

## KEYNOTE SPEECH

### The Roots of Sri Lanka's Crisis (2010-2022)

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**Distinguished Board members of National Centre for Advanced Studies in Humanities and Social Sciences, Dear Director Prof. Prashanthi, respected scholars, esteemed participants, and fellow citizens,**

It is both an honour and a profound responsibility to stand before you today at this prestigious 6th International Symposium of the IRSSSH 2024. As we gather in Colombo, in the heart of our beloved island nation, we are reminded of our shared aspirations to foster resilience, innovation, and scholarship, not just for the academic community but for the future of Sri Lanka itself.

In recent years, Sri Lanka has faced an unparalleled series of challenges. From economic instability to political upheaval, from social unrest to environmental concerns, the period between 2010 and 2022 represents a profound chapter in Sri Lanka's modern history. As we reflect on these years of crisis, our purpose is not simply to recount difficulties but to understand their roots so that we may rise from them with wisdom and strength.

#### **Understanding the Roots of Crisis: Beyond the Surface**

The Sri Lankan crisis did not emerge overnight. As with many challenges, the deeper we look, the more we realize that the roots of the crisis stretch beyond singular events or personalities. They are embedded in the fabric of our economic policies, our governance systems, and the social contracts that bind us as a nation.

The economic collapse of Sri Lanka was announced by Sri Lanka Prime Minister Ranil Wickremesinghe on the 7th of July 2022. This crisis in Sri Lanka is treated as the biggest one since 1948 (Sharma, 2022; Madurapperuma, 2022). The development of debt trap situation studies and related didactics is a very important input to understanding the roots of such a crisis. **The main research question is what were the main causes of Sri Lanka's economic collapse and which of them had the biggest influence?**

In my opinion, based on the studies, the main cause of Sri Lanka's economic collapse was the financial dependency of Sri Lanka's government on development funding from China in the period 2010-2022. This thesis was raised based on the analysis of the current situation in the global economy, especially in the context of the impact of the Belt and Road Initiative on Sri Lanka's economic situation (Wibisono, 2019). This topic can be treated as the

knowledge gap in the so-called international economics and business literature. There are several research questions related to this topic. One of them is indicating the potential consequences of the bankruptcy state of Sri Lanka for further economic development. Another question refers to the role of the involvement of Sri Lanka in The Belt and Road Initiative investments in the analyzed period.

Other research questions relate to the post-pandemic challenges, such as future policies and reforms that should help stabilise the situation in Sri Lanka. There is a complex literature review regarding this subject, including scientific articles and government documents available in Sri Lanka. One of the important aspects is to understand the process of the country collapsing in the Sri Lanka case study.

The literature regarding Sri Lanka's financial distress problems is limited but it gives a starting point for the economic analysis. It is worth stating that problem of the bankruptcy is not the country's fault but the government's. Recently more authors tried to explain the causes and propose a way out for Sri Lanka. The main causes were internal conflict, high inflation, the depreciating value of the Sri Lankan rupee, and the shortage of foreign reserves which made it difficult for Sri Lanka's government to pay the debt (Mehta, 2023; Zhang et al, 2022; Padda, 2021; Subbiah, 2023; Klem and Smararatne, 2022; Sultana, 2022). There are even some studies which tried to examine the short- and long-term equilibrium relationship between the All Share Price Index (ASPI), macroeconomic variables and the economic crisis in Sri Lanka. Some factors proved to be interconnected like tax cuts, the creation of money, a nationwide policy to shift to organic or biological farming, events like the Easter bombings in 2019, and the impact of the COVID-19 pandemic (Madurapperuma, 2022; Devapriya, 2022; Kariyawasam and Jayasinghe, 2022; Senevirathna, 2020; ). Protests broke out in Sri Lanka in 2022 as a direct result of the subsequent economic difficulties. There are some findings which tried to explain the current situation with populist macroeconomics and Family-run political establishment which influenced government decisions (Abraham and Ray, 2022). Sri Lanka's government was also blamed for its mistake and for creating a mess in the economy (Nazeeruddin and Baig, 2022). Some authors underlined that India relies on the port of Colombo in global trade, so any economic instabilities of Sri Lanka impact also several Indian companies such as Airtel, Indian Oil, Taj Hotels, Dabur, Tata Communications, Asian Paints, etc that have invested in Sri Lanka (Subbiah, 2023).

One such proposed way out of Sri Lanka's economic tragedy was short-term economic assistance from the IMF (Jiang, 2022). It can be a tricky way because the IMF is partnering with China to set up the Financial Help Centres. Many economies today have debt problems and suffer from corruption, but in the case of Sri Lanka, it was evidenced that even healthy companies can bankrupt and abolish stakeholder confidence while creating significant damage to the country's economy (Senevirathne and Kuruppu, 2018; Madhushani, 2019). 182 economists stated that the debt of Sri Lanka is illegal as the "odious debt" and should be cancelled to give Sri Lanka a new way to recover (Colombo Telegraph, 2023). According to Alexander Sack's doctrine (Effects of the transformations of the states in their public debts and other financial obligations, published in Paris in 1927), the odious debt meets two criteria:

(1) it is contracted against the interests of the Nation, or the interests of the People, or the interests of the State, (2) the creditors cannot prove they were unaware of how the borrowed money would be used. The findings reveal that 71% of the companies in the Trading Sector were in financial distress in 2010 -2014 and the rest of the 29% were in the grey zone. The fact that none of the companies lies under the safe zone highlights that as a whole the sector is in a menace (Niresh and Pratheepan, 2015).

Some of the authors tried to explain the current crisis in Sri Lanka using only the fiscal policy's impact on variations of the interest rate in Sri Lanka (Mondal and Maitra, 2022). It was found that the budget deficit elevates interest rates both in the long and short runs; external debt raises interest rates only in the long run; and domestic debt lowers interest rates both in the long and short runs. That can also support the research question regarding Sri Lanka's debt impact which was derived from Chinese investments done by the loans to Sri Lanka's government. Another research result confirmed also the impact of low-cost funding in the period 2006-2019 on Sri Lanka's economic crisis (Kariyawasam, and Jayasinghe, 2022) and ignorance from Sri Lanka's government side of the massive debt obligations from the past two decades (Prema-Chandra and Wagle, 2022).

Surprisingly there are few analyses from the authors which focus on BRI investments in Sri Lanka as greater Chinese outbound investment in Asia with no negative consequences to Sri Lanka. They even stated that Sri Lanka was not in "the debt trap" but rather in debt to China which is 6% of Sri Lanka's GDP (Wignaraja et al, 2020; Howard and Bram, 2023). Some authors especially the Chinese ones tried to convince that treating BRI Investment as "the debt trap" with hidden military purposes which leads to the economic dependency of the host country was rejected by China and Sri Lanka's government as accusations because "there is no economic development without the debt" (Li, 2022). Some also Chinese authors tried to evaluate and convince that BRI was rather beneficial to Sri Lanka's economy than negative aspects such as the neo-colonialism of Sri Lanka from China's side (Liow et al, 2021). Such statements can be treated as political propaganda from the Chinese government's side and not as the truth. On the contrary other authors proved that 'hidden debt' in China's lending to Sri Lanka's public sector was 7.4 billion USD. Chinese lending was then 19.6% of public external debt, much higher than the often-quoted 10-15% figures. They also discovered that a significant portion of Chinese debt has been recorded under state-owned enterprises, not the central government, but all of the Chinese debt was reported to the World Bank's International Debt Statistics (Moramudali and Panduwawala, 2022).

Between 2010 and 2022, Sri Lanka experienced what can only be described as a "perfect storm" of vulnerabilities converging. The era began with a sense of hope. Having emerged from decades of civil conflict in 2009, the early 2010s were filled with aspirations of peace and development. However, beneath this surface optimism, systemic challenges were brewing. The crisis that ultimately unfolded was multi-dimensional—economic, political, and social. Each aspect of this crisis is intertwined, and we must understand these interconnections to chart a way forward.

## **Economic Mismanagement: Unsustainable Growth Models**

One of the most significant root causes of Sri Lanka's crisis was economic mismanagement. During the early part of the decade, Sri Lanka pursued a development model driven by infrastructure-led growth, relying heavily on loans from international creditors. Grand projects such as highways, ports, and airports were launched in rapid succession, aimed at transforming Sri Lanka into a hub of global trade and tourism. While these projects were intended to modernize the nation, many of them, in hindsight, were poorly planned, financially unsustainable, and lacking in immediate economic returns.

By mid-decade, the weight of external debt began to grow, and the country's foreign reserves started to dwindle. The dependency on foreign borrowing became a precarious balancing act. Sri Lanka's national debt escalated sharply, creating a debt trap from which it struggled to escape. The weakening of the national currency and the country's reliance on imports led to rising inflation, which eroded the purchasing power of ordinary citizens. The government's attempts to balance these issues through short-term solutions—such as printing money and imposing import restrictions—only exacerbated the situation. It is here that we must ask ourselves: was the root of the crisis simply economic mismanagement? Or was it a deeper failure of governance, foresight, and leadership?

## **Political Instability: Governance at a Crossroads**

Economic issues, however, did not arise in isolation. The governance crisis during this period was both a cause and a consequence of the growing economic fragility. Sri Lanka's political system during this period struggled with short-termism, where decisions were often made for political gain rather than national interest. The lack of a long-term vision, coupled with factionalism and internal strife, weakened governance structures at a critical time. Between 2010 and 2022, Sri Lanka saw multiple transitions in leadership and shifting allegiances within political parties, which created a climate of uncertainty. At a time when steady leadership was crucial, the country instead experienced inconsistency. Political decisions were often driven by populism, and difficult reforms—those that could have alleviated some of the economic strain—were postponed or ignored altogether.

Moreover, the erosion of democratic norms and the centralization of power in the executive contributed to a sense of disenfranchisement among the public. This period saw the weakening of vital democratic institutions, such as the judiciary and parliament, which further deepened the governance crisis. Trust in political leadership waned, and the people's dissatisfaction grew, ultimately manifesting in widespread protests and unrest.

It is essential to reflect on this political turbulence not as a condemnation of individuals, but as a lesson in the dangers of governance without accountability. Leadership, in its truest form, is a responsibility to the people. When leaders lose sight of this, the nation suffers.

## **The Social Dimension: Widening Inequalities**

As Sri Lanka's economic and political crises intensified, their effects rippled through society, exacerbating social inequalities. The rising cost of living placed immense pressure on middle- and lower-income families, while the wealth gap continued to widen. Employment opportunities diminished, particularly for the youth, who faced a future increasingly devoid of hope.

In times of crisis, it is often the most vulnerable who bear the greatest burden. Between 2010 and 2022, Sri Lanka witnessed growing discontent among marginalized communities, whose voices were often overlooked in the national discourse. The failure to address these social inequities contributed to a sense of alienation, deepening divisions along ethnic, religious, and class lines.

This growing social unrest culminated in a series of public protests in 2022, as citizens took to the streets, demanding change. These protests, though borne out of frustration, represented a powerful testament to the resilience of the Sri Lankan spirit. They reminded us that when people unite for a cause greater than themselves, change is not just possible—it is inevitable.

## **Environmental Challenges: A Crisis within a Crisis**

Amidst the economic, political, and social turmoil, Sri Lanka also faced mounting environmental challenges. The country's vulnerability to climate change, deforestation, and unsustainable agricultural practices placed additional strain on its already fragile economy. Poorly executed policies, such as the sudden shift to organic farming without adequate planning, resulted in a significant decline in agricultural productivity, exacerbating the food security crisis.

The environmental crisis, often overlooked in discussions of Sri Lanka's turmoil, serves as a critical reminder of the interconnectedness of our challenges. Our relationship with the environment is not separate from our economic and social well-being—it is foundational to it.

## **Resilience and the Path Forward**

But amidst these multiple layers of crisis, Sri Lanka also witnessed remarkable resilience. The period from 2010 to 2022, despite its difficulties, is not solely a story of failure. It is also a story of survival, adaptation, and hope. The protests of 2022, which captured the world's attention, demonstrated the power of collective action. Sri Lankans from all walks of life came together to demand accountability, transparency, and a better future. This movement was a reflection of the indomitable spirit of the people, a reminder that the roots of crisis can also be the seeds of transformation. As we look toward the future, let us be inspired by the lessons of the past. Economic reform, political renewal, and social justice must be at the forefront of our collective efforts. We must prioritize sustainable development, not just in terms of economic growth, but in the way we manage our natural resources and ensure that all Sri Lankans—regardless of their background—have the opportunity to thrive.

Our journey forward will not be easy, but it is a journey worth taking. Let us not be daunted by the challenges we face, but rather, let us be driven by the possibility of a brighter tomorrow.

### **Conclusion: A Vision of Hope**

In closing, let us remember that crises, while painful, are also moments of profound opportunity. They force us to confront our weaknesses, but they also invite us to imagine new possibilities. The roots of Sri Lanka's crisis are complex, but they do not define us. What defines us is our response, our courage to confront the truth, our commitment to justice, and our unwavering belief in the power of unity.

Sri Lanka's story is far from over. The next chapter is ours to write. Let us write it with wisdom, with integrity, and with hope. Together, we can build a nation that is stronger, more equitable, and more resilient than ever before.