

Sri Lanka's New Government, the Indo-Pacific Debt Trap, and the Struggle for the 21st Century

Positioned at the geographic and political heart of the Indian Ocean, Sri Lanka is the epicenter of the 21st century struggle for regional influence.

—U.S. Department of State, Integrated Country Strategy – Sri Lanka, 2022

On 23 September 2024, Anura Kumara Disanayake (referred to locally as AKD) was sworn in as the 9th executive President of the Democratic Socialist Republic of Sri Lanka. AKD is the first President of Sri Lanka to not belong to the political duopoly of the nationalist Sri Lanka Freedom Party (SLFP) and comprador United National Party (UNP), and their offshoots which have ruled the country in turns since the 1950s.

In the first elections held since the collapse of the Sri Lankan economy in 2023 and its default on external debt, AKD secured 42.31% of the popular vote, while his right-wing rivals Sajith Premadasa and Ranil Wickremesinghe secured 32.76% and 17.27% respectively.¹ A month later,² on 15 October 2024, AKD's party the Jathika Jana Balawegaya (National People's Power – NPP) won a thumping 61.56% of the popular vote in the general elections.³

In contrast to his fiery pre-election speeches, which lashed out at the corruption of establishment politicians, AKD struck a measured tone in his first speech as President. Acknowledging the significant challenges that his government inherits, AKD said that the 'profound crisis' facing the country could not be resolved by a single government, political party, or individual. 'I am not a magician. I am simply an ordinary citizen of this country, with both strengths and limitations, knowledge and gaps,' AKD said.⁴ Now in power, AKD must temper messianic expectations and govern under conditions given to him. All this while commanding a party with little experience in holding the reins of government, let alone withstanding the daily harangues that can be expected from the local and foreign agents of imperialism.

Following these elections, mainstream media outlets moved rather recklessly to label AKD and the NPP government as, 'Marxist', 'Marxist-leaning' or 'Neo-Marxist'. It is true that the core constituent party of the NPP is the Marxist-Leninist Janatha Vimukthi Peramuna (People's Liberation Front – JVP), of which AKD is also the leader. However, the main representatives of this force have been far more cautious in how they label themselves. In 2023, AKD compared the NPP to a national liberation movement.⁵ On the eve of

elections this was moderated to the more neutral sounding ‘national renaissance’.⁶ Some intellectuals close to the party have described the NPP as ‘Left-populist’.⁷ More recently, JVP General Secretary Tilvin Silva has said that, ‘Ours is not a leftist government, but one of leftists, democratic, and progressive forces’.⁸

The NPP’s caution to label itself gives an indication of the delicate balance of political forces, both within the party and in the country at large. The fledgling government has already shown its inclinations and limitations. On foreign policy, the government has formally applied for membership in BRICS, although neither the President, Prime Minister nor Foreign Minister attended the summit in Kazan.⁹ In his first speech to the diplomatic community, the NPP foreign minister Vijitha Herath reiterated Sri Lanka’s call for an immediate ceasefire in Gaza, alongside support for the establishment of an independent State of Palestine.¹⁰ On the domestic front, one of AKD’s first acts was to instruct the Treasury to provide subsidies for farmers and fisherfolk.¹¹ The government has also scrapped plans to privatise national carrier Sri Lankan Airlines and public electricity provider Ceylon Electricity Board.¹²

However, the risk of lapsing into neoliberal immobility remains ever present. While there may be a new President and a slew of new faces in Parliament, the officials in charge of the Treasury and Central Bank of Sri Lanka remain the same. The government has chosen to continue with an ongoing IMF program and its path of fiscal consolidation. It has also continued with a disastrous debt restructuring agreement negotiated by the preceding government. According to IMF Director Kristalina Georgieva, “The Sri Lankan authorities have reaffirmed their determination to persevere with their reform agenda and put the economy on a path of sustained and high growth.”¹³

To understand Sri Lanka’s present conjuncture, and the dilemma’s facing the new government, a concrete analysis of the preceding years is required. The main factors for analysis are the interplay between Sri Lanka’s geopolitical significance in the US Indo-Pacific Strategy, as well the country’s legacy of colonial underdevelopment and indebtedness.



Anura Kumara Dissanayake, President of Sri Lanka.

Sri Lanka as epicentre of Indo-Pacific Strategy

Shortly after the conclusion of Sri Lanka's Civil War in 2009, the US Senate Committee on Foreign Relations, then led by senator John Kerry, published a report titled Sri Lanka: Recharting U.S. Strategy After the War. The report argued that policymakers in Washington tended to 'underestimate Sri Lanka's geostrategic importance', insisting that, 'the United States cannot afford to lose Sri Lanka'.¹⁴ These statements were partly in reference to the Western criticism of Colombo's handling of the war against the separatist group Liberation Tigers of Tamil Eelam (LTTE). Amid Western pressure to pursue peace talks, including a US arms embargo, Colombo forged closer ties with China, Russia, Iran, and Libya, who provided the arms and financing needed to clinch victory against the LTTE.¹⁵ During the final years of the war, the JVP played a pivotal role in mobilising public support, insisting that peaceful negotiations were impossible with the LTTE. Given a history of repeated failed peace talks and ceasefires, this was a persuasive argument to many war-fatigued Sri Lankans. Thus, Washington's fear of 'losing Sri Lanka' needs to be understood in the context of Sri Lanka's domestic nationalist upsurge against separatism, as well as the country's foreign policy swing towards forces in the Global South.

Sri Lanka's economic and foreign policy shifted to the right after the 2015 elections, as the nationalist SLFP split and one faction formed a coalition with the UNP, whose leader Ranil Wickremesinghe became Prime Minister. Despite criticising Sri Lanka's human rights record in diplomatic forums, the US began a concerted effort to improve military engagement with Sri Lanka's armed forces, specifically with the Navy.¹⁶ This

entailed training and joint military exercises, and the donation of navy vessels.¹⁷ The US also sought to pressure the government in Colombo into signing a trifecta of agreements, which Sri Lankan diplomat Tamara Kunanayakam warned were ‘part and parcel’ of the US Indo-Pacific strategy,¹⁸ and, if signed, would violate Sri Lanka’s sovereignty and drag the country into ‘a war not of its own making’.¹⁹ These agreements were:

1. The Millennium Challenge Corporation (MCC).²⁰ Political economist W.D. Lakshman (who served as governor of the Central Bank of Sri Lanka from 2019 to 2021) warned that the MCC’s provisions for the privatisation of publicly owned land would pave the way for a land grab by multinational companies.²¹ A government committee appointed to review the MCC agreement recommended rejecting it unconditionally, noting that certain stipulations would be in violation of the constitution.
2. The Acquisition and Cross Servicing Agreement (ACSA).²² ACSA, which provides the US military with logistical support and refuelling services in Sri Lanka was first signed in 2007. The agreement was never tabled in Parliament despite pressure from the Left. ACSA was renewed under hasty and similarly opaque circumstances in 2017. The new agreement was said to be open-ended and over ten times as long as the previous one.
3. The Status of Forces Agreement (SOFA).²³ SOFA was first signed by the Sri Lankan government in 1995, and a new draft was sent to the government in 2018. A leaked version of the draft revealed that US security forces and contractors, as well as personnel of Department of Defence, would enjoy legal immunities equivalent to diplomatic staff.

The JVP constituted part of the popular opposition to these agreements. For example, in an interview in 2020, AKD said that his position on the MCC was ‘a big no’, citing concerns over land privatisation.²⁴ However, the political formation that most effectively drove and capitalised upon popular opposition to these neocolonial proposals was the Sri Lanka Podujana Peramuna (Sri Lanka People’s Front –SLPP), a big-tent party founded by former President Mahinda Rajapaksa, which included Sinhala nationalists and elements of the Old Left (namely the Lanka Sama Samaja Party founded in 1935 and the Communist Party of Sri Lanka founded in 1943). In the 2019 presidential elections, the SLPP candidate Gotabaya Rajapaksa (Mahinda Rajapaksa’s brother) scored a comfortable victory in a campaign that was inflected with a combination of economic grievances and concerns over the erosion of the country’s sovereignty.

Following the 2019 elections, US pressure on Sri Lanka intensified. A government-appointed commission recommended that the country refrain from signing the proposed MCC agreement with the US.²⁵ In 2022, the US sanctioned Sri Lanka’s Chief of Army Staff Lt. Gen Shavendra Silva.²⁶ The same year, US Secretary of State Mike Pompeo visited Sri Lanka for a 12-hour trip, during which he told the media that the ‘Chinese Community Party is a predator’.²⁷ This blunt and aggressive posturing by Pompeo made perfectly clear that the US viewed Sri Lanka as key part of its Indo-Pacific Strategy and New Cold War against China. Indeed, the US State Department²⁸ notes ‘more than 60,000 ships – including two-thirds of the world’s seaborne crude oil, half of its container ships, and all U.S. Navy vessels passing between the 5th and 7th Fleets – annually transit Sri Lankan waters.’²⁹

In March 2022, on the eve of the protests that would go on to oust President Rajapaksa, US Under Secretary of State for Political Affairs Victoria Nuland **visited** the country to meet with civil society.³⁰ Rajapaksa's ouster bore some similarities to the protests that overthrew Sheikh Hasina in Bangladesh, constituting a combination of internal factors and genuine grievances over governance failures and economic conditions, as well as hybrid war tactics by the US and its network of soft power agencies to gain advantage through the crisis.³¹ As is the case in many of these situations, external interests capitalised on internal contradictions. Following Rajapaksa's ouster, right-wing leader Ranil Wickremesinghe was appointed interim President. Under his leadership, the US had donated more navy cutters to the Sri Lankan military.³² Months later, Sri Lanka appeared further subordinated to US imperialism after it sent one of its own navy vessels to the Red Sea in order to help the US fight the Ansarullah government in Yemen.³³

Sri Lanka in the International Sovereign Bond debt-trap

Sri Lanka was the original poster child for the myth of the Chinese debt-trap, which has now been thoroughly debunked by both local and foreign experts.³⁴ The truth is that the cause for Sri Lanka's indebtedness can be traced back to the colonial structure of its plantation economy, which has only been augmented through additional dependencies on tourism, remittances, and low-value added manufacturing.³⁵ Despite attempts by nationalist and left-leaning governments, Sri Lanka has failed to achieve food and energy self-sufficiency, or to set in motion a self-expanding process of industrialisation.³⁶

The end of Sri Lanka's Civil war in 2009 coincided with the Global Financial Crisis (GFC) and the Great Recession. Sri Lanka was relatively insulated from economic downturn as the end of the war brought about a honeymoon period as tourism and property speculation boomed. The Obama administration's bailing out of the banks through Quantitative Easing unleashed a wave of speculative investments to the Global South, including countries like Sri Lanka.³⁷ Meanwhile, China's going out in the wake of the GFC allowed the Sri Lankan government to engage in further fiscal expansion through an ambitious program of infrastructure development, focusing on roads, ports, energy, and not just a few white elephants. However, these shortcomings in the mobilisation of Chinese development finance are more attributable to Colombo's lack of vision and coherent industrial policy, than any malice on the part of China. As Chinese envoys have often emphasised, all projects were undertaken at the request of the Sri Lankan government, and shortcomings have usually been due to the lack of domestic capacity to manage projects efficiently.³⁸

As a lower-middle income country, Sri Lanka found itself increasingly locked out of concessionary finance from multilateral organisations, and so began turning towards private lenders. The country launched its first International Sovereign Bond (ISB) in 2007.³⁹ However, it is the rightward shift in policy following the change of government in 2015 that completely transformed Sri Lanka's debt profile, as the government binged on over USD 10 billion worth of ISBs.⁴⁰ Therefore, on the eve of Sri Lanka's default in 2022, only 13.67% of external debt was owed to China.⁴¹ By contrast, 42.43% of external debt was to private bondholders, like Blackrock and Ashmore.⁴² To make matters worse, this private debt was of much higher

interest rates than bilateral debt from China, accounting for over 70% of interest payments in 2021.⁴³

When the COVID-19 pandemic hit, the vulnerabilities of Sri Lanka's economic structure became painfully apparent. The lack of foreign exchange inflows due to the collapse of tourism and remittances, combined with inflation caused by global supply chain crunches and commodity price booms, brought the economy to its knees. Following the ouster of President Gotabaya Rajapaksa in 2022, the governor of the Central Bank of Sri Lanka announced a 'pre-emptive default' on external debt.⁴⁴ In the months that followed, the interim President Ranil Wickremesinghe used the chaos to enforce a dizzying array of shock therapy style reforms, unthinkable under conditions of normality. These included:

1. Austerity. Withdrawals of fuel subsidies and cost reflective pricing of energy. This contributed to plunging thousands into poverty and off the electricity grid.
2. Domestic debt restructuring. A restructuring of domestic debt that singled out the pension funds of the working class while allowing domestic capitalists, bankers, and bondholders to walk away scot-free.⁴⁵
3. Central Bank independence. Legislating Central Bank independence, which would prevent the Central Bank of Sri Lanka from purchasing government debt. Concretely, this means that the government is significantly restrained from countercyclical spending in the event of an external shock. Additionally, it could weaken the government's ability to control interest rates. The act severs monetary sovereignty as it forces the country to rely exclusively on private lenders for financing.
4. External debt restructuring. An external debt restructuring agreement negotiated with the mediation of the IMF has been described by local critics as a sell-out.⁴⁶ The agreement includes swapping existing bonds for newer bonds, some of them being novel financial instruments.
 - a. Macro-linked bonds – These are bonds, whose interest rates will be linked to Sri Lanka's economic performance. As GDP growth rates increase, so too do the interest payments. In effect, Sri Lanka must pay its creditors more for growing faster.
 - b. Governance-linked bonds – These bonds tie the interest rate to the government's implementation of anti-corruption legislation.⁴⁷ There is a reasonable concern that this amounts to a kind of blackmail on a sovereign government to adjust its administrative structure according to the whims of international finance capital.

The Rise of the NPP

The NPP coalition includes 21 civil society organisations including trade unions.⁴⁸ However, the prime mover within the party is undoubtedly the JVP. The JVP was established by Rohana Wijeweera in 1965, largely through the youth wing of the Ceylon Communist Party (Maoist), which in turn was the result of a 1964 split in the undivided Communist Party of Ceylon that mirrored the tragic Sino-Soviet split.

Till date, the JVP was targeted, and their ranks were decimated twice. First, following an attempted youth insurrection in 1971, and again during another insurrection from 1987-1989. The latter resulted in the assassination of Wijeweera along with the entirety of the party's politburo, except for Somawansa Amarasinghe. Building the party from scratch, Amarasinghe went on to lead the party on the path of reform and was instrumental in taking JVP into electoral politics. During Amarasinghe's leadership, the JVP dabbled in electoral coalitions, first supporting the SLFP's Chandrika Bandaranaike Kumaratunga in 1994, then SLFP's Mahinda Rajapaksa in 2005, and finally joining the UNP in supporting Army Commander Sarath

Fonseka's bid for Presidency in 2010.

It was in 2014 that the next big shift came, as AKD was made the new leader of the JVP. He has attempted to chart a more independent and centrist path for the party, rejecting coalitions with established political parties and personalities. Following the JVP's 7th National Congress in 2014, the party released a document which proposed a national policy framework for a "modernised and industrialised Sri Lanka."⁴⁹ Two years later, in 2019, the National People's Power was launched, with the JVP at its core. The broader coalition of NPP helped open JVP's doors to the middle-class that traditionally was wary of the Party's radical history. This included professionals, academics, artists, public intellectuals, and even traders and business owners.



NPP's Public Meeting

The NPP's success lays in this ability to overcome the JVP's previous sectarianism and incorporate a broader coalitions of class forces, while at the same time remaining independent of established political parties. For the most part, NPP's recent electoral campaign avoided a frontal assault that identified the enemy as capitalism, imperialism, or even neoliberalism. Rather, the NPP chose to focus on the vaguer category of corruption, which struck a chord among large portions of the middle-class who felt that the immediate cause of their plight was bad governance.⁵⁰ The NPP was able to locate elements of the petty bourgeois that did not have direct access to state power through the established patronage networks of the main parties. This combined with a generational shift in politics helped the JVP construct the NPP as its own 'civil society' front. The hunger of this young petty bourgeois to reproduce itself as a class constitutes the strength and

weakness of the NPP.

On the election campaign trail, the NPP faced much scrutiny from both the rightist and leftist elements which honed on its lack of an articulate economic plan or strategy. While the NPP platform is explicit about its intention to retain and strengthen public ownership of energy, finance, healthcare and education, questions regarding policy specifics were often dodged with the promise that life would improve with the eradication of corruption. That said, the NPP's main economic promise was to establish a 'production-based economy' that prioritises farmers, fishers and Small and Medium Enterprises (SMEs).⁵¹ Furthermore, the NPP pledged to renegotiate the debt restructuring agreement with the IMF and bondholders in order to ease the tax burden on the people, to establish a development bank, and initiate an expansive science and technology policy to modernise the economy. Concretising these disparate promises into a viable developmental program continues to be the main challenge for the NPP.

One of the most remarkable features of the NPP's political campaign was its mobilisation of women. This was conducted not in any paternalistic manner but by women party cadres themselves. Rural party meetings often featured women speaking to women, about the specific ways in which economic hardships affected women. This, combined with the party's sympathies towards people's economic plights and their sharp vitriol against the perceived corruption of establishment politicians, helped drive an emotive bottom-up campaign. Women in these meetings took the message home, influencing their children, who would go on to popularise the party's platform on social media platforms, including Tik Tok. In Sri Lanka, where labour force participation for women (FLFPR)⁵² is extremely low, 29.6%, they are particularly sensitive to price swings in essential commodities.⁵³ Meanwhile, the women who work do so predominantly in the public sector, or in export-oriented sectors such as plantations and export processing. This makes political conscious women extremely sensitive to economic shocks, and a powerful political resource once organised.

Struggle for the 21st Century

Sri Lanka's dilemma is a striking example of the close link between neoliberal debt bondage and subordination to the interests of US-led militarism. In other words, the struggle for sovereignty and development requires a political, economic and even military strategy. In the past, various administrations in Sri Lanka have attempted compromise, thinking that concessions in one area would enable advances in others. The reality is that there is little possibility for negotiation with an increasingly irrational imperialism bent on maintaining US preponderance of power.⁵⁴

The fact is that the NPP governs under conditions favourable to the right. This is to say that the NPP inherits a state that is deeply in debt to Western finance capital, with a military that has been gradually encroached by the US through use of carrot and stick. Moreover, the networks of knowledge production and distribution in Sri Lanka remain downstream of monopoly capital. The JVP itself has only been able to climb into power by moderating rather than dialling up its past socialist and anti-imperialist rhetoric, meaning it does not necessarily have a popular mandate to carry out a revolutionary break from the status quo. Yet even the moderate mandate of the NPP, to improve social welfare and establish a production-based economy, cannot but bring them into confrontation with an imperialism which seeks to stymie the development of the productive forces.

To borrow from the US State Department's own choice of words, Sri Lanka today stands at the 'epicenter' of the struggle for the 21st century. It is a struggle between peaceful development and militarised underdevelopment. Between productive investment for the benefit of the working majority, or debt bondage for the benefit of a ruling minority. While the country appears hemmed in on all sides, entangled in US imperialism both militarily and financially, it would be too simplistic and nihilistic to suggest that there are no alternatives. This struggle for sovereignty and development is today being waged across the darker nations, from the Bolivarian countries in Latin America, to the Sahel region in Africa, and by the Palestinians in West Asia. The struggle of the Sri Lankan people too, will play its role in defining the trajectory of this century.

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