

Research Article

# The Catalyst behind Sri Lanka Downfall: Overdependence and the Failure of Protectionism

Muhammad Fauzan Alamari

International Relations Department, Universitas Jenderal Achmad Yani, Jawa Barat – Indonesia

Corresponding Email: m.fauzan@lecture.unjani.ac.id

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## Abstract

*Sri Lanka shocked the world with a downfall due to an economic crisis. Among the states that had to mitigate the pandemic, Sri Lanka appears to struggle with the situation and as a result of this event, Sri Lanka is in a position of overdue debt with a total of 51 billion USD worth of debt. The inflation was created by economic shortage activity with imbalanced trade records leads to the overthrow of Sri Lanka's president and as the result produced a vacuum of power. This paper will use of dependency theory and protectionism to describe the cause of Sri Lanka's collapse by examining several factors such as civil war, pandemic, oil price rise, and recent terrorist attack.*

**Keywords:** Sri Lanka, Inflation, Protectionism, Debt, Dependency

## INTRODUCTION

The world had suffered from several economic recessions, from a global recession to regional recession caused by several reasons. For the last 7 decades, it has been four global recessions: 1975, 1982, 1991, and 2009. There is also the Asia recession that occurred in 1997 that impacted a lot of Asian countries. The recession that happened in history has led some countries into nationalism movement to protect their economy. The school of mercantilism taught this where the best way to run the economy is by protects the production as an aim to avoid stagnation and more economic depressed (Thomson & Hechter, 2022). A global recession itself defined as a contraction in global real GDP per capita accompanied by a broad decline in various other measures of global economic activity (Kose, Sugawara, & Terrones, 2020).

In a strongly connected and integrated world, these past few years, the global economic environment experiencing an anomaly circumstance where most of economic activity in several sectors such as: export-import, production, consumption, entertainment, etc. need to be stopped due to a global pandemic called Covid-19 or Coronavirus disease known as an infectious disease caused by the SARS-CoV-2 virus (Balkhair, 2020, p. 123). Every human activity needs to be re-adjusting due to a lot of movement restrictions to slow the spread of the virus (Wu, Chen, & Chan, 2020; Meiring, Gusso, McCullough, & Bradnam, 2021).

Covid-19 took a lot of activities in every segments of society and every layer of population, from elderly, youngster, people who live in poverty, working people, disability people, urban citizen, rural citizen and etc. It starts with poor people, since their access to welfare relatively hard, they were affected the first. Their access to health service shows the inopportunity to have human security. The circumstance where they are homeless, it was hard to them to have sanitization, left them to highly expose to the danger of Covid-19. The socio-economic crisis that appears to be impacted people, make a lot of working force to not be able to run their economic activity due to the restrictions. This left them in a fragile situation where they were difficult to accessing protection and basic service. This condition leads to economic fall by threatening jobs, especially in informal sectors.

Along with another continent, Asia was huge hammered by Covid-19. With the status of world driven economy, Asia was at huge loss, consider almost 81 million jobs lost (ILO, 2020). To borrow the speech of Kuroda Haruhiko (Governor of the Bank of Japan) at the 62<sup>nd</sup> Annual Meeting of the National Association for Business Economics; "The strength of Asian economies has been supported by three driving forces. First is the development of advanced regional supply chain networks, spanning raw materials and intermediate goods, as well as final goods. Second is the progress made in trade liberalization through the concerted enhancement of trade agreements both within and outside the region. Third is the self-sustained growth of domestic demand supported by rising incomes from increases in production and trading activities. The interaction of these three driving forces has enabled Asia to grow both as a manufacturing base (factory Asia) and a consumer base (consumer Asia)" (Kuroda, 2020).

Since Covid-19 happened, it has shown potential weakness of some states. Supply chains in Asia has been disrupted due to production suspensions, imbalance supply-demand, and business restrictions. This circumstance has led to the global trading volume dropped to a point where it never predicted before. In tourism sector, it has no difference due to the demand to travel has been low caused by travel restrictions. In the opposite, some Asian countries cannot depend on their domestic demand since some of the countries depended on International market.

Among Asian's states, Sri Lanka is one of the extremely affected. The mitigation plan from Sri Lanka is not well implemented due to readiness by the government. The lack of resources has been one of the main reasons why it hard to overcome the condition with a good result (UN Social Protection Working Group, 2020). Sri Lanka's main share of income are more than 50% share on national GDP came from service sectors (Department of Census and Statistics Sri Lanka, 2020). Tourism sector made the domination in Sri Lanka's service sectors, since tourism industry has been the main source of a lot of sectors in Sri Lanka's Society (Nationsencylopedia.com, 2022), the presence of Covid-19, put a huge pressure in macro and micro economy in the society. The social movement restrictions put a new boundary where tourists are not be able to travel to Sri Lanka and spend their money. Sri Lanka's Tourism sector contributed to 5% of Sri Lanka's GDP. Millions of direct and indirect workers depended in this industry (Press Trust of India, 2022). With the downfall of the industry, then economic wheel is not being able to run properly.

Sri Lanka's situation is a combination of various economic and political factors, which have cumulated over periods. This paper will try to explain the conditions of Sri Lanka into several sections focusing on economic and political factors. In exploring the roots of problem in Sri Lanka, it needs to discuss the political factors caused by the colonial era. As written by Nalani Hennayake (2019, p. 23), the legacy left by The British Empire creates a post-colonial problem caused by unsmooth transformation of government in Sri Lanka, where the transfer of power of the constitution was debated by Sinhala ethnic group and Tamil ethnic group which later create political backlash. Thus, this paper will focus on recent issue that occurred in Sri Lanka. Furthermore, this paper also aimed to elaborate the discussion by Sirimal Abayaratne (2004) which conclude that the Sri Lanka's economy has leads nowhere and the discourse of political economy become a core factor behind Sri Lanka economic failure. This paper is also an update of Abarayatne discussion that conducted 18 years ago, because that a lot of occurrences have changed the landscape of the Sri Lankan economy along with the complexity of the issue. Beside two articles mentioned before, this article also examined a book written by Prema-Chandra Athurkola, Edimon Ginting, Hal Hill, and Utsav Kumar entitled "The Sri Lankan Economy: Charting a New Course" (2017), where even it is quite complete in terms of economic discussion, the paper was not covered historical background and world trade as a caused factor of Sri Lanka's high inflation and recent crisis. Thus, reflecting from the literature mentioned above. This paper will push further to try to find clarity about the question later asked.

This research is important because among the state that experienced high inflation and recession, the world have seen that Sri Lanka was hit first due to their condition where they experienced instability, stagnation, and volatile of economic for decades. The condition which occurs because of many years of mismanagement and corruptions that create imbalance business environment on the so called "tear of India" country (Miswood.eu, 2022) will become a deep reflection for other country to manage their economy carefully and avoid the similar condition of Sri Lankan. Other countries can take notes that, the unfit government policies have ruined their domestic economy which suffer because of huge deficit problem that clearly reflected by high inflation rate, imbalance of import and export activity, along with continuously growing international debt to ensure the country stability (Attanayake, 2022). As the result, regional problem occurs when India also affected by this situation, at the same time the world is witnessing Sri Lanka collapsing, its economy at the edge point. Therefore, this paper discusses about the key factors of Sri Lanka economic downfall that led into the country's one of the worst economic and political crises history, with massive protests asking President Gotabaya Rajapaksa's resignation. This research could contribute as a mitigation references to prevent the same circumstance happen to other state.

In addition to what Sri Lanka and other nations are going through during the COVID-19 epidemic, the uncertainty surrounding the global economy's recovery is exacerbated by the conflict in East Europe between Russia and Ukraine, which is being backed by allies of the West. Directly affecting the entire world as a result of the disruption on the energy markets caused by the banning of Russia's energy products by western allies and the imposition of sanctions on any nation that continues to do business with Russia.

Thereby, the rising price and difficult access to energy sources became difficult. These latest factors, put Sri Lanka in jeopardy alongside with another country that domestically challenged by a complex problem. By all the factors that influenced Sri Lanka's situation, this research is conducted to answer a question of how the failure of economic policy became the catalyst of Sri Lanka's downfall?

## METHOD AND THEORY

In this article, the research problem examined with qualitative approach and interpretive method, that are already empirically proven by the scholar to interpret the phenomena Sri Lanka's economic downfall to develop a new understanding towards the factitive of the phenomena (Creswell, 2013). Meanwhile, data gathering conducted through examination of various resources that includes books, articles, journals, reports, magazines, news, and bulletins that discussed similar topic. This method was used to help author to generate the best possible answer that could create a crystal-clear conclusion towards the phenomenon that occurred in Sri Lanka.

Furthermore, the analysis on this article applied dependency theory. Dependency theory is a theoretical framework that have a root from Lenin idea on his famous pamphlet of "Imperialism: the highest stage of Capitalism" that was published in 1914. He argues that capitalism only exporting the exploitation of their colonies outside Europe and leads to the competitions between imperialists in Europe to exploit more. This led to segregations of wealth between the north part of the world and the southern part (Fukuyama, 1992, p. 99). The dependency theory has roots in Neo-Marxist perspective. The idea was to response the great depression in 1920, the dependency theory purpose 4 main points, which are: 1. Develop internal demand on domestic market. 2. To boost industrial sector for achieving a better level of national development. 3. Increase worker's income to aggregate more demand in domestic market. 4. To promote more government role increase national development and production (Dos Santos, 1971). The dependency theory has a focus in the third world development circumstances using nation-state as a analysis unit where it discuss the position between core versus periphery (Friedrichs, 1970).

The main discussions of dependency theory were all about the development in the Third World countries. It starts with the development difference where core nations are self-sufficient and peripheral nations necessity dependence to the core state. Beside what mentioned previously, the peripheral state also experiences effects of core country event such as war, where the periphery will affect in the inflation, trade balance, or even political stability. Meanwhile, the recovery process also ties periphery state when the industry, trade and investment try to rise from crisis since they were in the system (Frank, 1967). Every aspect also relates to the feudal system where it was promoting the classical European Medieval social system where working people work and fight for noble people (Merriamwebster.com, 2020).

In the late 1950's, another scholar responded to the disparity between bourgeoisie and proletariat and examining the stark differences on economic growth in developed

industrialized countries and underdeveloped countries (Ferraro, 2008). This research is conducted by Raúl Prebisch (1949) as the Director of the United Nations Economic Commission for Latin America (UNECLA) at that time. He and his colleagues believed that economic activity in developed industrialized countries did not affected underdeveloped countries in any beneficial matter. Otherwise, the asymmetric activity is oftentimes created economic challenges in underdeveloped countries (Ferraro, 2008).

Dependency theory became a principal tool to analyze development and underdevelopment in the international political economy using state as the unit of analysis. As succinctly put by Brown: "there is no single coherent body of thought that can be described as 'dependency' theory. Instead, various theorists stress the key notion that some countries are conditioned in their development by their dependence on other countries (or economies)" (Namkoong, 1999).

Raúl Prebisch (1949) argued that the economic world divided into parts was known as the center/industrialized countries and the periphery/the underdeveloped countries. He also argues that the trade activity between the center and periphery is distinguished by unequal exchange between both parties that leads to underdevelopment of the periphery. Economically, center countries always try to maximize the benefits that possible by buying raw materials from peripheral countries, which have the means to transform them into, finished goods. And the opposite, periphery country will end up purchasing advanced goods from center countries that required more sophisticated technology at high prices, technology that they don't have (Munro, 2022). This imbalanced trade between these two types of countries created dependency from the underdevelopment countries due to their lack of knowledge to develop technology (Namkoong, 1999).

Dependency theory itself was debated by many scholars regarding the focus was only on the nation-state factors without considering the world as factor. In the world system theory by Wallerstein, it was mentioned that the world condition operates as causal factor especially for small nations and that the nation-state unit of analysis is no longer fit to examine the development condition third world or periphery state. This article would also use the debate to proof the dependency theory significant on this research.

Adding the discussion, the dependency theory in this article is also supported by protectionism approach to enhance the explanation of the phenomenon whilst producing more empirically proven result. The protectionism itself is a condition where government took a policy to restrict international trade so it could protect domestic market using trading barriers, import quota, subsidies and etc. Protectionism main idea is that protection could create national positive trade (Peláez, 2008, p. 68). This approach was popular in house of mercantilism where the main idea is to minimize import and maximize export to boost economic improvement using import substitution policy (Ekelund & Tollison, 1981). Even though Adam Smith's idea about mercantilism was not popular in postcolonial era, it still has influences in modern economic decision-making process (Lotha, 2022).

Politically, this theory describes that economic growth of colonies/periphery/underdeveloped countries were obstacle by the source that already



controlled by corporation owned by center countries. This circumstance will lead to lesser participations in world economic activity. Reflecting to all the assumption in dependency theory, the application of this theoretical framework would generate new understanding about the driving factor of the Sri Lanka's economic downfall.

## RESULT AND ANALYSIS

### Colonialism Consequences

Colonialism from European kingdom resulted a lot of chaos in corner of earth, among the colonialist, there was one kingdom which ruled in almost every place in the world, it was the British Empire The present in every continent make the power that the kingdom had unlimited. The present of United Kingdom in Asia was represented in some territory, one of the important areas was British Ceylon or nowadays known as Sri Lanka.

Ceylon was ruled by France before The British Empire started to present in Ceylon in 1796 in the time of French Revolution war, they take advantage of the circumstances where France not in a great condition the island. United Kingdom flees from India down south to rule in the island in 1796, but it was officially control the island started from 1802 as the result of agreement between United Kingdom and France in the treaty of Amiens which signed in 25 march 1802, it was temporarily ended hostilities between France and the United Kingdom at the war of second coalition. But it was not control in every inch of it. There was the Kingdom of Kandy, a monarchy that located the central and eastern portion of the island of Sri Lanka. The kingdom was founded in the late 15th century and endured until the early 19th century. The kingdom ruled in the heart of the island, which had their own territory, but still recognized and protected by The British Empire. The realm started to control the whole island from 1817 to 1948.

The marks left by The British Empire colonial era in Sri Lanka were faced by the young country as it struggles to accommodate the difference between ethnics that exist in the island. The transitions were not smooth, as it seems to be. The demography of Sri Lanka overall about 74 percent of all Sri Lankans are Sinhala and 18 percent are Tamil and the rest were mix descendant (CIA.gov, 2022).

The roots of the conflict in Sri Lanka go back to the period of British colonization. The British Empire left a polarized society between Sinhalese and Tamils. When the island of Ceylon obtained its independence in 1948, the majority Sinhalese, who are Buddhist, took power. The problem occurs between ethnicity was not because the portion of demographic but more about the opportunity to work that utilized properly by Tamils. In the end of The British Empire era in Ceylon, the Tamils took huge advantage of colonial compensation or condonation. The relations they had with colonialist bring various professional chances to work in governmental services, agricultural, civil service, military and any commercials activity. At the end the population percentages do not divined prominent position in the country, but the educational achievement brings higher position in the country system, which is dominated by minority Tamil and was not by majority Sinhala (Rotberg, 1999). The result of this situation creates a long-armed conflict between the two ethnicities.

The civil war that occurs because of the problems that left by The British Empire created a long mark in the memory of Sri Lanka. The clash between Sinhala led by Sri Lanka Armed Force versus Tamil led by Liberation Tigers of Tamil Eelam. The war lasted for 26 years, started from 23 July 1983 until 19 May 2009. It took casualties estimated by The United Nation as around 70.000-100.000 death (Anandakugan, 2020). After the bloody civil war, Sri Lanka government starts to reconstruct the state to gain domestic stability. The poverty created by the long-standing war made the state must regain the economic strength by asked for financial debt from China, and IMF. (WorldBank, 2022).

Sri Lankan government caught in a situation where they depend more on China's loan, due to the good rate of interest. Billions of Dollars transferred by China to Sri Lanka to fund the government project initiative by Sri Lanka President, Gotabaya Rajapaksa. The aim to create a strong economy, unfortunately become backfire when The President decided to made the project based on his personal interest. Instead of investing the loan money to more prospecting location, The President allocate the money to build an airport and a seaport in his hometown in Hambantota. After years of building, the investment turns out did not go as planned, after operating it does not produce prosperity to the people of Sri Lanka or at least return the investment money (Arasaratnam & Peiris, 2022). Meanwhile the interest needs to be paid to China as agreed. The miscalculation of investment led to a circumstance where Sri Lanka strained in a huge debt to China.

Sri Lanka's economy overall relies on the domestic activities, since the war occurs. Economic activities in Sri Lanka cannot depend on any macroeconomic industry since they have none, the war really drained the country potency of growth (CIA.gov, 2022). Among the potencies that exist, tourism came out as to become faster industry to growth. The industry started to soared to international tourist since the travel ban lifted after the war end. Therefore, it became significance because of the contribution to the national growth. It is also created a huge effect to the society. The effects gave by the industry, touched macro and micro scale of economy, made it affected a lot of society layers. However, tourism cannot be the only crutch for the whole countries' economic growth.

Per first semester of 2022, Sri Lanka owes almost 50 billion US Dollars to several creditor, unfortunately the government cannot find solution to pay the debt in time. (Lewis, 2022). Unstable economic conditions made the debt overdue. This condition was emphasized by the statement of Sri Lanka central bank governor P Nandalal Weerasinghe: "Our position is very clear, we said that until they come to the restructure of our debts, we will not be able to pay. So that's what you call pre-emptive default. There can be technical definitions from their side they can consider it a default. Our position is very clear, until there is a debt restructure, we cannot repay" (Hoshkins, 2022).

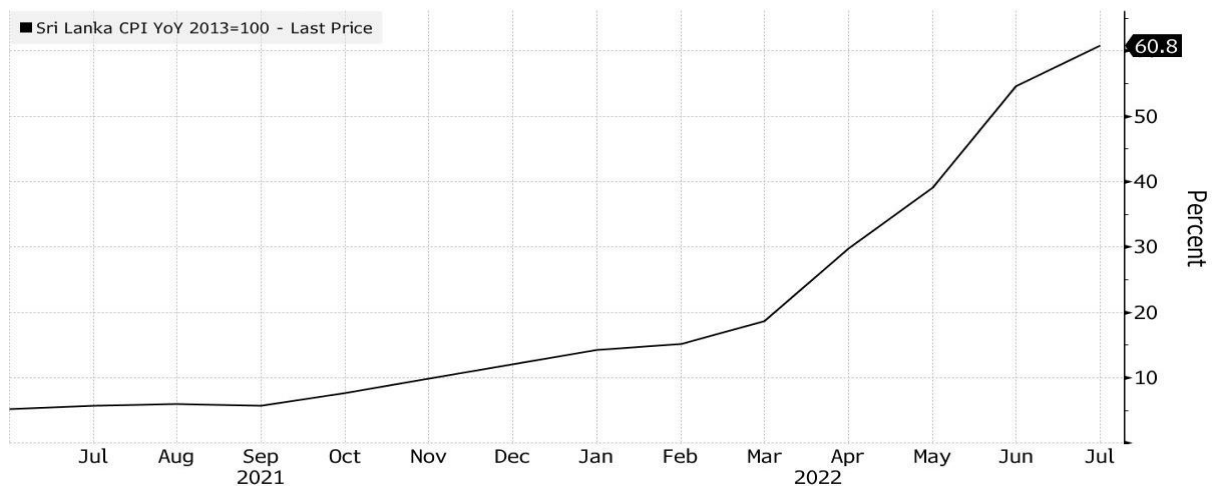
Regarding the described condition, colonialism really becomes the main source of Sri Lanka miseries. From the colonial time until post-colonial time, the legacy left by colonialism put Sri Lanka in a cage where they fight with their own flash and blood. Instead of mastering technology to compete with other state, Sri Lanka was busy with civil war made it difficult to grow and without any options, relies on other states

technology to produce goods. The importance to be able to mastering the technology could lead a country to avoid periphery states' status.

### Sri Lanka Prolonged Inflation

Sri Lanka economy was struck by with a huge inflation as the result of complication of problems. Sri Lanka in a position where inflation rate remains in between more than 5% to below 10% for the past 10 years (WorldData.info, 2022). It is considered as a high number compare to other state. Without any significant event in the world economic situation, Sri Lanka's inflation seen as an anomaly. This inflation phenomenon that happened in Sri Lanka was caused by bad monetary decision made by the Sri Lanka Central Bank. The institution cannot measure the inflation created by price change from global market, it hit hard the local market (Bhowmick, 2022). The sudden rocket of inflation in Sri Lanka showed in the graphic 1.1 below.

Graphic 1.1. Inflation in Sri Lanka July 2021-July 2022



Source: (Ondaatjie, 2022)

Based on the curve showed above, Sri Lanka inflation leap in a sudden on March 2022 where Sri Lanka's inflation streamed to 60.8 percent in July, up from 54.6 percent in June. The cause of the problem was because of the ability of the country to become self-sufficient or at least have a stable economic environment. Historically, Sri Lanka expenditure on imports has been higher than the income from exports under successive governments since 1977 (Irwin, 2020). Sri Lanka hugely relies on domestic economy especially tourism sector. The government failed to create a balance trade condition between domestic and international. Despite the importance of the industry, Sri Lanka already struggled to protect the tourism sectors' fall because of terrorism attack in 2019. It was 21<sup>st</sup> of April 2019, exactly in Easter day, Sri Lanka was hit by 9 attempts of suicide bombing in 6 different locations at several cities on the same day, which were: Colombo, Negombo & Batticaloa. From all attempts, 3 of it were detonated in church full of worshippers celebrating Easter. The 3 other bombs were exploded at 3 luxury hotels in Colombo, which were: The Shangri-La, Kingsbury and Cinnamon Grand. The next 2



bombs were blasted in 2 local districts while the last 1 failed to explode in a luxury hotel also in Colombo. Later on, that day, a bomb succeeds to defused in the airport of Colombo. Not stop on Easter day, in the following day another attempt of terrors happened near a church in Colombo, it was also exploded after police try to defuse it. Sri Lanka suffered 269 deaths from total attacks (BBC, 2020). After the attack, Sri Lanka defenses ministry rapidly move to capture the mastermind behind the attack. It was later announced the responsible of the bloody attack was an Islamic extremist group known as NTJ or National Tawahujja Jama'ath. The group believed to have ties with Islamic State of Iraq & Syria or known as ISIS (Bradsheir & Garcia, 2019).

In 2018, Sri Lanka succeeds to attract 2.2 million visitors. It was a record number of overseas tourists visit Sri Lanka in one single year, it was produced 4.4 billion US Dollars. But, sadly the impact of the bombing makes tourist arrival in Sri Lanka dropped by almost up to 70%. Most of the foreign tourist cancelled their trips to Sri Lanka due to their countries issued travel ban advisories as a warning to their citizen to avoid travelling to Sri Lanka (BBC, 2019). Yet to recover from terrorist attack, Sri Lanka was hit by pandemic situation of Covid-19 in 2020 where it hit Sri Lanka in a huge wave of economic effects. As mentioned previously, the main source of economic sustainability sector in Sri Lanka is tourism industry, the money lost from global restriction movement, put Sri Lanka in a situation where the market that exist created by tourism were not absorb significantly. The difference between a local tourist and an overseas tourist was the ability to spend money, where locals cannot hit the level needs to support the sustainability since Sri Lanka GDP per capita is weak. This condition then it create a position where supply and demand are imbalances, the product is there but there are no one to buy. As the result of this circumstance, it creates a scarcity of customers, therefore it also creates unemployment came from tourism industry such as hoteliers, tour guides, restaurant, and street vendors (Economy Next, 2020).

The Central Bank of Sri Lanka cannot hold the fact that the value of Sri Lanka's Rupee depreciated against US Dollars. It falls from 182 LKR (Sri Lanka Rupee) per USD in January 2019 to become 202 LKR in January 2021 then 361 LKR per USD in June 2022 (Tradingeconomics, 2022). Comparing the Sri Lanka Rupee in past 4 years, it shown that the value dip into almost double. As the consequence, import product price rose due to US Dollars depreciation. The government of Sri Lanka on the effort to protect the economy, decided to ban import due to the rise of US Dollar. The idea was to boost the domestic production so they do not rely on foreign product anymore, so at least Sri Lanka could save money and avoid greater inflation. The action is known, as import substitution policy, the great idea is to blocking imports of manufactured goods so it can help an economy by increasing the demand for domestic produced goods. This idea quite common in economic scholars, as centuries ago this idea appears and spread by Argentine economist Raúl Prebisch (1949). This economic idea is commonly associated in Latin America and around the world in the 1950s. This idea was identified as highly protectionist trade policy. This idea also was publicized in many developing countries and as the result they adopted import substitution trade as their policy supported by industrialization and capital investment (Irwin, 2020).

The import substitution policy taken by Sri Lanka, considered as a fatal move. The responsibility to protect by the government was aimed as an attempt to fulfill the needs of its people by trying to prevent economic inequality, poverty and create economic opportunity (Williams, 2008). The government decided to ban import in agricultural sectors, to be exact in chemical fertilizer. As predominantly an agricultural country, Sri Lanka experienced a massive protest from farmers since import ban policy produced by the government not goes as planned. Local production of fertilizer cannot fulfill the need of the farmers, because of the different profile used, the plantation needs to readjust into a new chemical used by the farmers therefore leads to crop failure. This move considered as a protection to domestic economic environment, even though it supposed to become a savior movement, at the end it was not. Protectionism that taken by Sri Lanka at some points might have a good impact, like boosting local workers in local industries due to improvement of demand created by the policy. But it might be considered as a temporary solution.

Nationalism movement such as protectionism in economy may lead to a disadvantages situation where citizens left with no choices since there are no competitors (Amadeo, 2022). As the country that already in economic crisis, the policies taken became a backfire to society. Many scholars believe that Sri Lanka required to master agricultural technology such as fertilizer, pesticides and weedicides, seeds and agricultural machines at the first place, if they want to ban fertilizer. But as a country that spent most of the independence fighting a civil war, import was a short cut. Food insecurity appears in Sri Lanka created a food inflation that never existed before. Reduced agricultural outputs made Sri Lankan are struggling to access nutritious food. This agricultural uncertainty condition leads into a contribution to worsen Sri Lanka's economic crisis. Everything leads to another, until it safely said that for the first time since in almost 20 years, Sri Lanka mark a negative economic growth and then create nationalism movement as a reaction to the economic downfall (Amaratunga, 2022).

Francis Fukuyama in his book of "The End of History and the Last Man" explained that the decline from development to underdevelopment from a country has relations with import substitution policy, which adopted as a respond to 1930s economic crisis. The failure of this policy could be tracked back to Argentina early years in 1900s, at that period, Argentina's GDP was more or less equal to Switzerland, doubled Italy and half of Canada. But, if compared into recent era, Argentina is far behind those countries mentioned before. This is believed because Argentina the decision to use Import substitution policies (Fukuyama, 1992, p. 106).

### **Sri Lanka as a Periphery State**

The dependency to industrial state, has led Sri Lanka into a hole where they cannot escape. Seeing the facts mention from previous discussion, Sri Lanka cannot be blamed for the incompetency to run the government or to not be able to create prosperity for the people. This entire situation was a result of global setting where every ex-colonial state did not have any enough resources to build their country properly. All of the natural

resources already drained by the colonialist as the result of the idea about mercantilism which says that every kingdom need to have their own research to avoid compete with others regarding one natural source. Colonialists start to search places where the resources not yet exploited, Sri Lanka was one of the places. Having ruled by United Kingdom for more than a century does not mean it brings high civilization of Europe into the island state. In contrary, after the British left, Sri Lanka must deal with the messes left by them. Instead of catching up with other countries after Independence Day, Sri Lanka stays still in the same position for years. The dependency of Sri Lanka to the world economy become a proof that Sri Lanka's suffers was by design of central states.

Sri Lanka included into countries that relies on foreign energy to light the economy activity. So, the impacts of the war in Ukraine are being felt not only regionally in Europe, but also around the globe because of the region's significant contribution to food and energy supplies. Between these two significances: energy was the main answer of Sri Lanka catalyst on why the country cannot fulfill the domestic need, therefore resulting government collapse.

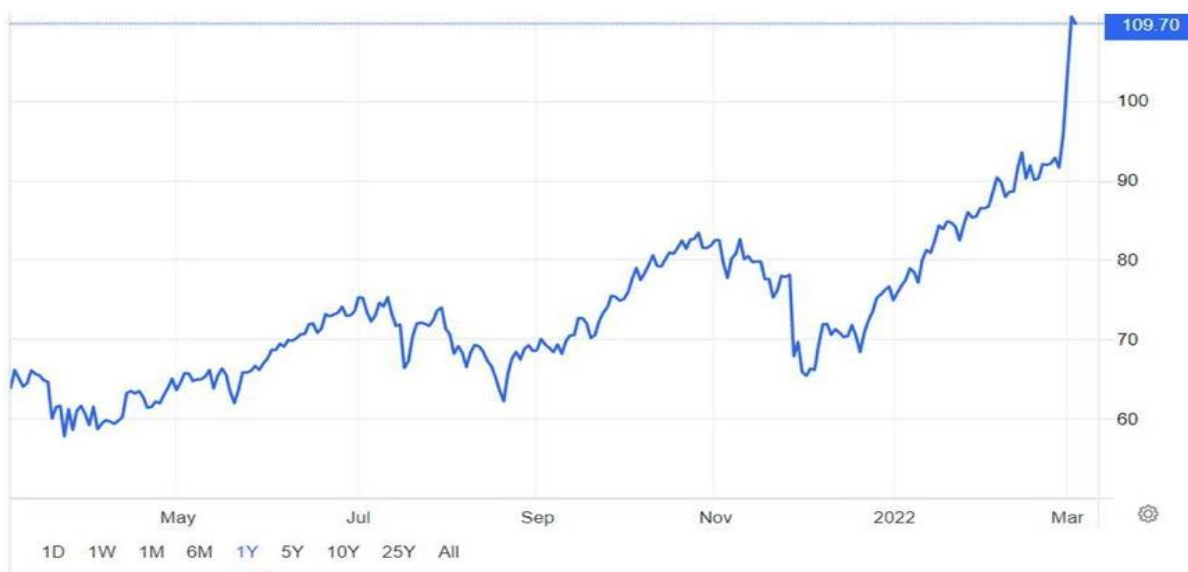
Sri Lanka is well known as a country which does not produce oil, therefore it known as the country that imports every oil drop to be use in every daily activity, from social activity until economic activity (Vitharana, Kandegama, & W., 2020). Sri Lanka dependence of oil appears as a solution where oil could run in cheap cost but gave huge impact. The ease offers by oil made Sri Lanka not focus on developing renewable energy due to the lack of technology and allocation of budget. It was not a priority for Sri Lanka, as the country believes the urgency is yet to come (Lo, 2022). It was until serious of world crisis hit Sri Lanka, before the pandemic rose in every country, the government did not have any mitigation plan on how to combat a long situation where economic activities are struck.

Sri Lanka dependency of oil got wrong when the war in Ukraine started to give affects to Sri Lanka. The wars that start with an invasion by Russia military troops to Ukraine on late February of 2022, the scale of the event become the first huge military clash in Europe since Second World War. This diplomatic failure between Russia and Ukraine was because of geopolitical tension due to the intention of Ukraine to join NATO. Tracking back history to cold war, Ukraine was a part of Union of Soviet Socialist Republics or known as USSR where it was composed by several republics inside the state and Ukraine and Russia was among the republics that encompassed the Union. After the fall USSR of in 1991, Ukraine was gained independence, even though as an independent state, Ukraine still serves paramount politics consequence to Russia. The location of Ukraine set as a buffer zone between Russia and NATO. If Ukraine became a member of NATO it would create insecurity situation for Russia because of the possibility of United States could enter Ukraine, which could have been misused by the US, to attack Russia in their major cities. The article 5 of NATO Treaty mentioned: "if a NATO Ally is the victim of an armed attack, each and every other member of the Alliance will consider this act of violence as an armed attack against all members and will take the actions it deems necessary to assist the Ally attacked" (NATO, 2022). This meant that all members agree to launch an armed attack against any foreign force that considered attack against one of

the members. Therefore, Russia would have become highly vulnerable, if Ukraine joined NATO and it would have created a great deal to the National Security of Russia (Center for Preventive Action, 2022).

The rise of oil price due to war, made Sri Lanka got no option rather than to limit the use of oil fuel or raise the price. Problem occurs since Russia is banned the western ally. Therefore, every country that keeps running the economic ties with Russia will be sanction by the western ally. This event might be occurring in other part of the world, but it affects Sri Lanka in the domestic economy show the definition of a periphery state (Onuf, 2017, p. 5), where it got no ties with European politics but got the effects.

Graphic 1.2. Oil Price from March 2021 – March 2022



Source: (Kolaczowski, 2022)

It was not only affected energy sectors but also in food sector, there are production and export challenges: these are already associated with reduced availability and price rises where it already at record levels and will continue to rise if the war does not end in any time soon. The fact that Russia and Ukraine highly contributed in the world wheat production, Sri Lanka is one of the consumers of Russia's wheat. Sri Lanka does not produce any wheat. It means that with no domestic production of its own, Sri Lanka since independent has been importing wheat for flour milling (USDA, 2021). Even though, Sri Lankan agricultural policy has focused over the years on achieving self-sufficiency in rice. It has prioritized rice production over wheat imports. However, the big support for rice cannot erase the fact that wheat consumption has been increasing. Wheat flour products like pasta and roti/flatbread is usually used in daily life to feed plantation workers and their families (Beillard, 2022). With the rising prices and the world trade policies, it affected wheat consumption in Sri Lanka caused by exhaustion of Sri Lanka's ability to purchase due to hard currency reserves, recently the government began to allow wheat flour imports of foreign origin wheat since local flour milling production dropped dangerously. With less wheat flour-based products, as well as the drop in rice availability,

consumers have to reduce their consumption and as the result, it creates more inflation (Beillard, 2022).

The other effects felt by Sri Lanka is the disruptions of International trade. It was not direct impact of the war, it relatively indirect impact on sourcing and movement of goods around the world. The significant of supply chains disruption, raise the risk possibilities of Sri Lanka to be stranded in crisis much longer (Congressional Research Service, 2022). Sri Lanka's biggest export is to United States of America, it more or less 25% or a quarter of total Sri Lanka's export. Most of the export to US is garment product such as T-shirt, Jacket, Shirt, and etc. where for the period of 2020 fall due to movement restriction in US. The dependency of Sri Lanka in limited sectors of production made it a hard fall when the mitigation does not work well. US domestic affairs were not only create direct impact to Sri Lanka but also indirect (Trading Economics, 2022). Another major disruption came from India, as it the second large export destination of Sri Lanka. Most of the export to India is tea product, as the status of Sri Lanka as the world second biggest tea exporter (Statista, 2022). The condition in Sri Lanka already creating a situation where sudden cease of tea supply by Sri Lanka to the global tea market this major disruption to international trade and supply also put risk on global consumption. Based on what explained in dependency theory, the global south countries will be circled in the production of raw materials, not an ended product.

On the other hand, India gave Sri Lanka hard time because of the possibility their exports of not getting paid. Sri Lanka in a position where they have uncertainty of import payment. The government of Sri Lanka already have an overdue debt and while this world economic situation remains the same in near future, then Sri Lanka has no ability to pay it in any time soon. Therefore, this fact makes India rethinking to send their export shipments to Colombo port, since it has not any assurance from the government of Sri Lanka. A year before the world pandemic, India bilateral trade with Sri Lanka 6.1 billion USD, but when the pandemic rose in 2020, it was drop to 4.1 billion USD (Chakraborty, 2022). On the other side, India for decades relies on the Port of Colombo to serve India's goods for global trade. The port was operating as a transshipment hub for India, it almost 60% of India's international cargo is handled by the port. However, at present, thousands of containers from India to Sri Lanka, including India's international shipment cargo, have been stuck at the port. This situation made India have a huge interest to help Sri Lanka coped with the crisis, because of any disruption in operations at the Port of Colombo makes India vulnerable to an increase in export shipment costs (Bhardwaj, 2022).

From all the discussion mentioned in this chance, showed that Sri Lanka could only rely on the position gave by the world which is not much. Sri Lanka only could utilize the nature resources they have and the geographical position they have. So, it makes that they cannot offer much to the world, then this make Sri Lanka struggle even more to provide the needs of the society. Comparing to Singapore which have the same status which is an island-state and also former British colony with good geographical location for port and even lesser natural resources, Singapore manage to become one of the best economies in the world. The different between both countries was the monetary policies taken by the



government of Singapore, which follow the world trade by maximizing the advantage of every aspect instead of using protections policy such as import substitution policy.

## CONCLUSION

The crisis in Sri Lanka showed a situation that could happen in any country in the world. A high inflation that caused by the incompetence of government to take a measured policy without considered the side effects that could affect the society. The lack of knowledge by the government could track back into the colonial era where it leads to the involvement of European Kingdoms, and in this occasion was British Empire or United Kingdom. The overexploitation by British left no room for Sri Lanka to grow after gained independent. Sri Lankan government was busy try to help to survive by simply guarantee food availability for their citizen when the occupation era ended. The clash between to ethnicity caused by segregation of job and educational chance made Sri Lanka busy to create peace. However, at the end it experienced a civil war caused by ethnicity difference.

Based on the theory used in this paper, the dependency that created by design, put The Global North superior toward The Global South, therefore it created the unbalanced development in Sri Lanka which lead to export commodities are focused only on raw materials instead of ended up product. It made Sri Lanka disadvantageous situation. The same condition as before Second World War, the colonials took raw materials directly from the colonialized country then imported to the mother country after independence, the practice only changes into the form of imperialism as it represented by Multinational Corporation which owned by colonialist. The main difference was only in indirect involvement in the country. The terms use to differentiate the producer and consumer showed that the world is really fragmented into two categories, known as central/core state and periphery state. Sri Lanka categorized as periphery state by the definition, since Sri Lanka experienced a condition where it suitable the description described before.

The economy crisis in Sri Lanka showed that, an event happened in outside Sri Lanka's region could give a serious affect to domestic affairs. The direct and indirect impacts toward Sri Lanka are responsible to any final result of recent situation such as inflation, budget deficit, or even a revolution. From many of world events, Ukraine war with Russia believed as a catalyst of Sri Lanka's fall. The impact on energy, food, and world trade made Sri Lanka's mitigations were tested and it appears every plan cannot fit into succeed. Even though it has world factor, it was not matching the world system theory by Wallerstein, since there was not any presence of International Corporation in favor to control or influencing the government of Sri Lanka in taking decision.

In the end, using Singapore and Sri Lanka as an example, it came down to the fact that Singapore did not undergo a civil war that lasted 26 years while Sri Lanka's did. This caused Sri Lanka to focus all their work on how to win the war rather than developing their technological expertise like Singapore did. The condition which experienced by Sri Lanka led them to took protectionist economic policies as a short-term solution and without a decent calculation this policy become a decision that drag them to experience massive monetary lost that led to their economic downfall. No wonder if this worsening

socio-economic condition ignite a massive nationalist movement to overthrow their president as the peak action of society that aspire national stability. At last, it appears that more than 100 years colonialism in Sri Lanka took a big responsibility in why Sri Lanka's stranded in a crisis they never had before.

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