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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 State Department 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. From 1983 to 2009 the government, dominated by the Buddhist Sinhalese majority, fought a brutal civil war against the separatist Liberation Tigers of Tamil Eelam (LTTE). The Hindu Tamil minority objects to long-standing official discrimination, and the militant LTTE fought to establish a separate state in northern Sri Lanka. During the war, the government expanded executive power, militarized the country, and limited civil freedoms. In 2022, Sri Lanka experienced its worst economic crisis since independence, sparking a public uprising that drove former President Gotabaya Rajapaksa from power. In September 2024, Sri Lankans elected Anura Kumara Dissanayake as president, and in November 2024 gave his National People's Power (NPP) alliance a landslide victory in snap parliamentary elections.

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 expanded to include 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.

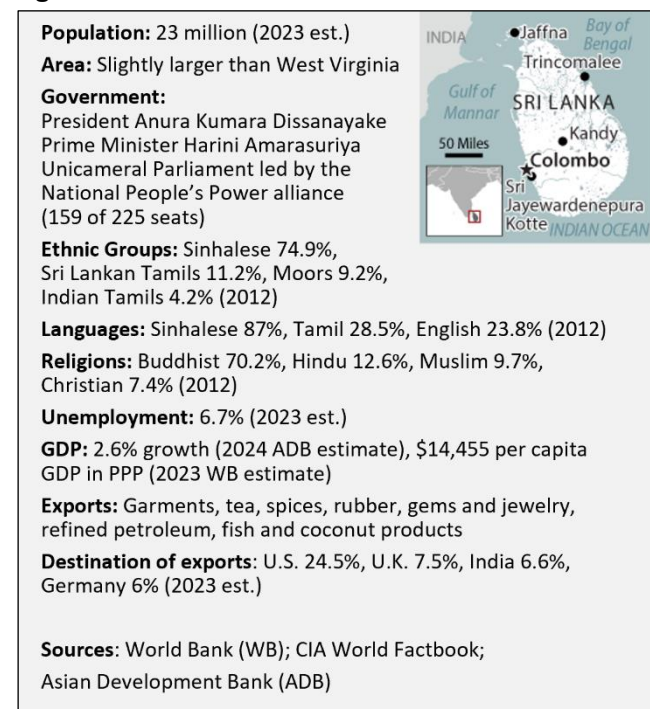
Sri Lanka's 2022 Twin Crises

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 a military “shoot to kill” order failed to quell protests, and in July both Gotabaya and Mahinda Rajapaksa (then serving as prime minister) resigned. Parliament elected Ranil Wickremesinghe, a former prime minister, as president, in accordance with Sri Lanka's constitution.

Figure 1. Sri Lanka at a Glance



The 2024 Elections

On September 23, 2024, Sri Lankans elected Dissanayake as president. He immediately called snap parliamentary elections for November 14, 2024, and his NPP alliance, a coalition of socialist parties that includes Dissanayake's Janatha Vimukthi Peramuna (JVP, or People's Liberation Front), won nearly 62% of the vote and secured 159 of 225 seats in parliament. (In the previous parliament, the NPP held 3 seats.) The NPP dominated in all but one district, including Tamil-majority Jaffna, in northern Sri Lanka—the first time a Sinhalese party won the district.

Dissanayake and the NPP campaigned on anti-corruption and relief for working-class Sri Lankans who have borne the brunt of the country's economic woes. After casting his vote, Dissanayake said the election “will mark a turning point in Sri Lanka.”

Some observers interpret his and the NPP's 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. Having secured a two-thirds legislative majority Disnayake and the NPP appears to have a mandate to adopt their proposed reforms—which include improving the provision of government services for all Sri Lankans; eliminating the powerful executive presidency; and abolishing laws, such as the Prevention of Terrorism Act that infringe on Sri Lankans' civil rights.

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 the reform measures required under the IMF program have caused disproportionate hardship for working-class Sri Lankans, and Disnayake made renegotiating the program's terms central to his campaign. In his first address to the new parliament on November 21, 2024, however, Disnayake said he would uphold the existing deal, arguing the country's recovery was too fragile to risk. The IMF in late November approved the disbursement of about \$337 million following its third review of Sri Lanka's performance under the program, which provides critical budget support 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.”

The NPP's election platform promised to pursue national unity, investigations into political killings and disappearances, a functioning Truth and Reconciliation Commission, and a Commission Against Discrimination. Disnayake reportedly has suggested his government will not seek to punish perpetrators of past war crimes.

International Relations

Sri Lankan governments generally have pursued a non-aligned foreign policy that balances the country's historic, cultural and religious 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 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 China Export-Import Bank financed several initiatives in Sri Lanka—including the port at Hambantota, which Sri Lanka leased to a PRC state-owned company for 99 years when it was unable to repay the debt.

The United States' Sri Lanka strategy prioritizes “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 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 grants. The U.S. International Development Finance Corporation in 2023 committed \$553 million to expand the Port of Colombo, which may enable Sri Lanka to capitalize on its “relatively untapped” geographic advantage.

Considerations for Congress

Congress has prioritized pressing for accountability for human rights abuses and restoring Sri Lankans' civil rights, as well as responding to the strategic implications of Sri Lanka's growing relationship with China. 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. Sri Lanka's parliament is a partner of the House Democracy Partnership. Congress may consider whether the new NPP government offers expanded opportunity to cooperation on human rights, democracy promotion, and economic cooperation.

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