



# ASIA MAIOR

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## **Asia in 2022: The impact of the Russia-Ukraine war on local crises**

**Edited by**  
**Michelguglielmo Torri**  
**Filippo Boni**  
**Diego Maiorano**

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**viella**

A large, intricate mandala pattern in a light orange color, located in the bottom right corner of the page. It features complex, symmetrical geometric and organic shapes, resembling a stylized flower or a traditional Indian mandala.

CENTRO STUDI PER I POPOLI EXTRA-EUROPEI “CESARE BONACOSSA” - UNIVERSITÀ DI PAVIA

# ASIA MAIOR

The Journal of the Italian think tank on Asia founded by Giorgio Borsa in 1989  
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## CONTENTS

IX	MICHELGUGLIELMO TORRI, <i>Foreword. Asia in 2022: The consequences of the war in Ukraine, US-China rivalry, democratic decline and popular protests</i>
1	SILVIA MENEGAZZI, <i>China 2022: The 20<sup>th</sup> party congress and popular discontent in Xi Jinping's China</i>
23	GIULIA SCIORATI, <i>China 2021-2022: A foreign policy of «re-branding»</i>
43	MARCO MILANI & ANTONIO FIORI, <i>Korean peninsula 2022: Stuck between new leadership and old practices</i>
79	COREY WALLACE & GIULIO PUGLIESE, <i>Japan 2022: Putin and Abe Shocks thwart Kishida's enjoyment of three golden years despite major defence overhaul</i>
131	AURELIO INSISA, <i>Taiwan 2022: Cross-Strait security spirals further down</i>
157	CLAUDIA ASTARITA, <i>Hong Kong 2021-2022: A new life in the shadow of China</i>
177	RIWANTO TIRTOSUDARMO & PETER B.R. CAREY, <i>Indonesia 2019-2022: The authoritarian turn as leitmotif of president Jokowi's second term</i>
215	GEOFFREY C. GUNN, <i>Timor-Leste 2021-2022: Electoral change and economic reset</i>
233	SALEENA SALEEM, <i>Malaysia 2022: 15<sup>th</sup> general elections and deepening political polarisation</i>
249	EDOARDO SIANI, <i>Thailand 2022: The «post-pandemic» era</i>
261	MATTEO FUMAGALLI, <i>Myanmar 2022: Fragmented sovereignties and the escalation of violence in multiple warsapes</i>
281	SILVIA TIERI, <i>Bangladesh 2022: Challenging post-pandemic times</i>
299	DIEGO MAIORANO, <i>India 2022: Political realignments in a BJP-dominated system</i>
327	MICHELGUGLIELMO TORRI, <i>India 2021-2022: Playing against China on different chessboards</i>
371	DIEGO ABENANTE, <i>Sri Lanka 2022: The aragalaya protest movement and the Rajapaksas' fall from power</i>
387	MARCO CORSI, <i>Pakistan 2022: The geopolitics of Imran Khan's fall and the fledgling government of Shehbaz Sharif</i>
411	FILIPPO BONI, <i>Afghanistan 2022: Life under the Taliban</i>
425	GIORGIA PERLETTA, <i>Iran 2022: Domestic challenges to state legitimacy and isolation in the global arena</i>
447	CARLO FRAPPI, <i>Armenia 2022: Looking for a way out of the Nagorno-Karabakh impasse</i>
479	<i>Review article</i>
505	<i>Reviews</i>
573	<i>Appendix</i>

SRI LANKA 2022: THE ARAGALAYA PROTEST MOVEMENT  
AND THE RAJAPAKSAS' FALL FROM POWER

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*The year in Sri Lanka was dominated by a severe economic crisis which led the central bank to declare financial default for the first time in the country's history. The crisis has generated a large popular movement against President Rajapaksa and the Prime Minister which, after months of massive street protests, led to the resignations of both. After much hesitation, the new government negotiated a program of financial aid with the International Monetary Fund. However, many unknowns remained about the new President's ability to introduce the reforms imposed by the international partners, and about the sacrifices that will be required of an already exhausted population. Although the military has avoided openly entering politics, the use of violence by the security forces and the new government's hard line towards the protesters placed great uncertainty over the future of Sri Lankan democracy. Colombo's need for urgent economic support has also led to a rapprochement with India, which has been the regional partner most willing to approve aid packages for the island-nation.*

KEYWORDS – Sri Lanka; debt crisis; popular protest; Rajapaksa; civil-military relations; democracy in South Asia.

### 1. Introduction

Despite the signs of economic crisis that emerged in Sri Lanka during 2021, few observers would have foreseen the upheaval that hit the country the following year. Since the beginning of 2022, the Sri Lankan economy was characterized by a deep crisis which manifested itself in the shortage of basic consumer goods, such as food, fuel and medicines. The struggling of a vast part of the population, with the exception of the wealthiest, in meeting their most basic needs led to a spontaneous wave of dissent. This quickly turned from an economic protest to a general uprising against the government and President Rajapaksa in particular, accused of inefficiency and corruption. Despite an attempt by the President and his circle to respond with emergency measures, the movement – dubbed *Janatha Aragalaya*, or «people's struggle» in Sinhalese – did not subside. The protests culminated in July, with the crowd storming major government buildings in Colombo. This unprecedented manifestation of popular protest led to the resignation of the President. To the surprise of most observers, therefore, within months the crisis brought down the seemingly immobile power system of

the Rajapaksa family and its allies. Despite the excessive use of violence by the security forces against the demonstrators, and despite the ties between the Rajapaksa family and the military, the army showed general restraint, declaring that it had no intention of assuming power. The following sections will analyse the evolution of the *Aragalaya* movement and its ability to force a change of government. At the same time, the essay will highlight the limits of institutional politics, including the opposition, in meeting the demands of the movement. Furthermore, the essay discusses the wider repercussions of the events in Sri Lanka. The crisis has prompted a redefinition of cooperation programs between Colombo and its two main Asian partners, Delhi and Beijing. This fact has inevitably had an impact on India-China economic competition in South Asia. The last part of the essay examines the indicators of the Sri Lankan economy at the end of 2022, and evaluates its prospects for exiting the crisis.

## 2. *The beginning of the protest*

Sri Lanka's precarious economic situation was already evident at the end of 2021, due to long-lasting imbalances, which had been exacerbated by the COVID-19 pandemic. In particular, declining incomes from tourism and remittances from migrants had led to a shortage of foreign currency. This in turn forced the authorities to proclaim a ban on the import of non-essential goods. In the summer, the authorities had gone so far as to declare a food emergency, and to ration all basic goods and impose fixed prices [Abenante 2021, p. 342]. This policy created the context for the protests that developed in the first months of 2022.

Although the wave of protests that shook Sri Lanka concentrated in the capital Colombo, the first roots of the discontent lay in the agricultural sector. This is hardly surprising given the importance of the sector in the national economy. In 2022 agriculture represented about 7% of the national GDP and employed more than 30% of Sri Lankan workers, especially in the production of rice and tea [US-ITO 2022]. Moreover, those two sectors had been particularly favoured by state subsidies. The early signs of unrest began in March 2021, when the government had decided initially to limit, and then on 26 April to ban altogether the use of chemical fertilizers and pesticides in agriculture. The decision was justified by President Rajapaksa with the widespread concern about the link between chemicals and the increase of non-communicable diseases, and as part of an ambitious plan to make Sri Lanka an oasis of organic farming [Presidential Secretariat 2021, April 22; Jayasinghe and Ghosal 2022, March 3; Ellis-Petersen 2022, April 20]. However, according to various independent observers, the government's plan was driven by two more practical reasons: first, to reduce the budget deficit, since a system of public subsidies for the purchase of chemical fertilizers



was in force; second, to save precious foreign currency, since fertilizers were almost totally imported and costed about 400 million US\$ a year [*Economy Next* 2020, February 23; *Nikkei Asia* 2022, October 24].

The government's decision forced the farmers to switch to exclusively organic cultivation at a very short notice. This proved to be the beginning of the economic disaster. International agencies had advised Colombo that a sudden ban on chemical fertilizers in the absence of a scheme for the local production of organic fertilizers, or to purchase such products in the international market, would result in a sharp reduction in the crop [US\$A 2021]. Despite the President's promise that the state would distribute organic fertilizers, the impact on the country's agriculture was acutely felt: rice production fell by 20% in just six months of the ban; similarly, tea production and exports decreased by 18% between November 2021 and February 2022. While before the ban Sri Lanka was self-sufficient in rice production, when the crisis began it was forced to spend 450 million US\$ on rice imports [Talukdar 2022, July 22].

According to various technical experts, the government's decision to ban all chemicals was hasty and superficial, as the transition to organic cultivation takes time and cannot be imposed overnight [Ellis-Petersen 2022, April 20; US\$A 2021]. Although the government reversed its decision and lifted the ban in November, the effects had already hit the national economy hard. They produced a sharp increase in food prices on the domestic market, and also damaged the trade balance, since rice and tea were among the main sources of foreign currency. Despite an attempt by the Agriculture Minister Mahindananda Aluthgamage to defend the strategy of making Sri Lanka free from chemical fertilizers, President Rajapaksa about a year later admitted that the ban had been a major mistake [*The Hindu* 2021, November 24; *Outlook* 2022, April 19].

### 3. *The expansion of the protest and the financial default*

The resulting shortage of food and other basic goods was at the roots of the unrest. In March the protest extended from the peasant community to other social groups, above all to the younger generation. At the same time, it shifted its focus from agriculture to government policy in general, accusing the authorities, and the Rajapaksa family in particular, of mismanagement and corruption. The protest initially took the form of local street demonstrations, and night vigils in middle-class residential neighbourhoods [Keenan 2022, April 18]. However, it escalated into a nationwide agitation as a reaction to President Rajapaksa's special address to the nation on 16 March. In the speech, Gotabaya Rajapaksa, consistent with his uncompromising style, refused to assume responsibility, instead placing the blame for the crisis on the COVID-19 pandemic and on financial imbalances created by his prede-

cessors and opponents: «I am not responsible for this crisis...those who contributed to the creation of this crisis are criticizing the government in front of the people today» [Ministry of Mass Media 2022, 16 March]. As usual, the President's speech made extensive reference to military rhetoric and Sinhalese Buddhist nationalism, which were the two cornerstones of his public image. However, it seemed that this ideological approach did not appeal to the population. The apparent disorientation of the authorities in the face of the crisis was confirmed a week later. On March 23, an All-Party Conference was organized by the President. The initiative was boycotted by the opposition and did not produce concrete results, apart from the confirmation of ongoing contacts with the International Monetary Fund (IMF) for financial assistance. The fact that Rajapaksa had decided not to bring the discussion before the Parliament, choosing instead an informal inter-party meeting at his residence was emphasised by part of the media, and appeared as a further demonstration of the President's mistrust of democratic processes [*The Sunday Times* 2022, March 27].

Popular protest grew in intensity as a reaction to the apparent lack of action by the authorities. A week after the All-Party Conference, the agitation was organized through social media and concentrated in the capital Colombo, in the area of the government buildings. The demonstrators began to openly demand the resignation of the President – behind the slogan «GoGotaGo» – and the exit from national politics of the entire Rajapaksa family [Keenan 2022, April 18]. The first serious incidents occurred on the evening of 31 March when the crowd headed for the private residence of the President and clashed with the security forces. This resulted in physical confrontations and the arrest of fifty people. In the following days, several media and social activists denounced an excessive use of force by the police and military forces. The Sri Lanka Collective Against Torture reported several cases of beatings, and the unjustified use of rubber bullets and tear gas against a mostly peaceful demonstration [*The Island Online* 2022, April 4]. On 1 April, faced with the gravity of the situation and fearing a popular uprising, President Rajapaksa proclaimed a state of emergency. A curfew was imposed across the country, along with the shutdown of social media. According to media sources, between 31 March and 4 April, more than 600 protesters were arrested [*Asia News* 2022, April 4].

This, however, did not stop the protests, and crowds took to the streets of the capital again on 4 April, calling for the resignation of the Rajapaksa family from official functions. Five days later, with the slogan «Occupy Galle Face», the demonstrators took possession of the Face Galle Green area in Colombo, near the Presidential Secretariat, making it their base [*The Hindu* 2022, April 12]. In the following weeks this base turned into a tent city with free food, medicines, portable toilets, psychological support, and even a book exchange service. The area was mainly frequented by young men and women from different social classes: students and social activists, teachers,

lawyers and farmers. This sort of ideal community, with its joyful and peaceful atmosphere, was pitted by protesters against the corruption and violence of the state agencies.

The resilience of popular protests, and the apparent lack of credible responses on the part of the executive, led to a worsening political crisis. On 3 April, the entire 26 members of the government resigned, with the notable exception of the Prime Minister, Mahinda Rajapaksa – brother of the President – who remained in his post. The ministers who resigned included three members of the Rajapaksa family: Basil, Minister of Finance, Chamal, Minister of Agriculture, and Namal, Minister of Sports [*Asia News* 2022, April 4]. Although this seemed to be a first sign of change, it soon became clear that the move, rather than being the result of an internal outcry, had been agreed with the President and the Prime Minister, so as to allow the former to appoint a new cabinet [*Al Jazeera* 2022, April 3]. Unsurprisingly, the protesters reacted with a great deal of scepticism. The protest not only did not stop but even intensified its tone and slogans. The fundamental request now became the exit from the political scene of all members of the Rajapaksa family.

In response, Gotabaya Rajapaksa made a last-ditch effort to break the impasse by involving opposition parties in the government. On 4 April, the President launched an appeal to all political forces, including the opposition, to form a government of national unity. In the statement, the President invited «all the political parties represented in the parliament to meet to accept the ministerial portfolios in order to find solutions to this national crisis» [*Al Jazeera* 2022, April 4]. However, all the main opposition groups rejected Rajapaksa's appeal. The secretary of the main opposition party, the Samagi Jana Balawegaya (SJB-United People's Power), Ranjit Madduma Bandara, declared that «the people of this country want Gotabaya and the entire Rajapaksa family to leave and we cannot go against the will of the people and we cannot work alongside the corrupt» [*Ibidem*]. In fact, the opposition gave the impression of fear of being involved in the responsibility of governing such a difficult situation. Apparently, their strategy was to let the Rajapaksa family and its allies remain the sole target of popular discontent [Keenan 2022, April 18].

The plan seemed to work, as growing popular pressure caused the first fractures in the government. On 5 April, 43 members of Parliament, including 11 members of Sri Lanka Podujana Peramuna (SLPP-Sri Lanka's People's Front), the party to which the Rajapaksas belong, announced their intention to set up an autonomous parliamentary group. They were soon joined by 14 MPs from another party allied with the government, the Sri Lanka Freedom Party (SLFP), which at the same time withdrew from the ruling coalition; they were also followed by 16 MPs from other SLPP allied parties and two from the Ceylon Workers' Congress (CWC), an organization representing the Tamil workers' community. Moreover, the Minister for

Property, Housing and Community Infrastructure, and the Deputy Speaker of Parliament also announced the resignations from their posts. Central bank governor Ajith Nivard Cabraal had also resigned the day before [*Colombo Page* 2022, April 5; *Asia News* 2022, April 4].

#### 4. *The resignation of the Rajapaksas*

The tug of war between protesters, the opposition and the government, was accompanied by a complex debate on international economic assistance. Despite Colombo's evident need for urgent aid in order to save the economy from collapse, the possibility of an intervention by the IMF, or other supranational bodies, was seen by many politicians with mistrust. At the All-Party Conference on 23 March, this feeling found clear expression in the view that international assistance would turn into yet another debt trap for the island-nation. Furthermore, there was widespread fear that loans would be accompanied by demands for unpopular austerity programmes [*The Sunday Times* 2022, March 27]. This sentiment was at the root of the Colombo government's propensity for bilateral negotiations with India and China to obtain short-term loans, rather than for a comprehensive aid package with an international organization. This is an explanation for the delay with which Colombo started negotiations with the IMF, but also for the considerable duration of the discussion. In fact, despite suggestions from experts, President Rajapaksa and the Central Bank governor repeatedly refused to enter into negotiations with the IMF and the World Bank (WB) for the restructuring of the state's international debt [Keenan 2022, April 18, p. 4]. Based on official statements, it was only in mid-March that the President began negotiating with the IMF. The reason for this reluctance was not difficult to see: since early March, the IMF outlined the reforms it believed were essential for Sri Lanka. These included heavy austerity measures such as cuts in public spending, direct and indirect tax increases, an end to the Central Bank's inflationary policy, and the placing on the private market of state-owned enterprises [*Ibidem*]. A similar position was expressed by the WB Country Director for Maldives, Nepal and Sri Lanka, who affirmed the need for Sri Lanka to address the structural roots of the crisis with a profound program of reforms [*Daily FT* 2022, April 18].

On 6 April, Gotabaya Rajapaksa formed a committee of three prominent economists – two of whom had previously held positions in the IMF and the WB – to negotiate with the international partners [*Times of India* 2022, April 7]. Colombo announced the start of negotiations with the IMF for 18 April, also stating that it urgently needed to receive at least 3-4 billion US\$ as immediate aid for 2022 [Keenan 2022, April 18, p. 4]. On 12 April, the Central Bank of Sri Lanka communicated the suspension of payments on its external debt, pending the conclusion of negotiations with the lend-

ers and foreign creditors. Sri Lanka thus became the first Indo-Pacific state to declare financial default since the 1997 Asian economic crisis. It was also the first financial default in the history of the island-nation [Jayasinghe and Do Rosario 2022, April 12; Parkin and Cornish 2022, May 19].

Despite these partial signs of progress on the economic level, between April and May the political situation was at a standstill. On the one hand, President Rajapaksa and the Prime Minister seemed determined to stay in power despite the mounting economic crisis. On the other hand, the protest movement did not retreat a step, undeterred by the pressure of the security forces. Moreover, in early May the public order situation seemed dangerously out of hand when groups of Rajapaksa supporters began to attack the demonstrators. In between, the opposition seemed uncertain what to do. While they were determined not to enter a government led by any member of the Rajapaksa family, they lacked an alternative plan. There were two reasons for the hesitation of the opposition. First, they were highly divided internally, being composed mainly of the SJB, some former supporters of Rajapaksa, the leftist organization Janatha Vimukti Peramuna (JVP-People's Liberation Front), and smaller Tamil and Muslim parties. Second, they lacked the parliamentary numbers either to get a no-confidence vote, or to start an unlikely impeachment proceeding against the President. The scarce representation in parliament made it equally difficult to go down the road of amending the Constitution to deprive the President of his executive powers. This procedure required a 2/3 majority in parliament, which seemed clearly out of reach. However, the opposition's refusal to share the management of the crisis, in order to leave its burden on Rajapaksa's shoulders, could have been interpreted by sectors of the society as hindering the negotiations with international donors, and therefore as an antipatriotic attitude [Keenan 2022, April 18, pp. 5-7].

However ambiguous from the outset, the strategy of the opposition to reject a government of national unity was the key to the first turning point of the crisis, namely the resignation of Prime Minister Mahinda Rajapaksa. In his place, the President appointed the veteran politician – and six times Prime Minister – Ramil Wickremesinghe. This gesture came after the failure of all attempts to placate the protests with public appeals. For weeks, the Prime Minister appealed to the demonstrators' responsibility: «every second you protest in the streets» he declared in mid-April, «our country is losing opportunities to receive potential dollars» [News Wire 2022, April 11; *Colombo Page* 2002, April 13]. Finally, on 5 May, he announced his resignation, justifying it as a step to allow for the formation of a government of national unity [Gunasekara and Mashal 2022, May 9]. The move by the Prime Minister had obviously been thought of by the Rajapaksa circle as an inevitable sacrifice in order to avoid the downfall of the President. However, this prediction turned out to be wrong. The spokesmen of the *Aragalaya* movement refused to dissolve, demanding that Gotabaya Rajapaksa also

take a step back. A similar attitude was followed by the opposition parties, which maintained their refusal to join an emergency government.

The strategy of the opposition left much room for debate. According to some observers, its hesitation gave the President and his supporters a chance to strengthen themselves, making the possibility of regime change more difficult. On the other hand, many analysts admitted that it was very difficult to oust Rajapaksa, given the extensive powers that the President attributed to himself with the 20<sup>th</sup> amendment to the Constitution approved in October 2020 [ICJ 2020, October 27; Abenante 2021, pp. 335-336]. Furthermore, given the close ties between the President's family and the military, and the threatening tone of some government statements, there was widespread fear that the army could make a show of force against the protest movement, and even that it might decide to take power into its hands [Keenan 2022, April 18, p. 6].

### *5. The July uprising and the escape of the President*

After two more months of economic crisis, faced with the President's refusal to resign, on 9 July a crowd of around 100,000 demonstrators stormed the Presidential and the Prime Minister's buildings, even heading towards their private residences. The world media released images of cheering protesters inside government offices, inevitably bringing to mind the 6 January assault on Capitol Hill in Washington, DC. However, unlike the latter case, in Colombo the demonstrators showed overall respect towards public properties, and the atmosphere was more one of celebration and joy than of anger. Despite this, on the evening of 9 July a fire was reported in the private residence of Prime Minister Wickremesinghe. Independent sources have raised doubts about the demonstrators' responsibility for the fire, both for the peaceful behaviour maintained by the movement, and because the episode followed documented acts of violence by the police [Keenan 2022, July 18]. Faced with the dramatic situation, the same evening the speaker of Parliament announced the resignation of the President. Evidently fearing for his safety, Gotabaya Rajapaksa left the country for the Maldives on 13 July, after appointing former Prime Minister Wickremesinghe as Acting President. From the Maldives, Rajapaksa finally headed to Singapore, from where he sent the resignation letter [NBC 2022, July 13; Keenan 2022, July 18].

Although these events apparently marked the victory of the *Aragalaya* movement, and seemed to pave the way for peace, this was not the case. On 19 July Wickremesinghe delivered a scathing speech aimed at the protesters, in which he called them «fascists» and accused them of aiming for power. The Acting President's speech heralded a show of force that took place three days later. In the early hours of 22 July the army, along with the police, intervened at Face Galle Green. During the action, which saw

the destruction of the camp and the arrest of many leaders and members of the movement, eyewitnesses and journalists reported the excessive use of violence by the soldiers, especially around the Presidential Secretariat. The credibility of the reports seemed to be confirmed by the official protest of the US, UK, Germany and other countries' diplomatic authorities in Colombo for the brutality of the military. A United Nations Human Rights Office's statement said that it was «alarmed by the unnecessary use of force» [Srinivasan 2022, July 22]. According to the security forces' statement, the action was allegedly caused by the protesters' refusal to leave the area. However, the *Aragalaya*'s leaders denied the fact, stating that the demonstrators had announced their withdrawal from the area for the afternoon of the same day. Independent observers suggested that the action was primarily motivated by the authorities' desire to punish protesters for the 9 July storming of government buildings and residences [Keenan 2022, July 18; Srinivasan 2022, July 22].

## 6. *A transition to where?*

Gotabaya Rajapaksa's escape from Sri Lanka on a military plane, accompanied by his wife and two bodyguards, and Wickremasinghe's appointment marked the beginning of a delicate political transition that appeared very uncertain from the outset. Wickremasinghe was then formally elected President by the Parliament on 20 July. Two days later, he appointed Dinesh Gunawardena as the new Prime Minister. However, the political change had no appeal to those social groups that created the protest movement. The new President was labelled by the *Aragalaya* as not credible to lead a real change in Sri Lankan politics. Second, he already ran – and was defeated – twice in the presidential race in 1999 and 2005; this prompted many observers to consider him desperate for office. Third, Wickremasinghe relied on Rajapaksa's SLPP parliamentary support to get elected and to govern. Finally, the leaders of the protest movement blamed him for his confrontational attitude and for the violence of 9 July [Keenan 2022, July 25]. For all these reasons, the new President was considered by most observers as a politician who was ill suited to introduce real change. The strategy of the opposition also remained hesitant throughout the crisis. This was confirmed during the election of the new President. The recognized leader of the opposition, Sajith Premadasa, head of the SJB, after having initially run for office, on 19 July announced his withdrawal from the election. Instead, he announced his party's support for Dulas Alahapperuma, former Minister of Information and Mass Media in Rajapaksa's cabinet [France24 2022, July 19; Reuters 2022, July 19]. This may explain why the *Aragalaya* remained broadly equidistant from all political fronts, and generally maintained an attitude of suspicion, even distrust, towards institutional politics.

Like many other similar movements, the *Aragalaya* was born spontaneously out of institutional politics mainly thanks to social media. This was in part a strength of the movement. However, in the long run, it turned into an element of weakness, due to its disorganization and lack of recognized leaders [Keenan 2022, July 25].

### 7. *A Chinese debt-trap?*

The uncertainty of the prospects of the government born from the protest movement was also linked to its ability to understand and deal with the structural causes of the economic crisis. From this point of view, a crucial aspect was given by the nature of the state debt. Most of the observers of Sri Lankan economy emphasised the long-term nature of its financial imbalances. In particular, it has been emphasized that the Sri Lankan economy has been a «highly export dependent economy» basically since 1948 [Chandrasekhar and Gosh 2022, May 2022]. This has resulted in a tendency to build up a chronic trade and current account deficit, which has been financed for decades mainly by foreign borrowing. This imbalance was particularly acute after the country's economic opening in 1977. Its external debt increased greatly in the 2000s, especially after the 2008 financial crisis. If in 1977 it amounted to 1 billion US\$, in 2008 it had increased to 16 billion, and in 2020 it had reached 56 billion [*Ibidem*]. Based on long-term poor economic choices, Colombo's economy has also suffered from widespread corruption. The effects of COVID-19, and the Russo-Ukrainian war had the effect of exploding these contradictions. Beyond a general consensus on the structural nature of the crisis, opinions differed on its responsibilities. Two currents of analysis can be distinguished: one believes that, despite the chronic long-term weakness of the Sri Lankan economy, the proximate cause of the crisis would be the debt contracted with China for investment in large infrastructures. A second line of thought instead believes that the debt with China is not the cause of the crisis, but that it was caused by the economic strategies dictated by Western international bodies, in particular the IMF.

Analysts who believed China was primarily responsible for the collapse of the Sri Lankan economy pointed out that Beijing encouraged Colombo to invest in large projects, financed with high-interest loans. These would have created the debt trap over the years. The same authors emphasised the close connection between Beijing and the Rajapaksa family's power system during the 2000s. It was during the period 2005-2015 – under President Mahinda Rajapaksa – that Colombo started such large and expensive projects such as the Hambantota port (2007), the Mattala International Airport (2010), the Colombo International Container Terminal (2011), and the Lotus Tower (2012) [Wignaraja, Panditaratne, Kannangara and Hundlani 2022, p. 4; Rowand 2022, July 13].



The alternative interpretation is offered by those analysts who argue that the debt contracted by Colombo with Beijing is much lower than it is often assumed in the West. In fact, it is not easy to quantify Sri Lanka's Chinese debt, and estimates may vary depending on the sources. Yet, current analyses place it between 10% and 20% of Colombo's overall external debt. According to a Chatham House study, the total value of Chinese infrastructure investments in Sri Lanka between 2006 and 2019 amounted to 12.1 billion US\$, or 14 per cent of Sri Lanka's 2018 GDP. This figure was considerably lower than those of other regional economies, as the Maldives, Pakistan, Cambodia and Laos [Wignaraja, Panditaratne, Kannangara and Hundlani 2022, p. 5]. The amount of Chinese loans to Sri Lanka by 2016 was about 9% of the total government debt [Jones and Hameiri 2022, pp. 13-19]. According to this line of analysis, therefore, the fundamental cause for the collapse of the Sri Lankan economy would not be Chinese investments, but rather the poor economic policy decisions by Colombo and the neo-liberal economic recipes promoted by Western governments and international financial institutions. These would have pushed Colombo towards an ever-greater openness to external investments, and therefore to excessive dependence on foreign debt [Talukdar 2022, July 22; Scott Tyson 2022, August 19].

#### *8. Economic assistance and foreign relations*

The country's economic crisis led to an interesting reversal of relations between Colombo, Delhi and Beijing. In 2021 Colombo relied mainly on China for economic support, as it was the only partner willing to grant financial assistance without setting conditions, at least formally. On the contrary Delhi, while pushing towards close relations with Sri Lanka, on the basis of Prime Minister Modi's «neighbourhood first» policy, set the condition that Colombo first enter into an agreement with the IMF in order to obtain economic aid. The latter condition, of course, was unwelcome to the Sri Lankan government as it would have inevitably required profound reforms. According to most observers, Delhi had lost ground to Beijing in terms of influence in Sri Lanka. In 2022, however, the scenario reversed: since the beginning of the crisis, Colombo found more open interlocutors in India than in China. On 17 March, Delhi guaranteed an emergency credit line of 1 billion US\$ to Colombo. These were followed by a variety of other aids from India throughout the year. According to India's High Commissioner to Sri Lanka, Delhi provided around 4 billion US\$ in support to Colombo from January to August [Balachandran 2022, June 25; HCI 2022, May 7; *Economy Next* 2022, August 23].

Compared to Indian activism, Beijing's responses to Colombo's contacts were much more cautious. The Chinese government has certainly

promised to support the Sri Lankan economy; however, it has set a series of stringent conditions: first of all, Colombo had to obtain a debt restructuring from its lenders; secondly, Beijing called for the conclusion of the China-Sri Lanka Free Trade Agreement; finally, the Chinese government insisted that Colombo become more «independent» with respect to Western partners and the IMF. It is true that Beijing also offered immediate economic assistance packages; in May the Chinese government approved a loan of 76 million US\$ to Sri Lanka. However, these were too small compared to the size of the crisis and, in any case, they were much smaller than the Indian offer [Balachandran 2022, June 25; *Al Jazeera* 2022, April 12].

Despite Colombo's doubts about the conditions linked to international financing, the Sri Lankan government has decided to go down that road. After starting negotiations with the IMF in March, Colombo finalized an agreement on an approximately 2.9 billion US\$ Extended Fund Facility on 1 September [IMF 2022, September 1; Keenan 2022, October 10]. Of course, the program was not without costs and included a series of fundamental but heavy reforms for an already impoverished population; these included tax increases, energy and fuel price changes and the fight against corruption [IMF 2022, September 1]. This opened up important uncertainties for the future political stability of the island-nation.

### 9. *The economic indicators at the end of the year*

The severity of the crisis that hit Sri Lanka in 2022 took many economic observers by surprise, given the moderate growth expected the previous year. The forecast for 2021 and April 2022 by the Asian Development Bank were for GDP growth rates of 3.3 and 2.4% respectively. Yet, the updates in September 2022 provided a negative figure of -8.8 per cent [ADB September 2022, p. 17]. For 2023, the projection was slightly improving, due to the measures implemented by the government and by foreign assistance programs, although still with a figure of -3.3 per cent [*Ibidem*]. Interestingly, Sri Lanka's performance stood out as the only negative data in a picture for South Asia's GDP that was marked by overall growth. Equally negative was the evolution of the inflation rate, which rose from 6 per cent in the last 2021 figure to 14.2 in January 2022, reaching 64.3 per cent in August. The inflation forecast for 2023 was moderately lower, albeit still very high, at 18.6 per cent. Foreign exchange reserves, which totalled about US\$ 3.10 billion at the end of 2021, had essentially halved to 1.72 billion in August 2022 [*Ibidem*, pp. 165-166].

The emergence of the crisis also prevented Sri Lanka from benefiting from a general recovery in international tourism in many, though not all, countries in the region. In Sri Lanka, the growth of tourism that had manifested itself in September 2021 was blocked by the economic crisis in

April 2022. Similarly, remittances from migrants had risen in other Asian countries even above pre-pandemic levels, while they reached just 43 per cent of previous levels in Sri Lanka. This was caused by unfavourable exchange rates which discouraged migrants from sending money through formal channels [*Ibidem*, p. 37]. The trade deficit decreased by 18.6 percent in the first half of 2022 as exports, especially in the textile sector, grew faster than imports, which were financed by economic support from India [WB 2022].

As widely reported, poverty in the country increased dramatically during the year. The poorest sections of the population have been hit the hardest due to inflation, food and medicine shortages, limited supply of fertilizers, and declining remittances. This has particularly affected women, who already suffered from unequal conditions before the crisis. Sri Lankan and international NGOs have launched appeals underlining that the crisis has affected men and women differently, and encouraging the adoption of specific measures to alleviate the gender gap [*Ibidem*; GHA August 2022].

## 10. Conclusion

Sri Lanka faced one of the most serious crises in its history during the year. The new president Wickremesinghe and the government dealt with an enormous challenge; namely not only to restore the country's economy, but above all to introduce profound reforms in the political and economic structure. The President was expected to dismantle the system created by the Rajapaksas, based on centralization of power in the hands of the Presidency. Moreover, the inevitable austerity measures demanded by the IMF and international partners will likely generate discontent among the population. There was widespread scepticism about Wickremesinghe's ability to handle such a critical stage, if only because he did not appear to have the necessary consensus. The *Aragalaya* movement criticized Wickremesinghe's nomination from the outset, also citing the fact that in the 2020 election he was not even elected to his parliamentary seat. The President's hostile attitude towards the protests helped complete the picture. These doubts seemed to be erased when Wickremesinghe put forward in August a plan to limit the powers of the President and strengthen those of Parliament, as he had promised during the protests. Indeed, with the approval by Parliament of the 22<sup>nd</sup> amendment to the Constitution on 21 October, the new executive seemed to be heading in the right direction. However, the Amendment was criticized by the opposition for being too limited. According to this view, the Constitution did not introduce accountability and transparency, and still left excessive powers to the President [ICJ 2022, August 9; Kuruwita 2022, October 26]. Beyond these uncertainties, on the positive side, the *Aragalaya* movement has been a very important novelty in Sri Lankan politics. For the

first time, a transversal political movement has arisen in a country historically crossed by divisions along religious and ethnic lines. The success of a largely young, inclusive and peaceful movement certainly opened hopes for the stabilization of the country.

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