa government’s policy measures as having contributed to the crisis. The heterodox camp alleges that these measures did not go far enough. As Illanperuma has noted in his analysis, the government’s much maligned tax cuts more or less amounted to an attempt at spurring industrialization, along the lines of the Southeast Asian economic miracle. Other measures, such as fixing the dollar rate of the rupee and flattening interest rates, fol-
allowed a similar pattern. According to these analysts, the administration failed to supplement such decisions with measures that could have diverted the boom in economic activity to productive sectors. Instead, they encouraged hoarding and speculation, fueling inflation and exacerbating shortages from as early as mid-2021.  

**Some Political Dimensions**

Whether one views it as a failure to liberalize or industrialize, whether one sides with the orthodox or the heterodox camp, though, one cannot deny the political dimensions of the crisis. The situation in Sri Lanka is connected to the peculiarities of its politics. In 1931 the country became the first in Asia to gain the right to vote—even while still under colonial rule. This enabled the government to enact a series of welfare schemes—health expenditures comprise more than 4 percent of GDP in Sri Lanka, compared with around 3 percent in India, to cite one statistic—which have heightened expectations among people. Historically, Sri Lanka’s main political parties have launched election campaigns on populist platforms, amplifying demands to raise subsidies and taxes, and employ university graduates to a highly bloated state sector.

Such fundamental similarities cut through important ideological differences. The country’s two main parties, the center-left Sri Lanka Freedom Party (SLFP) and the center-right United National Party (UNP) have been in competition with each other for more than 70 years. Since 2005, however, one family has dominated politics in Sri Lanka: the Rajapaksas. In 2014 a section of the SLFP, of which the then-president Mahinda Rajapaksa was chairman, defected and signed an agreement with the UNP, then led by current president Ranil Wickremesinghe. In print, the agreement was meant to last for two years. However, it broke down much earlier, because of certain policy differences. In the meantime, several developments, such as the 2019 Sri Lanka Easter terrorist bombings, provided an opening for the Rajapaksas, who formed a party of their own, the Sri Lanka Podujana Peramuna (SLPP).

South Asia is no stranger to dynastic politics: India has the Nehru–Gandhis, to give one example. What is intriguing about the Rajapaksas is that their continuity has been abnormal by the regional standard. As Sri Lanka’s most reputed political analyst Dr. Dayan Jayatilleka has observed, succession within the Rajapaksas has been horizontal and vertical, sequential and simultaneous. In effect, while familial politics in the rest of the region has sustained the political system, the Rajapaksas’ brand of nepotism has served to undermine it. Viewed that way, the protests are, in effect, a response not so much to the politics of nepotism as to a form of
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nepotism that has led to the unravelling of the system: thus, the wide call among protesters for a “system” rather than “regime” change.

Led by the Rajapaksas, the SLPP launched an all-out campaign against then—prime minister Wickremesinghe in the presidential election of 2019, accusing him of neglecting national security in the wake of the Easter attacks. The SLFP joined forces with the SLPP. Gotabaya Rajapaksa swept through with a cool 52 percent of the vote. The UNP candidate, Sajith Premadasa, the son of a former president, ousted Wickremesinghe as opposition leader. Premadasa went on to do to the UNP what the Rajapaksas had done to the SLFP: at parliamentary elections in August the following year, he broke away from the party and formed the Samagi Jana Balavegaya (SJB), winning 54 out of 225 seats. The UNP, one of the country’s oldest parties, was reduced to a single seat, occupied a year or so later by Wickremesinghe himself.

Gotabaya Rajapaksa had paraded himself as a doer and a maverick. Far from handicapping him in his bid for office, however, his lack of political experience—he had served in the Sri Lanka Army for 20 years before migrating to the United States in the 1990s, then served as secretary of defence when his elder brother, Mahinda, oversaw as president the final phase of a war against separatist terrorists, from 2005 to 2009—catapulted him to victory. Once in power, though, he found it difficult to keep his family out. Having appointed his brother Mahinda as prime minister, his government passed a controversial constitutional amendment in 2020, which enabled another brother, Basil, who held US citizenship, to enter parliament. While Gotabaya was theoretically executive president, it was his brothers, most prominently Basil and Mahinda, who were seen as the doers and shakers of the government.

The crisis escalated irrevocably in January 2022, with fuel queues and rolling power cuts. Previously, Sri Lanka was seen as the only country in South Asia to provide uninterrupted electricity, at the cheapest rates. Historically, fuel prices were also low by regional standards. Once the government found it could no longer control rates and availability, it set ceiling prices for food items in 2021, to no avail—and the dollar rate of the rupee fell from 200 to 350, monthly inflation exceeded 30 percent, and protests gained steam. Interestingly enough, while liberal critics of the Rajapaksas took to the streets against their government, their core constituencies—like farmers, who had been deprived of chemical fertilizers for a year, and the majority Sinhala Buddhist middle-classes, who had banked on Gotabaya Rajapaksa’s ability to deliver and his experience in the defense establishment—were arguably louder and more articulate in their protests.
The Peculiarities of the Protests

At one level, the pattern in Sri Lanka has followed that of most other countries straining under ballooning external debt and depleting foreign reserves: economic mismanagement unleashing a political crisis and fueling a popular backlash against the government, only to culminate, temporarily, in the latter reasserting its power. Sri Lanka is going through the latter phase: upon Gotabaya Rajapaksa’s resignation on 13 July—an event greeted with much fanfare across Sri Lanka—the SLPP made its move, electing Ranil Wickremesinghe as president with a parliamentary majority of 134 votes.\(^62\) Rajapaksa had earlier appointed Wickremesinghe as prime minister when events forced his brother, Mahinda, to resign on 9 May.\(^63\) As Gotabaya’s successor, Wickremesinghe mobilized troops against those occupying the Presidential Secretariat on 22 July\(^64\)—a move Rajapaksa had never enforced.

Few political commentators, local or foreign, have considered the specifics and dynamics of politics in Sri Lanka when assessing these developments. While liberal critics of the government have depicted Gotabaya Rajapaksa as an oriental despot, a Hitler in the Tropics—a reputation earned, in large part, through his involvement in the separatist war, which continues to garner allegations of human rights violations—his conduct as president has been at variance with such popular perceptions. For instance, peaceful as the protests have been, barring a few unfortunate incidents,\(^65\) the military has refrained from shooting at or using full force on them.\(^66\) Images of soldiers joining the demonstrations, culminating in the 9 July occupation of several official buildings, have only complicated this picture.

The military’s ambivalent response to the protests perhaps stems from the role it plays in civilian life in Sri Lanka. A volunteer outfit, the Sri Lanka Army has, historically, banked on popular support.\(^67\) It does not enjoy the elite status that the Indian or the Pakistani Army do. As Dr. SinhaRaja Tammita-Delgoda, a reputed local speaker, lecturer, and advisor in strategic studies has argued, “the implosion of the economy has completely transformed their position.” Most servicemen “live cheek by jowl” with their neighbors, and their families are enduring the same shortages the rest of the country are.\(^68\) Once hailed as heroes, the military is now regularly ridiculed by Sri Lanka’s ever ubiquitous social media users. Former supporters of the Rajapaksa, in particular, contend that in taking sides with the government, to which they are lawfully bound, the military has “betrayed the people.”\(^69\)

As for the protests, the most important point about them is that they remain leaderless.\(^70\) This has enabled diverse crowds to take part in them, but it has also opened them to the risk of manipulation. Thus, while the government accuses them of being funded by overseas groups, the protesters contend that they are a
sporadic and self-organized movement.\textsuperscript{71} To be sure, the makeshift community at Gotagogama have been lavishly supplied with food, fuel, water, and electricity generated through solar panels: amenities that would ordinarily require energy, initiative, and outside patronage. Yet there is no denying that the movement has attracted people of all shades, creeds, and classes from across the country.

Nevertheless, these protests lack a core constituency or class group. While urban middle-class figures in the movement—including IT and advertising professionals, as well as doctors, lawyers, and engineers—farmers and laborers have joined in as well. The protesters have shunned political parties, but they have been relaxed about the entry of two left-wing parties—the People’s Liberation Front (Janatha Vimukthi Peramuna, or JVP) and the Frontline Socialist Party (FSP)—which have taken over a considerable section of the movement.\textsuperscript{72}

These parties advocate radical change—of the sort that has pitted them against less radical elements among the protestors, since 13 July. The latter have been critical of the JVP–FSP’s ideological stances, including calls to occupy Parliament on 13 July: an act that at once earned for these parties the admiration of a radicalized youth and the criticism of moderate sections. For their part, the youth have been galvanized into action by the Inter-University Students’ Front (the IUSF), a radical leftist student group allied with the FSP. Yet the IUSF does not enjoy a monopoly at Gotagogama either: the group has called for the protests to continue, but these calls have not been fully heeded.

Having rallied around the demand for Gotabaya Rajapaksa’s exit for more than three months, certain elements within the community are moving out.\textsuperscript{73} Despite Wickremesinghe’s raid on 22 July, these groups contend that they have achieved their objective and that the next phase of their campaign—which they call the \textit{aragalaya}, or uprising—will depend on how well the new administration handles the economic crisis. That, in turn, will depend on the completion of an IMF agreement and a debt-restructuring program. Political stability is an urgent imperative now, and it will boil down to how the Wickremesinghe administration will react to any future uptick in the protests, in Colombo or anywhere else.

\textbf{Conclusion}

The protests in Sri Lanka have more or less transmogrified traditional political divisions. Until 2019, the line seemed clearly drawn between nationalist and pro-Western camps, with the SLFP and SLPP representing the former and the UNP representing the latter. With Gotabaya Rajapaksa’s victory, the UNP split into half, allowing the SLPP, allied with the SLFP, to enjoy a monopoly in Parliament. Unhindered and unchecked, Rajapaksa and his acolytes made one blunder after another, paving the way for the island’s worst crisis since independence. This in
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turn erased any ideological divisions that voters previously would have considered. Today, for all intents and purposes, the only division they see is between themselves and parliamentarians, particularly within the ruling party.

Will the Rajapaksas return? They have become so hated and reviled that a return from exile, so to speak, seems faint and distant. On the other hand, political analysts suggest that Ranil Wickremesinghe's very appointment as president sealed their fate: it was the Rajapaksas' party, after all, that ensured his presidency. From Singapore, his predecessor is now expected to move to Thailand, where he will remain for the next 90 days. It remains to be seen whether President Wickremesinghe will live up to the reputation he has inadvertently built as an ally of the Rajapaksas. One thing is certain, however, so long as the Rajapaksas remain in power, on the frontlines or from the sidelines, instability will continue. That may debar Sri Lanka from tapping into much needed funds, which Colombo needs to get out of the crisis: a veritable Mexican standoff.

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58. Charuny Rajakaruna, “Sri Lanka the only South Asian country to provide 24-hr power – Ranjith,” Ada Derana News (Sri Lanka), 23 April 2018, http://www.adaderana.lk/.
69. Personal communication with protesters, the author, 12 July 2022.

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