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Economic Crisis in Sri Lanka: Causes and Lessons

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Abstract

Sri Lanka is trembling in a chronic economic crisis in its national economy. The paper discusses the root causes of that on-going economic crisis in Colombo. It moves forward from a preliminary understanding that the current crisis in island nation is the result of the influence of multiple factors lying at different layers including structural, national as well as personal levels. In this context, the present article attempts to discuss the root causes of the crisis. The study is descriptive in nature which depends solely on secondary data. The paper is organised into three sections. The first part provides a brief background of the problem. The major causes of the present crisis are discussed in the second part and the last part is the concluding section of the paper.

Keywords: Sri Lanka, Economic Crisis, Foreign Aid, Debt Trap...

1. Introduction

Sri Lanka, a South Asian Island nation, is currently being experienced a chronic economic crisis. Suffering from, and trembling in economic crisis and debacle is not a novel experience in the current century global economic order. National economies of many countries have faced such a fate towards the closing decade of 20th century as well as in the first two decades of twenty first century. East Asian tigers had been in peril in the late 1990s. Similarly, all neo liberal countries including United States were severely hit by the global economic crisis broke out in 2008. Later Venezuela, the champion of alternative economic model for the capitalism, was also affected badly by an economic disaster in the domestic economy of the country. The European state of Greece appeared as one of the recent examples for economic failure and subsequent crisis in the twenty-first century. All these instances were being studied and assessed as the inevitable outcomes of some sorts of structural problems. The factors like ineffective economic practices of neo-liberal economic order and the out-dated policies and visions of Marxist political systems have been subsumed under the post-crisis discussions that delved into the structural causes of such economic misshapes. In some cases, certain individual or personal level factors, including influences of ruling leaders, particularly at the decision-making level, were very much visible. For example, the policy determinism of leaders like Hugo Chavez and Nicolas Maduro in Venezuela and Alexis Tsipras in Greece have contributed significantly to the deterioration of the economic crisis in their respective countries.

After all these cases, it is the great Sri Lankan crisis that has now been enthusiastically discussed and debated by academicians, international experts and other interested groups. Though the crisis started since 2019, more reports about Colombo's economic disaster started appearing in the news world by the January 2022. Within a short span of time, the crisis was being elevated into a chronic system failure which was unbearable to a small island nation that had been subjected to decades-lasting internal ethnic crisis. In this backdrop, this paper makes a brief analysis of the issue with an aim to discuss the major causes of the economic crisis.

2. Crumbling Economy of Sri Lanka

Sri Lanka is a great civilisation in the world. Its civilizational history can be traced back to more than two millennia. Culturally Sri Lanka is a multi-ethnic country. Buddhism and Hinduism were being arrived from Indian soil and flourished in the island in the subsequent

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centuries. In course of time, Islam and Christianity also grew in Sri Lanka. Linguistically Tamil and Sinhalese are the major languages of the island. All these diversities led to the development of a plural and multi-ethnic society in the country. However, the makers of modern Sri Lanka failed to transform the multitude in the society to a multicultural state. Inter-ethnic clashes were very much visible in the forefront of the state even before the colonial times. After centuries of colonial rule, Sri Lanka was liberated from the clutches of United Kingdom in 1948. The ethnic rivalry was escalated in the post-independent era when the leadership of the country went totally to the hands of majoritarian Sinhalese. Deliberate activities had been employed by the Sinhalese dominated governments across the post independent era. Sinhala only language policy, standardisation policy and terrorism-related legislations planted the seeds of ethnic discontent and violence. Dixit (2002, p.281) says that “first and foremost, the Sinhala only policy and the Buddhist religion being given the supreme position in the Sri Lankan constitution in 1958, initiated a process of systematic and drastic discrimination against the Tamil population of Sri Lanka”. Regarding frequent communal riots Raghavan (2016, p.51) says that “Major anti Tamil riots in which state forces and politicians were involved took place in 1956, 1958, 1977, 1981 and 1983”. In the initial decades, the Tamil groups attempted to respond peacefully through negotiations. Important agreements like the (S.W.R.D) Bandaranaike-(S.J.V) Chelvanayakam pact of 1957, and the Dudley Senanayake-Chelvanayakam pact of 1965 were crafted during this stage. But after a particular point of time the moderate leaders were replaced by extremist leaders and organisations. The chief among them was LTTE founded in 1976 by Velupillai Prabhakaran. After his emergence the country was plunged into full scale violence between Sri Lankan military and LTTE led extremists. The internal battle started in the late 1970s lasted until 2009. The war had created tremendous casualties to all spheres of the country. It took lives of lakhs of people including ordinary citizens and top-level leaders. It led to massive migration of humans both internally and externally. The internal fighting finally came to an end with the fall of LTTE and the assassination of Prabhakaran in 2009.

While delving into the economic consequences of the war, it can undoubtedly be said that the turbulent years have inflicted only a minimal damage to the economy of the country. The country has made a constant and decent economic growth throughout the years. Though the war and suicide attacks had created a negative image to country, the tourism sector could surpass it. Sri Lanka, except the northern places, had remained to be one of the favourite destinations of tourists all over the world. Sectors like plantation (mainly rubber, tea and coffee), industries like cotton and leather and tourism remained the major sources of revenue of the country. Even during the internal war, these sectors survived as the major bulwarks of the economy. But unfortunately, after one decade of the end of the internal tussles, what we see is a tragic fall of Sri Lankan economy.

3. Root Causes of Sri Lankan Economic Crisis

The Hindustan Times explained the economic situation in Sri Lanka as follows,

Sri Lanka faces its worst economic crisis in decades. The Mahinda Rajapaksa government is

struggling to pay for essential imports after a 70 per cent drop in foreign exchange reserves over two years triggered currency devaluation. Fuel is in short supply; prices of food and essential goods have increased and protests have broken out (Srinivasan, 2022)

This shows the gravity of the problem. All quarters of Sri Lanka have been hit by the crisis. It affected the society and politics of the country alike. People directly suffered from the chronic shortage of food items, fuel and other essential basic commodities like match boxes, and papers (Aljazeera, 2022). They entered into the streets with protests. A few of them have fled to neighbouring India. The economic crisis has questioned the credibility of the ruling coalition headed by Rajapaksa brothers (News 18, 2022).

While we make introspection into the causes of the crisis, certain points can be identified. These factors are multi-faceted and complex. Elements at different layers including structural, national and personal levels have contributed to the emergence and persistence of the crisis. All these factors are interrelated and interplayed behind the problem. If we look into the structural factors, which are by and large global in nature, are affiliated mainly to the economic structure of current global order. As a tiny state located in the global south, Sri Lanka since the beginning of twenty-first century has been confronting with the global economic parameters. The leadership of Rajapaksa brothers have since 2005 questioned the legitimacy of international political structures including UNHRC. Apart from this, the current president Gotabaya Rajapaksa had tried to keep Sri Lanka from the clutches of IMF the main economic agency of current global order. This affected the borrowing possibilities of the country in a big way.

Along with this, the debt trap strategy of China has also conquered the economic independence of Colombo (Madhukalya, 2022). Former president Mahinda Rajapaksa since his arrival in 2005 has preferred obtaining aid from China to Indian assistance. This attitude reached its zenith with the drafting of agreement on Hambantota Port. Gradually it came to realise the dangers behind China's immense support. When Maithripala Sirisena came to power in 2015 there had been a mild attempt to stay away from Chinese influence. When Rajapaksa duo regained power in 2019, China again appeared in the picture.

The Covid-19 pandemic has played a crucial role behind the current plight of Colombo (The Economic Times, 2022). An uncontrollable rise in the trade deficit constitutes one of the major reasons of the present problem. Such an increase in the trade deficit is due mainly to the rapid decline in the export as a resultant of Covid-19 pandemic. Covid-19 pandemic affected the tourism sector also. This led to a decrease in the arrival of foreign currency. While the exports declined on one side, the imports in items like electronic goods, medicines and fuel continued without any decrease. This trend furthered the growth in trade deficit. The trade deficit in January 2022 was USD 859 million (Trading Economics, 2022). As a result, there has been a severe shortage in the foreign exchange reserve. Along with this, serious inflation and scarcity emerged in the country mainly due to the Ukraine crisis. The controversial ban on the import of chemical fertilisers in the name of promoting organic farming in the country resulted in the sudden decline in the agricultural production particularly in

tea. All these factors added fuel to the economic crisis in Sri Lanka.

At the personal level, the role of family rule of Rajapaksas headed by Gotabaya Rajapaksa has contributed immensely to the crisis. Their often-unilateral decision-making pattern has led to many controversial policies including the ban on the import of chemical fertilisers. Such an approach also makes the solution of many problems in a democratic way. All these factors together constitute the major root causes of the current economic crisis in Sri Lanka.

3. Conclusion

It is evident that the current economic crisis has taught a lesson not only to Sri Lanka but also to other states which travel through similar paths. Sri Lankan economy, which had survived even the turbulent years of internal war, had been trembling not knowing how to handle the present scenario. Anyway, Colombo has started the crisis mitigation programs. There have been attempts to re-arrange the credit terms with IMF. Along with this, aids from countries like India have become a stay to the economy. At the same time, Colombo has to reframe its domestic as well as foreign economic policy with a view to attain not only a short-term recovery but also to craft a strong and stable economy in the long run also. Sri Lankan experience has to be appeared as a warning for other developing and underdeveloped states also. While studying the current crisis of Sri Lanka, we can see that factors at different levels have contributed to its emergence. So, identifying the root causes and finding long-lasting solutions to them is crucial for avoiding the re-entry of such hazards in the national economy of different states.

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