

Sri Lanka Secures IMF Bailout Amid Global Debt Crisis

Washington-based financial institution demands conditionalities in exchange for releasing \$2.9 billion dollars to developing Asian state

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During 2022 the South Asian island nation of Sri Lanka was the scene of large-scale protests prompted by an unprecedented economic crisis.

For the first time in its post-colonial history, the country was forced to default on \$51 billion in foreign debt obligations.

The social and economic predicament that Sri Lanka finds itself is part of a recurring pattern for numerous countries and geopolitical regions throughout the world. In regard to developing states on the African continent, the governments of Zambia and Ghana have recently sought IMF bailout packages to address the unsustainable repayment obligations to largely western-based financial institutions.

Ghana in particular had experienced tremendous economic growth over the last two decades with the number of infrastructural projects funded through the burgeoning oil industry and the expansion of tourism. However, in the recent period there has been a sharp rise in consumer prices while revenues from tourism are only beginning to resume after the lifting of travel restrictions in many countries outside the continent. The decision by the government of President Nana Akufo-Addo to seek IMF assistance set off a debate within the country which in previous decades has suffered from the implementation of draconian conditionalities in exchange for loans.

Since the advent of the COVID-19 pandemic and consequent economic impact globally, even the most developed states and regions have been grappling with high rates of inflation, supply chain bottlenecks and significant declines in production and consumption. In the European Union, Britain and the United States, a level of inflation not witnessed since the early 1980s has disproportionately affected the working class and impoverished.

With specific reference to Sri Lanka, the social situation was severely aggravated by the

incapacity of millions of people to purchase fuel, food and other services. Former President Gotabaya Rajapaksa fled the country in July after tens of thousands of people occupied the capital of Colombo eventually storming the offices of the government leaders demanding relief from the hyperinflation and breakdown in the national economy. Rajapaksa returned to the country in September while his Prime Minister Ranil Wickremesinghe took control of the presidency pledging to negotiate a debt rescheduling agreement with its foreign creditors.

Wickremesinghe and his cabinet reached a tentative agreement with the International Monetary Fund in September 2022. Nonetheless, the agency has sought to win the endorsement of India and the People's Republic of China to support the economic recovery of Sri Lanka.

[An article published in the Central Banking](#) online journal claims that:

“Sri Lanka will not receive an International Monetary Fund loan until it reaches debt agreements with China and India, its central bank governor said. The IMF reached staff-level agreement with Sri Lanka on a \$2.9 billion package in September, but its executive board has not yet approved the loan. The country could receive the funds in January if the two creditor countries reached an agreement on Sri Lanka's debt repayments, P Nandalal Weerasinghe told the BBC.”

Recent reports from the Sri Lankan government indicate that New Delhi and Beijing have agreed in principle to provide assistance. China has agreed to a two-year debt moratorium on loans owed to its import-export bank and other entities.

[A document released by the IMF](#) on the staff-level agreement signed in September indicates that people in Sri Lanka will be facing higher rates of taxation along with the potential for substantial increases in energy prices. Although there is a section calling for greater social spending in Sri Lanka to improve the living standards of workers and poor people, judging from the past practices of the IMF, the ability of the public sector to provide education and social services are immensely diminished under their conditionalities.

China “Debt Trap” Myth Utilized to Apportion Blame in Sri Lanka

Since the beginning of the crisis in Sri Lanka in 2022, many western news agencies have blamed the economic involvement of China in the infrastructural development of the country as being a major source of the country's external debt. A figure of approximately 20% of its bilateral debt to Chinese entities such as the import-export bank is often cited as the central issue in any restructuring process.

More often than not the character of China's investments in Sri Lanka are never discussed by many of the news sources which report on the question of foreign debt. Over the last few years, China has built railway lines, improved a major port and expanded an airport inside of Sri Lanka.

[A Global Times report](#) from April 2019 recounts:

“The opening of the first railway project built by a Chinese company in Sri Lanka will boost development, said China's Foreign Ministry, which has vowed to strengthen cooperation with the island nation under the Belt and Road Initiative (BRI). A 26.75-

kilometer railroad between Matara and Beliatta in the southern part of Sri Lanka was inaugurated on Monday with a top speed of 120 kilometers per hour, by far the fastest in Sri Lanka. Construction of the railway was carried out by the China Railway Fifth Survey and Design Institute Group Co. Ltd. (CR5DI). It is the first stage of the rail project, which will be extended east to Hambantota Port. It will help Sri Lanka integrate its land, sea, and air transportation networks, the Xinhua News Agency reported.”

The notion that China has resisted debt relief and cancellations are blatantly false. Just last year in 2022, Beijing announced a series of measures to reduce debt obligations for more than a dozen states on the African continent. Similar discussions and agreements with previous governments in Sri Lanka have also taken place over the years.

Moreover, the view that China is the largest creditor for Sri Lanka is not accurate since the accumulated debt from private interests far outstrips that of Beijing. These narratives related to nonexistent predatory lending practices by China are advanced by the U.S. State Department and other government agencies all across Africa. In mid-January, a visit by Secretary of Treasury Janet Yellen to Senegal, Zambia and South Africa was utilized to dissuade African Union (AU) member-states from engaging in joint economic projects with China as well as the Russian Federation.

[Even the Washington Post in an article](#) from September 2022 on the eve of a tentative agreement between Colombo and the IMF noted:

“China isn’t Sri Lanka’s biggest creditor. The largest share (36 percent) of Sri Lanka’s external debt is to private-sector bondholders, many of them U.S.- and Europe-based institutional investors. China is only the fourth-largest creditor, after the Asian Development Bank and Japan. But many commentators worry more about China because of geopolitics. They fear that China may turn debt into influence and power. Other countries have expressed concerns that China will use its debt, as well as the possibility for debt relief and currency swaps, to claim a strategic foothold in the region. China has kept its distance from the most important international multilateral arrangements for rescheduling debt, although it has begun working, through the Group of 20, of which China is a member, on rescheduling efforts for Zambia. Of course, other countries also use loans as well as aid for strategic reasons.

It is these geostrategic concerns that motivates Washington and Wall Street in its approach to the international debt crisis. As the Pentagon and the White House attempts to defeat the Russian Special Military Operation in Ukraine through massive infusions of aid to arm Kiev and prop-up its regime, the people of the U.S. are being strangled by higher prices for food, transportation, fuel and housing.

With a Congress divided over the direction of the capitalist and imperialist system, there is no discussion on improving the conditions of the working class and oppressed inside the U.S. The strategic competition between Washington and its adversaries in Moscow and Beijing is hampering the future development and stability of people both inside the U.S. and indeed the globe.

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Featured image: Sri Lanka people line up for fuel (Source: Abayomi Azikiwe)

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