**Headline:** Trump’s Tariffs Could Intensify Sri Lanka’s Debt Crisis

By Shiran Illanperuma

**Author Bio:** This article was produced by [Globetrotter](https://globetrotter.media/). Shiran Illanperuma is a Sri Lankan journalist and political economist. He is a researcher at Tricontinental: Institute for Social Research and a co-editor of *Wenhua Zongheng: A Journal of Contemporary Chinese Thought*.

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**[Article Body:]**

On Thursday, 3 April, Sri Lankans woke up to the alarming news that the United States, the country’s single largest export destination, would be applying 44% tariffs. These tariffs will hit Sri Lanka just months after it officially exited sovereign default status in December 2024.

President Anura Kumara Dissanayake has appointed an advisory committee consisting of the heads of various government institutions and private sector representatives to study the impact of the tariffs. One of their main concerns should be the impact these tariffs will have on the country’s ability to raise foreign currency to service its considerable external debt, which stood at $55 billion in 2023 (or 65% of its Gross Domestic Product).

The US market accounts for 23% of Sri Lanka’s exports and 38% of its main export item – apparel and textiles. The country’s entire apparel and textile sector – which directly employs around 350,000 workers – was premised on access to the US (and European) market. This was facilitated through quotas assigned by the Multi-Fibre Agreement (1974–1994). For exporters which grew under this trade regime, there is a structural inability to imagine markets beyond the US. The Secretary General of the Joint Apparel Association Forum, the main representative body for apparel and textile exporters, has [stated bluntly](https://www.themorning.lk/articles/NuNb1LtRxIwoVOOZRZwZ) that ‘We have no alternate market that we can possibly target instead of the US’.

**IMF’s Faulty Debt Sustainability Analysis**

Trump’s tariffs come in the context of Sri Lanka continuing to struggle to recover from its worst economic crisis since independence. In 2022, Sri Lanka’s economy imploded under the pressure of a combination of factors. First, the country’s tourism and remittance-dependent economy lost billions in foreign currency due to the impact of the pandemic. Second, increases in commodity prices caused by supply chain bottlenecks and the Ukraine-Russia conflict placed a further burden on foreign currency reserves.

The situation led to extreme shortages of essentials, rolling blackouts, and long queues for fuel and cooking gas. In April 2022, Sri Lanka became the first country in the Asia-Pacific to default on external debt since 1999. In the two years since, the country has undergone a painful process of austerity under its 17th International Monetary Fund (IMF) programme, as well as a debt restructuring process that has paid insufficient attention to the country’s ability to generate foreign currency.

The IMF’s debt sustainability analysis focuses almost exclusively on debt as a share of GDP, which is the basis for the debt restructuring agreement made with the country’s lenders. Since the IMF analysis makes no serious distinction between domestic and foreign debt, its prescriptions focus on raising taxes to reduce the budget deficit while ignoring the structural trade deficit. There is no plan to boost Sri Lanka’s ability to earn US dollars and repay the bondholders who own the lion’s share of the country’s debt.

The IMF’s treatment of countries like Sri Lanka is in stark contrast to how the US treated allies like West Germany in the early years of the Cold War. Through the London Debt Agreement of 1953, all of West Germany’s external debts were forgiven. Meanwhile, future debt repayments would only be expected if the country ran a trade surplus, and these repayments were capped at 3% of export earnings.

By comparison, in the ten years leading up to Sri Lanka’s default on external debt (2012–2021), debt repayments amounted to an average of 41% of export earnings. During the same period, Sri Lanka also maintained an annual trade deficit of $8.5 billion. Without significant investment into manufactured exports (and access to markets), the country’s existing debt burden remains a ticking time bomb.

**Globalisation and Its Discontents**

The Trump administration’s use of the term ‘reciprocal tariff’ is misleading. Reciprocity implies equity, yet the kinds of goods which the US and Sri Lanka trade can hardly be equated. While Sri Lanka exports labour-intensive products such as apparel to the US, it imports capital-intensive products such as machinery and pharmaceuticals. Meanwhile, unlike the US, Sri Lanka does not have the exorbitant privilege of printing the world’s reserve currency.

Sri Lanka’s current pattern of trade, including its industrial monoculture of apparel and textile exports, is itself a product of US-led globalisation. On 18 March, during a speech delivered at the American Dynamism Summit in Washington, US Vice President JD Vance laid out a brutally honest take on the rationale behind that now bygone era of globalisation. ‘The idea of globalisation’, he said, ‘was that rich countries would move further up the value chain, while the poor countries made the simpler things’.

In other words, US-led globalisation was a means to maintain the international division of labour at a time when the US was the world’s sole manufacturing superpower. However, the problem, as Vance said, is that ‘the geographies that do the manufacturing get awfully good at the designing of things’.

In other words, while the US strategy may have worked for countries like Sri Lanka, it did not work for others. China, representing 17% of the world’s population, found ways to navigate globalisation. It did this by incentivising a high rate of fixed investments in infrastructure and industrial capabilities while lifting billions out of poverty and arming them with the skills and knowledge to work in high-technology sectors. For the US, this is unacceptable.

The resort to protectionism by the US signals a tactical, not a strategic, difference with the previous trade regime. The broad goal is still the same: to maintain the international division of labour by preventing the development of productive forces in the Global South. Whether these tariffs will actually work to that effect is another matter entirely. What appears certain is that debt-distressed countries like Sri Lanka will be left in the lurch as the Trump administration makes one last-ditch attempt to protect the interests of US monopolies.