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IMPACT OF WAR IN UKRAINE ON SRI LANKA

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ANALYSIS

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Abstract

The article analyses the war in Ukraine from a Sri Lankan perspective and assesses its impact on different sectors in Sri Lanka, including its economy, society, trade and economic relations with the embattled nations. Since the war began in Ukraine in February 2022, it has triggered a cascade of global issues. The ripple effects of the war in Ukraine are widespread, and it threatens many sectors of the world's economy, leading to high inflation and market instabilities. As a developing country, Sri Lanka is vulnerable to disruption in supply chains, high food inflation and other socio-economic catastrophes triggered by the situation. In addition to exploring the future consequences of the Ukraine conflict on Sri Lanka, this article makes recommendations to mitigate its adverse effects.

While countries anticipated effects of the global pandemic on their economies, the war in Ukraine transformed into a crisis multiplier. Sri Lanka, distant to the current conflict zone, was caught up in an economic death spiral (owing to a debt crisis and dwindling foreign exchange reserves) that the war in Ukraine has worsened. The fallout of the conflict is felt acutely in Sri Lanka's tourism industry, trade and energy sector. Russia and Ukraine are significant Sri Lankan trade partners, accounting for 2% and 2.2% of its imports and exports in 2020, respectively. Both warring nations are also vital import sources of wheat, semi-finished iron, asbestos and food items (like sunflower oil and soybeans) and export destinations for Sri Lanka's black tea.

With its energy and economic sectors hit the hardest and being dependant on the warring nations for wheat and energy, Sri Lanka needs to push for new alternatives. This will open new market opportunities for countries like India while increasing Sri Lanka's dependence on Indian food supply. Volatility in energy and food supply will continue to propel inflation in Sri Lanka, and the country will need to diversify its export destinations and import sources. Since Sri Lanka leans heavily on external energy sources, high oil prices and limited supply will worsen its current economic crisis. Prolonging of the conflict will retard its overall economic growth, and this will threaten

many sectors including trade, investment, industry, tourism and employment. As prices of essential commodities reach new heights, Sri Lankans' purchasing power will contract further, to the detriment of the country's food security and welfare system. Currently apparent to Sri Lanka, these social issues are unconfined to Ukraine and will eventually have ramifications that will unfold upon other countries, giving them cause to prevent future conflicts.

1 Introduction

The war in Ukraine has had an immense impact on international peace and stability and the global supply chain, whilst being a precursor to other catastrophic developments. The disruption to the supply and demand of goods exacerbates the already untenable human toll of the conflict, which shows no signs of abating¹. The ripple effects of the war in Ukraine are widespread, threatening many sectors of the world economy, in addition to precipitating a catastrophic humanitarian crisis leading to social unrest and instability. Vulnerable populations in developing countries like Sri Lanka are exposed to disturbed supply chains, high food inflation and other socio-economic catastrophes triggered by the war in Ukraine. The key objective of this paper is to analyse how the Ukraine conflict affects the Sri Lankan economy and its society, specifically looking at the trade and other economic relations that the country maintains with the two nations at war. In its later part, the paper explores the future consequences of the conflict on Sri Lanka, already affected by a severe economic crisis.

¹ Stackpole, B., 2022. Ripple effects from Russia-Ukraine war test global economies. MIT Sloan. June 28. Available at: <https://mitsloan.mit.edu/ideas-made-to-matter/ripple-effects-russia-ukraine-war-test-global-economies>.

2 Economic Impact of the War in Ukraine

The Ukraine conflict has exacerbated the global economic turmoil brought about by the COVID-19 pandemic. Sri Lanka, though far away from the embattled region, finds itself in an economic death spiral owing to a debt crisis and dwindling foreign exchange reserves within the country. Sri Lanka's economic crisis will be felt acutely across its tourism industry, trade and energy sectors.

2.1. Impact on the tourism industry

Tourism is one of the main sources of revenue for Sri Lanka. From 2014 to 2019, and even in 2020, tourism was the third largest source of foreign currency earnings², contributing about 14% of the total foreign currency inflow during this period³. Tourism experienced a setback after 2019 owing to the Easter attack and travel restrictions imposed during the COVID-19 pandemic. In 2022, tourism in Sri Lanka experienced a dent occasioned by several domestic and global realities. However, it is the war in Ukraine that has played perhaps the most significant role in the decline of the tourism industry.

In 2020, Russia, and Ukraine were among the top ten origins of tourists⁴. In 2022, Russia was the second largest origin of tourists to the country, with arrivals reaching 16,894; Ukraine was at fifth place with 7,037 arrivals⁵. The Tourist Hotels Association of Sri Lanka states that a severe impact on these numbers is expected within the year from early 2022⁶.

2 Central Bank of Sri Lanka. 2021 Central Bank of Sri Lanka- Annual Report 2021. Available at: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2021/en/13_Box_05.pdf.

3 ibid

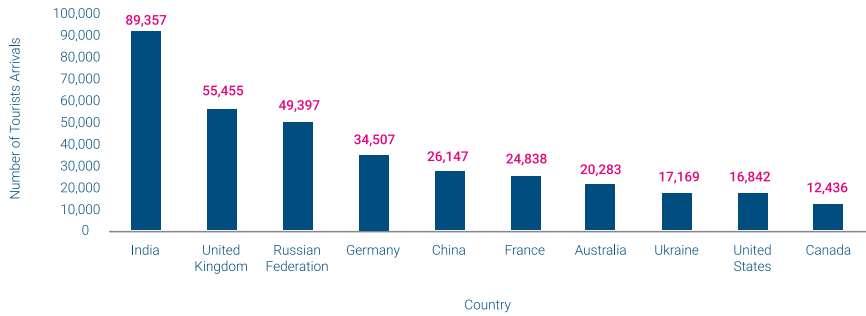
4 Sri Lanka Tourism Development Authority., 2021. Annual Statistical Report 2020. Available at: https://www.sltta.gov.lk/storage/common_media/Annual%20Statistical%20Report%202021%20-Final%2025.4.20223624932970.pdf.

5 Dias, S., 2022. Multiple Impacts in Sri Lanka from Ukraine War. Sunday Times. Available at: <https://www.sundaytimes.lk/220227/business-times/multiple-impacts-in-sri-lanka-from-ukraine-war-473997.html>.

6 Ibid.

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Figure 1: Number of tourist arrivals



Source: Sri Lanka Tourism Development Authority (2020)

3 Impact on Trade and Food Security in Sri Lanka

Following the war in Ukraine, nations called for the imposition of economic sanctions on Russia: the EU, the USA, Japan, Canada, Australia, Poland, Norway and Switzerland proceeded with said economic sanctions on Russia's export and imports, energy, shipping, technology, military and even private wealth⁷. As Western leaders attempted to rally the world to penalize Russia⁸, developing countries such as Sri Lanka found themselves in a dilemma, unable to freely choose their partners given their dire economic conditions; such nations were helpless against the fallout of sanctions on Russia.

Russia and Ukraine accounted for 2% and 2.2% of Sri Lanka's imports and exports in 2020, respectively. However, both countries are vital import sources for wheat, semi-finished iron and asbestos and export destinations for Sri Lanka's black tea. 45% of Sri Lanka's wheat imports arrive from Russia and Ukraine. Furthermore, around half of Sri Lanka's soybeans, sunflower oil and seeds and peas are imported from Ukraine. The following tables provide a detailed summary of imports and exports for Sri Lanka with respect to Ukraine and Russia. As per the illustration, trade with Russia and Ukraine encompasses sectors ranging from energy sources and industrial materials to consumable products; trade in such sectors is crucial in maintaining food and energy security in Sri Lanka.

The data indicates that the war in Ukraine is crushing Sri Lanka's USD 81 billion economy⁹. With the crisis being current, the prices of commodities and fuel vary from time to time, creating a ripple effect

7 Funakoshi, M., Lawson, H., & Deka, H. 2022. Tracking sanctions against Russia. The Reuters. Available at: <https://graphics.reuters.com/UKRAINE-CRISIS/SANCTIONS/byvrijenzmve/>.

8 Crowley, M. & Wong, E., 2022. Biden Calls on World to Punish Russia for Attempt to Annex Ukrainian land. New York Times. Available at: <https://www.nytimes.com/2022/09/30/us/biden-putin-russia-ukraine.html>.

9 Ondaatjie, A. 2022., Russia's war in Ukraine is crushing Sri Lanka's \$81 billion economy. The Print. 17 March. Available at: <https://theprint.in/world/russias-war-in-ukraine-is-crushing-sri-lankas-81-billion-economy/877212/>.

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on many sectors and generating significant inflationary pressure in western markets. In Europe, energy prices and supply chain bottlenecks show drastic increases, decreasing consumers' purchasing power, ultimately lowering the demand for goods exported by Sri Lanka. Europe is a key export centre for readymade garments, tea, seafood and spices, and Europe itself is the biggest export market for around 80% of countries¹⁰. Given Europe's tendency to increase military expenditure, European households will see ever shrinking peace dividends.

Although Sri Lanka's trade with Russia and Ukraine is small, the nations themselves are important destinations and sources for vital export and import commodities¹¹. From the crisis-affected Sri Lankan perspective, no matter how small the trade, it remains critical to the country's economy¹². The Director of Economics Research at Sri Lanka's Central Bank believes the Russia-Ukraine war could have a considerable impact on Sri Lanka's exports¹³. These two countries are significant import sources for wheat and export destinations for Sri Lanka's black tea¹⁴. Russia and Ukraine buy about 18% of the black tea produced in Sri Lanka¹⁵. According to Sri Lankan tea planters, a prolonged conflict would have a severe impact on sales of their tea products¹⁶. When the revenue from the tea industry decreases significantly, it will affect the economy of Sri Lanka, increasing inflation and food insecurity.

Sri Lankan exports to Russia have declined 41% from 46 million kg in 2013 (marked as one of the best years) to 27 million kg in 2021¹⁷

10 Extra-EU trade in goods., 2022. Ec.europa.eu. Assessed on 22 November, Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Extra-EU_trade_in_goods#:~:text=Europe%20is%20the%20world.

11 Dias, S., 2022. Multiple Impacts in Sri Lanka from Ukraine War. Sunday Times. Available at: <https://www.sundaytimes.lk/220227/business-times/multiple-impacts-in-sri-lanka-from-ukraine-war-473997.html>.

12 Ibid.

13 Economy Next., 2022. Sri Lanka trade of US\$461mn threatened by Russia invasion of Ukraine. 4 March. Available at: <https://economynext.com/sri-lanka-trade-of-us461mn-threatened-by-russia-invasion-of-ukraine-91201/>.

14 Wijesinghe, A., 2022. How the Russia-Ukraine Conflict affects Sri Lanka. Southern Voice. 28 February. Available at: <http://southernvoice.org/how-the-russia-ukraine-conflict-affects-sri-lanka/>.

15 Prime Asia News., 2022. LANTERNE ROSSE La Cina vuole arruolare più laureati per guerra hi-tech con Taiwan. Available at: <https://www.asianews.it/news-en/Russian-Ukrainian-war-a-blow-to-Colomb>.

16 Ibid.

17 Dias, S., 2022. Multiple Impacts in Sri Lanka from Ukraine War. Sunday Times. Available at: <https://www.sundaytimes.lk/220227/business-times/multiple-impacts-in-sri-lanka-from-ukraine-war-473997>.

Although there is a negative historic trend, Russian demand plays a vital part in the market for tea; even in January 2022, Russia was ranked second among all other export destinations. This was progress from 2021, where Russia ranked number three after Iraq and Turkey¹⁸.

Going through a catastrophic economic and food crisis, Sri Lanka needs to pay more attention to gaining access to vital raw materials and food commodities, faced with limited options in mitigating the impact on already worsening food security conditions and little access to these same raw materials. As wheat and rice are substitutes, high wheat prices increase the demand for rice¹⁹. Additionally, wheat prices are skyrocketing due to its lowered availability in the market. According to the Food and Agricultural Organization, people are considered food insecure when they don't have regular access to enough food. As per the World Food Programme, 6.3 million people, or over 30% of Sri Lanka's population, are "food insecure" and require humanitarian assistance. Of these, around 5.3 million people are either reducing meals or skipping meals, and at least 65,600 are severely food insecure²⁰. This situation is likely to worsen due to the war in Ukraine, as Sri Lanka's wheat supply relies heavily on these two nations.

Table 1: Sri Lanka's trade with Ukraine in 2020

| Imports to Sri Lanka – \$59.2 million including... | |
|--|-------|
| Wheat | 21.6M |
| Peas | 7.33M |
| Spice seeds | 1.05M |
| Barley | 464K |
| Soybeans | 395K |

[html](#).

¹⁸ Ibid.

¹⁹ Wijesinghe, A., 2022., How the Russia-Ukraine Conflict affects Sri Lanka. Southern Voice. <http://southernvoice.org/how-the-russia-ukraine-conflict-affects-sri-lanka/>.

²⁰ Reliefweb, 2022. Food Security and Nutrition Crisis in Sri Lanka. 1 September, Available at: Food Security and Nutrition Crisis in Sri Lanka - Sri Lanka | ReliefWeb.

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| | |
|--|-------|
| Sunflower oil | 1.65M |
| Spark ignition engines | 1.25M |
| Seed oil | 1.61M |
| Semi-finished iron | 20.8M |
| Sawn wood | 1.13M |
| Exports from Sri Lanka - \$57 million including... | |
| Tea-black (>3kg) | 14.8M |
| Tea- black(<3kg) | 7.29M |
| Tea-green (<3kg) | 2.18M |
| Helicopter parts | 15.6M |
| Aircraft engines | 4.07M |
| Activated carbon | 1.31M |

Source: Author's illustration derived from The Observatory of Economic Complexity, 2021²¹

Table 2: Trade with Russia in 2020

| | |
|---|-------|
| Imports to Sri Lanka - \$179 million including... | |
| Wheat | 93.1M |
| Semi-finished iron | 23.8M |
| Asbestos | 10.3M |
| Kraft paper | 7.15M |
| Synthetic rubber | 4.95M |
| Potassic fertilizers | 4.39M |
| Carbon | 3.05M |

²¹ Trade Profile of Russia-Sri Lanka, 2021. The Observatory of Economic Complexity. Available at: <https://oec.world/en/profile/bilateral-country/rus/partner/lka>.

| | |
|---|-------|
| Petroleum gas | 3.03M |
| Refined petroleum | 1.55M |
| Exports from Sri Lanka – \$212 million including... | |
| Tea | 140M |
| Knit gloves | 7.04M |
| Non-knit women garments | 4.96M |
| Coconut and other vegetables | 4.58M |
| Rubber tires | 4.6M |
| Rubber apparel | 4.15M |

Source: Author's illustration derived from The Observatory of Economic Complexity, 2021

4 Impact on the Energy Sector

From the beginning of the war in Ukraine, energy prices skyrocketed with energy consumption returning to pre-pandemic levels subsequent to the revocation of COVID-19 restrictions and opening of the world economy²². Crude oil had reportedly spiked above \$110–120 at the time; with crude being half the cost of gasoline, the prices of gasoline and diesel fuel increased around the world²³.

With an already dwindling economy and skyrocketing inflation, Sri Lanka grappled with increasing energy prices. As Alan Keenen states, “this is Ukraine effect: a credit line for fuel you thought could last two months now lasts one. Even if you get a bailout, you’re buying less food, less fuel, less medicine”²⁴. The war in Ukraine is to Sri Lanka a crisis multiplier, already struggling to contain domestic and self-inflicted economic meltdowns. Even as the world anticipated adverse economic conditions in the aftermath of the COVID-19 pandemic, the conflict accelerated the crisis, leading to energy insecurity in Sri Lanka.

22 Reynolds, A. 2022. Yes, Russia’s War on Ukraine Did Raise the Price of Gasoline. CATO Institute. Available at: <https://www.cato.org/blog/yes-russias-war-ukraine-did-raise-price-gasoline-0#:~:text=Crude%20oil%20then%20spiked%20above%20invasion%2C%20all%20around%20the%20world.23>

23 Ibid.
24 Tharoor. I., 2022. Far from Ukraine, Sri Lanka is the epicenter of a global crisis. The Washington Post. Available at: <https://www.washingtonpost.com/world/2022/07/06/sri-lanka-global-crisis-economic-ukraine-russia/>.

5

Social Impact of the War in Ukraine

From a humanitarian lens, the conflict deteriorated the day-to-day life of Ukrainian citizens; its people are forced to live without access to shelter, food, medical assistance and supply, all while being deeply traumatized by the violence. Schools, hospitals and other infrastructure on which the civilians heavily depend continue to be destroyed. The social impact of the conflict is also felt far from the borders of Ukraine²⁵. This section analyses this fallout from a Sri Lankan perspective.

Lack of access to human basic needs in Ukraine has become endemic, forcing many citizens (including vulnerable groups such as children and women) to endure long periods of displacement and devastation. As statistics reveal, many in the country are forced to live without access to food, water, health care and essential supplies²⁶, being compelled to flee to neighbouring countries for humanitarian assistance and survival.

The winter is likely to exacerbate the situation. According to Maslow's basic human needs theory, both material and non-material needs are crucial to a human's survival. In this crisis, Ukrainian citizens are unable to fulfil even these rudimentary needs. The crisis is a reminder of Sri Lanka's suffering during the thirty years of its civil war that caused massive devastation and displacement of innumerable civilians in war-affected areas. Irrespective of Ukraine's distance from Sri Lanka, the latter has a profound understanding of the repercussions of any form of war or conflict. Unsurprisingly, Sri Lankans were hospitable to Russian and Ukrainian tourists stranded on the island owing to the crisis that began in February. Many Ukrainians stranded in Sri Lanka have asserted that they have been overwhelmed by the

25 World Economic Forum., 2022. The consequences of the war in Ukraine will be far-reaching. 23 May 23. Available at: <https://www.weforum.org/agenda/2022/04/an-unfair-war-economic-social-and-security-consequences-of-the-russian-invasion-into-ukraine/>.

26 The IRC., 2022. Ukraine war: What are the impacts on the world today? 4 November, Available at: <https://www.rescue.org/article/ukraine-war-what-are-impacts-world-today>.

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support from locals, despite their own travails in the face of a worsening financial crisis.

Education is another societal aspect which should be considered in the context of the war in Ukraine. The education system has been severely affected and the future of children in Ukraine has become uncertain. Since the conflict's beginning in February 2022, it has affected approximately 5.7 million school-aged children in Ukraine (ages 3–18); after 24 February 2022, all education programs in Ukraine ground to a halt for two weeks, disrupting the school year across the nation²⁷. Sri Lanka, being a post-war nation, can readily grasp the alarming and cascading effects of the war in Ukraine. Observers have noted that severe infrastructural damage to schools also has prevented a considerable number of children from attending. As a result of the devastation of educational infrastructure, opportunities at research and higher educational institutes in Ukraine have also decreased. This may have a detrimental impact on young Sri Lankans seeking international exposure in Europe and better employment opportunities. Sri Lankan students applying for MBBS degree programs offered by Russian universities will be disadvantaged, given Russia is a sought-after destination for Sri Lankan medical students. As statistics reveal, a considerable number of Sri Lankan students enrolled in various universities in Russia and Ukraine have had to return to Sri Lanka with their degree programs incomplete. It is a situation that necessitates policy alternatives and suitable action from the Sri Lankan government.

As this devastating conflict continues, many children find themselves displaced, having lost their families. The statistics clearly indicate that sexual exploitation and child trafficking have increased. Another problem facing Ukraine has been that of its refugees and Internally Displaced Persons (IDP), which poses threats to human security and affects neighbouring countries. From Sri Lanka's perspective, the refugee crisis and issue of Internally Displaced Persons are direct threats to the social wellbeing, peace and political stability of

²⁷ ACAPS, 2022. UKRAINE: Impact of conflict on education. 2022, 17 August. Available at: https://www.acaps.org/sites/acaps/files/products/files/20220817_acaps_thematic_report_ukraine_analysis_hub_impact_of_conflict_on_education_0.pdf.

any nation-state. Sri Lanka, being a war affected nation, is still struggling to find feasible solutions to the issue of those internally displaced during its civil war. The growing number of refugees, issues related to human rights violations and child trafficking in Ukraine are alarming concerns that could divert humanitarian aid efforts and international attention from regions like South Asia whose constituent countries (like Sri Lanka) stand in dire need of the same. With global attention directed to the war in Ukraine, prospective donor countries and humanitarian aid providers will have reduced their economic and humanitarian assistance to Sri Lanka. These funding shortages may lead to curtailed welfare schemes and will reduce the capacity of the Sri Lankan government to provide the social support required by its people.

To Sri Lanka, these are social issues not confined to Ukraine, but ones with ramifications and lessons in conflict prevention for other countries. To deal with the detrimental effects of the war, Sri Lanka must consider the following mitigative options:

- Diversify its export destinations and import sources to reduce risk arising from market instabilities and rapid price escalations such as those triggered by the conflict.
- Explore alternative energy sources that could ensure adequate fuel supply and increase resilience to market shocks and sudden supply disruptions.
- Draw more attention to the agricultural sector and adopt new strategies to address the prevalent high food inflation and food insecurity.
- Establish social protections and ensure timely responses to the ongoing socio-economic issues on the rise following the COVID-19 pandemic.
- Support any acceptable collective efforts aimed at mitigating negative impacts of the war in Ukraine.
- Call on international organizations and financial institutions to support Sri Lanka through emergency concessional financing and grants.

6 Impact of the War in Ukraine on the Future of Sri Lanka

As the Ukraine conflict unfolds, the world comes to grips with market instabilities and sudden shocks in supply chains from these two countries. This situation convinces Sri Lanka to push for new alternatives, as it currently depends heavily on wheat and energy supply for the warring nations. It is apparent that this will open new market opportunities for countries like India while increasing Sri Lanka's dependence on the former for food supply. Volatility in energy and food supply will continue to increase inflation in Sri Lanka; this requires the country to bolster its roster of export and import partners. Since Sri Lanka depends on energy from external sources, high oil prices and limited supply will worsen the prevailing economic crisis of the nation. If the conflict continues, there will be a slowdown in the country's economic growth, which will pose threats to many sectors including trade, investment, industry, tourism and employment. As the prices of essential commodities reach new heights, the purchasing power of Sri Lankan citizens will reduce, creating a detrimental effect on the country's food security and welfare systems.

Any further increases in crude oil prices and essential commodities will lead to higher inflation and unaffordable import bills for Sri Lanka.

7 Conclusion

The article concludes that every aspect of the war in Ukraine has cascading effects on countries around the globe, and Sri Lanka is no exception. Since the beginning of the war in Ukraine, the Sri Lankan economy and society have been severely affected, worsening the country's prevailing economic upheaval. To Sri Lankans, the economic impact of the war on Sri Lanka has been more deleterious than societal. The conflict exacerbated the existing economic crisis in Sri Lanka, leading to a complex economic contraction felt across various sectors. In particular, the lack of affordable food continues to add to economic and social stresses in the country. It's apparent why Sri Lankans consider the war in Ukraine a crisis multiplier for their country.

About the Author

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S. Chaminda Padmakumara is the current Head of the Department of International Relations Faculty of Arts, University of Colombo and he has obtained PhD in International Relations from South Asian University, New Delhi. His PhD thesis focuses on the historical concept of 'mandala' and Southeast Asian region formation and he has obtained MA in International Relations from the University of Colombo. His research interests

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