



SEPTEMBER
2025



Sri Lanka's NPP Government From System Change to Structural Compliance

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ISBN: 979-10-373-1107-8

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Cover: Colombo, Western Sri Lanka – April 9th, 2022 © Hatharas/Shutterstock.com

How to quote this publication:

Harindra B. Dassanayake and Rajni Gamage, “Sri Lanka’s NPP Government: From System Change to Structural Compliance”, *Ifri Studies*, Ifri, September 2025.

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Executive summary

The National People's Power (NPP) rose to power during the 2022 economic crisis and protests, gaining mass support by framing corruption as the root cause. This resonated with the strong anti-establishment sentiments of the emerging middle class, whose development aspirations were disrupted by the economic crisis.

In the November 2024 elections, the NPP won a two-thirds majority, signaling the sharp decline of the political old guard amid a fragmented opposition. Tamil and Muslim minority parties in the north and east lost ground, indicating a shift away from ethnic politics toward a broader national arena where parties compete across communities. The NPP's electoral success lay in replacing ethno-nationalist narratives with a corruption versus anti-corruption axis of political polarization.

The post-economic crisis conditions facilitated a liberal consensus among the major political camps for International Monetary Fund (IMF)-led, open-market economic reforms. The shrinking space for alternative narratives fueled the rise of populist politics.

In December 2024, Sri Lanka completed its bilateral debt restructuring and postponed repayment to 2028. The largest bilateral single-country creditor is China (USD 4.8 billion), followed by Paris Club members, including India (USD 5.8 billion). However, most of Sri Lanka's external debt is in the form of international sovereign bonds (USD 12.5 billion).

The interim government of 2022-2024 initiated an intense period of reforms, many of which were framed in technocratic terms; recovery was narrowly focused on fiscal targets. These reforms were often sequenced strategically to minimize democratic opposition. The NPP government continues these reforms, but at a slower pace.

With growth based on debt-financed infrastructure no longer sustainable, Sri Lanka's patronage-driven model is coming under strain. The state's limited capacity to provide resources through subsidies or permits results in the rising expectations of an aspirational middle class being unmet. This is likely to fuel greater political instability and/or increased authoritarianism to manage public discontent.

The NPP government has largely continued the previous administration's macroeconomic policies. The NPP's economic agenda reflects a statist narrative centered on export-led industrialization and manufacturing, yet its feasibility is likely to be curtailed by labor shortages

and the heightened volatility of global tariff regimes under the American President Trump.

The Sri Lankan state's role in human development is shrinking amid IMF-led reforms and widening inequality. Poverty, food insecurity and child malnutrition have worsened since the 2022 crisis. Meanwhile, governments have failed to free fiscal space for welfare by reforming the oversized military and loss-making state enterprises.

The NPP's promise of a "system change" refers to establishing a new social contract grounded in good governance, including accountability, transparency, anti-corruption and the rule of law. Its flagship program, Clean Sri Lanka, is designed to implement this agenda. This promise to bring about systemic change includes a new constitution with key structural reforms, such as abolishing the executive presidency, electoral reforms, and increased power-sharing.

The NPP government's stance on accountability for alleged war crimes appears to favor domestic, homegrown mechanisms, reflecting a nationalist orientation that prioritizes national sovereignty. The government has continued the policy of opposing any international resolutions seeking the involvement of foreign judges or evidence collection mechanisms.

Sri Lanka's foreign policy engagements reflect competing "democracy versus delivery" narratives entrenched at the domestic level, alternating between Western-oriented, liberal democratic, and free-market governments (India, West, and Japan axis) and those favoring an East Asian Tigers-style development model characterized by strong state centralization (China and Singapore).

Sri Lanka's foreign relations with India have deepened since the economic crisis, paving the way for more Indian investments. This has led to some nationalist fearmongering by a strong anti-India lobby, along the lines of Liberation Tigers of Tamil Eelam (LTTE) revivalism and threats to the unitary state. Meanwhile, China's reaction to Sri Lanka's closer alignment with India, including a new but undisclosed bilateral defense agreement, is not yet evident; however, China is observed to be shifting from large infrastructure projects to community-level engagement.

The imposition of a 20% "reciprocal" tariff by the United States (US) and the requirement to reapply for the European Union (EU)'s Generalised Scheme of Preferences Plus (GSP+) trade benefits in 2026 challenge Sri Lanka's reliance on Western trade and aid, in the context of debt distress and stalled development. As advanced economies turn increasingly inward, deprioritizing democracy and multilateralism, the traditional aid-driven development model is being replaced by a securitization narrative, reflected in rising Indian Ocean geopolitical tensions.

Amid intensifying global power rivalries, small states in the Global South, such as Sri Lanka, grapple with competing internal narratives of becoming more protectionist or more outwardly integrated. Sri Lanka is actively participating in regional forums like the Indian Ocean Rim Association (IORA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). However, although Sri Lanka once championed alternative regionalisms, such as the Bandung Conference and the Non-Aligned Movement, its current economic fragility and legitimacy crisis limit its influence.

Résumé

Le Pouvoir populaire national (PPN) est arrivé au pouvoir lors de la crise économique et des manifestations de 2022, obtenant le soutien massif de la population en présentant la corruption comme la cause profonde du problème. Cela a trouvé un écho auprès de la classe moyenne émergente, fortement anti-*establishment*, dont les aspirations au développement ont été perturbées par la crise économique.

Lors des élections de novembre 2024, le PPN a remporté une majorité de deux tiers, marquant le déclin rapide de la vieille garde politique dans un contexte d'opposition fragmentée. Les partis minoritaires tamouls et musulmans du nord et de l'est ont perdu du terrain, indiquant un abandon de la politique ethnique au profit d'une arène nationale plus large où les partis s'affrontent entre les communautés. Le succès électoral du PPN repose sur le remplacement des discours ethno-nationalistes par un axe de polarisation politique opposant corruption et lutte contre la corruption.

La situation post-crise économique a facilité un consensus libéral entre les principaux camps politiques en faveur de réformes économiques de marché ouvertes menées par le Fonds monétaire international (FMI). Le rétrécissement de l'espace réservé aux discours alternatifs a alimenté la montée de la politique populiste.

En décembre 2024, le Sri Lanka a achevé la restructuration bilatérale de sa dette et reporté son remboursement à 2028. Le plus grand créancier bilatéral est la Chine (4,8 milliards de dollars), suivie des membres du Club de Paris, dont l'Inde (5,8 milliards de dollars). Cependant, la majeure partie de la dette extérieure du Sri Lanka est constituée d'obligations souveraines internationales (12,5 milliards de dollars).

Le gouvernement intérimaire de 2022-2024 a lancé une période intense de réformes, dont beaucoup ont été formulées en termes technocratiques ; la reprise a été réduite à des objectifs budgétaires. Ces réformes ont souvent été séquencées de manière stratégique afin de minimiser l'opposition démocratique. Le gouvernement du PPN poursuit ces réformes, mais à un rythme plus lent.

La croissance fondée sur des infrastructures financées par l'endettement n'étant plus viable, le modèle clientéliste du Sri Lanka est mis à rude épreuve. La capacité limitée de l'État à fournir des ressources par le biais de subventions ou de permis fait que les attentes croissantes d'une classe moyenne ambitieuse ne sont pas satisfaites. Cela risque d'alimenter une plus grande instabilité politique et/ou un autoritarisme accru pour gérer le mécontentement public.

Le gouvernement du PPN a largement poursuivi les politiques macroéconomiques de l'administration précédente. Le programme économique du PPN reflète un discours étatiste axé sur l'industrialisation et la fabrication tirées par les exportations, mais sa faisabilité risque d'être compromise par la pénurie de main-d'œuvre et la volatilité accrue des régimes tarifaires mondiaux sous la présidence américaine de Donald Trump.

Le rôle de l'État sri-lankais dans le développement humain s'amenuise dans un contexte de réformes menées par le FMI et d'aggravation des inégalités. La pauvreté, l'insécurité alimentaire et la malnutrition infantile se sont aggravées depuis la crise de 2022. Parallèlement, les gouvernements n'ont pas réussi à libérer des marges budgétaires pour le bien-être social en réformant l'armée surdimensionnée et les entreprises publiques déficitaires.

La promesse du PPN d'un « changement de système » fait référence à l'établissement d'un nouveau contrat social fondé sur la bonne gouvernance, notamment la responsabilité, la transparence, la lutte contre la corruption et l'état de droit. Son programme phare, *Clean Sri Lanka*, est conçu pour mettre en œuvre cet agenda. Cette promesse d'un changement de système comprend une nouvelle Constitution avec des réformes structurelles clés telles que l'abolition de la présidence exécutive, des réformes électorales et un partage accru du pouvoir.

La position du gouvernement du PPN sur la responsabilité des crimes de guerre présumés semble privilégier les mécanismes nationaux, reflétant une orientation nationaliste qui donne la priorité à la souveraineté nationale. Le gouvernement a poursuivi sa politique d'opposition à toute résolution internationale visant à impliquer des juges étrangers ou des mécanismes de collecte de preuves.

Les engagements de la politique étrangère du Sri Lanka reflètent les discours contradictoires « démocratie contre résultats » qui s'opposent au niveau national, alternant entre des gouvernements orientés vers l'Occident, libéraux et démocratiques, favorables au libre marché (axe Inde-Occident-Japon) et ceux qui privilégient un modèle de développement de type « tigres d'Asie de l'Est », caractérisé par une forte centralisation de l'État (Chine, Singapour).

Les relations étrangères du Sri Lanka avec l'Inde se sont approfondies depuis la crise économique, ouvrant la voie à davantage d'investissements indiens. Cela a conduit à une certaine campagne de peur nationaliste menée par un puissant lobby anti-indien, dans la lignée du renouveau des Tigres de libération de l'Eelam tamoul (LTTE) et des menaces pesant sur l'État unitaire. Dans le même temps, la réaction de la Chine au rapprochement du Sri Lanka avec l'Inde, notamment à un nouvel accord bilatéral de défense dont les détails n'ont pas été divulgués, n'est pas encore évidente ; toutefois, on observe que la Chine passe de grands projets d'infrastructure à un engagement au niveau communautaire.

L'imposition d'un droit de douane « réciproque » de 20 % par les États-Unis et l'obligation de présenter une nouvelle demande pour bénéficier des avantages commerciaux du système de préférences généralisées Plus (SPG+) de l'Union européenne (UE) en 2026 remettent en question la dépendance du Sri Lanka à l'égard du commerce et de l'aide occidentaux, dans un contexte d'endettement et de stagnation du développement. Alors que les économies avancées se replient de plus en plus sur elles-mêmes, délaissant la démocratie et le multilatéralisme, le modèle traditionnel de développement axé sur l'aide est remplacé par un discours sécuritaire, qui se reflète dans les tensions géopolitiques croissantes dans l'océan Indien.

Dans un contexte d'intensification des rivalités mondiales pour le pouvoir, les petits États du Sud, comme le Sri Lanka, sont confrontés à des discours internes contradictoires, certains prônant un protectionnisme accru, d'autres une intégration plus ouverte vers l'extérieur. Le Sri Lanka participe activement à des forums régionaux tels que l'Association des pays riverains de l'océan Indien (IORA) et l'Initiative du golfe du Bengale pour la coopération technique et économique multisectorielle (BIMSTEC). Cependant, bien que le Sri Lanka ait autrefois défendu des régionalismes alternatifs, comme la Conférence de Bandung et le Mouvement des pays non alignés, sa fragilité économique actuelle et sa crise de légitimité limitent son influence.

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Introduction

In September 2024, a relative outsider to Sri Lanka's two-party-dominated political system, Anura Kumara Dissanayake, won the presidential elections. The anti-establishment, populist movement he represented, the National People's Power (NPP), went on to receive an overwhelming mandate in the November 2024 general elections, winning 159 seats in a 225-member parliament. A key trigger of the skyrocketing popularity of the NPP was the country's economic collapse in 2022. The NPP successfully mobilized the resulting popular anger that took the form of mass street protests by pressing an anti-elite, anti-establishment narrative that promised a "system change". This attempt was legitimized by the leftist and grassroots credentials of the NPP's main and only political party, the Marxist-Leninist Janatha Vimukthi Peramuna (JVP).

The political crisis that brought Dissanayake and the NPP to power was generated by a national debt default. Sri Lanka's declaration of bankruptcy in April 2022 had its roots in the instrumental use of debt as a part of geopolitical competition, which over the past two decades has led to substantial financial flows from the West and non-Western sources such as China. These capital flows then intersect at the local dynamics of patronage politics and economic mismanagement. More immediately, the proximate causes of the crisis were evident in the 2019 Rajapaksa government's withdrawal from an International Monetary Fund (IMF)-linked structural adjustment program, as the government chose protectionist efforts, marked by import controls and massive tax benefits for local industrialists, expecting them to boost reinvestments. What resulted was a shortage of sufficient foreign exchange to support imports.

In 2022, an economic crisis erupted. The country ran out of foreign exchange to support basic imports such as fertilizers, fuel and medicines. In early April, amid soaring inflation – which exceeded 100% – and severe shortages of fuel and electricity, hundreds of thousands of people occupied the dedicated protest site at Galle Face Green in front of the Presidential Secretariat, while other mass protests took place in cities around the country. These protests, popularly known as the *Aragalaya* (struggle), eventually forced the incumbent President Gotabaya Rajapaksa to flee the country and then resign from office. It was in this crisis context that the "neo-conservative" ruling party, the Sri Lanka Podujana Peramuna (SLPP), invited its neo-liberal nemesis, Ranil Wickremesinghe, leader of the United National Party (UNP), to be President. Under Wickremesinghe, Sri Lanka entered into its 17th IMF-led reforms program and implemented a strict economic consolidation program. This moment of convergence between the

two main ideologically distinct camps in Sri Lankan politics consolidated the path of liberal consensus and heightened public anger towards the political old guard, which the NPP successfully mobilized in its anti-establishment populist campaign.

The April 2022 protests were unprecedented in terms of scale and public participation. They mobilized hundreds of thousands of people affected by the hours-long power outages and shortages of fuel and cooking gas, and attracted notable participation from youth and the middle class. Previously, protests from the North by the mothers of victims of enforced disappearances, as well as protests by farmers and trade unions, were fragmented and did not have the participation of the majority Sinhala middle classes. While Sri Lanka has experienced cycles of political instability, the last time an elected head of state was pressured to step down was during a hartal in 1953. The widespread social unrest in 2022 followed a period of political instability that began in 2015. Between 2015 and 2024, changes in government composition occurred every three years, including extra-constitutional regime changes, such as the 2018 constitutional coup and the 2022 interim government.

The NPP, which rose to power on the promise of “system change”, must now deliver in a context where the constraints of Sri Lanka’s situation push the new government towards structural compliance and where shifting geopolitical realities and a fraying of the international order create both pitfalls and opportunities. This *Ifri Paper* analyzes the politics of crisis, debt and reforms in the context of Sri Lanka’s elections and the ascent to power of a marginal political force. It begins by exploring the forces that brought the NPP to power, first examining the political economy of the debt crisis and how both domestic and international political forces have framed and mobilized the situation. It then examines how the narratives of economic stability and system change intersect in the realm of electoral politics, ultimately influencing the performance of political parties. The paper then discusses how the current NPP government seeks to deliver its promises of development and anti-corruption, before turning in the last section towards an analysis of how Sri Lanka, as a bankrupt small state in the Indian Ocean, navigates the complex web of geopolitical interests of both regional and international powers.

The politics of crisis: A consensus emerges on reforms in the face of economic collapse

While protesters were united in their call for President Gotabaya Rajapaksa to step down, the causes of and solutions to the 2022 crisis were contested. This section discusses the competing narratives on the origins of and solutions to the debt crisis and how these enabled the old guard of Sri Lanka's political elite to exploit the ensuing "policy window" and introduce a slew of IMF-led reforms. This was done while shifting the country geopolitically closer to India and the Western bloc (the US and EU countries). These reforms, while stabilizing the economy to a considerable extent, were politically costly for the country's rulers as they straitjacketed Sri Lanka's economy and galvanized political discontent, as income inequality and poverty were felt acutely by a majority of the population.

The narrative of the mainstream political opposition was that the crisis was the result of gross political mismanagement, with large-scale corruption and nepotism, which was attributed to the Rajapaksa political family. The NPP, in contrast, mobilized a more comprehensive critique. Its narrative was that the country had been robbed by a corrupt elite since independence in 1948, and that a systemic overhaul was needed. The NPP's popular narrative framed corruption as the main reason for the failure of the economy, with a promise to change the prevailing political culture of "corruption and waste".

By mainstreaming the claim that corruption was the main cause of the economic crisis, the NPP gained popularity. This framing was further reinforced by the IMF, through initiatives such as the Governance Diagnostic Report, which identified corruption as the main roadblock to structural, market-friendly liberal reforms.¹ These pro-market reforms were advocated as a necessary condition to avoid future bankruptcy and economic crisis.

This effectively obscured the politics underlying the reforms, such as which social groups' interests were furthered through the reforms and negotiations. The NPP's anti-corruption campaign meant that, even though the party presented itself as the most ideologically left-wing alternative among the front-running contenders at the election, its policy priority was to

1. "Sri Lanka: Governance Diagnostic Assessment", Ministry of Finance, September 2023, available at: www.treasury.gov.lk.

continue the ongoing IMF program. This “There is No Alternative” position mirrored former President Ranil Wickremesinghe’s stance in 2022-2024. It points to the emerging liberal consensus among the main political camps ahead of the 2024 elections, which includes support for liberal economic reforms and a liberal power-sharing model on ethnic issues.

By reducing complex economic issues, such as structural imbalances, to the problem of corruption, the NPP promised to deliver on middle-class aspirations through eradicating corruption.² This is a narrative that the NPP has been priming the public for since its formation in 2019, and it resonated with the growing delegitimization of the two main political camps in Sri Lanka, the SLPP and UNP/SJB. Sri Lanka has a sizable middle class, which has formed a critical electoral mass in the post-war context. Both the 2015 and 2019 elections were shaped heavily by anti-establishment sentiments and promises of “system change”.³

The middle-class aspirations of upward social mobility driven by increased consumption are a product of the distinct way in which neoliberal development has taken shape in the Global South. In the absence of a competitive local industrialist class, economic growth is driven by consumption and state patronage, delivered through licensing systems and protectionist policies, which favor a form of crony capitalism.⁴

While past models of populist politics relied on debt-driven large-scale infrastructure projects to drive economic growth, this option is closed to the new government. However, this patronage-driven model of growth is increasingly under stress, as the expectations of an expanding aspirational class grow and the state’s capacity to mobilize more resources through debt, consumption-related subsidies and permits (access to land and business), are limited. As a result, cycles of political instability and/or escalating state authoritarianism to contain rising public discontent are likely to become more pronounced in the future. At the same time, the promise of stability may represent shades of Bonapartism, with a mix of nationalism, centralized government, and strongman leadership.

Populist politics, which portray democratic institutions as obstacles that prevent the public from receiving promised benefits, were most closely associated with Gotabaya Rajapaksa as the SLPP’s presidential candidate in 2019. He was popularly seen as an outsider to the political system, even though he had occupied a key position in the past governments led by his

2. M. Roberts, “Sri Lanka’s Debt Default”, Committee for Abolition of Illegal Debt, September 21, 2024, available at: www.cadtm.org.

3. P. Pieris, “System Stability not Change: The NPP Abandons Populism for Liberal Democracy”, *Polity*, May 14, 2025, available at: <https://polity.lk>; J. Uyangoda, “Sri Lanka Presidential Election: From Citizens’ Protests to Regime Change”, *Polity*, October 1, 2024, available at: <https://polity.lk>.

4. A. Kadirgamar, “Liberalism and Crony Capitalism”, *Daily Mirror*, August 7, 2017, available at: www.dailymirror.lk.

brother, Mahinda Rajapaksa.⁵ Since the delegitimization of the Rajapaksa political dynasty in 2022, however, the NPP has taken over the mantle of populist politics by introducing a new axis of polarization. Previously, political polarization was primarily defined in ethno-nationalist terms, along the axis of “patriots and traitors”, reflecting the long-standing ethnic conflict in Sri Lanka.⁶ After the Aragalaya, the NPP re-polarized politics along the lines of a new axis, the “corrupt old guard” versus the NPP’s anti-corruption. Since the NPP came to power, this framing has been countered by opposition forces along an emerging axis of “corrupt versus lies”, emphasizing the gap between the NPP’s big promises and limited delivery, and framing the NPP as a movement based on lies and incompetence in governance.⁷

Debt restructuring and its discontents

Since the end of the civil war in 2009, the country’s post-war political landscape has been marked by high national debt, majoritarian nationalism under state patronage, and a sharp rift between the ruling political class and the citizens. Under the 2005 Rajapaksa regime, these characteristics were intensified by accelerated borrowings (see Figure 1 below), post-war military jingoism, and the elevation of Mahinda Rajapaksa to “king-like stature” by a large segment of the Sinhalese voter base, for his leadership in ending the war.⁸ This borrowing spree was facilitated by the opening up of the northern and eastern provinces of Sri Lanka to development finance since 2009, and the increased outflow of debt from advanced economies to the emerging markets following the 2008 financial crisis.⁹

5. U. Dissanayake, “Technocratic Populism and the Pandemic State”, Centre for Policy Alternatives, 2020, available at: www.cpalanka.org

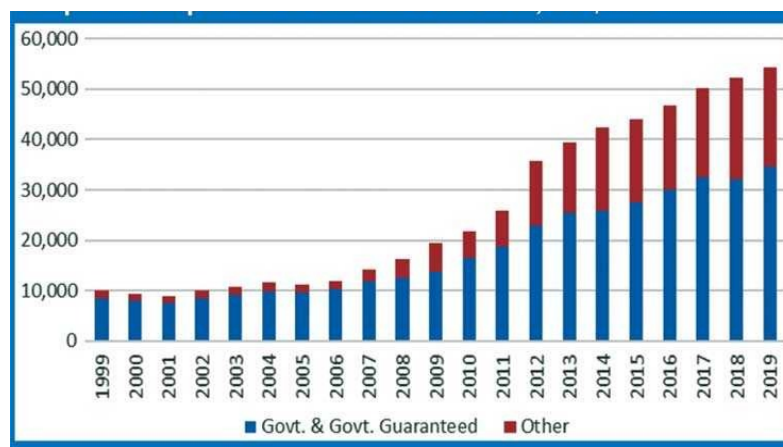
6. W. Nira, “After the War: A New Patriotism in Sri Lanka?”, *The Journal of Asian Studies*, Vol. 68, No. 4, 2009, pp. 1045–1054.

7. H. B. Dassanayake and R. Gamage, “Horu Versus Boru: The Politics of the 2025 Local Government Elections in Sri Lanka,” *Polity*, May 24, 2025, available at: <https://polity.lk>.

8. S. Bastian, *Post-war Capitalism*, Sunil Bastian, n.d., available at: www.sunilbastian.com.

9. J. Stiglitz and H. Rashid, “Closing Developing Countries’ Capital Drain”, Project Syndicate, 2016, available at: www.project-syndicate.org.

Figure 1: Composition of external debt, USDm



Source: "Sri Lanka's Debt Sustainability: Way-out Is Not by PATCHwork but by Long-lasting Strategies", Daily FT, July 2019, available at: www.ft.lk.

The victory of the NPP's presidential candidate, Anura Kumara Disسانayake, followed years of political instability, including a constitutional coup in 2018, the 2019 Easter Sunday bombings by Islamist extremists,¹⁰ and the COVID-19 pandemic. The resulting political volatility has led to short government terms – of no longer than three years – since 2015. Debt politics in particular has evolved in the wake of the 2022 political crisis, structuring the national debate and giving rise to a relative consensus across the political spectrum.

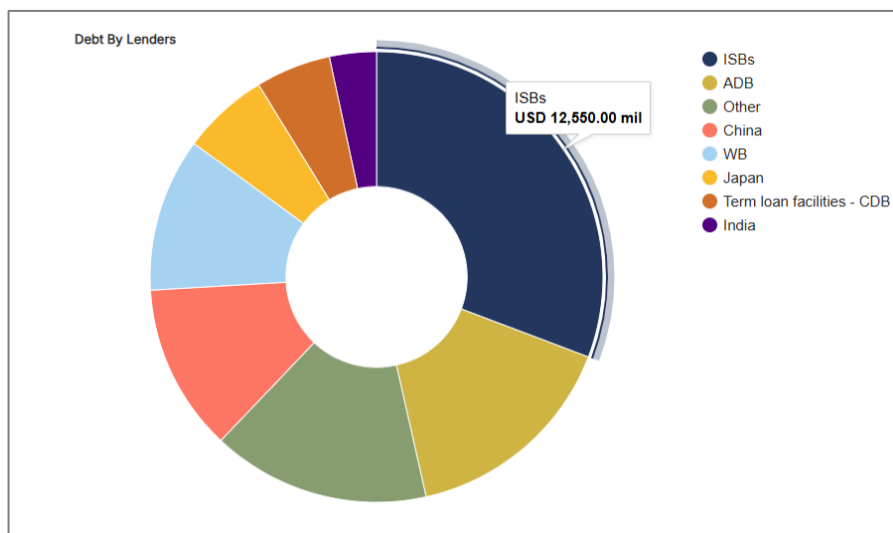
Although Sri Lanka's unsustainable debt has been a frequent but abstract campaign theme over the last decade, it became an everyday reality for Sri Lankans when they had to endure long power cuts and queue for days to buy oil. This coincided with the country's announcement that it would be defaulting on its debt. In an echoing of the narrative of corruption, local political elites were framed as the main reason for the state's incapacity to deliver the debt-financed development outcomes for the aspiring middle class. However, given the massive scale of the anti-government protests in 2022 and the gradual transformation of the JVP into the NPP, the dominant critique of the crisis became a problem of corruption among a self-serving local elite. This forecloses a deeper left critique of structural inequalities and frames the "haves" and "have-nots" in terms of the "corrupt" and "non-corrupt". This narrative had two implications. First, it legitimized the implementation of an IMF program. Second, it compelled the NPP to reach a liberal consensus, emphasizing the critique of domestic corruption over a left critique of global finance capital.

11. The 2019 Easter Attacks were a series of terror bombings of churches and hotels in Sri Lanka by a local Islamist group. While a commission of inquiry was established in May that year, investigations are ongoing and demands for accountability remain unaddressed and politically sensitive.

This shift was also strategic for the NPP, as the economic crisis made the country heavily reliant on international economic assistance. Since the beginning of the crisis in 2022, Sri Lanka has received extensive financial support – of nearly USD 5 billion – from neighboring India. This was on the understanding that Sri Lanka would seek an Extended Fund Facility (EFF) from the IMF, a process which India actively endorsed.¹¹ By March 2023, Sri Lanka entered its 17th IMF program, with a tighter reform agenda to meet the agreed targets.

The reform program included the restructuring of Sri Lanka's total debt, which amounted to USD 50 billion, in foreign and local currency, and which was integral to accessing the IMF funding. Sri Lanka's total public debt as of June 2022 was USD 79.8 billion, of which external debt comprised USD 45.8 billion and domestic debt USD 34.1 billion. The Sri Lankan government owes China, its largest bilateral creditor, about USD 4.8 billion from a combination of concessional and commercial loans. Sri Lanka owes USD 5.8 billion to the Paris Club countries represented in the Official Credit Committee and India.¹² But the most significant portion of Sri Lanka's external debt is privately owned, in the form of international sovereign bonds (ISBs), which amount to USD 12.5 billion.

Figure 2: Debt by Lenders



Source: Arutha Research, "Debt by Lenders", n.d.¹³

12. M. Sirinivasan, "Backing Sri Lanka, India Sends Financing Assurances to IMF," *The Hindu*, January 18, 2023, available at: www.thehindu.com.

13. "Sri Lanka's Public Debt Restructuring", Ministry of Finance, January 1, 2025, available at: www.treasury.gov.lk. The members of the Paris Club that are part of the Official Creditor Committee are representatives of countries with eligible claims on Sri Lanka: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Japan, Korea, the Netherlands, Russia, Spain, Sweden, the United Kingdom, and the United States of America. The committee includes India and Hungary in addition to Paris Club creditors.

13. "Debt by Lenders", accessed on August 18, 2025, available at: <https://debt.lk>.

As Sri Lanka's largest lender, China's portfolio of debt is 15% of the total debt. The Rajapaksa regimes since 2005 have been, in general, associated more closely with China, due to political alienation from the West and India during the civil war and the need for alternative development finance. This partnership has reinforced the "Chinese debt trap" thesis. This implies that Chinese overseas assistance in infrastructure projects with poor transparency and return on investment (ROI) leads to debt distress, which then forces the recipient country to lose strategic autonomy.

That said, an examination of Sri Lanka's debt portfolio debunks this debt trap thesis to some extent.¹⁴ Most of Sri Lanka's high-interest debt is to ISBs, which are mainly located in the West. However, the Chinese-financed projects are generally overpriced and are not part of an integrated national plan, being targeted instead at delivering the development promise of the Rajapaksa regimes through tangible, large-infrastructure, "white elephant" projects.¹⁵ Examples such as Hambantota port and Mattala airport were mired in governance failures and corruption, and keep accruing losses.

Calls for IMF intervention began as early as 2021, notably coming from professionals and the political opposition. The Gotabaya government rejected such a move, promoting Modern Monetary Theory (MMT) as an alternative approach to bridging the budget gap.¹⁶ This approach involved excessive printing of money, based on the assumption of absolute monetary sovereignty. This led to high inflation, adding pressure on the local currency, and the government's decision to defend the Sri Lankan rupee accelerated the depletion of foreign reserves to the point of bankruptcy. By 2022, foreign reserves had fallen from USD 7.6 billion at the end of 2019 to the point where the country was unable to service a USD 70 million debt installment in April 2022.¹⁷

The debt default and subsequent economic hardships coincided with the end of the IMF program in June 2020. By 2022, popular consensus was for re-entry into an IMF program. The numerically small but articulate counter-narratives against re-entering an IMF-led restructuring came from left-leaning political economic circles.¹⁸ However, their perceived association with the Gotabhaya Rajapaksa government's economic team, which was

15. D. Weerakoon and S. Jayasuriya, "Sri Lanka's Debt Problem Is Not Made in China", East Asia Forum, February 28, 2019 [online].

16. U. Moramudali and T. Panduwawala, "Demystifying China's Role in Sri Lanka's Debt Restructuring", *The Diplomat*, December 20, 2022, available at: <https://thediplomat.com>.

17. "Sri Lanka Money Printing, Deficits Could Lead to Economic Implosion: IMF Report", *Economy Next*, March 4, 2022, available at: <https://economynext.com>.

18. "An Entire Country Failed Because the Central Bank Declared Financial Bankruptcy – Hon. Wajira Abeywardana," Parliament of Sri Lanka, September 20, 2023, available at: www.parliament.lk.

19. "Statement by Academics on Dealing with Sri Lankan Debt", January 2023, available at: <https://debtjustice.org.uk>; J. Ghosh and K. N. Ruwanpura, "Sri Lanka's Dangerous Domestic Debt Restructuring", *IPS Journal*, September 21, 2023, available at: www.ips-journal.eu; B. Skanthakumar, A. Wedagedara, N. Ratnarajah and M. Perriot, *CADTM South Asia*, February 28, 2024, available at: www.cadtm.org.

advocating protectionist and home-grown alternative solutions to the IMF, compromised the chances of their position gaining substantial traction. The resulting pro-IMF consensus is significant given Sri Lanka's history of acute opposition to IMF programs since the 1980s, spearheaded by its political left and (at times overlapping) nationalist movements. Once the interim government of President Ranil Wickremesinghe was established in July 2022, it faced no strong resistance from the public or the political opposition against restarting negotiations with the IMF.

Re-entering an IMF-led "revenue-based" fiscal consolidation program involved a Debt Sustainability Analysis (DSA), which required Sri Lanka to reduce its debt-to-GDP ratio from 128% in 2022 to 95% by 2032, while also limiting gross financing needs and foreign debt service within specific thresholds during the same period.¹⁹ The IMF offered a conditional loan of USD 2.9 billion and facilitated the postponement to 2028 of the country's bilateral loan repayments to foreign countries. It also provided the platform for negotiating debt due to private bondholders, which was concluded in July 2024. This includes haircuts of 28% on bonds and 11% on interest arrears, with the principal on certain securities – referred to as macro-linked bonds – subject to a 15% reduction if Sri Lanka's GDP exceeds USD 92 billion.²⁰

At the time, in 2023-24, the two main opposition parties, the SJB and NPP, were not advocating withdrawal from the IMF program, but they promised to negotiate a deal that was more equitable and "pro-poor". The NPP's manifesto, for example, committed to "prepare an alternative Debt Sustainability Analysis (DSA) aiming to maintain debt sustainability and to keep the interest at a bearable level for the purpose of using it as and when necessary, in pursuit of debt restructuring engagements".²¹ However, since the NPP has come to power, it has not indicated any concrete action about revising the DSA in whole or in part, indicating the limits of the fiscal space it operates within.

Neoliberal resurgence: enduring reforms in a changing political landscape

Following debt default, Sri Lanka's entry to its 17th IMF bailout program in 2023 coincided with the beginning of one of the most active years in the legislative history of the country, with the introduction of reforms aimed at

20. "SL Needs to Bring Down Debt Below IMF Target", Public Finance, June 6, 2024, available at: <https://publicfinance.lk>.

21. "Sri Lanka Bondholder Deal: Haircuts, Coupons, GDP-link, Too Much or Too Little?", Economy Next, July 4, 2024, available at: <https://economynext.com>.

22. NPP Manifesto, "A Thriving Nation, A Beautiful Life", *NPP Policies: Statements of Jathika Jana Balawegaya Policies*, p. 58, available at: www.npp.lk.

strengthening the economy and governance (see Annex 1).²² The overwhelming mandate the NPP received in the parliamentary elections lent strong backing to its promise of a national renaissance (*punarudaya*) and created broad political space to advance its reform agenda, which includes introducing a new constitution and a more equitable economic program. However, since the NPP came to power, the previous government's reform agenda has largely continued (the Proceeds of Crime Act No.5 of 2025 was the only critical law passed by the NPP government). Moreover, the new government has yet to amend or repeal any critical legislation that reflects a departure from the IMF-linked policy direction of the previous government.

Importantly, an analysis of laws passed since the establishment of the 2022-2024 interim government (see Annex 2) reveals a divergence of interests between international financial institutions (IFIs) and the Sri Lankan government. Indeed, reforms closely monitored by IFIs, such as the Central Bank Act and the Anti-Corruption Act, uphold parliamentary oversight and align more with democratic principles of checks and balances, such as the existing Right to Information (RTI) legal regime.²³

In contrast, reforms that were devised and introduced with greater ownership of the government and the political elite, such as the Online Safety Act and the Anti-Terrorism Bill, are more undemocratic, marginalizing other local elite groups and suppressing potential opposition. IFIs (in their reports, such as those on governance diagnostics) and Western liberal democratic governments with a strong presence in Sri Lanka have been vocal in their opposition to such anti-democratic reforms, but not to the extent of derailing the ongoing IMF program. This cautious stance reflects the IFIs' rhetorical efforts (such as the notion of a "silent revolution") to avoid being seen as repeating the mistakes that have tarnished their reputation since the 1980s, particularly as corruption is increasingly recognized as a major obstacle to neoliberal reforms.²⁴

Many of the laws that were passed under the IMF program have been framed in technocratic terms, portraying the solutions to the economic crisis as a set of clinical fixes. This obscures the policy missteps that led to the economic crisis, and presents reforms as the only option available. This technocratic approach allows little scope for public consultation and offers only a narrow time frame for engagement, making the process less democratic.

23. "59 legal Reforms Have Been Passed in Parliament from 2022 to Date (17) – Secretary to the Ministry of Justice, Prison Affairs and Constitutional Reform", *The Island*, June 18, 2024, available at: <https://island.lk>.

24. H. B. Dassanayake and R. Gamage, "Reforms in Sri Lanka: Emerging Trends in Elite Politics", *Economic and Political Weekly*, Vol. LVIII, No. 49, December 9, 2023, pp. 29-32. Right to Information (RTI) is a constitutionally guaranteed right in Sri Lanka, which aims to achieve transparency of the public sector.

25. J. M. Boughton (2000), "The IMF and the Silent Revolution: Global Finance and Development in the 1980s", IMF, September 11, available at: www.imf.org; Bretton Woods Project, "What Are the Main Criticisms of the World Bank and the IMF?", June 4, 2019, available at: www.brettonwoodsproject.org.

In addition, portraying the reforms in technical terms sidelines the politics underlying them. It decenters the unique characteristics of Sri Lanka's political economy and restricts the economic recovery process to a single objective of balancing the fiscal accounts. The political nature of the reform process was evident in the strategic tactics employed by the reformers. Ruling elites often sequenced reforms, overloading affected groups such as civil society, by introducing multiple changes simultaneously. This approach not only creates resistance fatigue but also acts as a decoy, allowing the most significant or principal reforms to pass with minimal opposition.

For example, during domestic debt restructuring (DDR), opposition by trade unions, opposition parties and civil society was justified on the grounds that the burden of debt restructuring was transferred unequally to the pension fund contributors.²⁵ Similarly, the Anti-Terrorism Bill and the Online Safety Act were criticized for consolidating state power at the expense of freedom of speech and human rights.

The NPP, along with the Samagi Jana Balawegaya (SJB), the main opposition party at the time, vociferously opposed these reforms on the grounds that they infringed on fundamental freedoms and denied economic justice. For instance, the NPP filed a fundamental rights petition against the DDR proposal of the government, although the party itself was criticized by more left-leaning political groups for not decisively mobilizing the trade unions associated with it to defeat the policy.

The shifting position of the NPP on the reforms agenda since coming to power reflects how the reforms agenda remains more or less constant, regardless of which political party is in office. Against a backdrop of the IMF reforms program being portrayed as highly technocratic, the narrative space for presenting alternatives to a population feeling the weight of economic reforms became increasingly open to reductionist and populist framing. The NPP camp was the most successful in driving such a populist and anti-establishment narrative, ultimately resulting in its electoral victory.

A notable exception to the dominant populist narrative was the People's Struggle Alliance (PSA), which consists of the Frontline Socialist Party, the New Democratic Marxist-Leninist Party, the People's Left Forum, and several activists and professionals who participated in the Aragalaya. While this political group did not secure a significant vote share at the national and local elections, they provided an alternative framework of radical, left-progressive politics, calling for the rejection of the IMF program in favor of debt restructuring on more favorable terms outside the IMF framework, while also advocating for more substantial power-sharing to address the national question.

26. "Sri Lanka Opposition-affiliated Unions Protest IMF Prescribed Debt Restructuring Plans", Economy Next, August 29, 2023, available at: <https://economynext.com>.

From the margins to the majority: the NPP's path to power

In the September 2024 elections, the NPP candidate Anura Kumara Disسانayake secured 41% of the vote. Although this was the first time in Sri Lanka that a president had been elected with less than 50% of the votes, his party went on to substantial gains, leading to a landslide victory just two months later: In the November 2024 parliamentary elections, the NPP won 159 of the 225 seats. Under the current proportional representation electoral system, this is the largest majority achieved since 1977. The nature of Sri Lanka's political patronage system is such that the sequencing and timing of elections are important. As the parliamentary election immediately followed the presidential election (within a matter of seven weeks), the increase in vote share can be attributed in part to the patronage benefits that the voter anticipates from siding with the winning party. This is also true for past occasions when the two elections have been held close to each other, in 1994, 2010 and 2020. In the run-up to the local government elections in May 2025, the President's campaign rhetoric reflected the prominence of patronage politics, with promises to prioritize development projects in local government (LG) areas where his party prevailed. The NPP ultimately secured the largest share of LG victories, winning 3,927 council seats and securing over 43% of the vote.

The NPP's rapid rise in popularity was also directly facilitated by its promise to develop inclusive and just national policies, which appealed to youth, gender and sexual minorities, persons with disability, and ethno-religious minorities. As the third political force among the Sinhala majority political parties, the NPP did not have much support from the established mainstream media; the party leveraged social media to popularize its narrative. This coincided with the extremely high popularity the NPP enjoyed among the sizeable youth demographic, amounting to around 23% of the population. In the 2024 elections, the number of new voters was estimated at 1.1 million out of 17.1 million registered voters. The economic crisis particularly affected young people; youth unemployment was recorded at around 26.5% in late 2021.²⁶

27. "Sri Lanka Labour Force Survey Annual Report – 2021", Department of Census and Statistics, Ministry of Finance, 2021, p. 27, available at: www.statistics.gov.lk.

The economic crisis in 2022 and the shrinking of state patronage and welfare under the Wickremesinghe government led to a growing perception of an inter-generational gap among the youth and the older generations. The NPP was able to attract this predominantly young and early middle-aged voter base due to its more inclusive, left-wing discourse and anti-establishment, emancipatory narrative. The JVP (the main political party within the NPP), too, has a history of mobilizing youth unrest into political outcomes, although under very different political circumstances. The JVP led two youth-led insurrections in 1971 and 1989 in the Sinhala majority areas in the country, which were brutally crushed by the state. The JVP re-entered electoral politics in 1994 and has been represented in parliament ever since, sometimes in uneasy coalitions as a minor or silent partner.²⁷

As part of the NPP's manifesto promoting inclusive politics, women's participation in politics was also a key campaign focus. Besides this, the NPP has taken a progressive line on the rights of gender and sexual minorities; for instance, in 2024, it supported a private member's bill to decriminalize same-sex relationships under the penal code. The appointment of Harini Amarasuriya, a political outsider, as prime minister in September 2024 was a symbolic break from the dynastic politics that had until then been the only avenue for women to attain high political office. The growing involvement of women in the NPP was evident in the size and number of women's rallies supporting the party, which surpassed those of other major political parties. This progress is attributed to the party's grassroots mobilization of women and previous institutional measures, such as the 25% quota for women in local government. Despite these advances, challenges remain. While the current parliament includes a record 21 women out of 225 members (approximately 10%), only 12% of the NPP's candidates in the general elections were women. Furthermore, the new cabinet includes just two women among 23 ministers, with no female deputy ministers.

Politics beyond the old guard: UNP-SJB fragmentation and electoral failure

The outcome of the 2024 election also reflects the decline of the "political old guard", which is evident in the continued fragmentation of the political opposition, driven by the absence of coherent alternative narratives and the evolving dynamics of patronage politics.

Ranil Wickremesinghe, the leader of the United National Party (UNP), who was supported by a large section of the Sri Lanka Podujana Peramuna (SLPP), became increasingly unpopular and was only able to secure 17% of the vote in the presidential election and performed poorly in rural areas

28. R. Venugopal, "Sectarian Socialism: The Politics of Sri Lanka's Janatha Vimukthi Peramuna (JVP)", *Modern Asian Studies*, Vol. 44, No. 3, 2010, pp. 567-602.

where poverty was most acute. He went on to informally lead a grouping dubbed the “gas cylinder alliance”,²⁸ officially the New Democratic Front (NDF), which comprised sections of the UNP, the SLPP and the Sri Lanka Freedom Party/SLFP (and smaller parties such as the Ceylon Workers’ Congress, a key party representing the hill-country Tamils). The NDF only managed to secure five seats (2%) in the parliamentary elections.

Since universal franchise was introduced in Sri Lanka (then British Ceylon) in the 1930s, the development of the Sri Lankan state has gone hand in hand with the expansion of the welfare system, particularly in health, education, and agriculture. However, these benefits have largely been distributed with a bias favoring the Sinhala majority population. This has led to the establishment of a latent social contract that prioritizes state-led social welfare.²⁹ This social contract, when challenged, has led to alienation of the people, popular protests, and major changes in the ruling composition. To meet the targets of the IMF program, the Wickremesinghe-led government introduced reforms that included raising direct and indirect taxes and implementing austerity measures.

Inflation during the economic crisis, combined with the austerity measures, led to an increased incidence of poverty and a marked contraction of the middle class. Sri Lanka’s official poverty rates rose threefold within just over a decade, with 31% of Sri Lanka’s population in poverty between October 2022 and May 2023, an increase of four million from 2019.³⁰ The NDF’s electoral failure is significant from the perspective of patronage politics; the patronage networks of candidates get activated when their chances of being elected as a candidate of the winning side improve. The NDF’s candidates included former SLPP (Rajapaksa political party) stalwarts who had had immense electoral success with the patronage networks they had mobilized. However, when it became clear that these candidates had little chance of forming a government, their electoral chances deteriorated drastically.

Meanwhile, the main opposition party, the Samagi Jana Balawegaya (SJB), was able to secure only 31% in the presidential elections and 40 seats in parliament, compared to the 54 seats it had won in the 2020 parliamentary election. Despite the SJB being otherwise well-poised to win power, as the main opposition parties have done in the past, it was unable to emerge as the winner due to several reasons. First, the SJB could not reconcile with the UNP (its coalition partners since 2022), mainly due to personal differences

29. The NDF used the symbol of a gas cylinder to represent the alliance’s commitment to tackling the country’s economic challenges, drawing on the imagery of gas shortages which had led to long queues and public hardships in 2022: “RW Allies to Contest General Election under ‘Gas Cylinder’ Symbol”, *Daily FT*, October 4, 2024, available at: www.ft.lk.

30. L. Jayasuriya, “The Sri Lankan Welfare State: Retrospect and Prospect”, Institute of Policy Studies, 1995, available at: www.ips.lk.

31. “Social Safety Nets and the State of Poverty in Sri Lanka”, *LIRNEasia*, June 7, 2023, available at: <https://lirneasia.net>.

between the two leaders. Second, in the election campaigns, the SJB leader candidate Sajith Premadasa was cultivating an image of a pro-poor leader, tapping into his father's (former President Ranasinghe Premadasa's) legacy. As a result, the SJB was not able to distinguish itself sufficiently from the center-left ideological space that the NPP occupied. Third, the SJB has more governance experience and more historical credentials with ethno-religious minorities (being a breakaway party of the more liberal UNP), but was unable to leverage this aspect. This was in large part due to the NPP successfully framing the SJB as part of the "old guard" in cahoots with the delegitimized UNP-SLPP-SLFP (Wickremesinghe-Rajapaksa alliance), which was reinforced as the SJB continued to take on board MPs crossing over from these three parties.

The 2024 election showed all political parties increasingly converging on a similar ideological agenda. As explained above, a degree of liberal consensus was evident among the three main political camps – the NPP, the SJB, and NDF; this was compelled by the economic necessity of continuing the IMF program and supporting devolution of power to the provinces (based on the 13th Amendment to the Constitution) as a solution to the demands for political power-sharing, especially by the Tamil community in the north and east.³¹ Political ideologies played an ever-decreasing role in how the parties distinguished themselves. Instead, the election campaign was largely fought on themes such as corruption, who would implement the reforms more efficiently, and a populist, elite versus non-elite platform. This propelled the NPP into power with very high expectations to meet.

Post-Aragalaya shifts in Sinhala Buddhist nationalism

Sri Lanka's long-drawn ethno-religious tensions reflect its colonial legacy and state formation dynamics. The country's demographics include a majority ethnic group, the Sinhalese (around 74% of the population), Tamils (15%) and Muslims (9%). The north and east are regions where Tamil and Muslim populations form a majority; the secessionist Tamil insurgency led by the LTTE was waged primarily in these areas. In the post-war context since 2009, a political resolution of minority ethnic groups' grievances and demands remained elusive, and these grievances were often reflected in electoral voting patterns.

The landslide victory of the NPP in the parliamentary election, however, included winning at least one seat in all the 22 electoral districts, as well as seven seats in the five electoral districts in the Tamil-majority north and East,

32. S. Bastian, "The Political Economy of Post-War Sri Lanka", Sunil Bastian, n.d., available at: www.sunilbastian.com; H. B. Dassanayake and R. Gamage, "Sri Lanka's 2024 Presidential Elections: Elite Circulation and Renegotiating the Social Contract", *Economic and Political Weekly*, Vol. LIX, No. 36, September 7, 2024, pp. 31-37.

where Sinhala-dominated national parties have experienced little electoral success. The NPP's success in minority-dominant areas led to regionally based minority political parties, which had entered government coalitions, being replaced, suggesting the creation of a national political space. However, despite this victory at the electoral level, there are no northern or eastern Tamils in the new NPP cabinet or serving as deputy ministers, and there are no Muslims in the cabinet.

Moreover, the NPP's victory in these areas catalyzed the fragmentation of the main Tamil political party coalition that prevailed from 2001 to 2024: the Tamil National Alliance (TNA). A similar dynamic was observed on the Muslim side; the two main established Muslim-identity political parties, the Sri Lanka Muslim Congress (SLMC) and the All Ceylon Muslim Congress (ACMC), suffered electoral setbacks in 2024. A significant number of Muslim youth were observed to back the NPP, and the NPP performed well in UNP-SJB strongholds in central Colombo, which has a large Muslim population. The poor performance of Tamil nationalist parties in the north, such as the All Ceylon Tamil Congress (ACTC), also indicated how the appeal of Tamil nationalist politics is on the wane.

The significance of the NPP's electoral success for Sri Lanka's nationalist politics lies in its ability to displace the strong ethno-nationalist narratives that had dominated the electoral space since the government's military victory over the Tamil separatists in 2009, and introduce an anti-elite, class rhetoric in its place. It has been able to do this by introducing a new axis of polarization to political discourse. Post-war politics in Sri Lanka were defined by the "patriots versus traitors" line of division, whereby the Rajapaksa camp used ethno-nationalist narratives to frame those who opposed them as traitors. Following the political delegitimization of the Rajapaksas in the post-Aragalaya period and the rise of anti-establishment sentiment, the NPP effectively introduced a new axis of polarization along the lines of "corrupt versus non-corrupt", creating the space for what Sri Lankan political theorist Jayadeva Uyangoda terms "civic nationalism".³²

In the 2024 elections, none of the key political camps (NPP, SJB, or NDF) deployed highly divisive ethno-nationalist political slogans. This decline in nationalist rhetoric came at the cost of no camp expressing a clear position with regard to the right to justice for the victims of gross human rights violations during the armed conflict. President Dissanayake, during the election campaign, articulated the pro-Sinhala Buddhist stance of promising impunity in relation to alleged war crimes and rights violations.³³ Sinhala Buddhist nationalist discourse has not gained significant traction,

33. J. Uyangoda, "NPP in Power: Possibilities for Post-War Reconciliation through Civic Nationalism", *Midpoint*, December 14, 2024, available at: <https://midpoint.lk>.

34. "NPP Will 'Not Seek to Punish' Perpetrators of War Crimes in Sri Lanka", *Tamil Guardian*, August 30, 2024, available at: www.tamilguardian.com.

likely because the elections were primarily focused on the single issue of economic recovery. Furthermore, the Aragalaya's unifying call for anti-establishment politics has temporarily diminished the influence of hegemonic narratives, such as Sinhala Buddhist nationalism, that legitimized past governments.

The main proponents and beneficiaries of this discourse, the Rajapaksas and their party, the SLPP, had been delegitimized by the 2022 Aragalaya. In the 2024 elections, the SLPP attempted to reoccupy the left-wing nationalist space but managed to secure only 2% of the vote in the presidential election and three seats in the parliamentary elections (compared to the 145 seats it had won in the 2020 elections). Besides the SLPP, the Mawbima Janatha Party (MJP), led by media tycoon Dilith Jayaweera and having within its fold some key nationalist ideologues such as Udaya Gammanpila and Wimal Weerawansa, has also attempted to secure the left-wing nationalist space. However, this alliance also performed very poorly in the 2024 elections. Attempts by these two camps to mobilize nationalist sentiments since the elections last year have not yet had major traction, despite the resurging discursive space open to the nationalists in the context of US-driven global trade uncertainties and as the government's popularity is measured by its ability to deliver on its populist promises.

However, this may not spell the end of nationalist politics in Sri Lanka. In 2015, too, the nationalist political camps faced an electoral defeat, but came back stronger in 2019, in both the south and the north of the country. Currently, the nationalist narratives seem to be gathering traction outside of parliament, from which most of the key proponents of Sinhala nationalist narratives are absent. These groups have been in politics and accessing state power for a long time; their wealth acquired while in government, their governance experience, and their networks of patronage would suggest that they can pose a formidable challenge to the NPP, especially if the NPP fails to meet the high expectations it has raised among its supporters.

Resistance to the NPP government's more muted form of Sinhala Buddhist nationalism is already emerging, as seen in the negative media coverage of the vacating of military camps, the reopening of some roads in the north that had been closed since the war, and the decision to permit unhampered commemoration of Maveerar Day, a remembrance day observed by Sri Lankan Tamils to honor the militants who fought with the Liberation Tigers of Tamil Eelam (LTTE). These cases are used to create alarmist scenarios of the re-emergence of the LTTE, future war, and a threat to the unitary state, and to legitimize the national security discourse closely associated with the past Rajapaksa regimes. While the post-war context saw increased othering of the Muslim community, with the near decimation of Tamil resistance through state military force, the post-2022 context has seen a dip in anti-Muslim politics and a rise in anti-Christian rhetoric. In this narrative, the government is framed as failing to safeguard the nation's

Sinhala Buddhist identity from Christian evangelism backed by big money and Western geopolitical interests.³⁴

Despite attempts by these nationalist quarters to frame the NPP as anti-Buddhist and anti-Sinhala culture, in line with its alleged communist background, the exposition of the Lord Buddha's Sacred Tooth Relic in April 2025 at the request of the President, weeks prior to the local government election, showed the government's skill in winning symbolic ground in the nationalist ideological space. Since the end of the war, this ideological space has been increasingly influenced by an urban nationalist imaginary, a shift from the previous rural-based nationalism. Since the mid-2000s, the locus of nationalism has shifted from the rural petit-bourgeoisie to the peri-urban aspirational middle class. As a result, the NPP's "civic nationalism" must still prove itself by delivering on its promise of urban-focused development and modernization.

35. S. Waduge, "How JVP Is Brainwashing Sinhala Buddhist Villages", *LankaWeb*, March 25, 2023, available at: www.lankaweb.com.

From opposition to governance: the NPP's pragmatic shift and policy continuity

Once in government, the NPP played up its pragmatism and disproved pre-election moral panic propagated by its opponents of a Marxist party coming into power and implementing a communist agenda. This section charts how the NPP negotiates the challenges of “compromise politics” as opposed to the rhetorically charged adversarial politics and policies it often championed during its long periods in opposition and during the recent election campaigns. The NPP downplayed its election promise to renegotiate the Debt Sustainability Agreement (DSA) that provided the negotiation baseline for the IMF bailout, and retained the same top-level bureaucrats in the key economic decision-making institutions, such as the Central Bank and the Ministry of Finance. The NPP government has largely continued the previous administration’s macroeconomic policies, and the President has recognized the lack of available alternatives, echoing the popular trope that “There Are No Alternatives” to the IMF. Such policy continuity is evident in the government’s decision to issue special benefits to investors in Colombo Port City, evoking the provisions of the Colombo Port City Economic Commission Act, including the suspension of key labor laws. Given IMF cautions about tax exemptions, the government pledged to amend the Port City Act in consultation with IMF staff, to “introduce transparent, rules-based, best-practice aligned eligibility criteria for time-bound incentives”.³⁵ Despite trade unions criticizing the suspension of labor laws, the proposed amendments make no reference to strengthening labor protections in Colombo Port City.

The NPP’s election promises of sweeping concessions and benefits have been curbed due to the country’s economic realities. The NPP made several populist promises during the election campaigns, including reducing fuel prices, increasing public sector salaries, and raising tax eligibility thresholds.³⁶ In power, it has managed to modestly reduce fuel prices temporarily, provide a fuel subsidy to small-scale fishing boat operators, and

36. “Sri Lanka Halts Port City, SDP Tax Breaks, Laws to Be Changed in IMF Benchmark”, *Economy Next*, July 4, 2025, available at: <https://economynext.com>.

37. A. Siriwardana, “NPP to Increase Government Employees’ Salary Every Six Months: Anura Kumara”, *Daily Mirror*, August 30, 2024, available at: www.dailymirror.lk.

increase subsidies to farmers – initiatives that had already been announced by the previous government.

Recent governments have been compelled to rely on the distribution of land (whether by lease or ownership) and licenses to cultivate the regimes' patronage networks, as traditional avenues of patronage politics have shrunk with the contraction of the economy. On land, the new government has discontinued the Wickremesinghe government's "Urumaya" program, which prioritized transforming permit-based non-transferable land grants into freehold titles.³⁷ Sections of the bureaucracy and left-leaning political parties, including the JVP in the past, have favored the permit-based model as a safeguard against landlessness, fearing that people might otherwise sell off their land. The NPP government has also started an initiative more aligned with the permit-based model, which allocates 11,000 acres of uncultivated state-owned land to farmers to be used for short-term crop cultivation. These policies indicate an ad-hoc approach to governance, as the government tries to find some quick fixes to win favor among the different constituencies that constitute its popular mandate.

The NPP has also recently relaxed import controls on rice in an attempt to break the monopoly of big rice millers and provide rice to people at an affordable price.³⁸ Agrarian self-sufficiency is a powerful trope in the post-colonial nation-building of Sri Lanka, and the NPP-JVP has been a strong opponent of importing rice, the staple food in Sri Lanka. The government initially announced plans to increase state involvement in the economy by purchasing paddy directly through the state's Paddy Marketing Board, and encouraging cooperatives with finance and technological assistance. However, it was later compelled to facilitate market competition, in line with its promise to fight the rice oligopoly.

The new government prioritizes cooperatives, which are advocated as a locally driven and effective alternative to the open-market, liberal economic models that have dominated in Sri Lanka.³⁹ The country's strong cooperative movement weakened after the 1970s due to politicization and corruption. The cooperative movement in the north fared relatively better due to the insulation brought about by the armed conflict. The JVP (the main party within the NPP) in particular has a record of successfully managing cooperatives in which they have wielded power. Despite the new government's advocacy of cooperatives, its commitment has not been reflected in significant budgetary allocations or a comprehensive program.

38. M. Jayawardena, "'Urumaya Programme' Discontinued – Lankantha", *Ceylon Today*, March 13, 2025, available at: <https://ceylontoday.lk>.

39. S. Chamara, "AKD Outlines Industrial Policy of the NPP/JVP", *The Morning*, September 19, 2022, available at: www.themorning.lk.

40. "NPP Leader Questions Wisdom of Promoting Privatisation", *NPP News*, n.d., available at: www.npp.lk.

During a strong IMF-led reform program, the fiscal space for supporting a large cooperative movement can be limited.

Strategic statism: growth within a liberal order

The NPP's economic growth policy is woven around a statist narrative of growth, prioritizing export-oriented industrialization and manufacturing, as a way to boost employment and the resilience of the economy.⁴⁰ Sri Lanka's exports achieved a remarkable growth to USD 16.7 billion, accounting for one-fifth of its GDP in 2024.⁴¹ The three major economic activities of the economy – agriculture, industry and services – have contributed 10.4%, 27% and 56.8%, respectively, to the country's GDP.⁴² However, two endogenous challenges are likely to hamper rapid industrialization. First, the country has never had sufficient amounts of domestic capital and is unlikely to attract foreign capital during the current economic downturn and volatility. Second, the NPP's trade policy does not prioritize entering global production value chains. Close scrutiny shows that the NPP policy of boosting exports has more potential in the agricultural and ICT sectors, in which the net gain at the local level is high, and can be competitive in export markets. The ICT sector is the fastest-growing export industry in the country, while the agricultural sector is experiencing considerable technology transfers in the export crop sector.⁴³ The President has announced ambitious plans in these two sectors.⁴⁴

Sri Lanka's economy is highly reliant on foreign remittances, tourism, apparel, agricultural exports, and the ICT service sector.⁴⁵ However, allocations in the 2025 national budget reflect the limited fiscal space available for investments to boost growth in these sectors. The growing volatility of the global tariff regime under US President Trump – including the 20% “reciprocal” tariff imposed on Sri Lanka – highlights the fact that structural factors necessary for industrialization, such as capital and investment, research and development, digital infrastructure, and workforce

41. “A Thriving Nation, A Beautiful Life”, NPP Policies: Statements of Jathika Jana Balawegaya Policies, n.d., p. 57, available at: www.npp.lk.

42. “Manufacturing, Value Added (% of GDP) – Sri Lanka”, The World Bank, n.d., available at: <https://data.worldbank.org>.

43. “National Accounts Estimates of Sri Lanka”, Department of Census and Statistics, 2023, available at: www.statistics.gov.lk.

44. N. Dissanayaka, “Bridging the Gap: Unlocking Untapped Potential in Sri Lanka's Agricultural Exports”, *Talking Economics*, April 5, 2021, available at: www.ips.lk

45. “Anura Kumara Outlines Plans for IT Growth, Tourism Boost, and Agri Independence”, *Ada Derana*, September 18, 2024, available at: www.adaderana.lk.

46. The President announced his plans to boost the tourism and ICT sectors in the next three years to reach an annual USD 13 billion from its current size of approximately 4 billion.

skills, still need to be addressed. Addressing these factors will enable the country to compete effectively in new markets.⁴⁶

Furthermore, the role that the state played in ensuring human development is undergoing structural adjustments to allow more private sector participation, in the context of IMF-led reforms and the currently widening wealth gap.⁴⁷ Since the first phase of neoliberal reforms in the 1980s, Sri Lanka's much lauded public education and health systems have been systematically dismantled. A parallel development during this first period of reforms was to increase private sector engagement in human development sectors, and to launch safety net programs (Janasaviya, which later transitioned to Samurdhi) with a strong social empowerment element. The state's prioritization of an ever-growing military complex to sustain a three-decade civil war also affected the shrinking budgetary allocations for human development sectors.

After two decades of implementation, the post-war governments have the task of implementing a new set of reforms. While the free health and education systems remain crucial in lifting people out of poverty and providing an avenue for social mobility, the state has been extracting itself from playing an active role in human development and social empowerment. Under the new phase of reforms, which is marked by a strong emphasis on macro-economic stability, the state has de-emphasized significant capital investments in either the education or the health sector.⁴⁸ The overall quality of the social welfare systems has deteriorated, as reflected in the lowering of public trust in their quality, with those who can afford it opting for private entities that are seen to provide better services.⁴⁹ Moreover, past social empowerment programs have been reduced to cash transfer programs, such as Aswesuma since 2022.

The deteriorating human welfare is mainly reflected in the poverty, food insecurity and child malnutrition data, and has been exacerbated by the COVID-19 pandemic and the 2022 economic crisis. By the end of 2024, 24% of households were classified as poor, and food insecurity had spiked to affect

47. "Sri Lanka Gets 20-pct Trump Tariff", *Economy Next*, August 1, 2025, available at: <https://economynext.com>.

48. In Sri Lanka, the top 1% of the population owns over 30% of personal wealth, while the bottom half has less than 4% of the wealth, making Sri Lanka one of the most unequal countries in Asia.

49. In the 2025 budget, there were increases in nominal expenditure proposals for the health and education sector, with 479 billion rupees allocated to the health sector, reflecting an increase of 43 billion in 2024, while 285 billion rupees were earmarked for education and research. See "Sectoral allocations: Budget 2025", *Public Finance*, 2025, available at: <https://publicfinance.lk>.

50. In particular, the real value of social welfare benefits deteriorated following the debt default. See N. Kadirgamar, "Targeting Social Assistance in the Context of Crises and Austerity: The Case of Sri Lanka", Expert Group Meeting 'The World Survey on the Role of Women in Development 2024: Harnessing Social Protection for Gender Equality, Resilience and Transformation', October 5-6, 2023, available at: www.unwomen.org; "Sri Lanka's Government Education Spending Is the Lowest in South Asia", *Public Finance*, October 10, 2025, available at: <https://publicfinance.lk>.

26% of households by 2023.⁵⁰ The declining benefits of the country's welfare systems are making it increasingly less attractive for young people and professionals to live, study and work in. The brain drain, which peaked during the war years, has continued. In 2023, an estimated 298,000 Sri Lankan citizens left the country to work abroad, with key destinations being the Middle East (for skilled, semi-skilled and unskilled employment), and North America, Europe and Australia (for largely skilled employment). Meanwhile, domestic labor force participation has continued to decline – from 49.9% in the first quarter of 2023 to 47.1% in the first quarter of 2024.

The decline of the welfare sector has been accompanied by successive governments' reluctance to create additional fiscal space for social programs, whether by streamlining the oversized military or reforming loss-making state-owned enterprises.

One of the key challenges for the new government is the large security sector that the country inherited from its protracted war. The allocations of Sri Lanka's defense and public security ministries in the 2025 budget were increased to 442 and 17,529 billion rupees, respectively. This places a substantial burden on the national economy, as revenue streams from the security sector, such as peacekeeping and maritime security services, are insufficient to sustain it. During the 2025 budget speech, President Dissanayake reiterated his commitment to the past government's decision to reduce troop numbers and divert resources towards upgrading the technological capabilities of the security sector.⁵¹ Sri Lanka's armed forces, currently numbering around 346,000 active personnel, are set for considerable downsizing by 2030. Under the NPP government, the army is to be reduced to 100,000 personnel, the navy to 40,000, and the air force to 18,000. This will follow earlier reductions from 200,783 army personnel in 2023 to 150,000 in 2024.⁵² Demobilizing and downsizing this sector is nevertheless politically costly, as the subsequent unemployment occurs within the government's core Sinhala Buddhist electorate.

Among the strongest left-wing stances that the NPP has assumed is opposing the privatization of state-owned enterprises (SOEs) that the government considers belong to strategically important sectors and/or that are profit-making. The new government announced the shelving of an initiative of the previous government to privatize Sri Lankan Airlines, a major loss-making SOE. The decision was rationalized by the need for a national carrier to support the tourism industry. The government also announced that it would not privatize the Ceylon Electricity Board (CEB),

51. I. Gamage, "Nearly Half of Sri Lankan Households Below Poverty Line – CEPA Study", *Ceylon Today*, March 1, 2025, available at: <https://ceylontoday.lk>.

53. R. Kuruwita, "Sri Lankan Defense Budget Grows Despite Troop Reductions", *The Diplomat*, March 10, 2025, available at: <https://thediplomat.com>.

54. "Sri Lanka to Downsize Military by 2030: President", *NewsWire*, March 1, 2025, available at: www.newswire.lk.

while absorbing part of its current domestic debt, owed to the Ceylon Petroleum Corporation (CPC), amounting to 130,000 million rupees.⁵³

SOE reforms have been politically contentious for decades. The last successful privatization drive was carried out in the 1990s and early 2000s. Since then, governments have either reversed this policy or have not been able to push through SOE reforms. The inability to transform SOEs to become profitable or divest them has been one of the most economically costly policy issues for all governments in the past. Public discourse in Sri Lanka tends to equate privatization with selling state assets and therefore resonates negatively as a political narrative. In 2022, the reintroduction of cost-reflective pricing in the energy sector by the Wickremesinghe government helped the CPC to post high operational profits in 2023, and the CEB to reduce its losses, and remain as state-owned enterprises. Likewise, the present government, given its strong narrative for system change and its large electoral mandate, has a unique opportunity to reform loss-making SOEs.

Breaking the ring of thieves: system change on trial

The NPP government's legitimacy highly depends on its ability to prove its political adversaries as corrupt, a task that is likely to prove daunting on many levels. Latching on to an electoral trope that has been popular since the election of Gotabaya Rajapaksa as president in 2019, and that resurfaced during the popular protests of 2022, the NPP pledged to deliver "system change". Through its flagship program "Clean Sri Lanka", the NPP set out to overhaul the prevailing political culture and deliver justice in several high-profile corruption and law and order-related cases. These cases include the 2015 Central Bank bond scam and the 2019 Easter Sunday Attacks, which involved "old guard" elites protecting each other. The NPP dubbed this network *chaura walalla*, a "ring of thieves" or kleptocracy.⁵⁴

Once in office, the NPP attempted to act on this anti-corruption mandate. There have been highly publicized reports of legal action initiated against members of past governments. However, many of these cases pertain to relatively small issues of corruption and legal violations. While some high-profile figures, including members of the Rajapaksa political family, have been summoned by law enforcement authorities, none have been prosecuted so far. For example, in a fundamental rights petition filed by a group of civil society members in 2023, the three Rajapaksa brothers, Gotabaya, Mahinda

55. S. Tennekoon, "CEB Privatisation Shelved: 'Comprehensive' Restructuring Instead", *The Morning*, November 5, 2024, available at: www.themorning.lk.

56. The 2015 Central Bank bond scam is an alleged financial scam implicating figures close to the government at the time. Although the case has not been brought to a close, a forensic audit conducted in 2019 indicated that public institutions had suffered substantial losses due to alleged insider dealings at the Central Bank.

and Basil Rajapaksa, in their capacity as president, prime minister and finance minister respectively, were found guilty by the Supreme Court of triggering the island's worst financial crisis by mishandling the economy. However, there was no official prosecution to hold them criminally liable for the economic mismanagement that caused the economic crisis.

Showing policy continuity with reforms initiated by the previous government, the NPP passed the Proceeds of Crime Act in April 2025 to recover stolen assets and announced a plan to establish an Independent Prosecutor's Office earlier this year. As the government seeks action against corruption and rule of law violations through the judiciary, which is known for long delays and inefficiency, managing public expectations on the delivery of justice and accountability for the many cases of corruption and misconduct will test the government's popularity and its capacity to control the political narrative.

The NPP government negotiates emerging popularity gaps by positioning itself as a "government of the people" which can be trusted as it "cannot be bought", and by embracing a narrative of austerity and simplicity in sharp contrast to its depiction of past governments' excesses. The new government has only 21 members in its cabinet, in comparison to the 67 ministers in Mahinda Rajapaksa's second cabinet (2010-15), which was recorded as the largest in world parliamentary history. The government also cut down on the privileges of previous presidents, and curtailed the benefits to newly elected MPs, including introducing a bill that will abolish pensions for parliamentarians. While the new government has a relatively corruption-free record in governance,⁵⁵ there have been allegations of the appointment of party patrons to key positions and alleged cases of conflict of interest in appointments to critical positions.⁵⁶ These have raised questions about whether the NPP has managed to break away from patronage politics to more meritocratic politics, as promised.

The recent arrest of former President Ranil Wickremesinghe on allegations of misappropriation of public funds marked a high point in the 'anti-corruption' drive of the NPP government. The opposition framed the arrest as a manifestation of the government's intent to become a

57. The response to public demands for an NPP cabinet minister to step down, following charges of corruption being filed, is a litmus test of the government's commitment to honor its mandate of "system change" and uphold the rule of law. See "Bribery Case Against NPP Minister", *The Sunday Times*, August 17, 2025, available at: www.sundaytimes.lk.

58. These include the appointment of an executive of a financial advisory company as a key economic advisor to the President, and the appointment of chairpersons to state-owned enterprises who hold positions in private companies that have interests in the same sector. See R. D. Pethiyagoda, "Corruption at the Heart of Sri Lanka's Anti-Corruption Regime?", *Sri Lanka Guardian*, March 25, 2025, available at: <https://slguardian.org>; Y. Perera, "Harsha Questions Hulangamuwa", *Daily Mirror*, March 25, 2025, available at: www.dailymirror.lk; "Govt-imported Salt Given to Pvt. Company – Mujibur," *Sri Lanka Mirror*, May 22, 2025, available at: <https://srilankamirror.com>.

“constitutional dictatorship”.⁵⁷ In addition, Former Presidents Mahinda Rajapaksa and Maithripala Sirisena were reported to have left their official residences following the passage of the President’s Entitlement (Repeal) Bill in September 2025. While these are important symbolic victories in advancing accountability on corruption and abuse of power, the execution of some of these prosecutions has led to questions over whether the mandate of accountability is being weaponized to undermine multiparty democracy.

As part of deeper structural reforms that constitute “system change”, the NPP’s manifesto and election campaigns also promise a new Constitution for Sri Lanka. This would entail key reforms, such as abolishing the Executive Presidency introduced under the 1977 Constitution, which transformed Sri Lanka’s government model from a Westminster to a semi-presidential system. This has been blamed in large part for the political excesses that led the country to war and economic collapse. All elections since 1994, except for that in 2020, were contested on the promise of abolishing the Executive Presidency. Other key constitutional reforms that the NPP advocated in its manifesto are changing the proportional representation electoral system to ensure political stability in a parliamentary system and greater decentralization of power.

The issue of power decentralization under the 13th Amendment to the Constitution, which was adopted as part of the 1987 Indo-Lanka Accord and provided for the establishment of the Provincial Council system, has been highly contentious politically. Historically, the main party within the NPP, the JVP, has opposed the 13th Amendment, which recognizes the collective rights of the Tamil people by granting a degree of self-government and designates the provinces as the unit for devolved power. The JVP has argued that the 13th Amendment was an arrangement imposed on Sri Lanka by India.

At present, the NPP operates within the framework of the 13th Amendment, with the prime minister assuring that Provincial Council elections will be held. On several occasions, the NPP has signaled plans to eventually introduce an alternative system for devolving power – probably to a unit smaller than the province.⁵⁸ This would be a deviation from the existing 13th Amendment to the Constitution and the Provincial Council system. It remains to be seen how such an attempt to overhaul the Provincial Councils in favor of a smaller unit-based power-sharing would be received by the Tamil political parties, which hold that meaningful devolution should share more powers with the provinces, instead of undermining them.

59. M. Ariyasinghe, “Despite Wickremesinghe’s Arrest, Sri Lanka’s Politics Is Stuck in Its Old Loop”, *Himal Southasian*, August 26, 2025, available at: www.himalmag.com.

60. S. Tennekoon, “Provincial Councils: ‘NPP Will Uphold PC’s, But They Are Not a Lasting Solution’: Hadunnetti”, *The Morning*, June 17, 2024, available at: www.themorning.lk.

These developments are particularly significant given that the ethnic Tamil issue remains unresolved in the post-war context. On the reconciliation front, Sri Lanka committed to a UNHRC-led transitional justice process in 2015, under the co-sponsored Resolution 30/1. However, progress has been delayed (and at times reversed) for several reasons, including infighting within the 2015-19 government, a strong pushback by nationalists, and the Tamil polity's lack of trust. Moreover, the 2022 crisis meant that concerns over economic stability promoted demands for economic rights to the forefront of the rights discourse. This was coupled with reducing international pressure on accountability and human rights, leading to a relative reprioritization of accountability in the national discourse.⁵⁹

The NPP government's stance on reconciliation appears to favor more domestic, homegrown approaches to reconciliation that involve only the national judiciary. This position aligns with the kind of nationalism that the past Rajapaksa governments gave leadership to. Since coming to power, the government has continued the policy of opposing the 51/1 resolution of the United Nations Human Rights Council and said it would not agree to any resolution that extends the powers of the "collection of external evidence" mechanisms.⁶⁰ The same position was assumed in response to the UK government imposing sanctions in March 2025 on four Sri Lankans implicated in atrocities during the war.

The ongoing excavation at Chemmani, a mass grave from the war years, remains another sensitive issue, which resurfaced in June 2025.⁶¹ The government's silence on the matter has deepened the sense of alienation among Tamil communities in the north and also created space for nationalist elements to exploit the situation, fueling polarizing narratives. Such trends pose further challenges to Sri Lanka's foreign policy in the context of a rapidly evolving and complex geopolitical terrain.

61. S. Bastian, "Accountability in Sri Lanka – Another View", Sunil Bastian, n.d., 2025, available at: www.sunilbastian.com.

62. "Sri Lanka: Continuing Rajapaksa policy, NPP govt Rejects New UNHRC Resolution", *Sri Lanka Brief*, October 9, 2025, available at: <https://srilankabrief.org>.

63. S. Gamage, "Where the Earth Refuses to Stay Silent: Chemmani Is Speaking Again", *Ground Views*, July 6, 2025, available at: <https://groundviews.org>.

A realist turn in Sri Lanka's foreign policy

Alongside commandeering the domestic political narrative with considerable success, the new government has been quick to adapt to the geopolitical interests of different power blocs on the foreign policy front. During the 2024 election cycle, foreign policy concerns were relatively muted, as the need for engagement with all major countries in the context of an economic crisis was generally understood.

In contrast, during the 2015 presidential election, scrutiny of Chinese development projects and the safeguarding of national interests emerged as central campaign issues. By 2019, the focus had shifted to asserting sovereignty in response to the proposed US-backed Millennium Challenge Corporation (MCC) agreement, alongside calls for non-interference amid international pressure over war crimes allegations at the UNHRC and concerns about human rights violations.⁶² In contrast, the 2024 election campaigns were more domestically oriented, centered on the rhetoric of system change and anti-corruption, and focused on economic recovery.

Sri Lanka's foreign policy engagements reflect two competing narratives entrenched at the domestic level. One narrative reflects the nation's aspirations to achieve the status of a developed country – the Singapore Dream. The other narrative reflects the South Asian tradition of democratic dissent. This “democracy versus delivery” narrative is reflected in alternating domestic political shifts between Western-oriented, liberal democratic, free-market governments (India-West-Japan axis) and those favoring an East Asian Tigers-style development model characterized by strong state centralization (China, Singapore).

Caught in India's orbit: Sri Lanka's geopolitical drift

Sri Lanka, as a small state geographically, in a strategically significant location in the Indian Ocean, faces the difficult task of adopting a non-aligned stance and balancing relations with the two major regional powers, India and China. Its relations with India and China are periodically tested by recurrent issues. Sri Lanka's foreign policy tilt towards the Western powers

64. “Sri Lanka MCC Grant Terminated by US”, *Economy Next*, December 17, 2020, available at: <https://economynext.com>.

post-2022, alongside the latest IMF program, should be contextualized against its growing ties with India.

India has consistently regarded the Indian Ocean region, particularly its immediate neighborhood, as falling within its sphere of influence and the ambit of its Neighborhood First policy. While this outlook severely influenced bilateral relations with Sri Lanka during the civil war and in dealing with the increased presence of Chinese vessels in Sri Lanka's maritime waters, the trajectory of India-Sri Lanka relations has entered a new phase since 2022. India's economic and political support was pivotal to Sri Lanka's post-default stabilization efforts; it provided up to USD 4 billion in financing during the crisis, provided key assurances for IMF program approval, and played a strong role in finalizing the debt restructuring process. This new phase of cooperation culminated in increased bilateral ties for collaborating in the energy sector, and in the signing of a bilateral defense agreement (whose terms remain publicly undisclosed).⁶³

However, some emerging issues could derail the government's improved relations with India. During the 2024 election campaign, the NPP promised to cancel the proposed Adani wind-power investment project in the northwestern region over the lack of competitive bidding in procurement and the proposed unit cost of electricity, and due to protests by environmentalist groups against potential ecological damage to the region.⁶⁴ After the NPP came to power, the Adani Group withdrew from the project, citing financial unviability as the reason. However, the group's engagement in the Colombo port terminal has proceeded, with the President dismissing concerns over the Adani Group being found corrupt in dealings in the US, stating that his government was focused only on what the conglomerate does in Sri Lanka.⁶⁵ Another key contentious bilateral issue is Katchatheevu Island. During the Indian 2024 elections, Prime Minister Narendra Modi, reviving an issue considered closed, questioned Sri Lanka's sovereignty over Katchatheevu island.⁶⁶ Amid ongoing tensions over fishing rights, the Tamil Nadu Legislative Assembly passed a resolution urging the central government to reclaim Katchatheevu. Frequent incursions by Indian fishing boats into Sri Lankan waters continue to strain bilateral relations. Another emerging front of bilateral tensions is access to minerals and precious metals in the continental shelf of Sri Lanka. Recently, India disputed Sri Lanka's attempt

65. "Sri Lanka Says Indian Approval Needed to Disclose Defence Pact Contents", *Tamil Guardian*, April 24, 2025, available at: www.tamilguardian.com.

66. M. Rodrigo, "Why Sri Lankan Activists Opposed Adani Wind Energy Project in Mannar", *Scroll In*, March 5, 2025, available at: <https://scroll.in>.

67. "AKD Says SL not Concerned about Adani's Dealings in Other Countries", *Daily FT*, December 19, 2024, available at: www.ft.lk.

68. R. Kuruwita, "Modi Reopens Settled Dispute with Sri Lanka to Woo Tamil Voters", *The Diplomat*, April 10, 2024, available at: <https://thediplomat.com>.

to extend its continental shelf to access the cobalt-rich Afanasy Nikitin Seamount.⁶⁷

Meanwhile, the demands of Sri Lanka's northern Tamils remain an entrenched issue in bilateral relations. During PM Modi's visit to Sri Lanka, he reaffirmed India's expectation that Sri Lanka would address the legitimate aspirations of the Tamil community, which are linked to the establishment of Provincial Councils as part of the Indo-Lanka Accord.⁶⁸ Although 15 years have passed since the end of the ethnic conflict, structural issues relating to the collective rights of the Tamils remain unaddressed. This is compounded by growing political polarization in Sri Lanka, often fueled by nationalist power centers. Recent efforts by nationalist groups to stir fears over a supposed resurgence of the LTTE reflect a broader trend of fearmongering that risks exacerbating domestic instability in Sri Lanka.⁶⁹ This instability could spill over into foreign relations with India, which is grappling with its own internal political dynamics, particularly in Tamil Nadu, where the Bharatiya Janata Party is seeking to expand its influence in the southern states. As the economic power of India's southern states, especially Tamil Nadu, continues to rise, the new Sri Lankan government faces an opportunity to strengthen economic ties with these regions. However, realizing this potential will require careful navigation of the longstanding political sensitivities surrounding the issue of Tamil rights and representation.

China's silent play: between regional and global forces

China's response to the recent absorption of Sri Lanka into India's orbit, such as entering into a bilateral defense agreement (whose terms have not yet been revealed to the public), remains to be seen. In the past, China protested against a one-year ban on research vessels in Sri Lanka's sovereign waters being selectively applied, a move it saw as a measure implemented to assuage Indian anxieties over increased Chinese engagement in the region.⁷⁰

China's current response is likely to be relatively muted due to two recent developments. First is China's foreign policy recalibrations in the wake of US President Trump's renewed trade offensive, which has led China to prioritize its relationships with its immediate eastern and southeastern Asian neighbors. This strategic pivot has made China act somewhat cautiously, shifting its focus away from mega development projects such as

69. C. Attanayake, "Sri Lanka Caught in the Crossfire of India-China Maritime Rivalry", *East Asia Forum*, September 19, 2024, available at: <https://eastasiaforum.org>.

70. J. Jacob, "PM Modi Urges Sri Lanka to Uphold Tamil Aspirations, Hold Provincial Elections", *The New Indian Express*, April 6, 2025, available at: www.newindianexpress.com.

71. T. Gunasekara, "The Rajapaksas' Endless Quest for Power", *Himal Southasian*, April 11, 2025, available at: www.himalmag.com.

72. S. Aneez, "China Protests Against Sri Lanka Allowing German Research Ship Amid 1-year Ban: Sources", *Economy Next*, March 19, 2024, available at: <https://economynext.com>.

Colombo Port City or Hambantota Port towards smaller programs.⁷¹ Secondly, there has been a relative shift in the mode of China's recent engagement in Sri Lanka.

China's presence in Sri Lanka has been characterized by the formation of strong personal relationships with state leaders and by building critical infrastructure through investments in sectors such as energy and ports. India's approach, on the other hand, has a larger component dedicated to providing aid and assistance for development projects targeting Sri Lanka's conflict-affected communities in the north and east, as well as Malaiyaha (hill country) Tamils, in sectors such as housing, roads, health and education.⁷² India is increasingly developing more equity-based relations that transcend individual governments and engaging in initiatives that integrate Sri Lanka with the larger Indian Ocean economic zone, such as the proposed electricity grid connectivity and the India-Sri Lanka Palk Strait land bridge. Meanwhile, China is moving away from large-scale infrastructure projects towards community-based engagement; following the November 2024 elections, for example, China's ambassador to Sri Lanka, Qi Zhenhong, visited Kaluvankerni, a Tamil village in the Eastern Province and pledged further financial aid aimed at improving livelihoods in the region.⁷³

The geopolitical divide between China and India is reflected in Tamil nationalist aspirations as well. India is traditionally seen by Tamil leaders as favorable to the increased autonomy of the Tamil people. In contrast, China was criticized by some Tamil political parties for an allegedly negative attitude to Tamil aspirations. In March 2025, ACTC leader Gajendrakumar Ponnambalam criticized the visit of the head of China's National Ethnic Affairs Commission to Sri Lanka's Ministry of Buddha Sasana (Buddhist Affairs).⁷⁴ The Chinese official had spoken of the aim of ending "minority culture" in China and was alleged by Ponnambalam to have made comments in a similar vein during his visit to Jaffna. The Ministry of Buddha Sasana, which oversees the Department of Archaeology, has been controversial for its role in undermining Tamil minority rights in northern Sri Lanka. These developments indicate the growing polarization of Tamil nationalist sentiments in the north, while at the same time, the NPP government is attempting to sideline nationalist sentiments and strengthen its foothold, building on the large gains it made in the 2024 national elections.

73. A. Dayant and G. Stanhope, "Mind the Gap: Ambition Versus Delivery in China's BRI Megaprojects in Southeast Asia", Lowy Institute, March 2024, available at: <https://lowy-institute.github.io>.

74. M. Sirinivasan, "Indian Grant to Be Used for Education, Health Sectors in Sri Lanka's Estate Areas, Says Minister Jeevan Thondaman", *The Hindu*, August 1, 2023, available at: www.thehindu.com.

75. "'A True Friend Will Always Extend a Helping Hand' – China's Ambassador Strengthens Ties in East," *Tamil Guardian*, November 25, 2024, available at: www.tamilguardian.com.

76. "Who Is Pan Yue? China's 'Ethnic Affairs' Minister and His Visit to Sri Lanka", *Tamil Guardian*, May 17, 2025, available at: www.tamilguardian.com.

Eroding trust in a fractured liberal order

As Sri Lanka juggles its domestic pressures and the strategic demands of regional powers, the new government now faces the prospect of the Trump administration imposing a 20% “reciprocal” tariff as of August 2025.⁷⁵ If the tariff is fully implemented and sustained, it will be a severe blow to Sri Lanka’s fragile economic recovery. Such a move could lead to a substantial and possibly permanent loss of Sri Lanka’s market share in its largest single export destination.

Meanwhile, the European Union (EU) is Sri Lanka’s second largest export market (22.5%) after the US (25%). Sri Lanka benefits from the EU’s GSP+ preferential trade access scheme, whose renewal in 2026 depends on stipulated human rights standards being met. Successive Sri Lankan governments have faced pressure from the “Western bloc” over progress on post-war transitional justice and reconciliation, and the state of human rights. To qualify for preferential trade access such as the EU’s GSP+ scheme, the new government will have to provide assurances on these fronts. The government of Sri Lanka has previously faced controversy over the Prevention of Terrorism Act (PTA), which enables arbitrary arrest and detention. While the NPP government has pledged to abolish the PTA, it has continued to use the law on multiple occasions.⁷⁶

As the rules-based liberal order weakens, and advanced economies turn inward in response to domestic pressures, issues such as multilateralism, democracy and human rights are increasingly deprioritized by the Western-led institutions and actors that once actively promoted them. In response, a growing sense of alienation is emerging among their advocates in the Global South. This is accompanied by mounting criticism of the West’s selective adherence to democratic governance and human rights, particularly in its responses to the Russia-Ukraine war and the Israel-Palestine conflict.

While Global South countries, such as Sri Lanka, depend heavily on the West for trade and financial support, especially in the wake of cycles of debt distress and stalled industrialization, the recent US bilateral tariffs and the dismantling of the global aid system necessitate a reassessment of these ties. The closure of USAID offices, followed by substantial aid cuts by the UK, signals a broader withdrawal from classical development assistance. Meanwhile, the EU, a strong advocate of multilateral aid, is perceived to be shifting its focus. For instance, the Global Gateway initiative reorients former development cooperation models by prioritizing international partnerships that focus on private sector investment and infrastructure projects. These

77. S. Gunadasa, “US Imposes 20 Percent Tariff on Sri Lanka”, World Socialist Web Site, August 8, 2025, available at: www.wsws.org.

78. W. Perera, “Muslim Youth Detained for Nine Months in Sri Lanka under Draconian Anti-terrorism Law”, World Socialist Web Site, July 17, 2025, available at: www.wsws.org.

shifts mark the decline of the classical aid paradigm that helped direct national development priorities of recipient countries towards welfare sectors such as health and education.

An increasing focus on national borders and domestic issues in the wake of the rise of right-wing nationalist politics in the US and EU countries parallels similar developments in Sri Lanka's neighborhood. Questions about the US commitment to the future of the North Atlantic Treaty Organization (NATO) appear to drive a dominance of securitization narratives within the EU and its member states. The manifestations of these concerns are evident in the Indian Ocean Region, where they influence the nature of engagement within security alliances such as the QUAD (Quadrilateral Security Dialogue comprising Australia, India, Japan, and the US). Like the US, France has a strong military presence in the Indian Ocean region, with military bases in La Réunion and Mayotte, and a long-standing strategic partnership with India. This securitization of the Indian Ocean region is subscribed to by regional powers, as is evident in the escalation of tensions between India and Pakistan, especially following the April terror attacks in Pahalgam, and India's efforts to enter into defense agreements with neighboring countries. This dominant securitization approach contradicts the efforts of these same countries to drive a climate sustainability agenda in their external engagements.

Amidst this emerging backdrop of increasingly zero-sum engagement by the larger powers, there are competing narratives within smaller countries in the Global South, such as Sri Lanka. The NPP-JVP has historically opposed several trade agreements that the government had entered into or was engaged in dialogue over. Once they attained office, this inward-looking narrative was overtaken by pragmatic necessity. Nevertheless, there remain political forces in the opposition and civil society that advocate for more protectionism as the answer to external volatility. Against the backdrop of the US "reciprocal" tariff, Sri Lanka began closed negotiations on an FTA with the US in April 2025.⁷⁷ Progress on the negotiations remains undisclosed to the public so far.

The government is also in the process of fast-tracking free-trade agreement (FTA) negotiations with China and has not deviated from ongoing negotiations over FTAs with other southern and southeastern Asian countries. This includes the past government's initiative to join the Regional Comprehensive Economic Partnership (RCEP) with a focus on enhancing trade relations in the Asia-Pacific region.⁷⁸ Additionally, the new government is actively participating in regional multilateral forums, including the Indian

79. A. Derana, "Sri Lanka and US Agree to Expedite Bilateral Trade Agreement", April 25, 2025, available at: www.adaderana.lk

80. Sri Lanka is a member of the South Asian Free Trade Area (SAFTA) and the Asian Free Trade Area (AFTA).

Ocean Rim Association (IORA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). In Sri Lanka's search for more stable regional alternatives, India, China, Russia, the United Arab Emirates (UAE) and Singapore stand out as key bilateral partners.⁷⁹

In the post-independence years, Sri Lanka played an active role in proposing collective and alternative forms of regional cooperation, such as the 1955 Bandung Conference, the 1961 Non-Aligned Movement, and the Indian Ocean Zone of Peace, which began in the 1960s. The space for Sri Lanka to play such a role is severely constrained by a crisis of state legitimacy, owing to its compromised human rights record and vulnerable economic position. The ability to transcend these shortcomings, adopt a principled stance, and contribute towards a shared narrative will serve as a test of its political ideals and leadership.

81. Russia plays a critical role in energy and food security, while its historical ties to socialism continue to resonate within Sri Lanka, particularly among constituencies aligned with the JVP-NPP. The UAE is a key source of Sri Lanka's foreign remittances, and both Singapore and the UAE are major energy partners of Sri Lanka. While the new government's application to join BRICS (Brazil, Russia, India, China and South Africa) was declined, it was eventually accepted into the BRICS' New Development Bank.

Annexes

Annex 1: Key political and economic developments since 2019

2019

- April – Easter Sunday bombings by Islamist groups drive final nail in the delegitimization of the 2015 “good governance” government.
- July – The NPP was formed, and its presidential candidate received 3% of the national vote in November.
- November – Election of President Gotabaya Rajapaksa and sweeping reduction in direct and indirect taxes.

2020

- February
 - Sri Lanka withdraws from its co-sponsorship of a United Nations Human Rights Council resolution calling for an investigation into alleged war crimes during the final stages of the Sri Lankan Civil War, which ended in 2009;
 - The UNP splinters and the SJB is formed under the leadership of 2019 presidential candidate Sajith Premadasa.
- March – National lockdown due to the COVID-19 outbreak; economic growth slows down and leads to excessive money-printing and inflation.
- June – Sri Lanka does not renew the 16th IMF program, entered into in 2016.
- August – SLPP wins two-thirds majority in parliament; Samagi Jana Balawegaya (SJB) becomes the main opposition party; UNP reduced to 1 seat; NPP secures only three seats.
- October – The 20th Amendment to the Constitution is passed in parliament, leading to a heavy concentration of power in the presidency.

2021

- February – Tamil demonstrators stage a five-day “walk for justice” from Pottuvil to Polikandy in the north-east, demanding redressal on issues of militarization, land grabs, human rights and accountability.
- June – Government of Sri Lanka imposes Import and Export Regulations No. 7 of 2021, banning the import of synthetic fertilizers and pesticides (agrochemicals).
- September – Farmers in the country’s Sinhala-majority south protest against the government’s ban on chemical fertilizers.

2022

- March – Protestors agitating against 13-hour power cuts and fuel queues (since February) walk to the President’s residence in Mirihana. Confrontation between law enforcement agents and protestors ensues.

- April
 - Social media blackout for 15 hours;
 - Governor of Central Bank Ajith Nivaad Cabraal resigns;
 - Massive protests erupt at Galle Face Green, where demonstrators set up a semi-permanent protest site called "GotaGoGama", adjacent to the Presidential Secretariat;
 - Sri Lanka announces it cannot service its debt and declares bankruptcy;
 - Protests in Rambukkana result in the first casualty in the anti-government protests;
 - An island-wide *hartal* takes place (a general strike involving shutting down of government offices, banks, businesses and public transport).
- May
 - "Black Monday attacks": Government thugs attack the protest site; the student unions and trade unions assume more leadership of the protests as the middle-class component dwindles;
 - Prime Minister Mahinda Rajapaksa and the cabinet resign;
 - New PM Ranil Wickremasinghe is appointed.
- June – Minister of Finance Basil Rajapaksa resigns as MP.
- July – Protestors storm the President's official residence in Colombo, as well as key government offices such as the Presidential Secretariat and Temple Trees, the prime minister's official residence.

2023

- March – Sri Lanka enters into its 17th IMF program.
- July – Sri Lanka finalizes its domestic debt restructuring plan.
- December – Sri Lanka finalizes its external debt restructuring process.

2024

- September – Anura Kumara Dissanayake is elected as President and appoints Harini Amarasuriya as Prime Minister.
- November – NPP wins over two-thirds of seats in Parliament.

2025

- May – NPP leads the majority of local government bodies.
- July – Supreme Court rules that former President Ranil Wickremesinghe violated human rights by invoking emergency laws to disperse the Aragalaya protests in 2022.
- August
 - The United States announces a 20% "reciprocal" tariff on Sri Lanka;
 - Former President Ranil Wickremesinghe was arrested on charges of misappropriating public funds, making it the first time a former head of state has been arrested in Sri Lanka.

Source: Authors, 2025.

Annex 2: Key reforms, July 2022 to September 2025

Key Reforms implemented and/or proposed between July 2022 and September 2025 by the government of Sri Lanka

1. Constitutional reforms: 21st Amendment to the Constitution of 2022
2. Intellectual Property (Amendment) Act, No. 8 of 2022
3. Personal Data Protection Act, No. 9 of 2022
4. Prevention of Terrorism (Temporary Provisions) (Amendment) Act, No. 12 of 2022
5. Value Added Tax (Amendment) Act, No. 13 of 2022
6. Surcharge Tax Act, No. 14 of 2022
7. Sri Lanka Electricity (Amendment) Act, No. 16 of 2022
8. Petroleum Products (Special Provisions) (Amendment) Act, No. 27 of 2022
9. Land Development (Amendment) Act, No. 11 of 2022
10. Anti-Corruption Act, No. 9 of 2023
11. Regulation of Election Expenditure Act, No. 3 of 2023
12. Central Bank of Sri Lanka Act, No. 16 of 2023
13. Domestic Debt Restructuring (DDR)
14. Parliamentary Budget Office Act, No. 6 of 2023
15. Bureau of Rehabilitation Act, No. 2 of 2023
16. Value Added Tax (Amendment) Act, No. 32 of 2023
17. Aswesuma social welfare scheme
18. Public Financial Management Act, No. 44 of 2024
19. Public Debt Management Act, No. 33 of 2024
20. Online Safety Act, No. 9 of 2024
21. Economic Transformation Act, No. 45 of 2024
22. Office for National Unity and Reconciliation Act, No. 1 of 2024
23. Proceeds of Crime Act, No. 5 of 2025
24. Sri Lanka Electricity (Amendment), No. 14 of 2025
25. National Minimum Wage of Workers (Amendment), No. 11 of 2025
26. Companies (Amendment) Act, No. 12 of 2025
27. Presidents' Entitlements (Repeal) Act, No. 18 of 2025

Source: Authors, 2025.