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Sri Lanka: Background and Issues for Congress

Background

The Democratic Socialist Republic of Sri Lanka is a constitutional democracy situated off the southeastern tip of India's Deccan Peninsula and in close proximity to key sea lines of communication in the Indian Ocean. The Biden Administration has identified Sri Lanka as occupying a "strategic location in the Indian Ocean" and "in the middle of the geopolitical competition for influence."

Since its independence from the United Kingdom in 1948, Sri Lanka (known as Ceylon from 1948 to 1972) has struggled to manage ethnic, religious, and economic divisions among its citizens. From 1983 to 2009, the Tamil militant separatist Liberation Tigers of Tamil Eelam (LTTE) fought to establish a separate state or internal self-rule in the ethnic Tamil-dominated areas in a civil war that may have cost up to 100,000 lives, displaced hundreds of thousands of people, and seen serious human rights violations committed by both sides. (Sri Lanka has never allowed an independent investigation into the conduct of the war and associated human rights violations, despite pressure from the United Nation Human Rights Council.) Since 2008, U.S. assistance to Sri Lanka has focused on supporting the country's democratic institutions, promoting good governance, and facilitating post-war reconciliation.

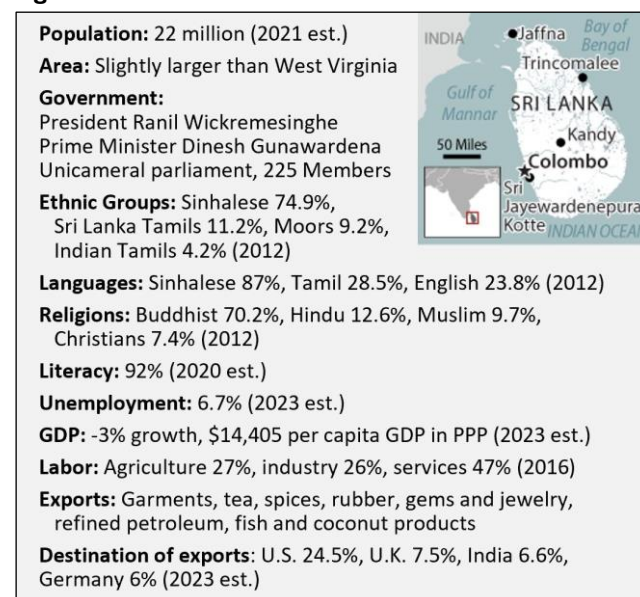
U.S. policymakers, including in Congress, have raised concerns about the Sri Lankan government's growing ties to the People's Republic of China (PRC, or China) over the past two decades. Under former Presidents Mahinda Rajapaksa (2005-2015) and his brother Gotabaya Rajapaksa (2019-2022), Sri Lanka's government relied on China to support its fight against the LTTE and numerous post-war development projects, causing some observers to express concern about the potential for the PRC to exert economic and military influence in a key part of the region.

Sri Lanka's 2022 Twin Crises

In early 2022, Sri Lanka experienced its worst economic crisis since gaining independence; annual inflation reached 60%, the currency depreciated by over 80% against the U.S. dollar, and, with foreign reserves dropping almost to zero, the government defaulted on its debt. Sri Lanka's gross domestic product contracted by an estimated 7.9% that year, poverty rates doubled (to 25% of the population), and half a million jobs were lost. The economic crisis is rooted in years of corruption, poor economic policy, and growing indebtedness. The COVID-19 pandemic, global inflation, and government actions have exacerbated the crisis. In 2021, for example, then-President Gotabaya Rajapaksa imposed a ban on chemical fertilizer and ordered the country's farmers to use only organic fertilizers. Domestic rice production fell 20% in the first six months after the ban went into effect and domestic prices for the dietary staple surged by around 50%. Production of other export crops such as tea, rubber, and coconut was similarly affected.

In March 2022, thousands of Sri Lankans began protesting the government's handling of the economy, which had resulted in rapidly rising inflation, fuel shortfalls, medicine shortages, and rolling blackouts throughout the country. On April 1, 2022, Gotabaya Rajapaksa declared a state of emergency and gave the military sweeping powers to arrest and detain demonstrators. On April 3, most of his cabinet resigned, and, on April 12, the government announced it was defaulting on its foreign debt of \$51 billion. The imposition of a curfew and announcement of a military "shoot to kill" order failed to quell protests, and in July demonstrators stormed the homes of several government officials, including the President's official residence. Both Gotabaya and Mahinda Rajapaksa (who was serving as Prime Minister) resigned, and Gotabaya fled the country in mid-July 2022. Parliament elected Ranil Wickremesinghe as President, in accordance with Sri Lanka's constitution.

Figure 1. Sri Lanka in Brief



Source: World Bank; CIA World Factbook.

President Wickremesinghe moved to address the country's debt crisis and make economic reforms. In March 2023, the International Monetary Fund (IMF) finalized an agreement with the Wickremesinghe government to extend a US\$3 billion loan, subject to a series of conditions that Sri Lanka address its financial shortfalls and renegotiate its external debt. In September 2023, however, the Sri Lankan government failed to secure IMF agreement to release the next \$330 million tranche of its bailout loan due to concerns about shortfalls in government revenue. Some analysts say that the government's decision to increase taxes and reduce expenditures on key government services to close the funding gap already is causing hardship for the Sri Lankan people and pushing professionals to emigrate.

Human Rights and Post-War Reconciliation

In 2015, Maithripala Sirisena defeated Mahinda Rajapaksa's bid for reelection, running on a united opposition platform aimed at political and economic reforms. Sirisena pledged to roll back executive power, allow greater freedom of speech and media, pursue accountability and reconciliation related to the war, promote clean governance, and adopt constitutional changes to allow power sharing with the Tamil minority. The Sirisena government began cooperating with United Nations (U.N.) efforts to set up an independent investigation of human rights violations during the war, established an Office of Missing Persons, passed a Right to Information Law, and eased restrictions on the media and civil society. The Obama Administration responded with programs to help shore up Sri Lanka's democracy and assist Sirisena's reform and reconciliation agenda.

Sirisena quickly came under pressure from the Rajapaksa's political camp, however, and he backtracked on pledges to allow international judges to participate in investigations of war-time abuses. He ultimately appointed Mahinda Rajapaksa as his Prime Minister. Gotabaya Rajapaksa, who campaigned on a platform of Sinhalese nationalism, national security, and fighting Islamist extremism, defeated Sirisena in the 2019 presidential election. Gotabaya quickly returned to "a campaign of fear and intimidation against human rights activists, journalists, lawyers, and other perceived challengers," according to Human Rights Watch.

Since Wickremesinghe became President in 2022, he has pledged to address the Tamil community's concerns, including devolving some autonomy to provincial councils. He has continued many of his predecessors' policies, however, and some observers note he is pursuing additional laws to stifle dissent and curtail freedom of the media and civil society. Wickremesinghe "indefinitely postponed" local elections, due in March 2023, by refusing to fund the polls. His government introduced a new internet safety bill that critics say gives broad new powers to the police and curtails freedom of expression. The next presidential election is due to be held before September 2024, and Wickremesinghe has indicated he intends to seek reelection.

Sri Lanka-India Relations

Sri Lanka and India share long-standing historical, cultural, and religious ties, and the two countries' governments have periodically seen themselves as having strategic interests in common. India is one of Sri Lanka's largest defense partners, and the government in New Delhi actively promoted an end to Sri Lanka's civil war. India has also advocated for reconciliation with the Tamil community, which has close ties to the Tamil community in India.

India is among Sri Lanka's largest trading partners and leading foreign investors, with total Indian investment in the country exceeding US\$2 billion. The Indian government has been Sri Lanka's most active supporter in the wake of the 2022 twin crises. India has offered currency swaps, lines of credit to import food, fuel, and medicine, and provided the first assurances to the IMF that it would restructure Sri Lanka's debt to enable the IMF's nearly US\$3 billion loan. Some analysts credit Indian assistance with helping Sri Lanka avoid an even worse crisis.

Sri Lanka-China Relations

Under the government of Mahinda Rajapaksa, Sri Lanka turned to China for financing and investment—in part because growing international condemnation of its war on the LTTE limited its options. Strategically located in the Indian Ocean, Sri Lanka is an important part of China's Belt and Road Initiative. China, through state-owned entities such as the China Export-Import (EXIM) Bank, financed numerous major infrastructure initiatives in Sri Lanka—including the deepwater port at Hambantota, which Sri Lanka leased to China when it was unable to repay the debt. China's defense ties with Sri Lanka also grew substantially during the civil war, and cooperation accelerated in the war's final phase, when the PRC government supplied radar systems and offensive weapons such as fighter jets and air-to-air missiles.

China was slower than other foreign partners to react to Sri Lanka's twin crises. Roughly 11% of Sri Lanka's US\$51 billion external debt is to China, and Sri Lanka's agreement with the IMF requires it to restructure its debt to make payments sustainable. In early October 2023, PRC officials announced that China's EXIM Bank had reached a preliminary agreement to restructure Sri Lanka's debt.

U.S.-Sri Lanka Relations and Congressional Interests

The Biden Administration's Sri Lanka strategy prioritizes advancing U.S. interests by "building a strong, long-term partnership with a Sri Lanka willing and capable of protecting our shared interests in its region," as well as supporting Sri Lanka's democracy and post-war reconciliation. The United States is Sri Lanka's single-largest export market, accounting for approximately 25% of Sri Lankan exports. Bilateral military cooperation includes port calls, a partnership to establish a Sri Lankan Marine Corp and a National Defense College, joint exercises, and the donation of Coast Guard cutters to the Sri Lankan navy.

Since Sri Lanka's crises in early 2022, the United States has announced more than US\$270 million in new support to Sri Lanka, including rice and other food assistance, fertilizer, and funding. Several senior Administration officials have visited, including United States Agency for International Development Administrator Samantha Power.

Congress has actively shaped U.S. Sri Lanka policy over the two decades. Since 2008, it has limited defense engagement in response to reports of human rights violations; it also has mandated that some foreign assistance funds be made available to Sri Lanka only if the Secretary of State certifies that the government is taking steps to protect human rights, promote reconciliation, reduce the militarization of the country, and investigate abuses, among other actions. Congress over the last two decades has introduced resolutions on Sri Lanka's security and human rights situation, and held hearings to conduct oversight of executive branch policy. In 2016, the House Democracy Partnership approved a partnership with the Sri Lankan parliament focused on strengthening legislative oversight, citizen engagement, and e-governance.

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