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Sri Lanka: Background and Issues for Congress

The Democratic Socialist Republic of Sri Lanka is a constitutional democracy situated off the southeastern tip of India's Deccan Peninsula in the heart of the Indian Ocean. Located along key shipping lanes, Sri Lanka and its Port of Colombo—already a significant global shipping hub—have grown in strategic importance as conflicts in the Middle East have disrupted shipping in the Red Sea. The Biden Administration has described Sri Lanka as “in the middle of the geopolitical competition for regional influence.”

A democracy since its independence from the United Kingdom in 1948, Sri Lanka (known as Ceylon until 1972) was governed by two major political parties and their offshoots until September 2024. During and after the 26-year-long (1983-2009) civil war with the Tamil separatist Liberation Tigers of Tamil Eelam (LTTE), the government gradually expanded executive power, militarized the country, and limited civil freedoms. In early 2022, Sri Lanka experienced its worst economic crisis since independence, sparking a public uprising that ultimately drove President Gotabaya Rajapaksa from power. In September 2024, Sri Lankans elected Anura Kumara Dissanayake as president, the first president not associated with the country's dominant political parties.

Starting in the late 2000s, U.S. policy focused on broadening Sri Lanka's democratic institutions, promoting good governance and human rights, and facilitating post-war reconciliation. Since the 2022 economic and political crises, U.S. priorities have included supporting economic reforms and more inclusive growth. U.S. policymakers, including many in Congress, also 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, as well as numerous post-war development projects, causing some observers to express concern about the potential for China to exert economic and military influence in a key part of the region.

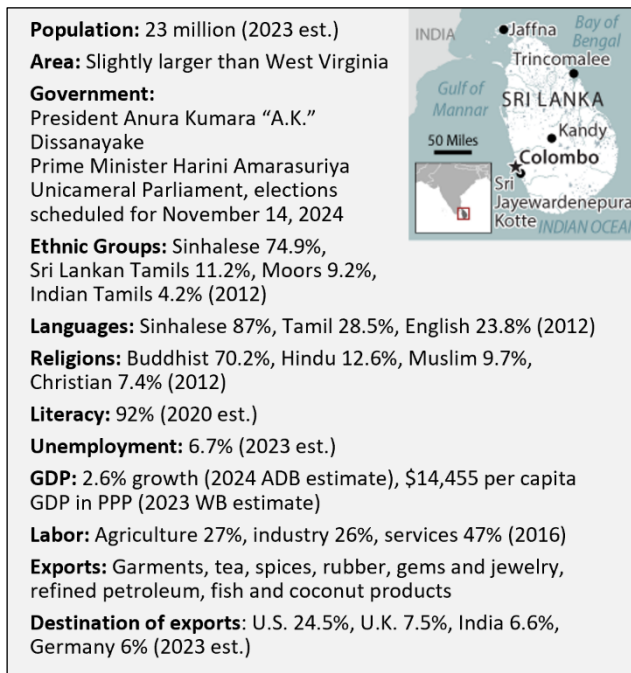
Sri Lanka's 2022 Twin Crises

In early 2022, inflation reached 60%, the currency depreciated by over 80% against the U.S. dollar, foreign reserves dropped almost to zero, and the government defaulted on its debt. Gross domestic product contracted by roughly 7.9%, poverty doubled (to 25% of the population), and half a million jobs were lost.

In March 2022, thousands of Sri Lankans began protesting the government's handling of the economy, which had resulted in fuel shortfalls, medicine and food shortages, and rolling blackouts. On April 1, 2022, Gotabaya Rajapaksa declared a state of emergency and gave the military sweeping powers to arrest and detain demonstrators. On April 12, the government announced it was defaulting on its

foreign debt of \$51 billion. Its imposition of a curfew and announcement of a military “shoot to kill” order failed to quell protests, and in July both Gotabaya and Mahinda Rajapaksa (then serving as Prime Minister) resigned; Gotabaya temporarily fled the country. Parliament elected Ranil Wickremesinghe, a former prime minister, as president, in accordance with Sri Lanka's constitution.

Figure 1. Sri Lanka at a Glance



Source: World Bank; CIA World Factbook.

The 2024 Presidential Election

On September 23, 2024, Sri Lankans elected Anura Kumara Dissanayake as president. Dissanayake campaigned on anti-corruption and relief for ordinary Sri Lankans who have borne the brunt of the country's economic woes. Many observers interpreted his victory as a rejection of the corrupt, elite-dominated political status quo and the national leaders associated with Sri Lanka's social and economic problems. The election was conducted peacefully, and an international election monitoring group called the polls “credible and transparent.”

Dissanayake since 2014 has led the Janatha Vimukthi Peramuna (JVP, or People's Liberation Front), founded in 1965 as a Marxist party for workers, farmers, and students, and the National People's Power alliance, a coalition of socialist parties that includes the JVP (NPP/JVP) and that rose to prominence during the 2022 uprising. If realized, his vision for Sri Lanka could mark a dramatic change of direction to prioritize economic and social justice and more left-leaning policies across a range of issues of interest to

the United States and the U.S. Congress, including economic reform, human rights, and international relations.

Dissanayake immediately dissolved the country's parliament, and called new legislative elections for November 14, 2024. The NPP/JVP held 3 of 225 seats in parliament prior to the body's dissolution; Dissanayake will need his coalition to perform well in the legislative elections in order to pass promised reforms. (See CRS Insight IN12439, *Sri Lanka's Watershed Election*.)

Economic Outlook

Sri Lanka's civil war and inconsistent economic policies hampered government efforts to transition the country from an agriculture-based economy to an economy focused on manufacturing, services, and tourism. The government borrowed extensively (including from India, China, and Japan) to fund the war, pay for infrastructure projects (some of questionable feasibility), and service its debt. The State Department reports that high transaction costs, inefficient and opaque government regulations and services, and corruption make Sri Lanka a difficult environment for investors. Terrorist attacks in 2019 killed 269 people and drove down tourism, and the COVID-19 pandemic and global inflation reduced both tourism and remittances.

In March 2023, the International Monetary Fund (IMF) agreed to extend a US\$3 billion loan to facilitate the country's recovery from the 2022 crisis, provided the Sri Lankan government address its financial shortfalls and renegotiate its external debt. The Sri Lankan government subsequently has made progress restructuring its debt to international bondholders and creditors, including PRC lenders. The IMF has commended Sri Lanka's progress in implementing its reform program, which has been followed by a return to economic growth and lower inflation.

Some analysts have argued that the government's reform measures under the IMF program have caused disproportionate hardship for working-class Sri Lankans, and Dissanayake made renegotiating the terms of the country's IMF program central to his campaign. In an October 4, 2024, meeting with an IMF delegation, Dissanayake reaffirmed the government's commitment to continuing the program, but emphasized the importance of relieving the burden on the general population. IMF approval of Sri Lanka's performance under the program is necessary for the government to receive the fourth program disbursement—about \$337 million—and underpins Sri Lanka's debt restructuring with external creditors.

Human Rights

The Sri Lankan government has struggled to manage ethnic, religious, and economic divisions among its citizens for most of its history, and has at times adopted laws discriminating against minority communities. From 1983 to 2009, the LTTE fought to establish a separate state or internal self-rule in the ethnic Tamil-dominated areas in Sri Lanka's north and east. Following the end of the war, the United Nations (UN) estimated that as many as 100,000 people died in the conflict, and successive resolutions passed by the UN Human Rights Council pressed the Sri Lankan government to cooperate with investigations into

alleged war crimes committed by both sides. Government restrictions on civil rights continued after the war. An August 2024 UN Human Rights Council report stated the government had "introduced an array of new or proposed laws [that] ... significantly expand pre-existing restrictions on freedom of expression and opinion and association."

Congress and successive U.S. Administrations have prioritized pressing for accountability for human rights abuses and restoring Sri Lankans' civil rights. Congress has taken a leading role in shaping U.S.-Sri Lanka policy, conditioning some military and foreign assistance on progress on reconciliation, demilitarization of the country, and investigations into abuses.

International Relations

Sri Lankan governments generally have pursued a non-aligned foreign policy that balances the country's historic and cultural ties to India with cooperative relations with other partners, including China and the United States.

India is among Sri Lanka's closest defense partners and largest trading partners, and total Indian investment in the country exceeds US\$2 billion. The relationship is occasionally contentious, due in part to India's ties to Sri Lanka's Tamil community and its past role in supporting some Sri Lankan domestic military operations. The Indian government was Sri Lanka's most active supporter in the wake of the 2022 twin crises.

China's defense ties with Sri Lanka grew substantially as it provided military support in the later years of the civil war, and under the Rajapaksa governments Sri Lanka became an important part of China's Belt and Road Initiative. PRC state-owned entities such as the China Export-Import (EXIM) Bank financed numerous initiatives in Sri Lanka—including the port at Hambantota, which Sri Lanka leased to China for 99 years when it was unable to repay the debt.

The United States' 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 democracy and post-war reconciliation. The United States is Sri Lanka's single-largest export market, accounting for approximately 25% of Sri Lankan exports. Military cooperation includes port calls, a partnership to establish a Sri Lankan Marine Corps and a National Defense College, joint exercises, and the donation of Coast Guard cutters to the Sri Lankan navy and aircraft to the air force. Since Sri Lanka's 2022 crises, the United States has announced roughly US\$300 million in new support, including rice and food aid, fertilizer, and development assistance grants. The U.S. International Development Finance Corporation in 2023 committed \$553 million to support an expansion of the Port of Colombo, which may enable Sri Lanka to capitalize on its "relatively untapped" geographic advantage.

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