

**[ADRN Issue Briefing]**

## **Sri Lanka's Arab Spring Moment: Can Asia's Oldest Democracy Weather the Crisis?**

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Sri Lanka, Asia's oldest democracy, is at a critical inflection point in its history. The island nation of 22 million people is facing unprecedented economic and political crises. Sri Lanka is currently engulfed with massive anger and intensifying street protests over the Gotabaya Rajapaksa government's bungling of the economy that has triggered a near-collapse. The spontaneous protests, which started in early March with small numbers engaged in candlelight marches, soon intensified and transformed into massive, nationwide agitation against the ruling Rajapaksa clan and their misdeeds. With popular slogans like "Go Home Gota" and "Go Home Rajapaksas," the protestors, comprising students, teachers, doctors, women, and people from every walk of life, poured onto the streets against the Rajapaksa government. When the supporters of Prime Minister Mahinda Rajapaksa launched gruesome attacks on protestors on March 9, it led to a spontaneous and massive counter-attack from the protestors, resulting in the death of a ruling party MP and several civilian deaths.<sup>1</sup> To quell the rapidly spreading violent unrest, President Gotabaya Rajapaksa persuaded his elder brother and Prime Minister Rajapaksa to resign from their posts. The continued unrest, which resulted in angry protestors attacking properties owned by ruling party leaders and burning down the ancestral home of the Rajapaksas in Hambantota city, prompted the former Prime Minister to flee along with his family to the naval base for safety.<sup>2</sup> The island nation seems to be on the cusp of an Arab Spring.<sup>3</sup>

The country is under its second emergency within a month, and protests show no sign of abating. President Gotabaya in the meantime has reconstituted a bipartisan government with the surprise induction of the opposition leader Ranil Wickremesinghe as the new Prime Minister to steer the country toward a safer horizon. Yet, with the economic crisis persisting as fuel and other essential commodities run out of stock (resulting in a 13-hour power cut) due to the balance payment crisis and protestors still at large on the streets demanding the resignation of President Gotabaya, it is difficult to see how the current crisis will pan out.

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<sup>1</sup> <https://www.aljazeera.com/news/2022/5/9/sri-lanka-govt-supporters-attack-protesters-demolish-tents>

<sup>2</sup> <https://www.deccanchronicle.com/world/neighbours/110522/mahinda-flees-to-navalbase-as-rajapaksa-houses-burnt.html>

<sup>3</sup> <https://www.daily-mirror.lk/opinion/Sri-Lankas-Arab-Spring-Dont-waste-this-precious-moment/172-234997>

## What led to Sri Lanka's Economic Collapse?

What has really driven this relatively prosperous island nation (which incidentally had achieved upper-middle income status) to this mess? The most immediate factors that took the country into financial crisis are the COVID-19 pandemic and the war in Ukraine. Starting in early 2020, the pandemic hugely affected island nation's main revenue earning sector: tourism. Millions of people have lost their livelihoods as tourist footfalls were reduced dramatically over the past two years, resulting in an overall loss of as much as 12% of the country's economic output.<sup>4</sup> In addition, the pandemic negatively impacted other key revenue earning sectors including the garment industry and tea exports while also squeezing earnings from remittances.<sup>5</sup> Thus, the country's fragile economy, already reeling from the shock of the Easter Sunday bombings in 2019,<sup>6</sup> became further exposed through these pandemic-related impacts. As the pandemic began to recede in early 2022, there were some signs of economic revival. However, the Russian attack on Ukraine led to a surge in global fuel and food prices.<sup>7</sup> This further impacted the country's already precarious balance of payment situation, forcing the leadership to scramble for foreign aid to meet its immediate needs. With the country in no position to arrange foreign exchanges, it has cut down on essential imports including fuel, food items, and medicines. This has led to essential fuels like petrol running out of stock in addition to frequent power cuts, long queues for gas stations, and a shortage in many shops of essential goods, medicines, and other basic items.<sup>8</sup> The crisis is so deep that despite immediate support from countries like India and China, Colombo defaulted on all of its external debt on April 12 while seeking an urgent bailout from the International Monetary Fund (IMF).

## Deeper Structural Factors behind the Economic Crisis

While the COVID-19 pandemic and the war in Ukraine greatly exposed Sri Lanka's economic fragility bringing the country to its worst economic crisis since the 1930s, the crisis in fact has deeper structural roots and can be traced back to the first Rajapaksa government (2005-2014).<sup>9</sup> In the aftermath of its historic victory over the Tamil Tigers in 2009, the Mahinda Rajapaksa government embarked on ambitious infrastructure projects. On the heels of the global financial crisis, the government tapped easily available loans from China to build big-ticket infrastructure projects like Hambantota sea port, Mattala Rajapaksa Airport, and Colombo Port City. While the infrastructure push helped the non-tradable sectors such as construction and real estate and provided temporary growth, several mega-infrastructure projects such as the Hambantota port and Mattala Rajapaksa International Airport emerged as poor investment choices as they earned little foreign exchange for the island nation.<sup>10</sup> In the meantime, Sri Lanka rapidly became one of the most indebted nations,

<sup>4</sup> <https://www.indiatoday.in/india/story/sri-lanka-tourism-suffers-protest-erupts-colombo-save-hospitality-industry-1933961-2022-04-05>

<sup>5</sup> Meera Srinivasan, <https://www.thehindu.com/news/international/in-sri-lanka-an-economic-crisis-foretold/article65282210.ece>

<sup>6</sup> Nisha Arunatilake, <https://www.ips.lk/talkingeconomics/2020/04/03/easter-attacks-in-2019-vs-covid-19-outbreak-of-2020-what-lies-ahead-for-sri-lanka/>

<sup>7</sup> Gerry Shih, "How war in Ukraine turned Sri Lanka's economic crisis into calamity," April 17, 2022.

<https://www.washingtonpost.com/world/2022/04/17/sri-lanka-crisis-default-ukraine/>

<sup>8</sup> Mujib Mashal, NYT, 17 May 2022. <https://www.nytimes.com/2022/05/17/world/asia/sri-lanka-fuel-economic-crisis.html>

<sup>9</sup> S.D. Muni, The roots of Sri Lanka's economic and political turmoil, The Hindustan Times, April 9, 2022.

<https://www.hindustantimes.com/opinion/the-roots-of-sri-lanka-s-economic-and-political-turmoil-101649428821069.html>

<sup>10</sup> Dushni Weerakoon, "Sri Lanka on the Brink: How the Pandemic and war in Ukraine led to Economic Collapse," *Foreign Affairs*,

with commercial debt (largely taken from Chinese sources) shooting up from a mere 7% in 2006 to a mammoth 55% in 2019.<sup>11</sup> International sovereign bonds increased as much as 38% (excluding another 10% held by China) by early 2019, while successive governments paid little or no heed to the monstrous level of debt accumulation. With foreign exchange earnings from exports remaining poor (partly due to the Easter Sunday bombings in 2019 hugely impacting the country's key sector of tourism), the government heavily relied on selling bonds to maintain its foreign exchange reserves. However, with the pandemic squeezing economic activities and much of capital markets, bond markets suffered heavily, further eroding the country's financial stability.

## Populist Policies

The economic mismanagement was furthered by a number of populist policies before and during the pandemic. As soon as the Rajapaksas won the 2019 polls, the first major economic decision they took was to make deep tax cuts despite experts warning that such cuts would badly hit government revenue.<sup>12</sup> The Sinhala-nationalist government followed this with a sudden decision to switch to organic farming in the country without consulting any agriculture experts.<sup>13</sup> In the middle of the pandemic in 2021, the Rajapaksa government embarked on an ambitious roll out of this program by imposing a ban on the import of synthetic fertilizers while forcing 2 million farmers to make the change to organic farming. The outcome of this ill-conceived and populist decision was a drastic fall in the output of staples such as rice and tea. For instance, rice production fell by as much as 20% in the first six months of the program, forcing the country to import USD \$450 million worth of rice from international markets while the domestic prices of this national staple surged nearly 50%.<sup>14</sup> The fertilizer ban had devastating effects on tea crops as well, which was the nation's main source of foreign exchange.

While the government partially removed the ban on export crops such as tea and rubber, the pre-ban momentum has been difficult to achieve. Faced with rising inflation, soaring prices, and massive protests from angry farmers, the government finally reversed its decision on organic farming and associated measures, but with few positive outcomes. From being proudly dubbed an "upper middle income country" a few years ago, more than half a million people have fallen back into grinding poverty. The Rajapaksas' brazen and populist decisions were aptly summed up by Foreign Policy, which said, "*The farrago of magical thinking, technocratic hubris, ideological delusion, self-dealing, and sheer shortsightedness that produced the crisis in Sri Lanka implicates both the country's political leadership and advocates of so-called sustainable agriculture: the former for seizing on the organic agriculture pledge as a shortsighted measure to slash fertilizer subsidies and imports and the latter for suggesting that such a transformation of the nation's agricultural sector could ever possibly succeed.*"<sup>15</sup>

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April 14, 2022. <https://www.foreignaffairs.com/articles/sri-lanka/2022-04-14/sri-lanka-brink>

<sup>11</sup> Ibid

<sup>12</sup> Devaka Gunawardena and Ahilan Kadirgamar, "The Political Economy of the Crisis in Sri Lanka," *Economic and Political Weekly*, April 30, 2022. <https://www.epw.in/journal/2022/18/perspectives/political-economy-crisis-sri-lanka.html>

<sup>13</sup> Ted Nordhaus and Saloni Shah, Foreign Policy, March 5, 2022. <https://foreignpolicy.com/2022/03/05/sri-lanka-organic-farming-crisis/>

<sup>14</sup> Ibid

<sup>15</sup> Ibid

## Nepotism and Corruption

Experts link nepotism to the current economic and political crises facing Sri Lanka.<sup>16</sup> Average Sri Lankans blame the economic mess on the corrupt, wasteful, and oligarchic rule of the Rajapaksa family. As many as six members of the family were holding key portfolios in the government.<sup>17</sup> While Gotabaya Rajapaksa, the third of the brothers, is holding the post of president, the elder brother Mahinda Rajapaksa held the post of prime minister until March 9. Brother Basil Rajapaksa held the key ministry of finance, and Mahinda's son Namal was Minister of Sport and Youth. While the family's iron grip over politics began during the civil war years (2005), their real grip on Sri Lanka began in 2010, when Mahinda Rajapaksa was re-elected with a greater majority. Following his re-election, Mahinda not only appointed his brothers and relatives into key positions, he also aggressively solicited investments from China to build many vanity projects in his hometown at great cost to the state exchequer.<sup>18</sup> While the Rajapaksas lost power in 2015 in the face of charges of corruption and nepotism, they won a massive mandate in 2019 against the backdrop of the Easter bombings.

When Gotabaya became President, he appointed his elder brother Mahinda as prime minister. Four other members of his family were allotted key ministries, giving the family a complete hold on Sri Lankan politics. With few checks on their power, the family is at the root of many of the brazen decisions that have accentuated the present economic crisis. For instance, the Mattala Rajapaksa International Airport, which opened in 2013, is being mocked as "the world's emptiest airport."<sup>19</sup> Even the decisions to opt for organic farming and to initially not seek an IMF bailout were made purely by the Rajapaksas. Recently, President Gotabaya accepted that these mistakes had led to the current economic turmoil.<sup>20</sup> In other words, family rule and unchecked power and impunity have greatly aided the current mess in the island nation.

## Where Does Sri Lanka Go from Here?

Can Sri Lanka weather the crisis without any major political earthquakes? Will the appointment of five-time Prime Minister Ranil Wickremesinghe bring an end to the continuing political unrest? What is the future of President Gotabaya Rajapaksa and the Rajapaksa family? Will this protest movement facilitate a more tolerant and inclusive democracy in Sri Lanka? At this point, it is very difficult to predict what direction that Asia's oldest democracy will take. However, there are a few things that appear certain. First, the persistent nationwide protests despite the resignation of Prime Minister Mahinda Rajapaksa are likely to bring an end to the long grip of the Rajapaksa family on political power in Sri Lanka. While President Gotabaya is valiantly fighting to hold onto power, he may not have much longer considering the fragile economic situation and ongoing, widespread protests. Such a development may be a good thing for Sri Lankan democracy, as it would create an opening for new

<sup>16</sup> Dilrukshi Handunnetti, "The Fall of the House of Rajapaksas: How Unbridled Nepotism let Sri Lanka Down," *The Wire*, May 10, 2022, <https://thewire.in/south-asia/mahinda-rajapaksa-family-sri-lanka>

<sup>17</sup> S.D. Muni, *Ibid* op. cit

<sup>18</sup> <https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Nepotism-bad-policy-push-Sri-Lanka-to-brink-of-economic-ruin>

<sup>19</sup> *Ibid*

<sup>20</sup> <https://www.indiatoday.in/world/story/sri-lanka-economic-crisis-president-gotabaya-rajapaksa-admits-mistakes-1939129-2022-04-19>

political actors in the democratic process. Second, the continuing political unrest may bring an end to the executive presidency and restoration of the 19<sup>th</sup> Constitutional Amendment, which debarred the president from dismissing the prime minister at his discretion.<sup>21</sup> These are the top demands of the protest movement, and the current dispensation led by Gotabaya is open to these measures. Incidentally, before he was forced to resign, Prime Minister Mahinda Rajapaksa had proposed a 21<sup>st</sup> constitutional amendment repealing the 20<sup>th</sup> Amendment to the Constitution and reviving the key clauses of the 19<sup>th</sup> Amendment.<sup>22</sup> This amendment would put an end to the much-abused executive presidency and revive the powers of parliament, which would be an important milestone for Sri Lankan democracy.<sup>23</sup>

Third, the crisis has brought new hope of solidarity and inclusion among minorities such as Tamils, Muslims, and Christians with the Sinhala majority. In a pragmatic show, alienated minorities have joined hands with the Sinhala majority to throw out the Sinhala-nationalist government that has assiduously thrived on polarization and minority alienation. The protest site that Mahinda Rajapaksa's supporters tried to destroy, "GotaGoGama," has aptly been called the "secular shrine of democracy" by noted political scientist Jayadeva Uyangoda.<sup>24</sup> The protest site continues to be visited by thousands of people cutting across all faiths and ethnicities to express their solidarity in support of democracy and inclusion. Many powerful Buddhist monks are openly showing solidarity with Muslims and Christian minorities. In short, the crisis portends well for Sri Lanka's secular and multi-cultural future.

Finally, the crisis offers a rare chance for Sri Lanka to re-assess its excessive dependency on China and expand and deepen its engagement with key democracies in Asia and the West. As has been stated earlier, Sri Lanka's current economic crisis has a long Chinese shadow. The Rajapaksas have aggressively solicited Chinese involvement in the island nation's economic and political matters with grave consequences. However, now that the country is in deep financial trouble, China has been less dexterous and taken a more hard-nosed approach toward debt repayments, showing little sensitivity to the suffering of ordinary people.<sup>25</sup> In contrast, Asian democracies like India and Japan, which have been subjected to discriminatory policies particularly under the Rajapaksas' rein, have shown greater sensitivity and alacrity in providing financial and material assistance. For instance, India was quick to open two lines of credit of USD \$1.5 billion each for food, medicine, and other essential goods and has provided USD \$2 billion in deferred payments from the Central Bank of Sri Lanka to India's Central Bank.<sup>26</sup> This critical geopolitical juncture in which both China and the Rajapaksas face increasing scrutiny from a united opposition and the masses is an opportune time for New Delhi and Washington to fill the void and steer the island nation away from Chinese influence<sup>27</sup>. With the pendulum swinging away from China, Sri Lanka must be encouraged to turn to the international community and multilateral institutions to recover from the current crisis. ■

<sup>21</sup> <https://indianexpress.com/article/explained/constitutional-amendment-sri-lanka-pm-rajapaksa-protests-7878337/>

<sup>22</sup> Ibid

<sup>23</sup> Asanga Abeyagoonasekera, ORF brief, May 9, 2022. <https://www.orfonline.org/expert-speak/economic-and-political-crisis-in-sri-lanka/>

<sup>24</sup> Jayadeva Uyangoda, Daily Mirror, May 9, 2022. <https://www.dailymirror.lk/recommended-news/Decoding-political-messages-from-the-citizens/277-236535>

<sup>25</sup> Nirupama Rao, "Sri Lanka faces an inflection point," The Hindustan Times, May 16, 2022. <https://www.hindustantimes.com/opinion/sri-lanka-faces-an-inflection-point-101652623485156.html>

<sup>26</sup> Ibid

<sup>27</sup> C. Raja Mohan, Across South Asia, US and India Pushback against China, *Foreign Policy*, April 6, 2022. <https://foreignpolicy.com/2022/04/06/us-india-china-sri-lanka-south-asia-geopolitics/>

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