LKI
LAKSHMAN KADIRGAMAR INSTITUTE
OF INTERNATIONAL RELATIONS AND STRATEGIC STUDIES

OCTOBER 2026 | VOL. 01 | ISSUE 01

POLICY INSIGHTS

Sri Lanka's role in the Indian Ocean and changing global dynamics



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Acknowledgements

The editorial team extends its sincere appreciation to the Members of the LKI Board of Management and the entire LKI team for their support, cooperation, and contributions towards the development and publication of this inaugural issue of LKI Policy Insights. We are grateful for the collective effort and institutional commitment that have helped bring this publication to fruition.

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FROM THE EDITORS

It is my pleasure to introduce the inaugural issue of LKI Policy Insights, a new publication of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI). Conceived as a platform for bridging research, policy and practice, LKI Policy Insights brings together research and analysis from the Institute alongside perspectives from policymakers, diplomats, academics and practitioners on issues shaping Sri Lanka's foreign relations and strategic interests.

As Sri Lanka navigates an increasingly complex international environment, its longstanding democratic tradition remains an important part of its national identity. Since the introduction of universal adult franchise in 1931, democratic governance has shaped the country's political development and continues to inform its engagement with the international community. Against this backdrop, informed, forward-looking and context-sensitive policy analysis is essential to understanding the opportunities and challenges confronting Sri Lanka. LKI Policy Insights builds on this mandate by creating a space where research can engage directly with policy questions, diplomatic experience and practical perspectives.

This inaugural issue examines Sri Lanka's pursuit of strategic autonomy amid intensifying great-power competition and a changing regional and global order. Through written contributions and expert conversations, the issue explores the choices available to a small state seeking to safeguard its national interests, diversify its partnerships and engage meaningfully with the wider international system. These contributions bring together a range of perspectives on Sri Lanka's strategic position and the policy considerations that should inform its engagement with an evolving world.

We envisage LKI Policy Insights as an ongoing platform for thoughtful exchange, one that connects research with the realities of policymaking, encourages dialogue across disciplines and institutions, and brings diverse expertise into conversations on Sri Lanka's international relations. By drawing on the knowledge of researchers, diplomats, policymakers and practitioners, we hope to contribute to a more informed and constructive policy discourse.

We invite you to engage with this inaugural issue and join us in the conversations ahead.

Thushara Rodrigo

Chair, Editorial Committee (LKI)
Executive Director (Actg.)
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Source: Open AI

Strategic Autonomy amidst Major Power Rivalry: Sri Lanka's Diplomatic Balancing Act in a Polarised Indian Ocean

Interview with Amb. H.M.G.S. Palihakkara, Former Foreign Secretary of Sri Lanka

Sri Lanka has long described its foreign policy as being a friend to all and an enemy to none. As major power rivalry sharpens across the Indian Ocean, that principle is being tested in ways it has not been for decades.

The 2022 economic crisis showed how quickly a country's diplomatic options can narrow once its economic choices disappear. Now the competition for influence over Sri Lanka's ports and political alignment is growing, and the country is still recovering. So the question is no longer whether Sri Lanka can stay neutral. It is how Sri Lanka can keep the space to make its own decisions.

Our conversation with Ambassador H. M. G. S. Palihakkara, Former Foreign Secretary of Sri Lanka, began with a simple question. What does strategic autonomy really mean for a small, open economy that depends on others? The Ambassador argues that it cannot mean isolation. Instead, he calls for "autonomy through interdependence": a Sri Lanka that is connected to everyone, dependent on no one, and so difficult to coerce.

With major power competition in the region, the question is how Sri Lanka can maintain strategic autonomy in a very polarised environment. Given Sri Lanka's economic and security dependence on external partners and its current fiscal constraints, how should we understand strategic autonomy for a country like Sri Lanka today?

Strategic autonomy has become something of a buzzword in the contemporary lexicon of international relations. But for a country like Sri Lanka, still recovering from a serious economic crisis, it cannot mean isolation or self-sufficiency. Absolute autonomy is unrealistic for a small but open economy. We rely heavily on global markets for energy, technology, capital, trade, and remittances, and our security is tied directly to the wider Indian Ocean environment. For us, strategic autonomy is about preserving independent decision-making space and avoiding excessive dependence on any single external partner.

"Our goal must be resilience and diversification, not autarky."

No single relationship should dictate our choices: economic ties should not automatically morph into geopolitical obligations, and security cooperation with one partner should never require hostility toward another. Doing business with China is not inherently anti-India, and working with India is not anti-China. It is not a zero-sum game.

While our strategic location gives us leverage, geography also increases our vulnerability when major powers compete for influence over our ports and political alignment. As the 2022 crisis proved, when economic choices are severely constrained, diplomatic choices shrink right along with them.

Ultimately, our path is autonomy through interdependence. By remaining deeply connected to the international system while avoiding structural reliance on any single source for finance, energy, or security, we preserve our capacity to make sovereign decisions and maintain productive relationships with competing powers that advance our national interests.

Multilateral platforms such as BRICS have gained ground in the region, and Sri Lanka is not represented there. Should we have done something differently? Or is engaging with platforms like BRICS and the Shanghai Cooperation Organisation simply another form of geopolitical dependence? Would they contribute to our strategic autonomy?

"We should not put all our eggs in one basket."

Autonomy doesn't mean isolation; it means diversified partnerships, with enmity towards no one and business with everyone, which is simply what we used to call non-alignment in the old-fashioned way.

Platforms like BRICS and the Shanghai Cooperation Organisation (SCO) can certainly contribute, but only if we treat them as additional instruments of diversification rather than replacements for existing relationships. BRICS is potentially useful because it opens another diplomatic and economic channel to major emerging economies representing about 40% of global GDP, and advocating for fairer representation in the global financial architecture. Sri Lanka formally applied for membership in the New Development Bank in October 2024, and while we continue to express interest, we still have to work toward it. Meanwhile, the SCO, where we have held dialogue partner status since 2009, offers opportunities to elevate cooperation in tourism, transport, and other areas.

However, we should not romanticise these blocs as automatic alternatives to our time-tested ties. BRICS is a gathering of major powers with competing interests. It does not eliminate power politics; it simply provides another arena to navigate them. The core question is always what concrete economic, technological, or diplomatic benefits a platform delivers. We must not conflate partnerships with dependencies but rather multiply the number of interest-driven relationships Sri Lanka has benefitted from.

The 2022 economic crisis showed how vulnerable the country can become, and how that constrains diplomatic and strategic autonomy. Looking ahead, should Sri Lanka pursue strategic autonomy more broadly, beyond military and diplomatic terms, in areas such as energy and food, and in areas that have always been vital but under-invested, such as maritime partnership and resilience?

The central lesson of the 2022 tragedy is that economic security is national security, and just as national security goes far beyond military strength, strategic autonomy must be understood much more broadly. In my book, 2022 was a crisis of accountability on a broad public policy front.

For Sri Lanka, this breaks down into several core areas of focus:

Macroeconomic resilience
We need sustainable debt, fiscal discipline, and credible institutions. When balance of payments pressures hit, our foreign policy room for manoeuvre shrinks, and our negotiating capacity is enfeebled across the board.

Energy resilience
While we will likely depend on imported energy, we can make that dependence less dangerous by diversifying suppliers, expanding renewables, and improving storage - areas where the government has already made a good start.

Food resilience
Food security is fundamental. This doesn't mean producing everything at home but rather maintaining strong domestic production, strategic reserves, and diversified imports so external shocks don't instantly trigger a humanitarian crisis.

Maritime resilience
Given our location in the Indian Ocean, we must prioritise domain awareness, search and rescue, port resilience, fisheries management, and the protection of critical infrastructure like the undersea data cables running through our waters.

Technology and digital resilience
As we grow our digital economy, an area on which the President's Advisor, Dr. Hans Wijayasuriya, is actively working on, we must build resilience into our digital transformation from the start. Just like financial reliance, growing dependence on external technology and data systems creates real strategic vulnerabilities.

Ultimately, the goal isn't to eliminate external dependency entirely, which is unrealistic. It is to ensure that a disruption from a single supplier doesn't paralyse the entire nation.

When it comes to the added challenge of cybersecurity and where we host our data, data centres require massive investments and immense energy. We have to carefully strike the right balance between domestic capabilities and external inputs.

If Sri Lanka were to focus over the next five to ten years on the low-hanging fruit, what capabilities would it need to develop domestically to ensure that external partners cannot translate economic dependence into strategic leverage?

Success for Sri Lanka doesn't mean becoming completely independent. It means becoming difficult to coerce because we have built strategic resilience, institutional capacity, and multiple external relationships.

Domestic consensus has to come first. We need a shared political understanding on critical issues like economic reforms, the rule of law, ethnic peace and accountability. Right now, we are still in recovery mode and will not reach a sustainable growth path until after 2028. But too often, the political elements, both the Government and the Opposition choose confrontation over consultation, thus undermining consensual approaches on critical national interests, including sustainable growth.

Some in the Opposition, in fact, seem to weaponise the essential but painful economic reforms in seeking regime change. Leaders need to get off that track. If one gets one's governance act together, a credible foreign policy falls naturally into place.

Beyond that, key technical pillars drive our path forward:

A productive economy
We must sustain export growth and draw investment into our value chains so we can stop constantly running to lenders of last resort like the IMF.

Diversified external economic relationships
Broaden our portfolio across trade, financing, and tech, deepening ties with India and China while expanding ties with Japan, the EU, the Gulf and ASEAN. No single actor should dominate a sensitive sector like energy.

Credible national capabilities
The state needs the technical expertise to negotiate mutually beneficial agreements with much larger powers instead of getting stuck with one-sided deals or signing onto wish lists presented by others.

An Indian Ocean of cooperation
We cannot let our territory become ground zero for any power rivalry. That calls for transparency, clear protocols, and a proper port-calls policy so that every ship docking here and bringing us port income isn't automatically viewed as a threat, whether well-founded or ill-founded by our neighbour.

Multi-alignment
Do business with everybody and stay out of power rivalries. Smart economies benefit from all sides.

When it comes to India specifically, three schools of thought pull us in different directions. One argues for deep integration, effectively swapping strategic autonomy for an alliance with a booming giant. Another urges utmost caution, pointing to deeply troubling recent precedents like Bangladesh. A middle path sensibly advocates for pragmatic negotiation. It's a delicate balance, and our government, equipped as it is with an unprecedented electoral mandate, hasn't quite cracked it yet.

For a successful strategy over the coming decade, particularly in the Indo-Pacific where newer actors such as ASEAN are active, how can Sri Lanka prevent its foreign policy from being locked in, and how should it manage regional relationships within these blocs?

Frankly, there is simply no other viable path than doing what we have always done best: remaining engaged with everybody without getting entrenched with anybody, whether strategically, geopolitically, or militarily. We simply don't want to get dragged into power rivalries. We prefer to shun power rivalries and alliance partnerships, especially geopolitical ones, simply because we want to profit from all productive relationships. We do not want to be accused of being on the wrong side of any rivalry because we want to benefit from all sides.

The handling of the IRIS Dena incident in March 2026, at the height of the Iran-US war, showed this in practice. The government did well to decline both a US request to land combat aircraft at Mattala and an Iranian request for a port call by three warships. But when a US submarine torpedoed the Iranian frigate off Galle on 4 March, the navy acted promptly on humanitarian rescue and saved 32 sailors, strictly under international law, under which even the attacking power is legally obliged to save shipwrecked sailors.

That was a clear display of strategic autonomy, respect for international law, and the political will to be proactive in a humanitarian role without getting involved in the military conflict. It is evidently possible to do.

The same applies to India and China. When people say we should align with India, what happened to Bangladesh should enter our calculation. Doing business with China should not be seen as an anti-Indian act, and we cannot deny ourselves port income by turning away Chinese ships. This can be resolved through a clearly articulated 'port calls policy' (PCP) coupled with a carefully crafted Standard Operating Procedure (SOP), perhaps even in consultation with the parties concerned.

"That is strategic autonomy at play again: pursuing our foreign policy in sync with our vital national interests."

“Treat migrants as our own citizens”: Migration and Sri Lanka’s Strategic Autonomy

Interview with Prof. Pavithra Jayawardena, Head of the Department of International Relations, University of Colombo



Source: Daily Mirror

For decades, Sri Lanka has looked at migration largely through one lens: the money that comes home.

Remittances have become an important part of the country’s economic story, but millions of Sri Lankans abroad offer far more than financial remittances. They are vital lifelines of skills, networks, and global connectivity for the nation. With great power competition intensifying, how Sri Lanka manages this community is now becoming not only an economic question but also a strategic one.

Our conversation with Professor Pavithra Jayawardena, Head of the Department of International Relations, University of Colombo, started with a simple question. Should Sri Lanka rethink how it sees its citizens living abroad? The Professor argues that unless Sri Lanka rethinks its current approach, other interests, including those of foreign powers, will fill the space Sri Lanka leaves behind. She highlights the importance of treating migrants as our own people, as citizens, not only because it is the morally right thing to do, but also because it is something the state is bound to do.

Why should migration be part of a conversation about strategic autonomy?

Migration is not simply about individuals moving abroad for work or study. It is also about states pursuing their own interests. Receiving countries pay close attention to migrants, shaping policies around who enters, on what terms, and whose skills and qualifications are recognised. Yet sending countries can sometimes lose sight of the people who have left.

Like most countries in the Global South, Sri Lanka has historically been regarded as a sending country, driven by an array of economic and security push factors and pulled by opportunities in host countries. Over the years, skilled and unskilled workers, students, and professionals have all followed that path, and migration has become a key component of Sri Lankan society, and yet, despite the part it plays in our national story, we have never treated it as a strategic issue.

How well does Sri Lanka know its own migrants?

Not well, and that is where the difficulty begins. Migration statistics are complicated, and as a sending country, Sri Lanka does not have a reliable figure of its own. We depend largely on data collected by other countries, each using different methods. As a result, the numbers rarely match. One source may estimate that around one million Sri Lankans are permanent migrants, while another may place the overall figure closer to three million.

Sri Lanka protects official labour migrants heading to the Gulf, Israel, Japan and Korea through the Sri Lanka Bureau of Foreign Employment (SLBFE). But beyond those specific corridors, policy coverage for other types of migration is largely missing. Without reliable data or a dedicated focal point, critical rights like voting from abroad remain difficult to operationalise sustainably. Moving forward, we need a broader migration framework that addresses every category of migrant. Yet the deepest shift must happen in how we perceive them: treating
our diaspora not as distant outsiders, but as our own.

What mindset are we working with now?

In Sri Lanka, a dependence on remittances has gradually taken shape, and the consequences have not always been good for the people behind that money. We cannot ignore remittances, but we should not depend on them, especially given where the world economy is heading.

For governments, the focus is on sending more skilled workers abroad. Is that a step forward, and what would it take for Sri Lanka to gain more from migration?

Quietly, something has begun to shift, but so far only in fields such as nursing and early childhood care. It is an improvement, but not necessarily the best option, because we still don't ask why so many people want to leave in the first place.

Especially after the economic crisis, leaving felt like the only route to a better life. Highly educated professionals, especially in health and education, traded their careers here for postgraduate studies abroad, often not for the degree itself, but simply as a way out.

Yet reality rarely matches the promise. This is where "brain waste" happens. Skilled people leave, only to find their credentials unrecognised, starting over in entry-level roles despite holding master's degrees. Host countries like Australia invite skilled professionals in, only to demand elusive "local experience" once they arrive.

An individual cannot fight this mismatch alone. We need active government support through diplomatic missions that are willing to push for the recognition of degrees and skills from our region. There is a bigger role that Sri Lanka's embassies can and must play here, beyond routine administrative work. We are still looking at our diaspora through a narrow lens, valuing them for their financial remittances while overlooking the vast knowledge and global networks they have to offer.

It's time to change that lens. Long before India built its celebrated framework for engaging non-resident citizens, Sri Lanka was exploring similar ideas back in the 1980s. With limited resources, the real question is whether we are finally ready to broaden our thinking and reconnect with the resources that we've sent out into the world.

Engaging the diaspora is a sensitive topic in Sri Lanka, especially given the legacy of the conflict and the negative connotations associated with the word. How could policymakers respond to that concern?

'Diaspora' carries a heavy weight, so tangled in controversy that many policymakers simply avoid speaking about it. But pulling back only deepens the divide. Like any community, this global population is far from uniform. It carries intense nationalistic pride alongside deeply ingrained prejudices, the painful scars of ethnic conflict, and vocal factions still pulling toward separatism.

I think it is fine to let go of prejudices, including the terms and vocabulary we use, such as 'diaspora', which is very context-specific. Still, I definitely think that engagement is needed. Stepping away only makes the problem worse. If Sri Lanka stops engaging, the small pro-separatist pull will become more visible than the majority. We see this in Canada, where despite their number being low, small separatist groups rally and get attention.

"There will always be those whose minds are set against reconciliation. But right beside them stands a quiet majority of moderates ready to build bridges and work with the country they once called home."

That is exactly where our focus must turn.

Does that interest extend to younger Sri Lankans born abroad?

The desire to reconnect with Sri Lanka does not necessarily end with the first generation. It can continue into the second and third. Consider a child born in America to Sri Lankan parents. Raised entirely abroad, they are still frequently asked where they are "really" from.

This persistent questioning breeds a profound curiosity about their roots, turning an awkward outsider moment into a quest to understand and ultimately contribute to their ancestral home.

Rising global anti-migrant rhetoric only complicates this search for belonging. When hostile environments force diaspora youth to feel like perpetual outsiders, many instinctively draw closer to their heritage, seeking new ways to engage with Sri Lanka.

This is where Sri Lanka needs to think differently. We need better empirical data to understand these communities and what they want from their relationship with the country. The nation must move past old paradigms and ask a far more constructive question: how can we build the bridges they are actively looking for and maintain them?

What do Sri Lankans abroad want from engagement, and what is stopping them from contributing more?

They want to contribute to politics, not only to the economy through investment or buying land. In earlier attempts at migration policymaking, two issues came up. They want to be recognised and listened to, if we have the patience, and they want to discuss how to engage in a meaningful way. Sri Lanka needs a long-term vision for this and the patience to communicate with all migrants and treat them as our own.

Many young Sri Lankans abroad want to work with Sri Lanka, but the barriers are very strong. Regulations on returning youth are restrictive. We want young academics to train abroad, see the world, and come back, but we respond with more restrictions and bonds, and the free-education bond approach is not working. People migrate for experience. If they are happy abroad, they may stay, but they may come back if we provide opportunities and infrastructure.

Instead, the obstacles show up in everyday ways.

A child taken out of school to go abroad may not be able to re-enrol in the same school years later. Returning or foreign-educated graduates have to sit several extra exams to work in the government sector, which discourages anyone thinking of moving back.

Visa rules are another problem; an example of a queer couple hoping to return back to Sri Lanka but faced with visa difficulties was provided. We need visa and policy relaxation, sector-specific policies, and a better understanding of how young people think, including how AI is changing job profiles.

“Behind all this is a very island mentality.” The mindset is backward, and policy is reactive: something happens, and then a policy appears. Government officers operate with a lot of fear, and policymakers tend to avoid these conversations.

Policy relaxation is vital, and we need "manoeuvrability", where someone’s life matters less than it used to, because there are many ways to stay connected. Sri Lanka should see itself as a global, “de-territorial” space. Gen Z and Gen Alpha will not be scared off by restrictions.

How does this bring us back to geopolitics?

When there is little cross-sectoral discussion, a vacuum forms. Other actors can use that political vacuum for their own purposes, not ours. Geopolitics steps in and fills it.

Without a broader national migration policy, we tend to rely on bilateral agreements with individual countries, each tied to a specific issue or case. This fragmentation leaves room for powerful and geopolitically sensitive countries to shape policies to their own advantage, leaving us unable to protect our national interests. Compounding this challenge, the most influential stakeholders in global migration governance are international organisations, some of which primarily represent the interests of specific nations. In the long run, the absence of a coordinated national approach carries a cost for both the individual migrant and the country as a whole.

One way to engage citizens abroad is to give them a vote. Should Sri Lanka do that, and what should it prioritise as it looks ahead?

principle, yes. It’s right. But the discussion here is very surface-level, framed in electoral terms rather than from the citizen’s point of view. Sri Lankan migrants fall into two main groups, temporary and permanent, yet policy focuses mostly on temporary migrants, and the line between the two is thin. During the economic crisis, government officers were offered five years’ leave to work abroad and bring money in. Most of them ended up leaving permanently.

That matters, because temporary migrants contribute more. They leave family and assets behind, intend to return, and keep sending money. Permanent migrants take everything with them, yet tend to have more voice and influence. Democratically, it should be the reverse. We vote with the future in mind, and permanent migrants would get a voice without facing the consequences of the decision.

Italy shows this tension. Italians abroad can vote and have reserved seats in parliament, while migrants who have actually settled in Italy lack the same access to policymaking. That is a democratic citizenship crisis, and it shows we can reimagine citizenship and extend it to those who deserve it.

Questions like these need long-term thinking. Sri Lanka should decide what migration should do for the country over the next 10 to 20 years: which jobs, which skills, and what the SLBFE should promote. Migration is still not treated as a priority, and it should be among the top five or top ten.

If policymakers took away three things from this conversation, what should they be?

First, look beyond remittances. Migrants are citizens abroad whose contributions matter. They can connect Sri Lanka to the world, strengthen its image, bring knowledge and technology, and contribute politically. Secondly, Sri Lanka needs a comprehensive migration policy. It should cover labour and permanent migrants, dual citizens, students and returnees, supported by reliable data. It should also help people make informed choices, gain recognition for their qualifications and return or stay connected. Finally, policy must keep pace with great-power competition, AI-driven job changes, anti-migrant sentiment and younger generations’ ideas of belonging. Sri Lanka should plan what migration should achieve over the next 10 to 20 years, or other countries will fill the gap for their own interests.

Sri Lanka as Europe's Gateway to South Asia

Interview with Martin Klose, Chief Delegate, Delegation of German Industry and Commerce in Sri Lanka



Sri Lanka's Colombo Port
Source: News First

A node in Europe's supply chains

Sri Lanka's location on the main East-West shipping lane has always been an advantage for centuries. The question now is whether the island can turn that position into lasting economic value and into deeper engagement with Europe.

For Martin Klose, Chief Delegate of the Delegation of German Industry and Commerce in Sri Lanka, this begins with how Europe views the island. "European companies should increasingly view Sri Lanka as a strategic node within their supply chains," he said. "As long as global supply chains and maritime trade routes continue to expand, this geographical position will remain significant." With trade booming across South Asia, driven by India's rapid growth and its new push for an EU trade deal, Sri Lanka's strategic position is becoming harder to ignore. Already sitting among the world's top 20 transshipment hubs, the island is well-placed to ride that wave as Europe-Asia shipping connections deepen.

The case rests on more than geography. Sri Lanka's decades of experience in maritime and logistics operations, skilled workforce, and longstanding trade relationship with the EU, including through the GSP+ scheme, are equally important to its potential. "These factors taken together give Sri Lanka a strong foundation to develop further its role as a transshipment hub and as a valuable node within European supply chains", Klose stated.

Competition as an incentive

Colombo's position as a regional maritime hub is increasingly shaped by developments across South Asia, as ports in southern India expand and trade ties between India and Europe continue to deepen. For the question raised regarding whether European countries acknowledge India's ambitions and whether such companies would prefer to opt for India over Sri Lanka, Klose noted that investment decisions are rarely based on the prospects of a single port or country.

"Businesses look at the region more broadly, considering factors such as efficiency, reliability, connectivity, costs, and the overall business environment"

Looking at the bigger picture, Colombo has some real advantages built on decades of experience and smooth operations. As Klose puts it, "The question, therefore, is not whether India will develop alternative hubs, but whether Sri Lanka can continue to enhance its own competitiveness." If Colombo doubles down on modern infrastructure, cuts through regulatory red tape, and rolls out investor-friendly policies, it will easily keep its spot as a major player in the maritime network.

Rather than a threat, Klose sees regional competition as a driving force. "Competition should therefore be seen as an incentive for continuous improvement," he said, adding that it ultimately benefits consumers and companies by giving them more choice. "There is, in my view, sufficient space and demand in the region for multiple maritime hubs to develop and serve growing trade flows."

Beyond the transit port

Colombo's strategic value, however, has not fully translated into wider economic gains. Despite the port operating near capacity, its contribution to the broader economy remains relatively limited.

The reason is clear. "Currently, Sri Lanka focuses very much on being a transit port." The real opportunity lies in attracting investment and building infrastructure for value-added logistics, distribution, manufacturing, and other business services. That shift would let Sri Lanka capture more of the value from the cargo already moving through its waters. "By bringing goods into the country, providing warehousing and logistics infrastructure, and enabling value-added services or production around those goods, Sri Lanka can generate greater economic value from the increasing volume of trade passing through the port," Klose explained.

This, Klose believes, will be the key to raising the income and broader economic benefits Sri Lanka draws from its growing maritime and transshipment activity.

Interest turning into investment

At a roundtable discussion hosted at the German Chamber of Commerce and Industry (DIHK) headquarters in Berlin in 2025, Sri Lanka was noted as being "back on the table" for German investors looking to diversify their production and investment bases. That interest is now translating into concrete activity across the board, with new capital entering the country and existing operations expanding as German firms steadily pour investment into production, tourism, and services.

IT services stand out. "There have been quite positive developments, especially in areas such as IT services, which are increasingly becoming an export-related strength for Sri Lanka," he said, noting that several IT services provided from Sri Lanka are used in Germany and the wider EU.

Logistics is the other bright spot. Klose reported strong interest from large players in the Port of Colombo and its capacity expansion, with several keen to take part in the existing expansion plans. "There has definitely been a positive development over the last few years," he claimed.

As the economy stabilises after the crisis and moves towards a post-IMF phase, Klose also sees a shift in the policy climate. "What is very important for foreign investors is the consistency of policies and that they are applied fairly," he said.

A Global Gateway opportunity

The EU Global Gateway Roundtable in May put the port's next phase on the table. Discussions centred on the expansion of the West Container Terminal and its potential to be developed as a Global Gateway project, the EU's initiative for infrastructure investment.

Feedback from both companies and officials was very positive, Klose mentioned. The forum raised awareness on the Sri Lankan side of what Global Gateway is and what it could unlock. "From the side of foreign investors, it was also perceived as a very interesting and realistic opportunity to look into participating in the growth story of the Port of Colombo."

Klose describes the port as one of Sri Lanka's larger success stories, with continuous growth and ambitious plans to expand capacity, move towards value-added logistics, and become more digitised and competitive.

German companies are well positioned to support that drive through larger investments or through consulting, particularly in green port solutions. “I believe German companies can bring a lot of experience and expertise to the table,” Klose noted.

What would make the biggest difference to German investment decisions? A long-discussed single window for investment would help “if that reform really comes one day,” Klose said. But his priority is broader: a highly predictable and transparent regulatory environment.

“Investors can manage costs and competition, but uncertainty is really the most difficult thing to manage,” he said. “So, faster approvals, clear regulations, policy consistency, digital administrative procedures as far as possible, and transparent decision-making would significantly strengthen investor confidence.”

The Chamber’s dialogue with the government, business associations and the Sri Lanka Ports Authority has been very constructive, Klose said, with clear recognition of the opportunities. The next step is to turn those discussions into reforms that improve the day-to-day experience of logistics operators.



German Ambassador to Sri Lanka and the Maldives Dr. Felix Neumann (second from right) and Delegation of German Industry and Commerce in Sri Lanka (AHK Sri Lanka) Chief Delegate Martin Klose (centre) at the media briefing. Others from left: IWS Holdings Chairman Arthur Senanayake, AHK Head of Corporate Affairs/Export Promotions Malintha Gajanayake and DIMO PLC Chairman Ranjith Pandithage
Source: Daily FT



Sinthuja Sritharan, Research Associate at the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI), Mr Martin Klose, Chief Delegate, Delegation of German Industry and Commerce in Sri Lanka, Piyumani Ranasinghe, Senior Research Fellow at LKI, and Vishwinie Perera, Operations Intern at LKI (Left to right of the image)
Source: Image taken during the interview conducted on the 2nd of October 2026

Regulation as a ticket, not a hurdle

Europe's dense web of rules on AI, data, supply chains, carbon pricing, etc., is often seen as a barrier to trade. Klose, however, takes a different view, emphasising that sustainability, compliance, environmental protection, and data standards are evolving into core business values rather than remaining mere nice-to-have ESG initiatives.

"In the end, it depends on how you use it and the mindset you have towards it," Klose notes. "You can either think of it as a hurdle that slows you down, or you can see it as something that gives you a ticket to being different."

While he acknowledges that these rigorous requirements can weigh heavily on small and medium-sized enterprises, he points to a distinct silver lining for local players. For Sri Lankan companies that have already cultivated strong sustainability and governance practices, these standards tend to be a powerful competitive edge over countries lagging in such initiatives. "If you successfully implement these kinds of policies, it can give your company a unique selling point, enabling Sri Lankan companies to sell to, and continue to access, one of the largest markets in the world," he explains.

Ultimately, geography may have given Sri Lanka its initial seat at the table, but keeping it requires looking far beyond the shoreline. As Klose highlights, converting that historical advantage into lasting economic value relies heavily on consistent policy implementation, a decisive pivot from simple cargo transit to high-value-added services, and above all, an institutional readiness to treat Europe's stringent standards as an open door rather than an obstacle.

Sri Lanka's Economic Resilience, India Relations & ETCA

Interview with Umesh Moramudali, Economist, PhD Candidate, University of Manchester



Source: Daily news

What does economic resilience mean for a country like Sri Lanka, and how can economic policy and diversification strengthen its strategic autonomy?

In technical terms, economic resilience is a country's ability to withstand and recover from shocks. The clearest illustration is the 2022 crisis, where Sri Lanka was unable to cope with shocks due to poor economic policies in both the short run and long run. Due to such policies, the economy was not resilient. The rupee was pegged at roughly Rs. 197–202/USD for more than a year until March 2022, while tax policy changes led to a sharp decline in government revenue. By 2019, Sri Lanka was already a vulnerable economy, but bad policies made Sri Lanka lose economic resilience and therefore resulted in default.

A more recent stress test of this same resilience question came with the US-Israel war involving Iran, which began in late February 2026 and disrupted shipping through the Strait of Hormuz, a route used for approximately 60% of Sri Lanka's energy imports. The disruption led to fuel rationing, the introduction of a four-day working week, and electricity and fuel price increases of between 25% and 40%. The rupee depreciated about 7.9% in H1 2026, sliding from Rs. 309.99 to Rs. 336.66/USD. Unlike 2022, however, reserves did not reduce significantly, and the Central Bank responded with a decisive 100-basis-point rate hike rather than a collapse into default, suggesting Sri Lanka's post-2022 buffers have improved its shock-absorption capacity, even if it remains far from fully insulated. The key here is that after the default, during 2023, 2024, and 2025, Sri Lanka significantly improved its tax revenue, increased foreign currency reserves, and achieved a primary surplus in the budget by following sensible economic policies. These policies have allowed Sri Lanka to build some level of economic resilience.

For comparison, exports accounted for approximately 177.9% of GDP in Singapore and 98.2% in Vietnam in 2025, compared to just 19.0% in Sri Lanka (World Bank, n.d.). As the data suggest, Sri Lanka's exports remain an extremely low percentage of GDP. If Sri Lanka needs to build resilience in the long term, it really needs to increase exports and overall trade. Economies such as Singapore and Vietnam generate much higher foreign-exchange earnings relative to the size of their economies, giving them a stronger buffer against external pressures.

In short, resilience requires:

- Higher government revenue
- A stronger, better-managed budget
- More trade
- More investment

These feed into economic growth: more exports, more negotiation, more investment, more jobs, and higher incomes, which in turn contribute to greater resilience.

Realistically, can Sri Lanka achieve economic resilience? Do we have the needed infrastructure for it?

Resilience is a long-term structural outcome, not something achievable in one or two years. Any country can become economically resilient if it sustains the right policies over a long period. For example, India faced its own crisis in 1991, carried out extensive reforms since then, and is now fairly resilient. Its foreign reserves are large enough to defend its currency by buying more than needed when necessary. China similarly holds a strategic fuel reserve and has invested heavily in developing its technology and export base.

Sri Lanka, on the other hand, currently lacks these advantages. We are certainly way better than we have been in 2022, but there is still a long way to go. Some policies remain too restrictive, while other necessary reforms are yet to be implemented.

Sri Lanka's international trade remains weak. This also means that Sri Lanka's exports are substantially low. In 2000, Sri Lanka's exports amounted to nearly 40% of the country's GDP. Right now, our exports are around 20% of the GDP, indicating that our export performance has deteriorated. We need to increase our exports and integrate Sri Lanka into value chains.

Sri Lanka also lacks the kind of modern trade agreements other countries have. Singapore, for example, has signed multiple bilateral and multilateral trade agreements, including those linked to ASEAN and the Trans-Pacific Partnership (TPP). Sri Lanka has not gone down this path to the same extent.

How should Sri Lanka think about deeper economic integration with India? Not just as a trade question, but within the wider geopolitics of the Indian Ocean and India's role in regional value chains? What opportunities and risks should Sri Lanka weigh?

This should be understood through the same resilience lens described above: macroeconomic resilience needs more trade and more investment, and India, as the closest large economy, is an immense opportunity on both fronts. India's market of more than one billion people offers Sri Lanka significant scope to increase exports and revenue. Sri Lanka's exports as a share of GDP are currently very low, and increasing them means expanding into larger economies such as India, as well as China and other Asian markets, where Sri Lanka currently trades comparatively little.

India is embedded in global value chains. A value chain is a series of activities that a company undertakes to transform raw materials into finished products and deliver them to customers. This includes activities such as sourcing, production, distribution, marketing, and customer service. Thus, a single finished good (e.g. an iPhone) is assembled from components sourced across many countries. That's how international trade is now conducted. Given its proximity to India, Sri Lanka can plug into these value chains.

Realising this potential requires Sri Lanka to further open its economy and adopt more investor-friendly policies, so Indian investors can enter and build a broader, stronger economic relationship that grows exports.

The 2000 agreement (ISFTA) only addressed tariff barriers. Does the ETCA risk repeating that gap? Is there a risk that certain non-tariff barriers go unaddressed again?

ISFTA was the first trade agreement between the two countries, essentially an early, experimental attempt ("it is like an undergraduate assignment"), with simple provisions never designed for today's more sophisticated trade patterns. This is why there have been calls to move beyond it. Initially, there were proposals to address the Comprehensive Economic Partnership Agreement (CEPA), but it was abandoned due to domestic political pressure. Then came the Economic and Technology Cooperation Agreement (ETCA). It has since gone through roughly 14–15 rounds of negotiation, with much of the work already completed. It's intended to take a more modern approach than ISFTA, closer to agreements like Singapore's and Thailand's, which include the features a modern trade agreement needs, such as:

- A dispute resolution chapter
- An investment chapter
- A trade-in-services chapter

These give investors protection and properly address non-tariff barriers and market access, areas ISFTA did not cover. The biggest complaint from Sri Lankan exporters under ISFTA was exactly this. They faced significant non-tariff barriers exporting to India (e.g. Indian authorities not accepting certain licences, requiring extra approvals). ETCA aims to bring more modern, systematised trade practice to address this ("the master level assignment" by comparison) and address these non-tariff barriers in a more systematic manner.

Follow-up on "demonisation" of the agreement

Similar to a CEPA, ETCA also attracted considerable domestic criticism. For instance, some argued that any Indian professional, including doctors, could simply come and work in Sri Lanka. This isn't accurate because that is not how trade-in services agreements work.

There are four recognised modes of trade in services:

1. Cross-border supply, where the consumer and provider are in different countries (e.g. Google).
2. Consumption abroad, where the consumer travels to obtain the service (e.g. studying at a foreign university).
3. Commercial presence, where a foreign company sets up and operates locally (e.g. Shangri-La operating in Sri Lanka). Companies must still register locally and follow all domestic laws; a trade agreement adds structure and certainty. Once a concession is granted under the agreement, the government cannot arbitrarily reverse it.
4. Movement of natural persons, the most controversial mode, is a driver of fears like "Indian barbers are taking Sri Lankan jobs". In practice, however, these trade agreements specify exactly which sectors are opened. Under the Singapore agreement, for example, Sri Lanka opened only two categories: business visitors (a 30-day visa to explore investment opportunities) and intra-corporate transferees (specialised staff - e.g. a chef with 5 - 6 years' experience brought in by their own company for a specific project, not open labour migration).

There is another category called independent professionals. This category was not liberalised under the Singapore Free Trade Agreement. The anticipation is that a similar strategy will be followed in the ETCA as well. This means under current free trade agreements and the ETCA. Not every Indian professional or foreign professional can come in and work in Sri Lanka simply because of the trade agreement.

Put simply, Indian doctors will not come and start randomly practising in Sri Lanka simply because we signed the ETCA. Nor will Indian barbers be able to open barber shops simply because of the ETCA agreement. These are mere sensationalist claims that ignore the technicalities of the trade agreements or the nature in which they come into operation.

Could this systematic process eventually create excessive bureaucracy, becoming a push factor rather than a pull factor for trade and investment?

Bureaucracy already exists in current trade agreements; businesses are already required to obtain various approvals. A modern trade agreement smooths this process, not adds to it. This is why complementary "soft infrastructure" is needed alongside the agreement itself, including a dedicated trade office, a trade portal, and similar systems.

Having a trade agreement doesn't mean everything can be exported tariff-free. Rules of origin requirements still apply. Typically, at least 30 - 35% of a product's value must be made in Sri Lanka to qualify for preferential treatment. The bureaucratic steps involved, such as obtaining Rules of Origin certification, are necessary, but the process can be simplified and integrated more effectively rather than becoming a burden.

Given the size gap between the two economies, how would mutual benefit under ETCA actually be measured or confirmed? Is there a mechanism for this?

Under the existing ISFTA, India has granted Sri Lanka more concessions than Sri Lanka has granted India. The underlying principle was that the larger economy needed to extend more concessions to the smaller partner. India phased out its tariffs by 2003, while Sri Lanka had until 2008, and Sri Lanka kept a much longer negative list, comprising roughly 1,180 tariff lines compared to India's 429.

A similar pattern is expected under ETCA, as this is ultimately as much diplomacy as it is about economics. India seeks a stronger presence in Sri Lanka and recognises it as the smaller partner in the relationship, so some degree of asymmetry is anticipated. The precise extent will be determined through negotiation.

Sri Lanka needs to have a stronger negotiating team in place to ensure proper negotiations are conducted effectively. With greater internal clarity on exactly which sectors the country is prepared to open, negotiations can proceed on that basis.

However, as the larger contributor, wouldn't India want something significant in return?

Naturally, every country negotiates in its own national interest. Indian companies stand to benefit from investing in Sri Lanka (e.g. ITC and other Indian firms already engaged in export production here), and mechanisms like GSP+ function as business incentives rather than purely political gestures.

From a diplomatic perspective, India also seeks a stronger economic presence in Sri Lanka than China does. This preference can be traced back to the 2010s, when heavy Chinese involvement in the Sri Lankan economy made India uncomfortable and prompted it to increase its own engagement to secure a stronger regional-power presence.

Given India's desire for a stronger presence than China, could this create disagreement between the two powers, and would Sri Lanka ever have to "pick a side"?

In my view, the era of "choosing sides" is over. There is a concept known as "polyalignment", which is aligning with all partners rather than choosing exclusively, because the global economy today is far too interconnected for a zero-sum approach. Even India, despite tensions with China, continues to import heavily from China for raw materials simply because there are often no viable alternatives. This illustrates that no country can simply choose between partners; all play different, complementary roles.

Occasional friction can still occur. However, isolated incidents don't mean Sri Lanka must align exclusively with one side, as doing so would be an unwise approach. Trade agreements can help reduce such friction by clearly specifying what each partner is expected to do in advance.

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Sri Lanka's next test: Turning recovery into resilience

By Azusa Kubota, UNDP Resident Representative in Sri Lanka

Sri Lanka's Recovery and Vulnerability

As Sri Lanka enters the final years of the 2030 Agenda, two stories are unfolding side by side—and the emerging polycrisis amplified by El Niño will test which one defines the country's future.

The first is a story of recovery. Four years after the economic crisis of 2022—the country's worst in its post-independence history—growth reached 5 percent in both 2024 and 2025. The World Bank's recent reclassification of Sri Lanka as an upper-middle-income economy marks a welcome milestone in that recovery (World Bank, 2026).

The second story is quieter—told household by household and felt in the daily realities of people who have yet to experience the full benefits of recovery. UNDP's Multidimensional Vulnerability Index found that 55.7 percent of the population were deprived in at least three of twelve indicators spanning education, health, disaster exposure and living standards (UNDP & OPHI, 2023). Preliminary World Bank analysis suggests that around 40 percent of the population may live within a broad vulnerability band around the poverty line—close enough that another price, employment or climate shock could push many backwards (World Bank, 2026).

For families already spending most of their income on food, transport and electricity, even a modest price increase or a failed cultivation season can erase hard-won gains.

Sri Lanka's new income classification also brings this gap into sharper focus. At the World Bank's US$8.30-a-day poverty benchmark typically used for upper-middle-income countries, around 60 percent of Sri Lankans would currently fall below that threshold (World Bank, 2026).

This does not mean that six in ten Sri Lankans have suddenly become poor; rather, it shows how far household living standards still have to rise for the country's social reality to catch up with its income classification.

The emerging El Niño is therefore more than another climate warning: it is a test of whether Sri Lanka can use this recovery window to reduce losses before they reach vulnerable households.

In June 2026, NOAA declared the onset of El Niño, and subsequent projections warned that it could become one of the strongest on record. Drought, heat and erratic rainfall could disrupt paddy cultivation, irrigation storage, hydropower generation and food prices.

The danger is not simply that another shock may arrive, but that a single shock can move rapidly through several systems at once. A prolonged dry spell can reduce irrigation water for the Maha season, weaken paddy production and push up rice prices. Lower rainfall can also reduce hydropower generation, increasing reliance on thermal power when fuel prices are already exposed to geopolitical tensions. Retail diesel and petrol prices in Sri Lanka rose by around 36 percent between February and August 2026 (Ceylon Petroleum Corporation, 2026). Higher fuel costs then feed into transport, electricity and the price of basic goods. If domestic food production falls, imports become more important; but if India and other suppliers face similar El Niño conditions, regional supply could tighten just when Sri Lanka needs it most. This is what a polycrisis means in practice: climate, economic and geopolitical risks interacting and amplifying one another.

These pressures are landing on households that have had little time to rebuild. Cyclone Ditwah damaged roughly 34,500 micro, small and medium-sized enterprises, while recovery financing has not always reached the last mile. Food inflation reached 8.5 percent in August 2026—its highest level since May 2023—even before the projected effects of the current El Niño were expected to be fully felt (Central Bank of Sri Lanka, 2026).

At the same time, World Bank analysis indicates that real wages remain roughly 10-15 percent below pre-crisis levels (World Bank, 2026). For households and enterprises still recovering from the economic crisis and recent climate shocks, these pressures converge in one place: thinner incomes, higher costs and fewer buffers against the next disruption.



Source: UNDP Sri Lanka/Ravindu Perera, 2025.
Redefining Resilience in a Polycrisis.

Redefining Resilience in a Polycrisis

Sri Lankans are often described as resilient. But resilience should not mean asking people to absorb one shock after another and somehow return to where they were. In a polycrisis, resilience must mean strengthening the systems around people—social protection, livelihoods, water management, justice, energy, finance and local services—so that households do not bear the full cost of every crisis and are able to benefit from the recovery. When families must sell assets simply to meet daily needs, temporary cash assistance may be necessary, but it is rarely sufficient to help them rebuild. The central task is to connect immediate relief with livelihoods, essential services and affordable finance so that one setback does not become a lasting poverty trap, leaving a permanent development scar.

Recent experience shows what this means in practice.

Following Cyclone Ditwah, UNDP rapidly reprogrammed existing resources around two connected priorities: restoring livelihoods and food security, and restoring people's access to essential services and protection.

This included support for waste management, soil conservation and recovery assessments, alongside mobile services to replace lost documentation, legal-aid outreach and shelters for survivors of sexual and gender-based violence. These interventions helped people regain income, identity, protection and access to justice, while enabling the environment to recover. By combining UNDP's Multidimensional Vulnerability Index with flood- and landslide-exposure data, we were also able to direct this support towards communities facing the greatest overlapping risks.

The lesson is clear. Poverty reduction and resilience are the same agenda. A household with secure work, savings, documents, children in school and quick access to services and affordable financing can absorb a shock and recover. A household already deprived on several fronts often cannot. Income measures alone may understate this risk, and one failed cultivation season, illness, job loss or price shock could rapidly change a household's status.

From Response to Anticipation

This is why anticipation matters. Advances in climate science and data have given Sri Lanka early warning of El Niño's possible effects.

The country can use that lead time to protect water, livelihoods and household purchasing power before losses deepen, rather than mobilizing support only after damage is done.

Anticipatory action can be as concrete as capturing rain before it disappears. In the dry zone, where El Niño may leave communities facing months without effective rainfall, the immediate task is to harvest the remaining seasonal rains, recharge groundwater and conserve water before the crisis peaks. Household rainwater harvesting, rehabilitated deep wells, solar-powered pumps, water budgeting and community awareness can prevent a foreseeable shortage from becoming a humanitarian crisis. UNDP's 7.5-year partnership with the Government of Sri Lanka on integrated water management demonstrates the potential: when communities are empowered to manage and conserve water, development gains multiply. For example, in Palugaswewa, Anuradhapura, communities supported through the programme retained more than 50 percent of their tank capacities after cultivating the full extent of both the 2026 Yala and Maha seasons, amidst drought conditions that had started in May this year, while others experienced severe drought impacts.



Source: UNDP Sri Lanka
Palugaswewa Cascade

UNDP is applying the same anticipatory approach in other exposed sectors. We have begun introducing cooling sheds for livestock and silage to conserve feed; developing disaster-risk insurance and quickly accessible, guaranteed finance for vulnerable enterprises; reducing heat stress among informal waste pickers; and working with the Disaster Management Centre to strengthen local disaster-response capacity.

Based on our preliminary analysis of the effects of disruptions in the Middle East and El Niño on global value chains, and subsequently on the Sri Lankan businesses and MSMEs that are exposed, we are working with the Government and microfinance institutions on credit guarantee schemes and also disaster insurances. If we want to reduce poverty, mechanisms to protect and uplift micro and small enterprises deserve renewed attention and support. These interventions differ, but the principle is the same: act on foreseeable risks before they become irreversible losses.

This shift from response to anticipation requires financing and delivery systems that can release support before losses occur. It also requires institutions able to identify risk early, maintain an updated social registry, coordinate across sectors and reach exposed communities quickly.

Through the UNDP–Government Citra Fellowship and Citra Lab's wider work on digital transformation, UNDP has supported public officials to use systems thinking, human-centred design and adaptive decision-making in practice. These capabilities help public institutions understand how climate risk, food security, social protection and service delivery interact—and adjust policies as conditions change.

But anticipatory governance must also be trusted. Early action will only protect people if public resources reach those who need them most, when they need them most. That requires transparent, accountable and corruption-free systems. In a time of constrained public finances, integrity is not separate from resilience; it is central to it.

Achieving the SDGs Together

The Sustainable Development Goals remain the right yardstick for this work. Sri Lanka's third Voluntary National Review in 2027 offers a timely accountability moment: not only to record national recovery, but to ask whether vulnerability is falling, whether institutions are better prepared, and whether support reaches exposed households before a shock becomes a crisis (Sustainable Development Council of Sri Lanka, 2026).

Sri Lanka cannot insulate itself from every shock. El Niño originates in the Pacific, fuel prices are shaped by events far beyond its borders, and Sri Lanka contributes only a small share of global greenhouse gas emissions. But the country can decide how prepared its institutions are, how quickly support reaches exposed communities, and whether each recovery reduces vulnerability before the next crisis arrives.

Delivering this shift will require evidence that identifies who is most exposed; public institutions that can adapt and act early; transparent financing and service delivery; and partnerships that connect national priorities with regional knowledge, climate finance and private-sector solutions. This is the contribution UNDP is bringing to Sri Lanka: combining data with integrated programmes, policy and digital tools, institutional capacity and partnerships.

Our role is not to replace national effort, but to help strengthen its speed, reach, and quality—so that recovery becomes resilience, and resilience becomes progress people can see and feel in their daily lives.

"Leaving no one behind is therefore more than a principle. In an era of compounding shocks, it is a test of how development is delivered."

Sri Lanka has shown that it can recover. The task now is to use this moment to move from reacting after losses occur to anticipating and reducing them so that institutions act earlier, systems adapt faster, and resilience is measured not only in national indicators, but in the daily security of every household.

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Strengthening Sri Lanka's National Cybersecurity Governance: A Comparative Study of Regional Institutional Models

By Samanmali Atalugama, Director/International Security Cooperation, Ministry of Foreign Affairs, Foreign Employment & Tourism

Introduction

South Asia is among the world's rapidly digitalising regions. Digital identities, instant money transfers and e-government services are proliferating throughout the area, but so are network security threats. Ransomware attacks, financial fraud, hacktivism, and assaults on public services are putting national economies, critical infrastructure and individual users at risk.

Sri Lanka is at the crossroads of its own digital revolution, as the government's agenda, A Thriving Nation, A Beautiful Life, prioritises digitalisation as the key to economic recovery and public life reform. But public trust is of utmost importance to the nation, as its people's adoption of digital identity systems, cashless payments and online services will be determined by their perception of personal data and financial security. Thus, cybersecurity policy is a prerequisite to a thriving digital economy in Sri Lanka.

When designing an institutional framework for a National Cyber Security Authority, Sri Lanka could also take into account the practices of other regional players, such as India, Pakistan and some of South Asia's other technology markets. By analysing the differences and similarities between their legislative frameworks, authority structures, and approaches to critical information infrastructure protection, Sri Lanka could develop a comprehensive view of what works, what does not, and what can be applied to its own market with potential modifications.

Regional Experiences

India:
India has established a comprehensive cybersecurity framework, with the Information Technology Act, 2000, being the primary legislation relating to cybercrime and electronic commerce. The framework includes specialised institutions, regulations, and data privacy laws that promote the prevention of cybercrimes, detection, reporting, investigating, and responding to incidents. Some of the critical institutions that participate in cybersecurity-related activities are the Computer Emergency Response Team-India (CERT-In), the National Critical Information Infrastructure Protection Centre (NCIIPC), and the Indian Cyber Crime Coordination Centre (I4C). The latter is responsible for coordinating law enforcement agencies in investigations and responding to cybercrimes.

Pakistan:
Pakistan's cybersecurity landscape is primarily governed by the Prevention of Electronic Crimes Act (PECA), 2016, and the National Cyber Security Policy, 2021. The country has also established the National Cyber Crime Investigation Agency in order to improve its cybercrime enforcement capabilities. Amendments to PECA made in 2025 gave authorities additional powers to regulate online content and created the post of a Social Media Protection and Regulatory Authority. This move has been met with criticism from civil society organisations, journalists and digital rights advocates over fears that the use of broad definitions of cybercrimes and enhanced regulatory powers can lead to restrictions on freedom of speech and press freedom.

Nepal:
Nepal's cybersecurity laws are primarily governed by the Electronic Transactions Act, 2008, which regulates electronic transactions and cybercrimes, and the Individual Privacy Act, 2018, which protects personal data. The National Cyber Security Policy 2023 provides strategic guidance for securing cyberspace, critical information infrastructure, and enhanced institutional coordination. Additionally, Nepal has a National Cyber Security Centre to execute and coordinate national cyber-security strategies. The existing legal framework and policies have several gaps, including the need for updated laws and the enhancement of technical expertise, infrastructure, and institutional capacity to effectively implement and enforce the existing regulations and strategies.

Maldives:
The Maldives is a useful comparator for Sri Lanka as a small island economy dependent on tourism and financial services. It established the National Cyber Security Agency in March 2024 and introduced a Cyber Security Bill in 2026 to strengthen its institutional and legal framework. The proposed legislation includes provisions for cybersecurity policy advice to the National Security Council and licensing certain cybersecurity service providers. The Maldives is also developing a Personal Data Protection Bill with World Bank support and signed the UN Convention against Cybercrime in October 2025. These developments offer relevant lessons for Sri Lanka in establishing a statutory cybersecurity authority, regulating cybersecurity services and strengthening data protection and international cooperation.

Sri Lanka's Existing Framework

Current Laws and Institutions

Sri Lanka has an established but fragmented cybersecurity framework comprising several laws and specialised institutions. The Computer Crimes Act No. 24 of 2007 makes unauthorised use of computers illegal, while the Electronic Transactions Act No. 19 of 2006 gives legal force to electronic data and signatures. Moreover, Sri Lanka was the first country in South Asia to join the Budapest Convention on Cybercrime, in 2015.

The Personal Data Protection Act No. 9 of 2022 stipulates the rules for personal data protection in Sri Lanka, and its supervision is ensured by the Data Protection Authority of Sri Lanka. Thanks to this act, Sri Lanka has taken significant steps towards data privacy and freedom of speech, but the amendment of 2025 stipulates the commencement of its application from 1 January 2027. Online Safety Act No. 9 of 2024, which aims at regulating certain harmful online content, has been associated with concerns about Sri Lanka's freedom of speech.

In terms of organisations, Sri Lanka CERT|CC, established in 2006, has the leading role in responding to cybersecurity-related incidents, and the National Cyber Security Operations Centre aims to ensure round-the-clock monitoring of the country's government systems and critical infrastructure. However, despite the presence of a number of laws and organisations, there is a need for improving interagency cooperation, ensuring strategic guidance, and developing a comprehensive legal framework for regulating issues of national cybersecurity. In addition, the Agency is under the supervision of the Ministry of Digital Economy.

It operates in cooperation with the ICTA and the Telecommunications Regulatory Commission, and there is also a National Cyber Security Operations Centre that monitors government systems.

The Policy Direction under the Ministry of Digital Economy

The Government's policy framework, A Thriving Nation – A Beautiful Life identifies digitalisation as a key driver of economic growth, improved public-service delivery and administrative efficiency. Major initiatives include the Sri Lanka Unique Digital Identity (SLUDI) project and the proposed Government Super App, designed to facilitate access to public services through a single digital platform. The Government aims to expand the digital economy to US$15 billion by 2030, as set out in its digital economy strategy.

To support this transformation, the government has pursued new legal and institutional arrangements, including a proposed Cyber Security Act to strengthen national cybersecurity governance and protect critical information infrastructure. In June 2026, the Cabinet also approved the preparation of a Digital Economy Bill to establish an institutional framework for digital economy development. These initiatives complement the Personal Data Protection Act and aim to strengthen digital governance, institutional accountability, and the security and resilience of national digital infrastructure.

Conclusion

Regional practice demonstrates South Asian states have developed institutional and national policy to combat cyber threats. However, they need to reinforce and update their measures to address new challenges emanating from continuing rapid technological advancement and increasing threats' sophistication, volume, and complexity. Informed by regional experience, Sri Lanka must formulate a law that designates and protects national information infrastructure assets according to specific criteria and harmonised security requirements while clarifying the essential sectors such as energy, finance, transport, communication, and health.

Furthermore, deepened regional cooperation with India, Maldives, Nepal, Pakistan, and international cybercrime law enforcement regimes is critical to promoting intelligence sharing, capability building, and enhanced investigative cooperation among member states.

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When Care Returns Home: Sri Lankan Women Migrant Workers, Unpaid Care and Gender Responsive Crisis Diplomacy

By Piyumani Ranasinghe, Senior Research Fellow (LKI)

Introduction

The Gulf has been a major destination for Sri Lankan labour migration and depicts a high concentration of women in lower-paid domestic and care-related occupations (Central Bank of Sri Lanka, 2025; Weeraratne, 2014). The dominant framing of these women workers is as remittances, which obscures the reproductive labour that enables migration and sustains households before, during, and after migration. The ongoing geopolitical crisis in the Gulf region has simultaneously caused loss of employment and income, while migrant women workers have had to resume unpaid care responsibilities upon their return home (International Domestic Workers Federation (IDWF), 2026). On 28 September 2026, the National Action Plan for the Social Care Sector (2026–2035) was approved by the Cabinet of Ministers in Sri Lanka. It seeks to recognise and value unpaid household care, protect care workers, and promote a more equitable distribution of care responsibilities (Office of the Cabinet of Ministers of Sri Lanka, 2026).

This paper problematises this as 'care displacement and relocation' and argues that Sri Lanka's recognition of unpaid care as an economic and public-policy concern provides an important basis for rethinking crisis diplomacy. If unpaid care sustains households and the wider economy, the disruption and relocation of care resulting from geopolitical crises warrants crisis diplomacy to move beyond repatriation. It must consider how employment, income and reproductive responsibilities are redistributed when women migrant workers return home. Building on the LKI policy brief, "Sri Lankan Women Migrant Workers in the Gulf: Understanding Crisis Diplomacy in Times of Geopolitical Tensions" (Kandaramage and Ranasinghe, 2026), the present study extends the discussion by examining the gendered implications of crisis-induced labour disruption through the lens of social reproduction and unpaid care.



Source: Daily FT

The Political Economy of Unpaid Care

Social reproduction, the conceptual framework employed in this study, refers to the gendered labour and social processes through which people and communities are sustained, and workers are reproduced across generations (Ferguson et al., 2016, p. 25). The economic paradox of caring labour is that care is socially indispensable, but its economic value is systematically difficult to recognise and reward (Folbre, 1995). In Sri Lanka, unpaid care has historically been organised through gendered expectations of women's responsibility for household reproduction (Kottegoda & Peiris, 2021). Unpaid care is treated as an extension of women's familial obligations rather than as economically significant labour (Kottegoda, 2023, p.86). According to the Sri Lanka National Time Use Survey (2017), 87.3% of women engage in unpaid housework and care work, spending an average of 5 hours and 36 minutes per day on these tasks, nearly four times the 1 hour and 30 minutes spent by men. (Dissanayake et. al., 2022). It hinders their participation in paid employment (International Labour Organisation (ILO), 2024).

International migration for domestic work is conceptualised as survival migration, done out of necessity because no alternative source of income exists (Kottegoda, 2004). This causes a two-fold "displacement of care" (Withers and Piper, 2018, p. 593). First displacement happens when reproductive responsibilities are redistributed across households/borders where care is reorganised through relatives, largely other women (Fan & Parreñas, 2018). The second displacement happens when socially expected and economically invisible domestic work becomes commodified and remunerated when performed within another household. Thus, the care responsibilities which constrain women's participation in the Sri Lankan labour market become feminised domestic and caring skills and thereby paid labour in wealthy Gulf households (Handapangoda, 2024, p. 265).

When Care Returns Home: The 2026 Geopolitical Crisis

Due to the geopolitical crisis in the Gulf, approximately 200 - 250 formal requests for repatriation have been received by 25 March 2026 (Sunday Times, 2026). The crisis also revealed multiple layers of employment insecurity among migrant workers, including reduced working hours, wage theft, delayed contract renewals and loss of employment-related protections (ILO, 2026).

Domestic workers face unique vulnerabilities as their employment and accommodation are often located within private households, making access to communication, consular assistance and evacuation arduous (Kandaramage and Ranasinghe, 2026). Sri Lankan crisis governance predominantly considers repatriation and the economic losses (Perera, 2026). It overlooks how women workers further face multidimensional gendered vulnerabilities upon involuntary return, especially being pushed to unpaid domestic labour amid limited viable local employment alternatives (Kandaramage and Ranasinghe, 2026).

Sri Lanka's gendered organisation of unpaid care forms part of the context in which women enter migrant domestic work in the first place. Migration is an income strategy to transfer unpaid reproductive labour into paid care work abroad. The Family Background Report (FBR), an instrument which sought to address concerns surrounding children left behind when mothers migrated, has been criticised for reinforcing the expectation that women should absorb care responsibilities within the household. It overlooks the structural conditions that produce the demand for migrant care labour (Withers, 2019).

Unpaid Care and Sri Lanka's Current Policy Response

The 2023 National Policy on Gender Equality and Women's Empowerment recognises the significance of care work and places greater emphasis on recognising and reducing the unequal burden of unpaid care (Ministry of Women and Child Affairs, 2023). In July 2026, the Prime Minister, Harini Amarasuriya, stated that care should not be treated simply as a private responsibility managed within individual households. She described care as a social responsibility, an economic issue, a gender-equality issue and a matter of public policy. She also highlighted how inadequate and unaffordable care services can force women to reduce working hours, decline employment opportunities or leave the workforce (Prime Minister's Office, 2026). Evidently, the National Action Plan for the Social Care Sector (2026-2035), approved by the Cabinet of Ministers on 28 September 2026, seeks to strengthen social care services and promote more equitable distribution of care responsibilities (Office of the Cabinet of Ministers of Sri Lanka, 2026).

However, the implications of recognising unpaid care as an economic concern extend beyond domestic social policy.

If unpaid care is indispensable to economic activity within Sri Lanka, its disruption should also be considered when geopolitical instability affects migrant workers abroad. The return of a migrant worker may create a double economic loss. First, she may lose the wages and economic autonomy associated with paid employment abroad. Second, her household may absorb additional unpaid care responsibilities without remuneration. The first loss is more readily visible in conventional economic assessments, while the second remains difficult to measure and may be treated as a private household matter. Thus, beyond the issue of income loss during a crisis, policymakers must consider the redistributed costs of sustaining households when paid employment is interrupted.

Rethinking Gender-Responsive Crisis Diplomacy

Therefore, if migrant women are recognised primarily through the remittances they generate, the reproductive labour that sustains households may remain outside the scope of crisis governance. As Muchhala et al. put it, "Social reproduction buffers communities from the economic, social and physical effects of crises by taking on additional caring labour both paid and unpaid, inside and outside the household…" (Muchhala et al., 2022, p. 1). Thus, whether one is performing unpaid care at home or is returning from the Gulf, "gendered norms demand that women accept the multitude of domestic work and responsibilities with little or no question as to whether they are full-time 'housewives' or 'paid workers'." (Kottegoda, 2023, p.87). A gender-responsive approach to managing the crisis requires policymakers to think beyond repatriation and consider different ways in which women experience and respond to crises. Crisis diplomacy typically involves "vital practical strategies" ranging from diplomatic actions, negotiations and communication strategies undertaken to manage sudden, high-stakes situations (Avenell and Dunn, 2016). A gender-responsive approach requires efforts to align institutional arrangements and policy responses to address the aforesaid differences.

Sri Lanka's current domestic policy commitments provide an opportunity to connect care-related concerns with bilateral labour engagement and crisis planning. Sri Lanka could progressively incorporate gender-responsive protection, access to assistance during emergencies and post-return support into its engagement with Gulf destination countries. These measures would move crisis governance beyond a narrow sequence of protection, evacuation and return towards a more comprehensive approach that includes reintegration and resilience. The central policy question is whether Sri Lanka's crisis response recognises the economic and social consequences that follow a worker's return. When paid employment is disrupted, care does not disappear; its organisation, location and economic visibility may change. A gender-responsive approach to crisis diplomacy must make these changes visible within the design of migration governance and foreign-policy responses.

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INR and RMB Trade Settlement for Sri Lanka: Opportunities, Constraints and the Limits of De-dollarisation.

By Sinthuja Sritharan, Research Associate (LKI)

The current international financial architecture is undergoing a structural transition as developing economies turn to de-dollarisation to reduce their exposure to a dollar-centric system. Since the Bretton Woods system was established in 1944, the US dollar has been the primary reserve and vehicle currency, not only because of its liquidity, but because the postwar settlement built the entire trade and financial architecture around it. This has given the United States an "exorbitant privilege", the ability to finance persistent deficits and borrow cheaply, while the rest of the world holds dollar assets and treats US public debt as one of the safest assets (Tricontinental, 2026). The rise of regional settlement frameworks and the gradual emergence of a multipolar order should be read as a response to this asymmetry rather than as a purely technical development.

For Sri Lanka, as a country still working through the consequences of a protracted debt crisis and facing substantial principal and interest payment obligations in the years ahead, this asymmetry is one of the primary concerns. Reliance on foreign-currency financing raises financial vulnerability for countries already at risk of debt distress (Bonizzi et al., 2024). The economy's dependence on imports of both primary and secondary goods is significant, with annual import bills of USD 5.15 billion from China and USD 4.33 billion from India (Sri Lanka Export Development Board, 2026), trade that has traditionally been settled largely in dollars. On these terms, settling bilateral trade in local currency is less a technical transition and more of a strategy to reduce the country's dollar vulnerability exposure. This analysis examines the RMB and INR as they operate through the Central Bank of Sri Lanka–People's Bank of China (CBSL–PBOC) framework and the Reserve Bank of India's Special Rupee Vostro Account (SRVA) mechanism, asking how far either arrangement genuinely shifts the underlying asymmetry rather than merely relocating it.

Sri Lanka's current economic trajectory is dominated by the need to rebuild foreign exchange reserves, which declined steadily from 2020 until usable reserves were close to zero by April 2022 (Treasury, 2025). The country's historical reliance on the dollar has imposed a double conversion penalty, whereby every transaction routed through LKR–USD and third-currency conversion generates additional fees and spread risk, costs that fall on banks and the state and are eventually passed on to households through a higher cost of living. These pressures are set to intensify in coming years. Under the memorandum of understanding signed with the Official Creditor Committee and the amendment agreements signed with the Export-Import Bank of China on 26 June 2024, Sri Lanka's capital grace period ends in 2028, after which principal and interest repayment resumes on a schedule of progressive amortisation running to final repayment in 2043 (Treasury, 2025). The country has also agreed to link its international sovereign bond servicing to a macro-linked bond structure, under which creditors share any growth outperformance relative to the IMF's baseline projection, an arrangement that caps the domestic benefit of recovery (Treasury, 2025). Taken together, these commitments require Sri Lanka to hold a substantial liquidity buffer against future dollar outflows and make diversifying settlement arrangements away from dollar dependence a necessity; success in alternative currency settlement is seen as critical to building a reserve buffer before repayments resume in 2028.

Operational Architecture and Economic Impact of RMB Settlement

The CBSL–PBOC Framework

In April 2026, the Governors of the CBSL and the PBOC, meeting, underscored the case for RMB-denominated settlement of bilateral trade, formalising a framework for direct RMB settlement in which the Bank of China (Colombo Branch) serves as the clearing bank.

This arrangement reflects a bilateral decision, a pattern that recurs throughout China's approach to RMB internationalisation, in which state-to-state arrangements and institutional ties, rather than open capital markets, extend the currency's international reach (Shimizu & Tomizawa, 2026).

Technical clearing path

The settlement process follows a fixed route in which the importer pays for Chinese goods in RMB through a local commercial bank, which accepts the equivalent sum in LKR and converts it; the transaction is routed through the clearing bank and settled via the Cross-Border Interbank Payment System (CIPS), an alternative to the Society for Worldwide Interbank Financial Telecommunication (SWIFT); and the Chinese exporter then receives RMB directly into a domestic account. Several steps in this chain run through Chinese institutions, namely the clearing bank and CIPS.

The bilateral currency swap agreement, first signed in 2021, was renewed by the CBSL and PBOC in December 2024 for another three years (Central Bank of Sri Lanka, 2025). This facility, valued at RMB 10 billion (approximately USD 1.4 billion), functions as an additional liquidity cushion. Swap lines are not merely a gesture of goodwill, bilateral swaps have become a central component of strategies for diversifying away from the dollar since the 2007–2008 financial crisis (Tricontinental, 2026). Although the arrangement serves the interests of both parties, this does not make the relationship any less asymmetric.

However, China's retention of capital controls cannot be simply framed as a deficiency, nor does it suggest that the RMB must eventually become a "proper" international currency. Historical examples from countries that opened their capital accounts, including those caught in the 1997 Southeast Asian crisis (Singh, 2003), and the speculative pressures recently observed on the Indian rupee following the deregulation of onshore currency trading (Chandrasekhar & Ghosh, 2026), both illustrate how financial openness without adequate control can generate exactly the volatility that capital account management is designed to prevent. China's reluctance to fully liberalise is therefore not simply a cost imposed on trading partners but a national policy stance consistent with a well-documented pattern of premature capital account opening that exposes developing and emerging economies to speculative flows with little relation to trade fundamentals (Singh, 2003).

This does not make the controls costless for a settlement partner like Sri Lanka, because full convertibility is withheld. RMB settlement continues to rely on bilateral arrangements, swap lines, and designated clearing banks rather than open FX markets, an architecture considerably heavier than dollar settlement has required (Tomizawa and Shimizu, 2026). But this is the trade-off of a cautious internationalisation strategy, not evidence that deregulation would serve Sri Lanka or the system better.

As of June 2026, the global share of RMB payments stands at 3.10 percent (SWIFT, 2026), and the Asian Development Bank likewise notes that the RMB's share of global payments remains limited in SWIFT statistics (Tomizawa and Shimizu, 2026). This reflects decades of dollar-clearing conventions and invoicing practices that do not become obsolete simply because an alternative exists (Tricontinental, 2026). Global value chains reinforce dollar dominance by letting multinational headquarters manage currency risk centrally, leaving Sri Lankan firms in these chains little independent capacity to adopt a new settlement currency. For the shift to be worth making, savings from eliminating the double conversion embedded in the LKR–USD–RMB route would need to outweigh the administrative burden of a parallel clearing system. China–ASEAN trade, which exceeded USD 1 trillion for the first time in 2025 (USD 1.05 trillion, up 7.4 percent year on year; Xinhua, 2026), shows the depth of integration on which regional currency arrangements can build through sustained long-term national and regional policy support instead of relying merely on capital account liberalisation.

In Sri Lanka's case, however, the more immediately binding constraint is structural. The trade relationship with China is heavily skewed, with imports far exceeding exports. Unless Sri Lanka can generate RMB-denominated earnings of its own, principally through Chinese tourism and through invoicing exports in yuan, the swap facility risks being drawn down one-sidedly, leaving the country dependent on renewal rather than on any self-sustaining settlement mechanism.

Operational Architecture and Economic Impact of INR Settlement

Rupee-based settlement between India and Sri Lanka rests on the Reserve Bank of India's July 2022 framework (RBI, 2022), which permits cross-border trade to be invoiced and settled in INR.

Under that framework, Indian authorized dealer banks open Special Rupee Vostro Accounts for the correspondent banks of the partner country, subject to RBI approval, and import payments are credited in INR to those accounts. On the Sri Lankan side these appear as rupee-denominated nostro balances, so payments for Indian imports settle without recourse to the dollar market (RBI, 2022). Given that India supplies a substantial share of Sri Lanka's imports, and that dollar scarcity has for some years been the binding constraint on the country's ability to import at all, this channel matters a great deal in practical terms, though it is worth being clear that what has changed is the currency of settlement, not the underlying trade deficit or the terms on which it must eventually be financed.

SAARC currency swap arrangements and concessional lines of credit provided further support to the framework. During Sri Lanka's foreign exchange crisis in 2022, they helped finance essential imports when dollar shortages were severe. In August 2022, with the concurrence of the RBI, the Central Bank of Sri Lanka authorized the Indian rupee as a designated foreign currency, in part to make banking transactions easier for Indian tourists (CBSL, 2023). The INR is not legal tender for domestic payments in Sri Lanka, and its use remains subject to any restrictions imposed by the RBI (CBSL, 2023). The designation also opens a channel for Sri Lanka to earn rupees from Indian visitors.

This settlement channel should also be assessed cautiously against the rupee's own recent instability. The INR has fallen nearly half against the dollar since 2018, and its decline has been especially sharp since the turn of 2026 (RBI, 2026). It has been underperforming not only its BRICS peers but also other South Asian currencies, even though balance-of-payments flows appear positive. However, this points to onshore speculation enabled by financial deregulation, which the RBI finds increasingly hard to control (Chandrasekhar & Ghosh, 2026). This volatility has a double-edged implication for Sri Lanka: it supports the view that deregulated capital markets are a primary source of currency instability, a lesson equally applicable to China's more cautious RMB framework, where systemic control in a dollar-dominated world outweighs the benefits of an alternative currency. But it also means that INR settlement transmits a currency risk that further exposes Sri Lankan firms invoicing in rupees to exchange losses largely outside their control, and it weakens the case for treating the INR as a stable long-term reserve or settlement anchor.

Diversification, Not Substitution

Neither currency offers Sri Lanka a clean exit from dollar dependence, and the two are not substitutes for one another. The RMB offers insulation from reliance on dollar-based systems, sanctions-driven exclusions and a narrow alternative clearing path, underwritten by capital controls that, however administratively costly, reflect defensible caution about financial liberalisation. The INR channel offers a more regionally embedded framework, but its anchor currency has shown that deregulated currency markets generate instability unrelated to trade fundamentals. Both reproduce familiar dependencies in new form rather than dissolving the dependency that motivated the shift from the dollar. Whether either framework can work at scale depends on the CBSL sustaining a genuinely multipolar currency mix, without simply relocating the financial risk and instability.

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Building Trust for a Cyber-Climate-Disaster Resilience Framework for the BIMSTEC Region

By Nillasi Liyanage, Senior Research Fellow (LKI)



Source: Hegemoniq

Introduction

Across the Bay of Bengal region, extreme climate events and disasters disrupt livelihoods, damage infrastructure, and place vulnerable communities at risk. Meanwhile, climate and disaster management mechanisms are increasingly based in the digital world. Weather forecasts and early-warning systems rely on communications infrastructure. Emergency agencies use digital platforms to coordinate relief. This creates a dual vulnerability for the seven member states of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC): Sri Lanka, Bangladesh, Bhutan, India, Nepal, Myanmar, and Thailand. Member states face significant climate and disaster risks. Simultaneously, they are becoming more digitally interconnected but with uneven cybersecurity preparedness (ITU Global Cybersecurity Index, 2024). A cyber incident affecting an emergency communications network or disaster database could undermine a system essential for timely disaster response. Cyber resilience has therefore become part of disaster resilience.

Although BIMSTEC has undertaken policy and institutional initiatives covering science, technology and innovation, climate action, disaster management and cybersecurity, these have not been integrated into a common framework. It is necessary to build trust among member states to share information, coordinate responses and protect essential systems if a single regional approach is to take off.

Common risk, uneven capacity.

The BIMSTEC Secretariat's July 2025 report 'Harmonising Humanitarian Assistance and Disaster Relief (HA/DR)' highlights the need for stronger regional coordination as natural disasters intensify (BIMSTEC Secretariat, 2025).

The Intergovernmental Panel on Climate Change (IPCC, 2012) describes resilience as the ability to anticipate, absorb, accommodate, and recover from hazardous events in a timely and efficient manner. Those abilities are now increasingly dependent on reliable digital infrastructure as well as physical assets, trained personnel, and effective institutions.

BIMSTEC states do not possess identical financial resources, technical expertise, or institutional arrangements. An effective regional framework must therefore set common goals while allowing for flexible implementation. Capacity-building and peer learning should be prioritised to reduce the burden on members with fewer resources.

Building on the existing BIMSTEC framework

BIMSTEC's existing and emerging architecture provides a foundation for integrated cooperation. The BIMSTEC Sectors of Cooperation adopted at the Fifth BIMSTEC Summit includes Science, Technology and Innovation (STI), including Technology as a sub-sector; Environment and Climate Change; and Security, including Disaster Management as a sub-sector. The Bangkok Vision 2030 treats resilience as a cross-sectoral objective, bringing together climate and environmental action, regional security, including cybersecurity, and natural-disaster preparedness (BIMSTEC, 2022).

The BIMSTEC Science, Technology and Innovation (STI) sector of cooperation is equipped to provide the foundation for an integrated Cyber-Climate-Disaster Resilience Framework for the BIMSTEC region. The BIMSTEC Expert Group on Science, Technology and Innovation Cooperation and the Plan of Action on Science, Technology and Innovation (2023-2027), adopted in September 2025, offer platforms for knowledge exchange and technology cooperation. These could support collaboration on secure data systems, early-warning tools, technical standards and research.

The Environment and Climate Change cooperation sector could offer the climate resilience pillar for an integrated framework. Environment and disaster management was identified as a BIMSTEC priority area in 2005, while climate change became a separate priority sector in 2014. The Plan of Action on Environment and Climate Change and its Action Matrix, a 2025 initiative, cover biodiversity, waste management and climate change. Its climate-action work could be linked more explicitly to the digital infrastructure needed for climate monitoring, risk analysis, and warnings.

The disaster management pillar could be consolidated through the Plan of Action to Improve Preparedness and Coordination for Responding to Natural Disasters in the Bay of Bengal Region, which is currently being developed. Guidelines for the Maritime Component of Humanitarian Assistance and Disaster Relief, adopted at the Fifth meeting of BIMSTEC National Security Chiefs on 16 July 2026, connect maritime security to humanitarian response. These efforts could be strengthened by protocols for protecting and exchanging digital information during relief operations.

The cybersecurity pillar could be built on the currently emerging cooperation foundation. A five-year action plan for BIMSTEC Cybersecurity Cooperation was finalised in 2025. Proposals for a BIMSTEC CERT-to-CERT framework and a Cybercrime Cooperation Framework were discussed by the Expert Group on Cyber Security Cooperation in January 2025. CERT-to-CERT cooperation could support technical information exchange and coordinated incident response, while the cybercrime framework focuses on law enforcement cooperation. Together, these initiatives offer building blocks for protecting humanitarian and critical infrastructure systems that are largely digitally dependent.

In terms of dedicated BIMSTEC institutions, the BIMSTEC Centre for Weather and Climate (BCWC) in Noida, India, can be capacitated to adopt secure communications and resilient digital infrastructure to support its climate forecasting and early-warning services. The BIMSTEC Technology Transfer Facility (TTF) currently being established in Colombo, Sri Lanka, could be operationalised for the regional diffusion of technologies relevant to cyber-climate-disaster resilience.

An integrated framework need not merge every initiative into one institution. Its purpose should be to connect existing efforts into a system that operates in coordination for the common Cyber-Climate-Disaster Resilience objectives of the region. As a first step, the existing mechanisms and institutions could be coordinated for the priority areas of protecting early-warning systems, strengthening emergency coordination, enabling safe sharing of climate and disaster-risk information, and developing public-private partnerships for innovation.

The impediment of trust

In spite of these existing and developing building blocks, an integrated framework has not yet emerged due to the key impediment of a trust deficit among the BIMSTEC member states, such as in relation to sovereignty concerns about sensitive data.

The report of the Fourth BIMSTEC Track 1.5 Security Dialogue identifies trust-related challenges in regional security cooperation (BIMSTEC Secretariat, 2024).

These concerns are understandable in the current dynamic geopolitical landscape of the Bay of Bengal. There is a possibility that cybersecurity information and climate and disaster data could expose weaknesses in national infrastructure. Governments fear that information shared for humanitarian purposes could be misused or circulated beyond its intended audience.

Trust cannot be created by simply urging states to cooperate. Lower-risk activities that are predictable and useful, such as joint training exercises and voluntary exchanges of non-sensitive information, can be starting points for closer cooperation later.

Humanitarian diplomacy and Track II dialogues

Humanitarian diplomacy offers a route to overcome the trust deficit barrier. Humanitarian diplomacy encompasses efforts to persuade decision-makers to act in the interests of vulnerable people through dialogue, negotiation, coordination and cooperation (International Committee of the Red Cross [ICRC], n.d.). For BIMSTEC, this means placing the safety and needs of people affected by disasters at the centre of regional discussions. Framing regional cooperation discussions on cyber-climate-disaster resilience around tangible humanitarian outcomes could ease discussions that might otherwise be impeded by strategic mistrust.

Track II dialogues can help prepare the ground for building trust. They bring researchers, former officials, practitioners and other stakeholders together in settings where ideas can be explored more flexibly than in formal negotiations. Within BIMSTEC, expert dialogue could identify regional priorities and policy gaps, which can then be used to develop evidence-based recommendations for governments. These types of recommendations can better inform political decisions and dispel trust-related reticence towards regional cooperation. In this regard, the BIMSTEC Network of Policy Think Tanks (BNPTT) has a prominent role to play. The BNPTT is a Track-II initiative established in 2008 to promote people-to-people contacts and foster regional cooperation and integration among the member states. (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation [BIMSTEC], n.d.) Comprised of think tank representatives and experts, it can advance integration and regional cooperation by highlighting the imperative of addressing the interests of vulnerable people.

Building trust to drive integration

BIMSTEC's climate and disaster risks are increasingly intertwined with digital systems. Its policy instruments in science, technology and innovation, environment and climate action, disaster management and cybersecurity provide a valuable starting point but need closer integration to face the multiplicity of climate and disaster risks afflicting the BIMSTEC region.

Humanitarian diplomacy can help by shifting the focus from geopolitical rivalry and mistrust towards the immediate needs of vulnerable people. Track II dialogue creates space to address concerns and provide evidence-based policy recommendations for building trust to enable the journey towards an integrated Cyber-Climate-Disaster Resilience Framework for the BIMSTEC Region.

The BIMSTEC nations are faced with climate and disaster risks that they can no longer address in isolation. Mobilising the existing BIMSTEC framework towards a cyber-climate-disaster resilience framework requires overcoming the barrier of trust between member states. Track II dialogues that adopt a humanitarian diplomacy approach have the capacity to address the trust deficit that hinders the adoption of a collective response architecture.

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EVENT SPOTLIGHT

OUTREACH.
ENGAGEMENT.
ADVOCACY.

A closer look at the events, dialogues, and initiatives shaping policy and international cooperation.



Source: Lakshman Kadirgamar Institute of International Relations and Strategic Studies

BIMSTEC at 30: A Conversation on Regional Cooperation and the Road Ahead

By Vishwinie Perera, Operations Intern, LKI

The Bay of Bengal brings together countries whose geography has long created opportunities for interaction and cooperation. Today, that shared space provides the setting for the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), bringing together Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand.

On 10 September 2026, the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI) brought this regional partnership into focus by hosting H.E. Ambassador Indra Mani Pandey, Secretary General of BIMSTEC, for a guest lecture titled "BIMSTEC at 30: Three Decades of Partnership, Progress and Regional Cooperation." The lecture offered an opportunity to reflect on BIMSTEC's three decades of development while looking towards the challenges and priorities shaping its future (Lakshman Kadirgamar Institute of International Relations and Strategic Studies [LKIIRSS], 2026)

For LKIIRSS, the lecture was particularly timely, as the institute is currently involved in preparations for the upcoming 8th BIMSTEC Network of Policy Think Tanks (BNPTT) meeting in Sri Lanka (LKIIRSS, 2026). The emphasis on people-to-people connectivity and the role of policy think tanks therefore resonated with the Institute's own engagement with BIMSTEC and its efforts to strengthen regional policy dialogue.

Three decades of partnership

The event began with remarks from Ms. Himalee Arunatilaka, Additional Secretary, Ministry of Foreign Affairs, Foreign Employment and Tourism. Reflecting on Sri Lanka's position as a founding member of BIMSTEC, she highlighted the increasing need for unity and collaboration among the seven member states as the regional and international environment continues to change (LKIIRSS, 2026).

Ambassador Pandey then took the audience through BIMSTEC's evolution and institutional development over the past three decades. His remarks highlighted the range of areas in which the seven member states have pursued cooperation, including agriculture and food security, connectivity, culture, disaster management, women's development, environment and climate change, energy, health, human resource development, tourism, trade and investment, and the Blue Economy (LKIIRSS, 2026).

But the discussion was not simply about how much BIMSTEC has expanded. It was also about what that cooperation looks like in practice. Ambassador Pandey highlighted initiatives including the establishment of the BIMSTEC Food Reserve and the creation of a BIMSTEC Seed Bank, alongside efforts to promote regional trade in agricultural commodities and climate-resilient agriculture.

Connectivity also featured prominently, with the BIMSTEC Master Plan for Transport Connectivity, Maritime Transport Cooperation and efforts towards a Motor Vehicles Agreement among the initiatives discussed (LKIIRSS, 2026).

These examples brought the broader idea of regional cooperation down to a practical level. They showed how BIMSTEC's work extends into areas where the interests and challenges of its member states intersect.

Looking towards a changing region

The discussion then moved from what BIMSTEC has achieved to the environment in which its next chapter will unfold.

Ambassador Pandey emphasised the growing relevance of regional multilateralism amid increasing uncertainties associated with climate change and the changing dynamics of global politics. He described it as a practical way forward for BIMSTEC member states that face similar environmental and geopolitical challenges (LKIIRSS, 2026).

He also outlined areas of future focus for BIMSTEC, including the proposed establishment of a Centre of Excellence for Public Health and the creation of an Expert Group on Women Development. The latter would seek to integrate women-led development perspectives into BIMSTEC Plans of Action (LKIIRSS, 2026).

Yet, amid discussions of institutions, initiatives and emerging challenges, another theme stood out: people.

Ambassador Pandey highlighted BIMSTEC's efforts to strengthen people-to-people connectivity through policy think tanks, tourism, education and cultural exchange (LKIIRSS, 2026). This placed relationships between institutions and communities alongside intergovernmental cooperation as part of the wider regional picture. For LKIIRSS, this aspect of the discussion was particularly relevant.

Where do think tanks fit in

The BIMSTEC Network of Policy Think Tanks provides one mechanism through which this people-to-people engagement can take place. The network was established following a decision at the Second BIMSTEC Summit in November 2008.



Subsequent BIMSTEC decisions provided for activities including workshops, seminars, exchange programmes and consultations with stakeholders from member states, with the broader aim of strengthening people-to-people contact and regional cooperation (BIMSTEC Secretariat, n.d.-a, n.d.-b).

LKIIRSS's engagement with BIMSTEC extends over several years. The Institute has contributed to BIMSTEC-focused research and policy dialogue, including but not limited to its 2018 publication on Sri Lanka's potential agenda within BIMSTEC and the 2022 conference "Enhancing BIMSTEC Connectivity in the New Era," jointly organised with the South Asian Network on Economic Modelling (SANEM) (LKIIRSS, 2018, 2022).

This engagement continued in 2024, when LKI welcomed H.E. Ambassador Indra Mani Pandey, Secretary General of BIMSTEC, during his inaugural visit to Sri Lanka (LKIIRSS, 2024b). The Institute also participated in BIMSTEC-related initiatives, including the Eminent Persons' Group and the BNPTT (LKIIRSS, 2024a, 2024c). LKIIRSS is now involved in preparations for the upcoming 8th BNPTT meeting in Sri Lanka, providing a continuing platform for the Institute's engagement with BIMSTEC (LKIIRSS, 2026).

Seen in this context, Ambassador Pandey's emphasis on policy think tanks and people-to- people connectivity added a particular relevance to the lecture. The discussion of BIMSTEC's future was taking place alongside a concrete example of how institutions outside formal intergovernmental structures can contribute to regional dialogue.





A conversation that continues

The lecture concluded with a question-and-answer session moderated by LKIIRSS Senior Research Fellow Ms. Madhuka Rukmalgama. The discussion returned to some of the challenges raised during the lecture, including climate change and artificial intelligence, as well as BIMSTEC's commitment to the prosperity and longevity of the people of its member states
(LKIIRSS, 2026).

By the end of the discussion, BIMSTEC's 30-year milestone had become more than an occasion to look back. The lecture connected the organisation's three decades of development with the challenges confronting its member states today, while also drawing attention to the relationships and institutions that will contribute to its future.

For LKIIRSS, that conversation is already continuing. With preparations underway for the 8th BNPTT meeting in Sri Lanka, the Institute's engagement with BIMSTEC is moving from reflection towards another opportunity for regional dialogue. Ambassador Pandey's visit therefore offered both a moment to reflect on three decades of BIMSTEC cooperation and an indication of the work that lies ahead. Thirty years have provided the foundation. The next chapter will be shaped based on how that foundation is carried forward through continued dialogue, institutional engagement, and cooperation across the
region.

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The United States Tariff Policy and Sri Lanka: Implications for Export Competitiveness and Economic Diplomacy

By Thejani Somarathna, Operations Intern (LKI)

Introduction

The current United States (U.S.) tariff policy reflects a protectionist, deficit-focused agenda that uses trade measures as bargaining tools and seeks to strengthen supply-chain security. Reciprocal tariffs link U.S. tariff rates to perceived trade barriers and economic advantages in partner countries, serving both as conventional border protection and as a means of exerting pressure in negotiations. For Sri Lanka, therefore, the central concern is not simply the tariff imposed at the U.S. border, but whether exporters can continue to supply the required products and volumes while meeting increasingly stringent documentation and compliance requirements. How can Sri Lanka respond to a changing U.S. tariff landscape without undermining export competitiveness or its strategic room for manoeuvre in the Indian Ocean? This paper argues that the tariff shock should not be treated as a one-off issue, but as a test of Sri Lanka's trade competitiveness and credibility. Sri Lanka should pursue a complementary two- track strategy: strengthen value-added production and secure predictable access to the U.S. market, while leveraging Indian Ocean connectivity as a commercial advantage.

Sri Lanka's Exposure to the Changing U.S. Trade Environment



Figure 01
U.S. tariff policy sequence for Sri Lanka
Source: United States Trade Representative

Although Sri Lanka's exports to the United States are concentrated in a limited range of products, the U.S. remains the country's largest export destination, with apparel accounting for the largest share. According to the World Bank (2025), Sri Lanka exported approximately USD 3.16 billion worth of goods to the U.S. in 2024. Ready-made clothing accounted for about USD 1.78 billion, or 56% of total exports to that market. Rubber and rubber-related products accounted for approximately 11%, precious stones for 8%, mechanical appliances and equipment for 3%, and tea for 3%.

In April 2025, the United States introduced tariff measures under Executive Order 14257, citing trade deficits, non-reciprocity, non-tariff barriers, and national security concerns. Sri Lanka's initial rate was 44%. From 10 April to 9 July 2025, Executive Order 14266 temporarily replaced country-specific rates with an additional 10% duty. In the July 2025 revision, Sri Lanka's rate was listed at 20% (The White House, 2025a, 2025b, 2025c). Despite tariff-related uncertainty, the Central Bank of Sri Lanka (CBSL) identifies clothing and textiles as the country's leading export category. The industry generated approximately USD 5.3 billion in 2025, while exports to the U.S. grew by about 2.1% that year (CBSL, 2026).

In March 2026, the United States Trade Representative (USTR) initiated Section 301 investigations involving 60 economies over concerns about the enforcement of prohibitions on goods produced using forced labour (The White House, 2026a). A memorandum dated 23 July reportedly set Sri Lanka's Section 301 rate at 10%, following the country's adoption of such a prohibition. However, Sri Lanka's vulnerability became more apparent in 2026. Between January and June, clothing and textile exports fell by 6.07% year on year to approximately USD 2.44 billion; exports to the U.S. declined by 2.35% over the same period (Sri Lanka Export Development Board [EDB], 2026). These figures suggest that the combination of product concentration, tariff exposure and dependence on a single export market can heighten vulnerability.

Implications for Export Competitiveness and Economic Diplomacy – SWOT Analysis



Chart 01
SWOT Analysis of MAGA Tariff implications to Sri Lanka
Source – Compiled by the author based on the findings of the study

U.S. tariffs are not the only, or necessarily the central, challenge facing Sri Lanka. The greater concern is the interaction between tariff exposure and domestic structural weaknesses, which compounds existing constraints on competitiveness. Sri Lanka's reliance on a single major export market and one dominant export category, the U.S. market and apparel, creates a significant structural vulnerability. World Bank data (2025) indicate that ready-made garments accounted for approximately 56% of Sri Lanka's exports to the U.S. in 2024. The apparel industry's reliance on imported inputs further compounds this vulnerability; the U.S. Department of Commerce (2026) estimates that the industry spends approximately USD 2 billion annually, primarily on fabric.

Domestic infrastructure limitations, regulatory hurdles and customs barriers also constrain the industry's ability to adapt, while tariffs on finished exports may coincide with higher input and logistics costs. The limited progress in the Trade and Investment Framework Agreement (TIFA) between Sri Lanka and the U.S. is also relevant, as more predictable or preferential market access could affect exporters' competitiveness in price-sensitive industries. The World Bank (2025) identifies faster border clearance, lower logistics costs, product diversification, and movement into higher-value segments as important ways to improve competitiveness.

Sri Lankan industries must also compete with larger Asian manufacturing economies despite the country's comparatively limited production scale.

The risks therefore extend beyond tariff policy: differences in tariff rates may accelerate the displacement of Sri Lankan suppliers if buyers switch to competing producers in countries such as Vietnam, Bangladesh, and India, which have substantial manufacturing capacity. Table 1 compares selected competing suppliers.

Supplier	2025 U.S. apparel imports	Buyer substitution strength
Vietnam	US$17.02bn	Scale, broad product range, established buyer networks and growing man-made-fiber capability.
Bangladesh	US$8.21bn	Large low-cost apparel platform and deep factory base, especially in volume garments.
India	US$5.19bn	Large domestic textile base, diversified fibers and expanding manufacturing capacity.
Indonesia	US$4.82bn	Established apparel and synthetic-fiber capacity with a sizeable industrial ecosystem.
Pakistan	US$2.56bn	Strong cotton and textile base, with established apparel and home-textile production.
Sri Lanka	US$1.86bn	Smaller scale, but recognized experience with demanding brands, ethical production and logistics-linked services.

Table 01
Buyer Substitution comparison
Source – Compiled by the author based on data from United Nations Statistics Division

However, Sri Lanka has established relationships with global apparel brands and a reputation for sustainability, labour compliance and quality. These strengths provide a basis for competing on value rather than price under the evolving U.S. tariff regime. The World Bank (2019) identifies value-chain management, sustainability and compliance as important capabilities in Sri Lanka's apparel sector. The U.S. Section 301 action announced in July 2026 may therefore present an opportunity for Sri Lanka to use its compliance credentials to pursue closer cooperation on supply-chain integrity, product-specific exclusions where appropriate, and predictable treatment for compliant exports.

By combining port and logistics services with digital customs systems, predictable clearance procedures, and safeguards against trans-shipment and tariff circumvention, Sri Lanka could leverage its strategic position in the Indian Ocean. It could also diversify exports beyond apparel to include electronics, processed foods, rubber products, coconut products, and seafood.

At the same time, Sri Lanka should strengthen economic ties with the U.S., deepen its engagement with India, maintain constructive relations with China, and expand connections with Gulf countries, ASEAN, and African markets rather than being forced to choose between major partners. Diversification, however, requires export-ready production capacity, international certification, reliable logistics, and supply-chain traceability. Compliance-led market access, export diversification, and strategically balanced economic diplomacy could help translate Sri Lanka's advantages into tangible gains.

Policy Priorities for Strengthening Trade Competitiveness and Economic Diplomacy

As tariff measures, market-access constraints, and competition continue to reshape global trade, Sri Lanka's response must extend beyond securing concessions on MAGA tariffs.

The changing U.S. trade environment highlights the need for a coordinated strategy to strengthen export competitiveness, improve the resilience of domestic production, diversify markets and advance economic diplomacy. A sustained response requires action on domestic production costs and structural constraints, alongside efforts to secure more favourable and predictable access to export markets. The following priorities offer a framework for protecting Sri Lanka's commercial interests and strengthening its capacity to navigate an increasingly volatile international trading environment.

No.	Priority	Strategic Objective	Key Policy Actions
01	Institutionalizing strategic trade diplomacy with the USA	To ensure continuous, coordinated, and evidence based economic diplomacy, rather relying on crisis driven responses.	• Establish a permanent inter-agency mechanism comprising relevant government institutions such as the EDB, Customs, CBSL and private-sector representatives. • Engage with U.S. agencies, congressional stakeholder, importers and coordinate negotiating positions retailers and. • Monitor U.S. tariff and regulatory developments. • Identify product-level vulnerabilities.
02	Securing predictable and favourable market access	To reduce policy uncertainty and tariff related disadvantages face by Sri Lankan exporters in the U.S. market.	• Use ongoing negotiations on the Agreement on Reciprocal, Fair, and Balanced Trade to pursue predictable tariff treatment, product-specific exclusions, simplified customs procedures, recognition of international standards, transparent rules of origin, consultation mechanisms and improved access for Sri Lankan services.
03	Reducing domestic cost of exports	To strengthen cost competitiveness by reducing financial costs and the time associated with imported immediate inputs and trade procedures.	• Rationalize para-tariffs. • Strengthen risk-based customs clearance and expand custom automation. • Implement the National Single Window. • Improve bonded and export-processing arrangements. • Enhance port and logistics efficiency.
04	Building a diversified trade portfolio	To reduce excessive dependence on single external market while retaining and strengthening access to the U.S. market.	• Deepen utilization of existing preferential arrangements, including GSP+ access to the UK's expanded Developing Counties Trading Scheme while accelerating engagement with additional markets and trade agreements.
05	Establishing an export competitiveness observatory	To enable timely, product specific policy responses and distinguish tariff driven trade diversion from other sources of competitiveness pressures.	• Develop a permanent analytical mechanism to track product-level tariff, competitor-country tariffs, riles of origin, logistics and input costs, exchange rates, order volumes, export unit values and market shares.
06	Strengthening labour and firm level resilience	To prevent temporary tariff shocks from resulting in permanent losses of skilled labour, productive capacity and firm capability.	• Establish an early-warning system for order cancellations and provide temporary support for retaining, wage continuity and SME working capital through relevant government institutions and industry associations.

Table 02
Strategic recommendations for strengthening Sri Lanka's export competitiveness and economic diplomacy
Source: Compiled by the author based on the study's findings

Conclusion

The central lesson of the MAGA tariff episode is that Sri Lanka's vulnerability does not stem solely from the tariff rate itself. It also reflects market and product concentration, dependence on imported industrial inputs, competitive pressures and the growing use of trade policy as an instrument of economic diplomacy.

A two-track approach offers the most effective response. First, Sri Lanka should strengthen its competitiveness through domestic reforms, including customs modernisation, lower input costs, technological upgrading, labour and environmental compliance, export diversification and expansion into services. Second, it should use economic diplomacy to seek predictable and favourable access to the U.S. market through coordinated negotiations, regulatory cooperation and evidence-based engagement with U.S. policymakers.

The current environment should therefore be viewed not only as a tariff challenge but also as an opportunity to accelerate the transition from a highly concentrated, apparel-dependent export model to a more diversified, higher-value and resilient export economy. The effectiveness of Sri Lanka's response will ultimately depend on whether tariff diplomacy is accompanied by structural reforms that make the country competitive even when preferential tariff margins narrow.

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Can Colombo Port City Become a Regional Digital Hub?: The Strategies and Geopolitical Implications for Sri Lanka

By Marsha Lazarus, Operations Intern (LKI)

Introduction

The Colombo Port City, built on reclaimed land adjacent to Sri Lanka's commercial capital, has evolved from a large-scale infrastructure development into an ambition to become a regional financial and digital services hub. The Colombo International Financial Centre (CIFC), located at the heart of Port City, is a flagship development within the Port City Special Economic Zone (SEZ) (Port City Colombo, n.d.). Beyond finance, Port City is increasingly being promoted as a destination for fintech firms, data infrastructure providers, and digital service companies. Port City secured approximately USD 900 million in investment between November 2025 and March 2026 (Daily FT, 2026), and around half of the businesses operating within it are technology-related (CXO Insight Middle East, 2026a; Daily FT, 2026).

This matters because digital infrastructure has become an increasingly strategic asset, and smaller states located along major trade and data routes, such as Sri Lanka, are becoming more deeply affected by geopolitical competition over digital infrastructure, data governance, and connectivity (Acharya, 2023; Dutta, 2026). Of these, undersea cable connectivity is the most concrete: a digital hub is only as reliable and trusted as the physical routes that carry its data. This paper therefore asks not only what Port City can do, but how its digital ambitions depend on the governance and connectivity choices Sri Lanka makes, using undersea cables as a recurring lens.



Port City, Colombo, Sri Lanka
Source: Port City Colombo

The Rise of Digital Geopolitics

Governments and analysts increasingly treat data centres, financial technology (fintech) platforms, and digital services as strategic national assets, given their importance to artificial intelligence (AI), cloud computing, and modern financial systems (Dutta, 2026). Digital infrastructure is therefore being considered alongside traditional strategic infrastructure such as ports and energy networks.

This shift is particularly evident in the Indian Ocean region, where undersea cables, data centres, and digital technologies have become important instruments of geopolitical competition (Acharya, 2023). Undersea cables are the clearest example. According to the International Telecommunication Union (ITU), submarine cables carry approximately 99 per cent of the world's Internet traffic, making them the physical backbone of the global digital economy (International Telecommunication Union, 2026). Yet ownership and construction are concentrated among a limited number of telecommunications companies, technology firms and consortia, giving these actors considerable influence over network routes, capacity and access (Capri, 2024).

China's Digital Silk Road initiative has expanded the role of Chinese companies in deploying submarine cables and telecommunications infrastructure across the region, offering states access to digital infrastructure while increasing the adoption of Chinese technologies and standards (Acharya, 2023). Meanwhile, India has promoted its Digital Public Infrastructure model, including systems such as Aadhaar and the Unified Payments Interface, as an alternative framework for digital development in the Indian Ocean Region (Acharya, 2023). Middle powers such as Australia have also sought to position themselves as trusted providers of digital infrastructure (Department of Industry, Science and Resources, n.d.).

For countries such as Sri Lanka, situated at the intersection of major shipping lanes and internet cable routes, this competition presents both opportunities and challenges. While external investment may help address domestic resource constraints, Sri Lanka's objective should be to engage multiple partners and maximise developmental gains rather than align exclusively with any single power. Both Acharya (2023) and Dutta (2026) point to the risks of dependence on a single technology bloc.

Colombo Port City's Digital Ambition

Port City's aspirations in technology and finance are being pursued in several ways, summarised in Table 1. The CIFC itself is a USD 500 million mixed-use development comprising approximately 260,000 square metres of built-up area, including a 220-metre Grade A office tower, more than 600 residences and a retail complex (Port City Colombo, n.d.). The distinct legal and financial environment is provided not by the CIFC itself but by the Port City SEZ, which is licensed and regulated by the Colombo Port City Economic Commission as a single- window authority under the Colombo Port City Economic Commission Act, No. 11 of 2021 (CXO Insight Middle East, 2026b).

Initiative	Partners	Purpose	Source
CIFC development	Port City Colombo	Mixed-use financial district (offices, residences, retail) inside the SEZ	Port City Colombo (n.d.)
CIFC Fintech Innovation Hub proposals	Fintech Association of Sri Lanka (FASL); Prof. Douglas Arner (University of Hong Kong)	Build a fintech ecosystem modelled on the Dubai International Financial Centre (DIFC) and Singapore	Daily FT (2025)
FinTech World Cup regional stage (2025) and APIX collaboration (2026)	FASL; Singapore's APIX platform	Connect local fintechs to a South Asia–Southeast Asia–Middle East innovation corridor	Daily FT (2025); Adaderana Biz English (2026a)
OREL IT strategic partnership	OREL IT (local technology firm)	Strengthen the technology services backbone, with plans to accelerate a data centre in Port City	Adaderana Biz English (2026b)
Business process and technology services strategy	Port City officials	Start with business process outsourcing, then move toward Global Capability Centres and specialised AI, R&D and product teams	CXO Insight Middle East (2026b)

Table 01
Main initiatives behind Port City's digital ambition

Beyond finance, Port City Colombo is also seeking to attract technology firms by positioning itself as a services-oriented special economic zone. Port City officials have highlighted ambitions to develop an ecosystem that supports regional headquarters, AI and research activities, business continuity operations, and technology investments, while drawing on lessons from established hubs such as DIFC (CXO Insight Middle East, 2026a; 2026b).

Case study: the FASL–APIX fintech partnership

The fintech track shows how Port City is trying to build a digital ecosystem through partnerships rather than infrastructure alone. FASL collaborated with Port City Colombo to develop proposals for a CIFC Fintech Innovation Hub, drawing inspiration from the ecosystems of DIFC and Singapore, with Professor Douglas Arner of the University of Hong Kong serving as chief consultant. The resulting report was presented to the managing director of CHEC Port City Colombo during the FinTech World Cup regional competition held at Port City in April 2025 (Daily FT, 2025). Four Sri Lankan startups competed in that regional final, and one, AnybanQ.lk, went on to represent Sri Lanka at the global final in Dubai (Daily Mirror, 2025). In 2026, Sri Lankan fintech stakeholders partnered with Singapore's APIX platform to connect the local ecosystem to a broader South Asia–Southeast Asia–Middle East innovation corridor (Adaderana Biz English, 2026a).

Three lessons follow. First, the partners come from several directions (Hong Kong, Singapore, the Gulf), which supports the diversification this paper recommends. Second, the initiative is built on soft infrastructure, namely networks, standards and expertise, which reinforces the point that governance matters as much as construction. Third, its limits are visible: public sources so far report participation and partnerships rather than commercial results, and a fintech corridor still relies on secure connectivity and trusted data rules to function. The same logic applies to the recent partnership with the local technology firm OREL IT, which has been presented as an important step in developing Port City's digital services backbone and includes plans to accelerate the development of a data centre within Port City (Adaderana Biz English, 2026b).

Strategic Opportunities and Risks

If implemented, a technology-oriented Port City could offer several advantages for Sri Lanka. It could attract foreign investment at a time when the country requires capital, help -diversify an economy historically dependent on garments, tourism, and remittances, and support the government's ambition of achieving USD 5 billion in ICT exports by 2030 (CXO Insight Middle East, 2026b). Positioned along major Indian Ocean shipping lanes and digital connectivity routes, Sri Lanka could become a regional platform for data infrastructure and financial services, appealing to firms seeking access to South Asian markets while maintaining connections with the Middle East and Southeast Asia (Adaderana Biz English, 2026a; Daily FT, 2025). A successful digital hub could also generate secondary benefits, including stronger links to international fintech and standards-setting networks, increased visibility for local startups through initiatives such as the FinTech World Cup (Adaderana Biz English, 2026a), and greater demand for skilled workers. Port City's own strategy treats business process management and outsourcing as a fast-to-deploy entry point, with the aim of evolving over time into Global Capability Centres and small, highly specialised teams in AI, R&D and product engineering (CXO Insight Middle East, 2026b).

However, these opportunities are accompanied by significant risks. Expanding digital infrastructure increases exposure to cybersecurity threats and data privacy concerns, while Sri Lanka's regulatory framework for digital governance remains under development (Sunday Times, 2026). Port City operates under its own distinct legal regime under the Colombo Port City Economic Commission Act, but its ability to succeed as a regional digital centre will also rely on the trustworthiness of Sri Lanka's overall regulatory regime for data protection and cybersecurity. The Personal Data Protection Act, No. 9 of 2022 (PDPA), has been implemented in phases and was amended by the Personal Data Protection (Amendment) Act, No. 22 of 2025, while a comprehensive Cybersecurity Act has yet to be enacted (Personal Data Protection Act, No. 9 of 2022; Sunday Times, 2026). The Port City SEZ, though regulated separately under the Colombo Port City Economic Commission Act, No. 11 of 2021, is nevertheless bound by Sri Lankan data protection law, namely the PDPA, unless otherwise stated (Colombo Port City Economic Commission Act, No. 11 of 2021, ss. 73–75; Personal Data Protection Act, No. 9 of 2022).

A major data breach, regulatory failure, or governance lapse could damage Port City's credibility before it is firmly established, particularly when competing regional hubs benefit from more mature regulatory institutions and longer track records.

Undersea connectivity illustrates how these risks combine.

A hub that sells data and financial services depends on resilient international links. If its traffic relies on a small number of cable routes, or on cable and data centre infrastructure supplied largely by firms from one country, a fault, a sabotage incident or a political dispute could interrupt services or raise doubts among clients and governments aligned with rival networks. Such concerns would fall on Port City's credibility regardless of the quality of its on-shore regulation. Faults are routine rather than hypothetical: more than 170 cable repairs were reported worldwide in 2025, roughly four a week, with the main vulnerabilities being accidental human activity such as fishing and anchoring, followed by natural hazards such as earthquakes and tsunamis (International Telecommunication Union, 2026).

There is also a wider geopolitical dimension. Port City is a Chinese-backed development, built by CHEC Port City Colombo (Port City Colombo, n.d.), growing partnerships involving stakeholders from Singapore, India, and the Gulf region, placing it at the intersection of competing economic and digital networks (Adaderana Biz English, 2026a; CXO Insight Middle East, 2026a). Sri Lanka will need to manage perceptions of strategic alignment carefully, as excessive dependence on any single partner could discourage investors or governments associated with competing geopolitical networks. At the same time, Port City's future may be affected by wider competition over digital infrastructure, including undersea cable networks and technology standards across the Indian Ocean region (Acharya, 2023).

Policy Considerations

This paper proposes four policy priorities for Sri Lanka's government, Port City authorities and the private sector, with respect to data governance, partnership diversification, skills, and undersea connectivity. Table 2 assigns responsibility for each, and the text explains the reasoning.

Actor	Role	Priority action
Government and Parliament	Legislate and resource national digital governance	Finalise the Cybersecurity Act and its regulatory authority; resource the PDPA regulator to enforce the Act
Colombo Port City Economic Commission	Licenses and regulates the SEZ as a single-window authority (Act No. 11 of 2021)	Confirm and publish which data protection and cybersecurity standards apply inside the SEZ
CIFC and FASL	Develop the financial district and the fintech ecosystem	Broaden partnerships beyond any single external partner
Firms and investors	Build and operate businesses in Port City	Commit to local hiring, training and cybersecurity standards, especially in AI and product engineering
Foreign and economic ministries	Set national foreign and economic strategy	Integrate Port City's digital development, including cable and data centre choices, into the Indian Ocean strategy

Table 02
Policy priorities and responsible actors

First, Sri Lanka should strengthen its capacity to enforce the Personal Data Protection Act and finalise the proposed Cybersecurity Act and accompanying regulatory authority so that credible data governance institutions are in place before digital infrastructure scales up. The PDPA has been brought into operation in phases, with some parts in force from December 2023 and others from March 2025, giving public and private organisations time to build the capacity to comply (Data Protection Authority, 2024. By contrast, the Cybersecurity Act is still in its final drafting stage and would set statutory standards for critical information infrastructure and create a new cybersecurity regulatory authority (Sunday Times, 2026). A keynote speaker at the 2026 National ICT Law Conference stressed that such frameworks should protect critical infrastructure, including submarine communications cables (Sunday Times, 2026). The readiness of regulatory frameworks, rather than physical construction alone, is likely to play a decisive role in shaping investor confidence in Port City. Within the SEZ, the Colombo Port City Economic Commission is the natural body to clarify how national data rules and the Port City's own regime fit together.

Second, the government should continue to diversify Port City's technology and financial partnerships. Efforts already undertaken by the CIFC and FASL, including engagement with experts and partners from Dubai, Singapore, and Hong Kong, should be expanded to avoid excessive dependence on any single external partner and to strengthen Port City's attractiveness as an internationally connected hub (Daily FT, 2025; Adaderana Biz English, 2026a).

Third, sustained investment in local digital skills and cybersecurity expertise is essential to ensure that Sri Lankans can access higher-value opportunities within the Port City ecosystem rather than relying heavily on expatriate talent. This matters because Port City's own strategy anticipates moving from back-office business process work toward small, highly specialised teams in areas such as artificial intelligence and product engineering (CXO Insight Middle East, 2026b). Firms operating in Port City share this responsibility with the state, through local hiring and training.

Finally, given the growing strategic significance of undersea cables, data centres, and digital infrastructure, Sri Lanka's foreign and economic policymakers should treat the digital development of Port City as an integral component of the country's broader Indian Ocean strategy rather than as a standalone economic project. In practice, this means weighing the diversity and resilience of international connectivity and the origin of key infrastructure suppliers when approving Port City's digital projects. Doing so would allow Sri Lanka to better align its economic, technological, and geopolitical objectives in an increasingly competitive regional environment (Acharya, 2023; Dutta, 2026).

Conclusion

Colombo Port City can plausibly become a digital and financial hub for the region, but whether it does so will depend more on governance, regulation and positioning than on physical infrastructure. Considerable investment and the growing involvement of technology firms are positive developments (CXO Insight Middle East, 2026a; Daily FT, 2026). However, to establish itself alongside regional hubs such as Singapore and Dubai, which Port City's own leaders treat as models and as partners to complement rather than rivals to displace (CXO Insight Middle East, 2026a; Daily FT, 2026), Sri Lanka must build credible regulatory structures for cybersecurity and data protection. It must also diversify its international partnerships and treat connectivity, above all undersea cables, as a strategic matter, so that geopolitical disputes do not undermine investor confidence in Port City.

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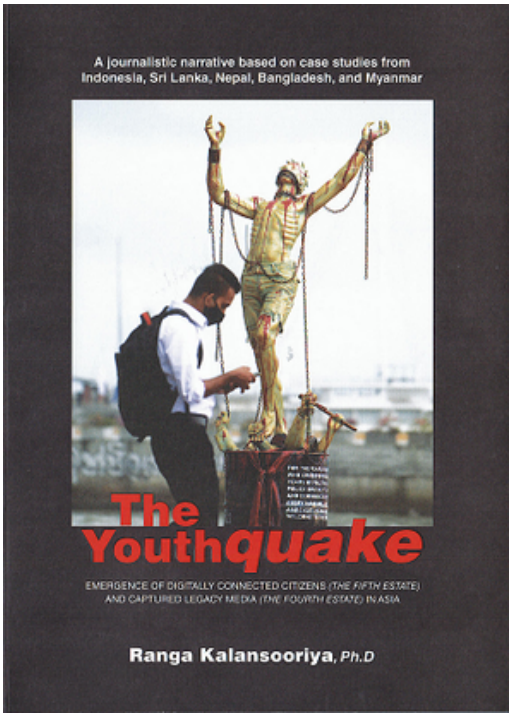
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Book Review

"The Youthquake: Emergence of the Fifth Estate vs. the Captured Fourth in Asia"

By Piyumani Ranasinghe, Senior Research Fellow & Vishwinie Perera, Operations Intern, LKI



The Youthquake: Emergence of the Fifth Estate vs. the Captured Fourth in Asia is written by Dr. Ranga Kalansooriya, with Mandana Ismail Abeywickrama, Eva Danayanti, Nazia Afrin Monami, Sonia Awale, and Naw Betty Han. The book is jointly published by the Media Law Forum, Sri Lanka, and International Media Support (IMS), Denmark.

Launched in Colombo in September 2026, the book examines the youth-led uprisings that have shaken Sri Lanka, Bangladesh, Nepal, Myanmar and Indonesia, and asks what they mean for the press and democracy.

Drawing on his extensive experience as IMS's Asia Regional Adviser, Dr. Kalansooriya examines how youth-led movements across Asia have challenged established power structures through the lens of Oxford scholar Professor William Dutton's "Fifth Estate" theory (Dutton, 2023).

Dutton argues that internet-connected citizens can hold power to account alongside the traditional press (Dutton, 2023). For Dr. Kalansooriya, the COVID-19 pandemic marked a turning point: greater digital connectivity transformed how people accessed information and mobilised. He traces a pattern across Asia in which economic grievances fuel social discontent, which can develop into political unrest and, ultimately, political change. However, he argues that understanding these movements requires more than examining internet access; it also requires critical attention to the role of social media in young people's lives, particularly those of Generation Z (Gen Z). In our interview, Dr Kalansooriya noted that his book adds "the social media spices" to Dutton's theory, particularly in the Asian context.

Building on his argument about social media's role in youth-led movements, Dr Kalansooriya highlighted the challenges governments face when restricting online communication. In Myanmar, he noted, "People often use Facebook and the internet interchangeably". Governments therefore face a difficult choice during uprisings. Shutting down the internet restricts access to digital platforms and social media, but it can also disrupt essential services such as banking, healthcare and air traffic control. Dr Kalansooriya described this as "double trouble", highlighting the difficulty of restricting online communication without causing wider disruption.

These developments also expose the growing imbalance between the Fifth Estate and the traditional press, or the Fourth Estate. The book highlights the Fourth Estate's vulnerability to commercial pressures and powerful interests. "It's not a healthy competition," Dr Kalansooriya said. Advertising revenue and audiences are shifting from news organisations to digital platforms. Dr. Kalansooriya has previously noted that 40% to 50% of local advertising in parts of Asia has already moved online (Newswire, 2026). He warned that the consequences extend beyond struggling newsrooms: "When you say the Fourth Estate is getting paralysed, your democracy is getting paralysed," he said.



Nepal's leaderless Gen-Z revolution has changed the rules of power
Source: Al Jazeera

Unlike the press, which operates through institutions subject to national laws, the Fifth Estate consists of individuals using technology. At the close of 2025, Sri Lanka had 9.00 million active social media user identities, equivalent to 38.7% of the total population (Kemp, 2025). Algorithms increasingly shape the information people encounter.

The lack of comparable oversight is especially troubling on messaging apps, where hate speech and misinformation can circulate with limited scrutiny. Dr Kalansooriya describes these spaces as “very gloomy hidden dark rooms”. He likens the Fifth Estate to a “wild jungle”, lacking the editors, publishers and regulatory safeguards that help hold journalism accountable.

However, the book does not romanticise the protests themselves. Dr Kalansooriya argues that movements can combine genuine public grievances with concealed political agendas. He describes the first week of Bangladesh’s student protests as “very innocent”, before shootings began and responsibility became contested. Closer to home, he reflects on the Aragalaya, including incidents in which the houses of some political figures were set on fire, and considers how uncertainty can create vulnerabilities that undermine state security. Recalling the term “bulletless revolution”, used in military intelligence parlance, he observes that in the digital age it can be easy to plant a narrative when there is ample scope for others to amplify it.

Dr Kalansooriya identifies the integration of the Fifth Estate into policymaking as “the biggest challenge” facing policymakers today. How this integration might work remains complex. He proposes that countries in the Global South negotiate collectively with Big Tech companies, while acknowledging a key unresolved question: "There is a question of who could lead/undertake such an effort”.

The conclusion of The Youthquake is difficult to dispute. As Dr Kalansooriya emphasises, the Fifth Estate cannot be ignored because “it has become the main source of information”. The challenge is to engage with it while preserving the institutions and accountability mechanisms that sustain democracy. As Dr Kalansooriya wrote when announcing the book, "A revolution is hardly a happy ending”. The Youthquake is a valuable read for anyone seeking to understand youth-led uprisings across Asia, particularly in South Asia.

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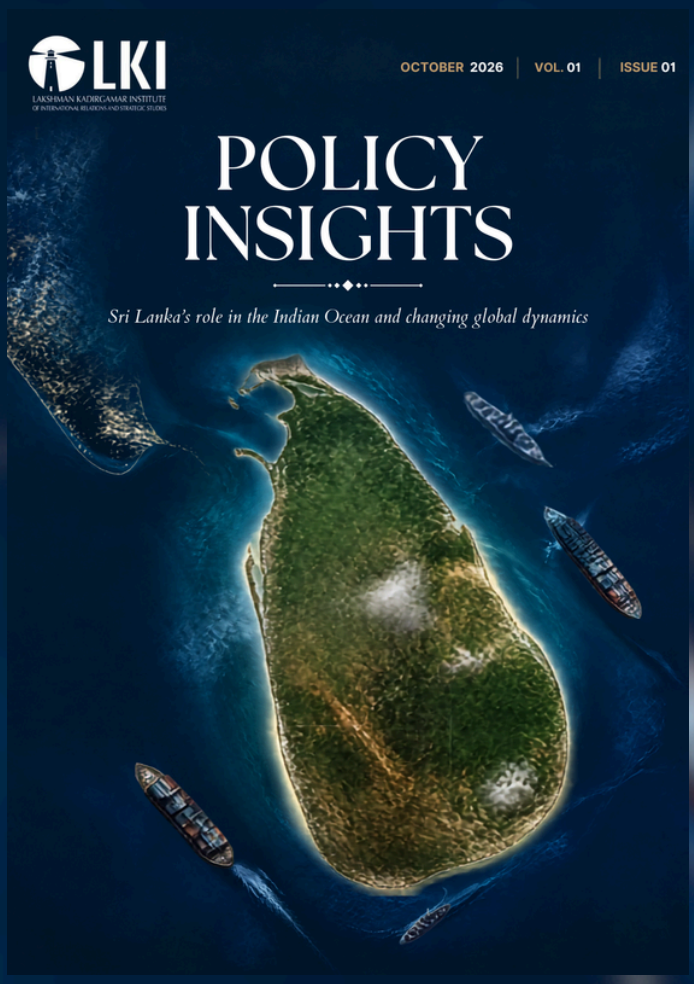
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ISSN 3121-5769