Navigating the Storm: Sri Lanka's Struggle to Sustain its Economy amid the COVID-19 Pandemic

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Abstract: ***The COVID-19 pandemic has unleashed an unprecedented economic crisis globally, affecting nations in varying degrees. This research article delves into the specific case of Sri Lanka, a tropical island nation in the Indian Ocean, and examines the profound impact of the pandemic on its economy. With a focus on the period from the outbreak's onset to its aftermath, this study analyzes the significant socio-economic losses incurred by Sri Lanka, particularly in vital sectors such as tourism, manufacturing, and small and medium-sized businesses. The article outlines Sri Lanka's economic landscape before the pandemic, highlighting its strong potential as a tourist destination, diverse exports, and the vital role of micro, small, and medium-sized businesses in developing the nation. However, the advent of COVID-19 resulted in severe disruptions, such as the collapse of the tourism industry, dwindling foreign exchange reserves, and escalating inflation, which ultimately led to a substantial increase in poverty rates. Despite these challenges, the research identifies Sri Lanka's efforts in implementing various mitigation measures, including livelihood assistance programs and technological advancements. The government's initiatives to provide cash transfers and support to vulnerable populations demonstrated an intent to protect the welfare of its citizens during the crisis. Moreover, the potential of digital infrastructure and digital literacy to facilitate economic mobility and resilience is explored as key enablers for future economic growth. The article also examines the impact of the pandemic on key industries, such as apparel and footwear, and evaluates the role of foreign debt and fiscal policies in managing the crisis. Sri Lanka's response to the economic fallout, including the management of currency exchange and external debt service, is analyzed to provide insights into the nation's strategies for recovery. This research article sheds light on Sri Lanka's journey through the COVID-19 pandemic's economic challenges and highlights the nation's efforts to rebound from the crisis. By exploring the potential of digital technologies and sustainable economic practices, Sri Lanka seeks to navigate the path to recovery and create opportunities for long-term growth and prosperity. As the world continues to grapple with the pandemic's repercussions, lessons from Sri Lanka's experience may serve as valuable guidance for other nations striving to rebuild their economies amidst the ongoing uncertainty.***

Keywords: Economy, COVID-19, pandemic, developments, tourism, Employment

1. Introduction

The COVID-19 pandemic has swept across the globe, leaving no country untouched by its far-reaching consequences. Sri Lanka, a tropical island nation with a rich history of spice production and exports, has been among the countries significantly impacted by the crisis. Renowned for its high-quality spices, the country's spice industry has been a vital contributor to its economy and international trade.

Before the pandemic, Sri Lanka's spice exports were a critical source of foreign exchange earnings and played a crucial role in sustaining employment in rural areas. The export of spices such as cinnamon, pepper, cardamom, cloves, and nutmeg not only bolstered the nation's economic growth but also contributed to its reputation as a top producer of premium spices worldwide. However, with the outbreak of COVID-19, the global economic landscape experienced unprecedented disruptions, leading to a profound impact on Sri Lanka's spice export revenue. The implementation of international travel restrictions, supply chain disruptions, and reduced demand for non-essential goods during lockdowns presented significant challenges for the country's spice industry. This article aims to shed light on the challenges faced by Sri Lanka's spice exporters during the pandemic and the measures taken to mitigate the adverse effects. Additionally, it explores the potential opportunities and strategies that the country can adopt to revive and strengthen its spice export revenue in the post-pandemic era.

Drawing insights from official reports, trade statistics, and expert analysis, this research endeavors to provide a comprehensive understanding of the impact of the COVID-19 pandemic on Sri Lanka's spice export revenue. Furthermore, it seeks to identify potential areas of growth and resilience for the spice industry in the face of ongoing global uncertainties. By examining the dynamic changes in spice export revenue during the pandemic, this study aims to contribute to the broader discourse on the economic challenges faced by Sri Lanka and the opportunities available to revive its spice sector in the 'new normal. ' As the world strives to overcome the challenges posed by the pandemic, the resilience and adaptability of Sri Lanka's spice industry may serve as a testament to the nation's ability to navigate turbulent times and pave the way for a brighter and more sustainable future.

Impact of Covid-19 pandemic on Sri Lanka's economy:
Sri Lanka is a tropical island with a population of 21.67 million people and a land area of 65, 610 square kilometers (mid-year 2018). The country has a high literacy rate of 91.71 percent and a life expectancy of 76.8 years at birth. The government spends 1.6 percent and 1.9 percent of GDP on health and education, respectively, with the health sector being mostly run by the government and health services being provided for free.

The COVID-19 epidemic has resulted in a shocking loss of life on a global scale and poses an unprecedented threat to food systems, public health, and the workplace. The

COVID-19 has negative consequences on Sri Lanka's income-generating industries, including tourism, food and agriculture, garment and textile exports, small and medium-sized businesses, and many other socio-economic losses. The COVID-19 pandemic has had an impact on schooling in schools all around the island. To slow the COVID-19 pandemic's spread, governments have temporarily closed schools.

Long-term strategies that broaden or standardized digital infrastructure may create new openings for economic mobility. During this crisis, advanced technologically backed economic activity has shown to be more resilient, and digital technologies may become a key driver of future job development. Even still, without the extension of high-speed networks and readily available data across the entire island, Sri Lanka's digital revolution will fall short of expectations despite the widespread ownership of cellphones in the country. Finally, by making investments in digital literacy, we can make sure that everyone has access to the tremendous opportunities that digital technologies bring.

Sri Lanka is amid one of the worst economic crises in fifty years, with the lowest GDP per capita annual growth — 4.1 percent in 2020, which is lower than the country's previous catastrophic economic slump in 2001. In 2019, the GDP of Sri Lanka was expected to be US $ 84.0 billion, with the primary sectors of services, industry, and agriculture contributing 57.4%, 26.4 percent, and 7%, respectively. The country's tourism industry has extensive backward and forward links to other economic activity in the Services and Industry sectors.

Despite the contraction of the output of rubber, plastic, wood, and other products, manufacturing activity grew at a modest rate of 1.9 percent in 2019. The apparel and textile industry, on the other hand, has aided the overall manufacturing sector's expansion. Due to significant drivers such as oleaginous fruit output, the agriculture production index remained generally stable in 2019.

COVID-19 has wreaked havoc on the global financial system, as seen by the collapse of stock markets in several countries. In truth, Sri Lanka has no way out of the crisis, and the Colombo Stock Exchange (CSE) has been seriously impacted. Due to an exodus of foreign funds, the CSE plummeted to an eight-year low on March 10th, making it one of the greatest one-day drops in history. Foreign outflows were Rs.19.6 billion in the first two weeks of March 2020, as a significant volume of treasury bills and treasury bonds held by foreign investors fell by 9.03 percent (Rs 8.236 billion).

Following that, inflation has surged to 14 percent, according to the National Consumer Price Index, in December 2021, for the second month in a row after reaching a double-digit high in November 2021. This has resulted in exorbitantly high prices for everyday consumer products (national consumer price index of 11.2 percent), which many Sri Lankans cannot afford. In December, food costs increased by 6.3 percent, while non-food prices increased by 1.3 percent.

Because of the travel bans, the pandemic has had a negative impact on the country's economy. According to the World Travel and Tourism Council, the travel and tourism industry, which accounts for 10% of the country's GDP, lost around 2 million jobs during the pandemic. And over 5 lac people have fallen into poverty since the outbreak began, according to World Bank statistics.

Sri Lanka owes a massive foreign debt to China, India, and Japan, the largest of which is more than $6 billion and must be paid in the coming years. Sri Lanka will pay off its $7.3 billion debt in a year (including a $500 million International Sovereign Bond). It will be difficult for the country to keep its obligations to repay the debt, given it only has $1.6 billion in foreign currency reserves.

As part of its oil debt, Sri Lanka is required to pay Iran $5 million in tea every month. This would have a negative impact on the economy because it would be unable to service its debt in kind for an extended length of time. The IMF and the World Bank provided bailout packages to countries in Asia, Africa, and Latin America to help them avoid going bankrupt.

Exports: Sri Lankan exports are primarily destined for the United States (25%), the United Kingdom (7.7%), India (6%), Germany (6%), Italy (4%), and China (2.4%).2019 will be the year. Industrial exports accounted for 78.9% of overall export earnings, up marginally from 46.9% of industrial exports the previous year. Agricultural exports fell by 20.6 percent, owing to price variations in the global tea market, reduced production of other agricultural exports, and a lack of demand for seafood exports, particularly in the EU. The Apparel industry is the largest industrial exporter, accounting for 46.9% of overall industrial exports, with the United States accounting for 25% of total exports, the United Kingdom 8%, the European Union 22%, and India 6%.

Imports: India accounts for 20% of Sri Lanka's imports, followed by China (17%), Singapore (7%), and the United Arab Emirates (7%). Intermediate products accounted for 57 percent of imports, with investment goods accounting for 23.1 percent and consumption goods accounting for 19.8 percent.

Employment: Sri Lanka's overall labour force is 8.39 million, with a 51.8 percent participation rate, and 8.18 million people employed in 2019, with a 4.4 percent unemployment rate. While the services sector employs 47% of the workforce, industry employs 28% and agriculture employs 25%.

MSME: Micro, small, and medium-sized businesses (MSME) are critical to the country's socioeconomic development. MSMEs are considered the backbone of the economy, contributing 52 percent of GDP. MSMEs are projected to account for approximately 90% of non-agricultural firms and 45% of overall employment in Sri Lanka. According to the Economic Census 2013/14 conducted by the Department of Census and Statistics (DCS), the SME sector employs 1.017 million people in the non-agricultural sector, providing a living for roughly 2.255 million people.

Tourism: Sri Lanka is a tourist destination, and while the impact of tourism in the Sri Lankan context is less than in the worldwide context, there are a variety of factors that influence total tourism earnings in Sri Lanka. The analysis focuses on the various ways of earning money from tourism and increasing the country's Gross Domestic Product. There are other more aspects that influence tourist stability, including governmental stability, human relationship stability, and so on. Tourism, on the other hand, has a direct impact on a variety of areas, such as shopping destinations, marina construction, and so on.

Sri Lanka is a country in the Indian Ocean that is 65, 000 sq. km in size and has gorgeous beaches along more than 100 km of its coastline. She also has greener tea plantations and access to other nourishing areas in hill country with beautiful scenery, historical landmarks, rain forests, etc. Due to its abundant natural resources and beauty, Sri Lanka has a thriving tourism business.

The growth of employment prospects and the statistics appendix reflect the amount of direct and indirect employment in the industry and the contribution to the national economy. A range of sources, including direct and indirect taxes, fees and levies, income from business ventures, etc., are used by public sector institutions to finance their operations. Only a select few sources, including the Tourism Development Levy, Embarkation Tax, Income of Sri Lanka Tourism Development Authority, entrance fees to Cultural Triangle sites, Wildlife parks, Conservation forests, Museums, Zoological Gardens, and Botanical Gardens, as well as Bandaranayake Memorial International Conference Hall, provide statistics on revenue collections. Except for profits from conservation forests, the total revenue derived from the sources indicated in 2017 was Rs.11, 767.6 million as opposed to Rs.10, 630.5 million in 2016. In terms of total revenue collected in 2017, the top three contributors were the Cultural Triangle Entrance Fees, which brought in Rs.3, 774.4 million, the Embarkation Taxes, which brought in Rs.2, 378.8 million, and the revenues from the Conservation Forest, which brought in Rs.25.4 million. The Tourism Development Levy, Zoological Gardens, and Botanical Gardens also made sizable contributions, with respective figures of Rs.1, 541.5 million and Rs.640 million.

The tourism industry's revenue in 2019 was US$ 3.59 billion, down from US$ 4.38 billion (4.9 percent of GDP) in 2018, attributable to the Easter Sunday assault, a decrease of US$ 0.79 billion. The outbreak of COVD9 19, as well as the mid-March closure of the Sri Lankan border for foreign passenger arrivals, global travel restrictions, and the eventual closure of the Airport, have resulted in massive losses, on top of the revenue loss experienced last year following the Easter Sunday attacks. According to a survey conducted by the Sri Lanka Tourism Development Authority in 2018, there are 3, 926 tourism-related establishments employing a total of 169, 903 people, with indirect employment in the value chain such as handicraft trade, gems and jewelry shops, liquor shops and laundries, etc. estimated at 219, 484, bringing the total to 388, 487 people. The COVID outbreak had a huge impact on the indirect employees, who are mostly from small and medium-sized businesses.

Apparel sector: The garment sector employs over 300, 000 people, with another 100, 000 working in small and medium firms. In addition, many individuals labour in the informal sector, primarily creating garments for the local market. When indirect employment is factored in, this sector is expected to employ almost 600, 000 individuals in the country, with women accounting for more than 80% of the workforce. The United States accounts for more than 75 percent of this sector's exports, with EU countries following in second. The Small and Medium Garment Exporters Association, which represents 80 firms and is thought to account for 30% of total exports, claims that they have been impacted the hardest by a shortage of operational capital. Furthermore, the bulk of small and medium-scale apparel industries rely on Chinese textiles and accessories, and the supply chain disruption has had a substantial impact on them. The micro apparel makers also acquire their raw materials from wholesalers who import the items in bulk, largely from China and India, and the curfew's limitations have kept them effectively inert.

Footwear sector: The highly cheap labour footwear industry has the potential to be a significant economic contributor in the country. Value addition varies between 35 and 45 percent in the footwear sector. The sector, which includes 10 large organizations, 30 medium-sized businesses, and over 3000 small-scale producers, employs approximately 40, 000 people directly and indirectly. Modern shoes are created from a wide range of raw materials, including canvas and rubber boots, thongs, sports shoes, leather shoes, and so on. Export income for this industry was 119 million dollars in 2018. In this industry, issues like capital investments, distribution network breakdowns, and marketing problems are all frequent.

Over services and agriculture, industrial activity was more negatively impacted. The industries that depend on people being physically present, such as textile manufacturing and construction, were hit the hardest, and as a result, industrial activity decreased 6.9 percent overall in 2020. Due to poor results in the transportation, tourism, and personal services sectors (as mobility remained curtailed), the services sector shrank by 1.5 percent. A 2.4 percent reduction in agricultural productivity was caused by supply chain problems. Because of the decline in labour market outcomes brought on by the COVID-19 epidemic, poverty increased. Industry workers were more impacted than those in the agricultural and service sectors. According to simulations, job losses were more likely to happen in metropolitan areas, among workers in the private sector and on their own accounts, and at the lower-middle of the income distribution. The projected increase in poverty from 9.2 percent in 2019 to 11.7 percent in 2020

Measures:

Midway through March 2020 saw the first significant COVID-19 outbreak; nevertheless, the number of new infections peaked around the end of the year and at the start of 2021. The government implemented an island-wide

Paper ID: SR231129152723 DOI: https://dx.doi.org/10.21275/SR231129152723

lockdown from March 20 to April 16 and closed the airport at the start of the pandemic as preventive measures. Mobility collapsed as a result of the lockdown's almost total restriction of movement.

The government launched many livelihood assistance programmes to help the poor and vulnerable cope with economic hardship. These programmes served to ease the labour market shock and its impact on poverty. Sri Lanka may be able to maintain its path of eradicating poverty and promoting shared prosperity with more progress in reestablishing livelihoods and strengthening their resilience. People who lost their occupations might be helped to reintegrate under the current social protection system. Social safety nets could be modified in the medium term to better target the poor and vulnerable and to enable for the rapid and efficient scaling up of support during times of crisis.

Working remotely is almost entirely an option for high-income workers, and small and medium-sized businesses were hesitant to adopt digital technology, which has resulted in unequal chances for working from home creating new economic and geographic divisions. Digital technology may play a significant role in the increase of the labour force in the medium to long term. Although Sri Lankans hold cellphones in large numbers, the digital revolution won't live up to promises unless high-speed networks are expanded, and data is made available to all residents of the island. By enacting laws that broaden or ensure everyone has access to digital infrastructure, Sri Lanka could open new avenues for economic mobility. The achievement of the full potential of these new opportunities requires investments in digital literacy.

A programme was established to protect investors from the risks associated with foreign exchange by allowing domestic currency proceeds from qualified investments in treasury bonds to be converted at the exchange rate in effect at the time of the initial investment. Additionally, a special deposit account for commercial banks with higher interest rates was developed in order to draw in foreign capital. In the second half of 2020, these actions helped the currency gradually increase in value.

The LKR lost value relative to the US Dollar by 2.6 percent throughout the course of the year. Although the devaluation might strengthen Sri Lanka's exports' ability to compete, it also raises the debt payment costs and valuation of its foreign currency-denominated debt, which could lead to price rises. The government and CBSL implemented foreign exchange controls in April 2020 to reduce pressures caused by depreciation. In contrast to the suspension of outgoing transfers, inward transfers now fall under a different set of rules and levies. Consumer durables, agricultural goods, and automobiles were all subject to import restrictions.

Early in 2021, before a currency swap was authorized by the People's Bank of China, the foreign exchange situation deteriorated. Sri Lanka Development Bonds (US-denominated, domestically marketed securities) totaling US$ 200 million were rolled over in January, however only US$ 43.6 million was raised. Further reducing official reserves to an 11-year low of US$ 4.6 billion in February 2021, the equivalent of almost 2.9 months' worth of imports of goods and services, were debt service payments, which included a repayment of the $400 million currency swap with the Reserve Bank of India.

Fiscal developments:

Public spending is under pressure as a result of government initiatives to assist the poor and vulnerable during the pandemic. The government spent an estimated 0.7 percent of GDP on cash transfers to people who were affected by the crisis, including senior citizens, people with disabilities, kidney patients, and everyday employees. These actions probably helped to mitigate the effects of poverty. Additional tax reduction measures were implemented. The income tax, VAT, and certain other tax payment deadlines were extended, the payment terms were loosened, and legal actions against non-payers were suspended. Income tax arrears of SMEs were also largely forgiven.

Fiscal balances declined as a result of the combined consequences of the stimulus plan prior to COVID and the COVID-19 epidemic. Estimates for 2020 indicate that revenue collection will have decreased to 9.1% of GDP. Because of the 2019 fiscal stimulus package, (ii) the economic downturn in 2020, and (iii) the decline in imports, value-added, income, and import taxes all underperformed. While interest payments are anticipated to have consumed 73.4 percent of all government income in 2020, non-interest recurrent expenses increased as a result of rising cash transfers and public health costs. Although public investment was curtailed, this was not enough to stop the fiscal deficit from growing to 12.6% of GDP in 202011. (Up from 6.8 percent of GDP in 2019).

External debt service will be a significant concern going forward because the ratio of public and publicly guaranteed debt to GDP has increased significantly. The public and publicly guaranteed debt-to-GDP ratio is expected to expand by 15 percentage points to 109.7 percent in 2020 due to the large primary deficit and the poor growth (up from 94.3 percent in 2019). The government has debt that is worth around half another currency. The four Eurobonds, which are due in July 2021, January 2022, July 2022, and April 2023 respectively, total almost one third of the total foreign currency debt that is due between 2021 and 2023. Increased foreign exchange refinancing needs, shorter maturity periods, higher borrowing costs, and greater exchange rate risks resulted from the growing debt load and historical reliance on commercial loans denominated in foreign currencies.

The pandemic has given the economy a huge shock and has undone previous progress in reducing poverty. Since the civil war's end in 2009, Sri Lanka's economy has expanded by an average of 5.3% annually. The poverty rate, at $3.20 per day, fell from 16.2 percent in 2012–2013 to 11.0 percent in 2016, indicating that growth during that time had been inclusive and effective at reducing poverty. The key forces behind poverty reduction in recent years have been labour reallocation and growth in nonfarm incomes. Prior to the epidemic, it was anticipated that Sri Lanka's economy would expand by 3.3 percent in 2020. Instead, the COVID-19 containment measures and a decline in tourism activity, particularly in the second and fourth quarters of 2020, had a considerable negative impact on the economy.

2. Conclusion

Significantly more people are now living in poverty as a result of the COVID-19 crisis' broad livelihood losses. Over 500, 000 more people are anticipated to be living in poverty as a result of the abrupt economic slowdown, which raised the poverty rate to 11.7 percent in 2020 from 9.2 percent in 2019 (the $3.20 per day rate). The pandemic is anticipated to have a significant economic impact. Due to the pandemic's significant effects on industry, the effects were disproportionately severe for people working in more urbanized regions, such as the Western province, and in the Northern, Eastern, Uva, and Sabaragamuwa Provinces, which already had high rates of poverty. Since the pandemic's start, the government has taken mitigation measures that have helped absorb the effects on the labour market and mitigate the effects on poverty. Given the limited fiscal space available, a significant amount of money was spent on these poverty alleviation measures, which, if they had been more carefully targeted, may have reduced poverty even further. However, the inability to expand the public reaction is severely hampered by limited economic headroom.

The pandemic management's unparalleled expense will divert Sri Lanka's attention from urgently needed infrastructure and economic growth. In the future, Sri Lanka is anticipated to see high rates of unemployment, inflation, and poverty due to the abrupt economic downturn. Efforts to rebuild livelihoods and make them more durable may aid Sri Lanka in maintaining its path of shared prosperity and the decrease of poverty as the country's economy slowly recovers from the crisis.

Long-term strategies that broaden or standardize digital infrastructure may create new openings for economic mobility. During this crisis, advanced technologically backed economic activity has shown to be more resilient, and digital technologies may become a key driver of future job development. Even still, without the extension of high-speed networks and readily available data across the entire island, Sri Lanka's digital revolution will fall short of expectations despite the widespread ownership of cell phones in the country. Finally, by making investments in digital literacy, we can make sure that everyone has access to the tremendous opportunities that digital technologies bring.

Sri Lanka's path to recovery is a complex and evolving journey. The country's response to the crisis, its emphasis on inclusivity and support for vulnerable populations, and the recognition of digital technologies as a catalyst for future development offer valuable lessons to other nations facing similar challenges. As the world continues to grapple with the aftermath of the pandemic, Sri Lanka's experience can serve as a guide, highlighting the importance of resilience, innovation, and adaptability in navigating economic crises. With careful planning, strategic reforms, and a focus on sustainable growth, Sri Lanka can pave the way for a brighter and more resilient economic future.

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