



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 proximate 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.”

Sri Lanka (known as Ceylon from 1948 to 1972) has been a democracy since its independence from the United Kingdom in 1948. During the Sri Lankan government’s 25-year-long war on the Tamil militant separatist Liberation Tigers of Tamil Elam (LTTE), the government expanded executive power, militarized Tamil-majority districts, and limited media and civil society freedoms. Since the war’s 2009 end, few of those policies have been rescinded. Since 2008, U.S. policy has focused on broadening Sri Lanka’s democratic institutions, promoting good governance and human rights, and facilitating post-war reconciliation.

U.S. policymakers, including 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 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.

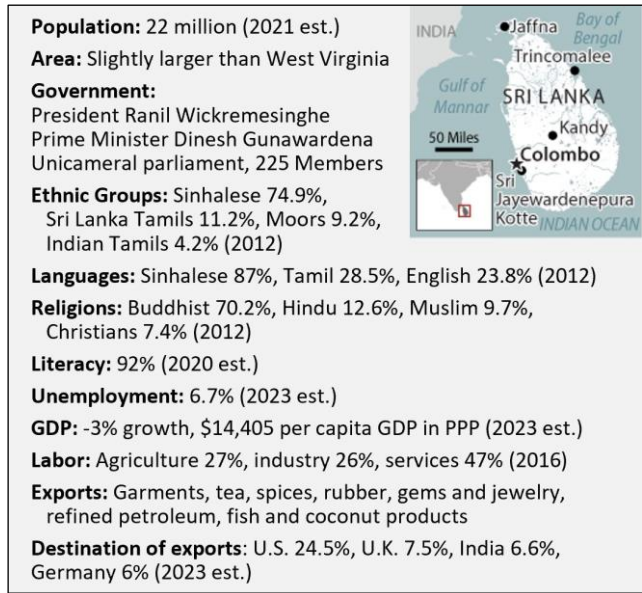
Sri Lanka’s 2022 Twin Crises

In early 2022, Sri Lanka experienced its worst economic crisis since independence. 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. The crisis is rooted in years of corruption and growing indebtedness. The COVID-19 pandemic, global inflation, and government actions such as tax cuts exacerbated the crisis.

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 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 both Gotabaya and Mahinda Rajapaksa (who was serving as Prime Minister) resigned; Gotabaya fled the country. Parliament elected Ranil Wickremesinghe, a

former prime minister, as president, in accordance with Sri Lanka’s constitution.

Figure 1. Sri Lanka in Brief



Source: World Bank; CIA World Factbook.

In March 2023, the International Monetary Fund (IMF) finalized an agreement with the Wickremesinghe government to extend a US\$3 billion loan, provided that Sri Lanka address its financial shortfalls and renegotiate its external debt. In September, the IMF delayed release of the second \$330 million tranche of its bailout loan due to concerns about shortfalls in government revenue; it approved the release in December, noting “commendable progress” toward debt sustainability. Some analysts say the government’s decision to raise taxes and cut expenditures on government services rather than press for greater debt forgiveness from international lenders is causing hardship for the Sri Lankan people. Government data shows the economy grew by 1.6% in the quarter from July to September, the first expansion since 2021.

2024 National Elections

Sri Lanka’s ongoing economic hardship is complicating plans for national elections. According to Sri Lanka’s Constitution, presidential elections must be held by October 2024, and parliamentary elections must be held by August 2025. Wickremesinghe, however, in February 2023 “indefinitely postponed” local elections, due in March 2023, citing the cost of conducting polls.

Wickremesinghe has indicated he will seek reelection and in October 2023 announced that both presidential and parliamentary elections would be held in 2024, and local elections may be held in 2025. He set up a commission to examine and recommend possible electoral reforms, a move that opposition politicians say may be intended to influence

the outcome. It is not clear if the commission will finish its work prior to the national elections.

Human Rights and Post-War Reconciliation

Sri Lanka has struggled to manage ethnic, religious, and economic divisions among its citizens for most of its history, and the government 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 a civil war that may have cost up to 100,000 lives, displaced hundreds of thousands of people, and saw serious human rights violations committed by both sides.

In 2015, Maithripala Sirisena was elected President on a united opposition platform promising 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 investigate 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 shore up Sri Lanka's democracy and assist reform and reconciliation efforts.

Sirisena quickly came under political pressure from the Rajapaksa-linked opposition and backtracked on pledges to allow international judges to participate in abuse investigations. Gotabaya Rajapaksa, who campaigned on a platform of Sinhalese nationalism, national security, and fighting Islamist extremism, defeated Sirisena in the 2019 presidential election. Gotabaya then returned to "a campaign of fear and intimidation against human rights activists, journalists, lawyers, and other perceived challengers," according to Human Rights Watch.

Since becoming president, Wickremesinghe has pledged to address Tamil and Muslim concerns, including devolving some autonomy to provincial councils. He has maintained many of his predecessors' policies, however, and some observers note he is pursuing new laws to stifle dissent and curtail media and civil society freedoms.

Sri Lanka-India Relations

Sri Lanka and India share historical, cultural, and religious ties, and the two governments periodically express common strategic interests. India is one of Sri Lanka's largest defense partners, and has advocated for reconciliation with the Tamil community, which has close ties to the large Tamil community in southern 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 both Rajapaksa's, Sri Lanka turned to China for financing and investment—in part because growing international condemnation of its war on the LTTE limited its options—and Sri Lanka became 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 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. China's defense ties with Sri Lanka also grew substantially during the civil war, especially in its 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 nearly US\$300 million in new support to the country, including rice and other food assistance, fertilizer, and funding, and several senior Administration officials and have visited the country.

Congress has actively shaped U.S.-Sri Lanka policy over two decades. Since 2008, it has limited defense engagement in response to reports of human rights violations; it 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. Members of Congress have since 2003 introduced resolutions on Sri Lanka's security and human rights, and held oversight hearings on executive policy. In 2016, the House Democracy Partnership approved a program with the Sri Lankan parliament aimed at strengthening oversight, citizen engagement, and e-governance. In December 2023, four Members of Congress introduced a bicameral and bipartisan resolution expressing support for the peaceful democratic and economic aspirations of the people of Sri Lanka (S.Res. 493 and H.Res. 926).

Colin Willett, Section Research Manager

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.