

INTERNATIONAL JOURNAL OF LAW
MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 5 | Issue 4

2022

© 2022 *International Journal of Law Management & Humanities*

Follow this and additional works at: <https://www.ijlmh.com/>

Under the aegis of VidhiAagaz – Inking Your Brain (<https://www.vidhiaagaz.com/>)

This article is brought to you for “free” and “open access” by the International Journal of Law Management & Humanities at VidhiAagaz. It has been accepted for inclusion in the International Journal of Law Management & Humanities after due review.

In case of **any suggestions or complaints**, kindly contact Gyan@vidhiaagaz.com.

To submit your Manuscript for Publication in the **International Journal of Law Management & Humanities**, kindly email your Manuscript to submission@ijlmh.com.

A Panoramic View of Sri Lankan Crisis

Approaches from the Below

DR. RAMDHASS PERUMAL¹ AND GOURAV SHARMA²

ABSTRACT

Sri Lanka started as a land of opportunities. It appeared to have a fine mix of tactical location in the Indian Ocean, uncluttered economy, high level of education, lack of inequality, robust export sector, effective government, and place among the most prosperous Asian nations. Then, what are the reasons that a country with so much potential cannot even pay for the fundamental needs of its citizens and what went wrong with Sri Lanka? The study talks about historical developments of the Sri Lankan economy, how it missed the train of globalisation, the involvement of the international community in the destruction of the Sri Lankan economy, and how it was exploited as a “Guinea Pig” by the Chinese and Indian aspirations for becoming a global hegemony. The study is going to address a panoramic view of Sri Lankan crisis; talks about, how the smaller and promising countries like Sri Lanka are subject to the will of the larger forces like India, China, USA, how Sri Lanka found itself stuck as the battleground for the power struggle in the region and how the small, embattled country is striving for its territorial integrity, sovereignty and even its ecological preservation.

Keywords: *Sri Lankan Crisis, Power struggle, Sri Lankan Economy, Open Economy, Global Hegemony*

I. HISTORICAL DEVELOPMENT

In 1948, Ceylon gained its independence from 443 years of British colonialism. In comparison to all the other Asian countries, Sri Lanka started off as a unique blend of strategic location in the Indian Ocean, open economy, high level of education, absence of inequality, viable export

¹ Author is an Assistant Professor of Law (Sr. Scale) at School of Law, University of Petroleum and Energy Studies (UPES), Dehradun, Uttarakhand, (India). He completed his Doctor of Philosophy in International Law at the Centre for International Legal Studies, School of International Studies, Jawaharlal Nehru University, New Delhi (India). He had written a book as well as a few articles on International Law which was critically acclaimed. He got the National Award of Excellence (Adarsh Vidya Saraswati Rashtriya Puraskar) awarded by the Global Management Council for his academic contributions in the year 2019.

² Author is a final year LL.B student at Unitedworld School of Law, Karnavati University, Gandhinagar (India). Presently, he is also a company secretary aspirant who cleared the foundation and he has authored and presented various papers and blogs in the field of Laws relating to International Investment, Human Rights and Artificial Intelligence. He has also participated in various national, international competitions and seminars such as “GMU-CLArb (India) International Maritime Arbitration Moot-Court Competition” conducted by Gujarat Maritime University and “National Seminar on a Paradigm shift if Right to Privacy and Artificial Intelligence in the Contemporary Digitalized World” organized by the Karnavati University.

sector, effective administration, developed physical infrastructure and rank among the most prosperous Asian countries.³ A democracy with universal suffrage stood strong in terms of political structure. In those times, Colombo was a significant port handling almost 1/4th of global shipping trade and virtually all the shipping trade through the Indian Ocean.⁴ Economic prosperity was well above any other Asian state; budgetary positions stood strong and were backed up by large foreign exchange reserves. While its neighbors like India and China were a part of religious and philosophical turmoil, Sri Lanka stood firm as a pillar of peace and harmony. The above factors, combined with Sri Lanka's educated political and civil society, ensured a globally accepted success story. Even leaders from other countries like prime minister Lee Kuan Yew of Singapore shared Sri Lanka's greatness stories.⁵

But the future of Sri Lanka was not as bright as previously speculated. In 1955, the international prices of its key exports like rubber, tea and coconut had decreased drastically, which led to a forex reserve crisis in Sri Lanka for the first time.⁶ Adding to it, only 10% of the total exports value was reinvested in the country rest was used for providing the welfare schemes. In the next 20 years, the continuously growing imports dependency, incomplete economic reforms, welfare state mechanism and internal conflicts led to low levels of economic growth as compared to its booming Asian counterparts. In 1960, the Sri Lankan economy was highly regulated and strict protection measures were introduced to uphold the balance of payment. In the following years, despite the help of international institutions like the IMF, foreign reserves decreased. A variety of export and import reforms were put forth along with reducing the Sri Lankan rupee value.

The impact of Cold War along with the post-Second World War boom over by the 1970s, its impact was felt worldwide along with Sri Lanka.⁷ The food crisis of 1971, the global oil price hike of 1973, the withdrawal of convertibility in 1971 and the collapse of the Bretton Woods system of monetary management exchange in 1973 further worsened the situation for Sri Lanka. In the coming years, Sri Lanka had turned from a relatively open economy to one of the most closed ones. The country's development and economic growth had been tremendously slowed

³ The Sri Lankan economy Chartering a new course, Asian development Bank , last visited on < <https://www.adb.org/sites/default/files/publication/373316/sri-lankan-economy.pdf>>

⁴ D.S. Senanayake, Sri Lanka's first Prime Minister, in an interview with Newsweek in 1948 stated that Sri Lanka "wanted neither grants nor loans from the United States or any other country" (Wijesinghe 1976).

⁵ <<https://tamilnation.org/intframe/tamileelam/060619lee.htm>>

⁶ Due to maladministration of the newly independent state of Sri Lanka struggled a lot in forex reserve crisis. British Sri Lanka never faced any problem in the international market due to direct supervision or surveillance by the British government. It was a common problem faced by almost all the new states of the then colonies due to lack of stable government and inefficiency in the administration of newly formed national government rather foreign administration (i.e. colonial power's administration).

⁷ The Neoliberal Turn in Sri Lanka: Global Financial Flows and Construction After 1977, Ahilan Kadirgamar, <https://kupdf.net/download/the-neoliberal-turn-in-sri-lanka-global-financial-flows-and-construction-after-1977_5b5f2f07e2b6f5ee185b091a_pdf..>

compared to its peers. By 1977, Sri Lanka's per capita income was \$200 just \$60 more than 17 years earlier. That is very less when compared to other countries like Thailand at \$420, Malaysia at \$930 and South Korea at \$820.

II. GLOBALISATION

A newly elected Government Of Sri Lanka, encouraged by the World Bank and the International Monetary Fund, adopted a "free economy" in 1977, reversing authoritarian state economic principles, allowing unfettered power to overseas investment, imports and privatising the former public sector institutions. This economic "liberalisation" and subsequent disintegration of the welfare state, as well as the constitution, approved a year later, marked 1977 as a historic moment in the island's contemporary political and economic development. Nonetheless, it was not a dramatic change, but rather an augmentation of the capitalist growth that had commenced in the 1830s with the British plantation system.⁸ By this time, the international community had begun to see Sri Lanka as a promising investment option. Tourist industry grew significantly as well, with some less than 2 lakh tourists in 1977 increasing to more than 4 lakh in 1982, and revenue from the sector increased threefold. The reliance on plantations was reduced, and garment exports increased from 2% to 16% of total exports. All this combined led to growth in its total domestic product from just 3.5% in the year 1971-1977 to 6% in the following the years between 1977-1983.⁹ However, inadequate policies, political turmoil and internal conflicts combinedly hindered economical development.

The outbreak of the civil war in Sri Lanka (June 1983) had a devastating impact on the economy and the people. Because of the civil war, money that was previously spent on development programs was now spent on defence, with defence spending increasing from 4.4 percent in 1982 to 21.6 percent in 1996. This also resulted in the return of a few multinational corporations, such as Harris Co. and Motorola, which had been encouraged by the country to make FDI great difficulty.

The war led to Sri Lanka missing the train of globalisation which it had caught quite early as compared to its peers. For almost two decades, not only the private companies but also the global community as a whole sidelined Sri Lanka. By the time the war was over in 2009, the country was in a heavy rush to achieve as much growth as possible. For which the government

⁸ Asia Times. 2022. *Neocolonialism and geopolitical rivalry in Sri Lanka*. [online] Available at: <<https://asiatimes.com/2020/01/neocolonialism-and-geopolitical-rivalry-in-sri-lanka/>> [Accessed 27 August 2022].

⁹ Thehindu. 2022. *A legacy of liberalisation in Sri Lanka*. [online] Available at: <<https://www.thehindu.com/opinion/op-ed/a-legacy-of-liberalisation/article19791920.ece>> [Accessed 27 August 2022].

started providing unmatched fancy capital and revenue expenditure backed by foreign loans. But the rush of growth backfired and led to an economic disaster that Sri Lanka is facing today.

III. INTERNATIONAL INVOLVEMENT

Before Independence

Just like all the other countries under British rule, Sri Lanka was also subject to the free trade agreement which led to very low levels of industrial development. The promotion of the cash crops like rubber, coconut and tea had made the country food dependent on global imports. It left Sri Lanka with no other solution but to import basic items such as fish, milk products, wheat, rice, etc. Although some forms of “capitalist” originations did originate, yet they were not enough for the country to have a strong capitalist foothold. Even the capitalist sectors that did exist were directly or indirectly under the hold of foreign companies like Agency Houses. Any surpluses in the hands of Sri Lanka were sent to the colonisers, leaving no room for wealth accumulation domestically. After the independence, Sri Lanka opted for import substitution by setting up large monopolies to fulfill the demands domestically. But as it was not done by taking into consideration the larger economic strategy and just like in Taiwan and South Korea, the policies failed to achieve the targeted growth rates and the increased closed relations between the government and the businessmen led to an increase in corruption.

After Independence

After independence in 1948, the majority of the country was still in a pre-capitalist state. Most of the economy was dependent on the agricultural exports, its contribution was not only direct but also stood strong as the major supporting pillar for other sectors like- transport, logistics, services, commerce and finance. The Gini coefficient of diversification and export concentration ranked Sri Lanka at 66%. Adding to it, the country was heavily dependent on imports of capital as well as consumer goods from all around the world. Even basic commodities like fish and milk products were imported by the island nation. The free trade policy in the colonial period never provided a chance for the accumulation of Sri Lanka's domestic industry. However, over time the country developed and accumulated some capital.

In the middle of 1950, Sri Lanka officially demanded World Bank to organise a survey to suggest the complete development possibilities of Sri Lanka. World Bank for the same provided Sri Lanka with an 807-page Six-year development plan (1951-57) and also a six-year development plan(1954-1960).¹⁰ Both of these documents placed a strong focus on agricultural

¹⁰ SISIRA JAYASURIYA, P., 2022. *Macroeconomic Policies, Crises, and Growth in Sri Lanka, 1969-90*. [online] The World Bank. Available at:

and infrastructural investment in order to provide the groundwork for the private sector to take the lead in the development process. Because they were primarily public-sector investment initiatives, they did not contain overall economic growth objectives. The proposals of the 1951 World Bank Mission were designed to encourage private capitalism in the nation within the wide socio-economic structure at the time. The WB Mission supported the same form of reliant capitalism that British colonialism fostered in Sri Lanka. There was no improvement in the structural significance of agricultural production, which was dependent on foreign markets. Non-export agriculture was to retain its predominantly peasant nature.

There were no recommendations for methods to expand the capitalist mode of production into this sector, allowing production functions to grow quickly. The spread of industrial capitalism was opposed in order for the country to remain reliant on foreign sources for technology and a wide range of industrial goods. Under these ideas, foreign capital domination in the economy would have remained uninterrupted, if not increased. The Mission did not recognise the importance of developing a national capitalist class for internal capitalist development, and under the proposed national policy, the merchant character of the existing domestic capitalist class might have kept going, thereby boosting the existing heavily reliant associations. Though the policies recommended by the World bank mission were not rigorously implemented due to the government change in 1956, the mission's underlying effect on the economic landscape is worth highlighting.

Following the 1956 change in leadership, there seems to be a window of around a decade wherein which little is said concerning IMF-WB influence on Sri Lankan economic policy. Aside from a small borrowing from the World Bank in the mid-1950s, foreign investment in official sources had not become a key component in Sri Lankan policymaking at the moment. By the end of 1955 and 1956, the country's foreign assets amounted to 78% and 76% of yearly imports, respectively, and repayments problems had not yet become the severe economic constraint that they would later become. The country started providing the mechanism of import substitution yet the domestic production did not grow as expected. The government shifted to a more socialist stance, creating more and more public enterprises, not just in the manufacturing sector but also in other markets such as fishing, handling and transport. This made Sri Lanka a very unfavorable country in the eyes of international investments throughout the 60s. The imports kept rising constantly and the capital inflow into the country went extremely low.

<<https://documents1.worldbank.org/curated/en/121561468777266972/pdf/multi0page.pdf>> [Accessed 27 August 2022].

By the end of 1965, the regime of the closed economy ended because of a serious currency exchange crisis. It also marked the end of the government's import and export restrictions. Economy worsened after the Korean War ended. Exports declined as prices of commodities plummeted, while imports continued to rise. Because of which in 1965-66, Sri Lanka entered a critical balance-of-payments problem. To get out of the current economic turmoil, the new administration implemented a strategy of substantial reliance on foreign aid. The "Aid Ceylon Group" was also formed to obtain foreign aid from all around the world. Shortly after assuming office, the administration entered into a reserve arrangement with the IMF and withdrew a substantial amount of assistance. The IMF put several restrictions on the government, which revolved around cutting government spending, raising interest rates, and promoting overseas capital. Ignoring the actual issue of the balance of payments and the import and export crises.

In the early 1970s, the left-wing Sirimavo Bandaranaike Party rose to power, revoking the IMF's constraints. This administration advocated for land reform, nationalisation of industry, and greater social-sector spending. International institutions such as the International Monetary fund and WB chastised Sri Lanka for its policy shift, which resulted in widespread external belligerence toward the Bandaranaike administration. The 1973 rise in oil prices resulted in a significant depletion of forex reserves. Social spending had to be sustained, industrialization had to be controlled, international perception was negative resulting in less business, and necessary consumable products would still have to be imported. The governing coalition was unable to reconcile these contradictory characteristics, and it eventually disintegrated in 1977.

Liberalization

In the year 1977 left with no choice the new J.R. Jayawardane party opened up the economy with an aim of creating a just and free society. To accomplish this, the administration obtained three more IMF bailouts over the next five years. In return, Sri Lanka was obligated to follow the guidelines established by the "Washington Consensus." Some of the essential provisions include currency exchange liberalization, rupee depreciation, the abolition of price controls, the reduction of food subsidies, wage restraints, tight monetary policy, encouragement of private enterprises, and increased foreign aid. The proposed reforms once again backfired, resulting in larger economic disparities, wage declines, and a drop in the nation's overall health. To conceal the leadership's incompetence, the administration began to exhibit bias against the Tamil minority, while on the other side, defence forces were employed to crush an internal uprising against the government's policies.

Post Civil War

This prejudice on the side of the administration resulted in a full-fledged civil war in the country, destroying the economic growth for the following three decades. But with the war over in 2009, the hopes of peace brought new hopes in the eyes of the nation. More debts were obtained from the IMF and the Asian Development Bank, resulting in a high level of GDP growth of around 7% in the country from 2009 to 2012. The stock market boomed, per capita income increased threefold from 2004 to 2012, inflation fell from 22% in 2008 to 3.5 percent in 2012, and unemployment also decreased.¹¹

This resulted in a decline in foreign reserves as well as a current account balance issue. As a result, Sri Lanka was compelled to accept further loans, and the cycle of obtaining fresh loans to pay off existing debt began. Sri Lanka has already received a total of 16 IMF loans. All of these together lowered Sri Lanka's resilience to external shocks. The series of bomb blasts in 2019, the COVID pandemic and new welfare policies of tax cuts and farmer concessions all contributed to today's disaster.

IV. SRI LANKA: A GUINEA PIG

Sri Lanka's strategic location in the heart of the Indian Ocean has been nothing short of a curse to its sovereignty. Beginning with a series of conquests from neighboring south Indian empires to the Portuguese, Dutch, and British in modern times. The country has always been subject to external conflicts, geographical competition, and domestic resistance to aggression. But in today's world, influence over a country is not gained through military might but with the proper economical and social developments.

Sri Lanka may be regarded as a geographical choke point of the Indo-Pacific, as well as the gateway to the Malacca Strait, which is the key marine route processing more than 60% of total Chinese trade operations, 70% of total Chinese oil imports, and more than 20% of world trade.¹² To secure this vital trade channel, China initiated a series of investment programs that culminated in the so-called "Chinese debt trap policy." China launched the Belt and Road Initiative in 2013, which would cost between \$1 and \$8 trillion to develop and will involve 143 nations, notably Sri Lanka.¹³ Invested extensively in infrastructure projects through loans in the

¹¹ Frontline. 2022. *Roots of Sri Lanka's economic crisis*. [online] Available at: <<https://frontline.thehindu.com/cover-story/roots-of-sri-lanka-economic-crisis/article38467127.ece/>> [Accessed 27 August 2022].

¹² Warsaw Institute. 2022. *China and the "Malacca Dilemma"*. [online] Available at: <<https://warsawinstitute.org/china-malacca-dilemma/>> [Accessed 27 August 2022].

¹³ <<https://www.sipri.org/publications/2018/other-publications/21st-century-maritime-silk-road-security-implications-and-ways-forward-european-union>>

name of assistance, and therefore indirectly became the owner of the subject assets. Former US Secretary of State Rex Tillerson famously remarked, " China's approach, which encourages dependency using opaque contracts, predatory loan practices, and corrupt deals that mire nations in debt and undercut their sovereignty".¹⁴

This could be easily seen in the cases such as Hambantota port, Colombo port city, and many more in the energy, transport, utility, industrial, and other sectors where China offers for huge infrastructural loans at a cost of at least 6%, which is far higher than the IMF and World Bank of around 1-2%,¹⁵ that too for only a short time duration of 10-15 years and conditions such as loan can only be used by Chinese industries to complete the project. In addition, Sri Lanka's inability to pay back China the authority to take over the important Hambantota port for a 99-year lease along with 1500 acres of land.¹⁶ All of this is a tiny portion of a highly strategic economic channel that has helped China become a worldwide superpower.

Even India played a crucial role in the economic destruction of Sri Lanka. Initially by training of LTTE rebels in the early 80s led to a more than 2 decades-long civil war in Sri Lanka costing them more than 200 billion dollars in war costs in addition to years of degradation of the economy alongside the cutting of international interest in the region. Though the Indian peacekeeping forces were later introduced in the war but the damage had already been done.¹⁷

V. CONCLUSION

Sri Lanka can be considered as the perfect example of everything that can go wrong with any emerging small yet promising country. With an economy based on pre-colonial exports, extreme imports dependency, government running on foreign funds, the balance of payment crisis, extreme corruption, short-sighted economical policies, major foreign influence, continuous threats to its sovereignty and is the playground for ever-growing Indian and Chinese ambitions for becoming a global hegemony. Combined with the COVID pandemic crisis was a complete recipe for disaster. But what is interesting to see is that even after all the so-called revolutionary policy of IMF, world bank, Asia development bank, alongside the key investment of allies like India and China, Sri Lanka still found itself in a situation far worse than what it could have been with their interventions. It brings us to a question, is globalisation really worth it? Are all these Aids, foreign funding and financial assistance really for the greater good? Or

¹⁴ <<https://thediplomat.com/2019/03/demystifying-debt-along-chinas-new-silk-road/>>

¹⁵ <<https://www.csis.org/npfp/its-debt-trap-managing-china-imf-cooperation-across-belt-and-road>>

¹⁶ <<https://www.google.com/amp/s/www.indiatoday.in/amp/world/story/revival-hambantota-port-sri-lanka-strengthen-china-position-indian-ocean-1781171-2021-03-19>>

¹⁷ <<https://www.firstpost.com/world/indira-gandhi-helped-train-tamil-rebels-and-reaped-whirlwind-13913.html>>

they are just fancy terms used as a tool for exploitation by well-established organisations and countries?
