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Sri Lankan Crisis: Regional Implications

By Roshni Kapur

SYNOPSIS

The [resignation](#) of Sri Lankan Prime Minister Mahinda Rajapaksa is unlikely to quell nationwide protests that have turned into a political movement to demand for a complete overhaul of the system. It may also complicate Colombo's negotiation process with multilateral institutions on securing funding. What are the domestic and regional implications of the unfolding developments in Sri Lanka?



COMMENTARY

SRI LANKAN Prime Minister Mahinda Rajapaksa's resignation has [changed](#) the fortunes of a man who was once the country's most powerful politician. Although his resignation is deemed as a partial victory for protestors, anti-government demonstrations are likely to continue in large numbers until their remaining demands are met. Moreover, President Gotabaya Rajapaksa, his brother, [remains](#) in charge with wide-ranging executive powers including changing or suspending any law in the perceived interests of public order.

The Rajapaksa family has historically leveraged Sinhala-Buddhist nationalism for political mileage but has seen members of its constituency participate in these nationwide protests. Many Sri Lankans [hold](#) the Rajapaksas and their cronies responsible for the economic and financial crisis. The new state of emergency, deployment of riot police and troops, police inaction, new shoot-on-sight [orders](#) and attacks by pro-government supporters have agitated protestors and given them the determination to persist despite the risks.

Broad-based Protests

The broad-based protests mark a common struggle among masses regardless of their religion and ethnicity. Trade unions and workers from the health, education and port sectors have also joined these large-scale demonstrations. The protestors are likely to push ahead until the president too steps down and an interim government takes charge.

The protestors want a complete overhaul of the system including abolishing executive presidency, starting a new nation-building process and demilitarising the North-East provinces.

The most pressing issue for Colombo is to secure funding from multilateral economic institutions to deal with the foreign currency shortages. It [held](#) the first round of talks with the International Monetary Fund (IMF) in April 2022. However Mahinda's resignation has also [dissolved](#) the cabinet, complicating and delaying bailout talks with the multilateral institution to secure funding for immediate debt relief and a long-term rescue plan.

The IMF's decision to [continue](#) technical talks once a new government is formed indicates that it is questioning the legitimacy and stability of the political establishment. The longer the political crisis persists, the deeper the economic crisis will be.

Big Neighbours on Alert

Both India and China are closely monitoring the unfolding economic and political crisis and assessing where they can get involved. India has been Colombo's most reliable partner through bilateral assistance and advocate at multilateral institutions to secure funding. New Delhi's representations on behalf of Colombo demonstrates its

eagerness for Sri Lanka to secure funding from the international lender and move out of China's perceived orbit.

The economic crisis in Colombo has [presented](#) a strategic opportunity for New Delhi to restore its traditional influence in the country and also achieve some of its own strategic objectives. India has been at the forefront by [providing](#) assistance in various forms that amount to billions of dollars to Colombo, indicating that Sri Lanka's outreach to New Delhi has brought some dividends.

It will also help India push back against Beijing's increasing clout and prompt Colombo to align closer with the United States, given Washington's greater attention now to the small countries in the region as part of its Indo-Pacific strategy. New Delhi was [compelled](#) to reconfigure its foreign policy in the region following China's entry into South Asia.

New Delhi is trying to project itself as a reliable and benevolent partner by [providing](#) further supplies of essential goods, grant assistance, currency swaps and lines of credit in the immediate future. In the long term, it may focus on capacity-building, infrastructure development, humanitarian assistance and financial management.

As a rising power with aspirations to sit at the high table of international diplomacy, India needs to demonstrate that it has the capability and willingness to help neighbouring countries dealing with a crisis.

India and China's Postures

However, some of the recent contracts awarded to New Delhi have been questionable. The joint agreement between Colombo and India's Adani group to develop the West Container Terminal of Colombo Port has raised questions on why the organisation was nominated by India and whether a competitive and fair bidding process was carried out.

Some of India's provision of economic assistance, lines of credit and currency swaps have been perceived as quid pro quo on signing of certain agreements including the lease to jointly [develop](#) Trincomalee Oil Tank farm.

There is scepticism on whether New Delhi is genuinely committed to assisting Colombo in dealing with the worst economic crisis it has ever faced or whether it is using economic aid as a political tool to reassert its clout and achieve its security interests amid greater attention towards the Indo-Pacific.

Given the scale of Chinese involvement in economic projects in Colombo over the years, much more was expected from Beijing to help Sri Lanka overcome its economic crisis. However, China was circumspect and non-committal to Colombo's request for debt restructuring in January 2022, [prompting](#) the Gotabaya administration to reach out to New Delhi.

China has [taken](#) a conservative approach in being at the forefront of distributing aid to Colombo due to the COVID-19 pandemic and the impact on its economy. If Beijing comes to Colombo's rescue and provides bailout, other countries that have endorsed

the Belt and Road Initiative (BRI) that are facing economic troubles may ask for similar assistance.

Beijing's Aid With a Long Tail

Beijing may continue to provide loans with strings attached. For instance, China has agreed to provide US\$2.5 billion (US\$1.5 billion of buyer's credit and US\$1 billion loan) to Colombo if it [signs](#) a free trade agreement that has been [delayed](#) for a while. Colombo has faced some economic repercussions when it suspended Chinese projects.

Colombo's [reluctance](#) to pay Chinese firm Qingdao Seawin Biotech for fertiliser after discovering that the samples were contaminated with bacteria did not bode well with China. Colombo's decision to withdraw its case and accept the demands of the Chinese company demonstrated how small states, including those undergoing economic hurdles, may not have much bargaining power and are compelled to adopt policies even if these are not in their best interests.

The talks with IMF, once resumed, may [determine](#) how Colombo re-aligns its foreign policy. For the time being, it is probable for New Delhi to make a comeback amid the big power competition with China unless Beijing decides to step up its financial assistance.

On its part, Colombo is keenly aware that it cannot simply rely on one regional power and needs to [diversify](#) its foreign policy and economy. Going forward, it may pursue a course correction by improving relations with multiple countries through strategic partnerships.

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