

Sri Lanka: Three scenarios for the future

LAST December I gave a lecture for Advocata Institute in Colombo on three scenarios for Sri Lanka's future. Here are the three scenarios. Scenario One I call "Drift", Scenario Two "Take-Off", and Scenario Three "Relapse".

Scenario One: "Drift"

This is my assessment of Sri Lanka two years after the end of Rajapaksa rule, extrapolated to the future. How is Sri Lanka now? Better than it was under the Rajapaksas, but not by much. And not nearly as better as it should be – not by a long chalk. Regime change on 8 January 2015 presented Sri Lanka with a golden opportunity for a fresh start – the best in almost 40 years. But, yet again, a perennially complacent, incompetent and venal political elite has squandered it. So, for now, Sri Lanka drifts, performing well below its potential.

What has improved? The political and cultural atmosphere is freer; people speak their minds freely and dissidents do not disappear in the middle of the night. Power has been diffused. A new constitution with more checks and balances is in the works. Corruption is less egregious. Ethnic tensions are much lower; the military's presence in the north is less oppressive. And foreign policy is more balanced; relations with the West and India have been repaired.

And what has not changed? The present National-Unity Government came to power promising Yahapalanaya. That it has not practiced. Nepotism and corruption remain rife; essentially, they have returned to pre-Rajapaksa levels. None of the Rajapaksas and their cronies have been prosecuted, fined or jailed for corruption, let alone for human-rights abuses. No serious reforms have materialised to repair ethnic relations – on justice for victims of human-rights abuses during the war, land restitution, demilitarisation and devolution of power.

The chief debit is the economy. It ambles along, growing at about 5% a year – roughly the wartime average for GDP growth and significantly below potential growth. The present Government continued its predecessor's fiscal and monetary profligacy, eroding the tax base, and expanding expenditure entitlements and public debt – until an IMF bailout prevented a full-blown crisis. But this has not led to fundamental reforms of taxation or expenditure.

The good news on monetary policy is the appointment of Dr. Indrajit Coomaraswamy as Governor of the Central Bank – this Government's only good senior appointment. Dr. Coomaraswamy is, appropriately, trying his best to reorient monetary policy to focus on price stability (rather than slavishly follow fiscal-policy excesses), and to clean up supervisory and prudential abuses. Above all, he seeks to restore independence and integrity to an institution that had been heavily politicised in the previous decade.

He deserves the support of all Sri Lankans who yearn for good governance – in practice, not just as cheap rhetoric. Goodness knows Sri Lanka needs clean, competent professionals in its public institutions. At last it has one leading its central bank. Dr. Coomaraswamy needs popular moral support, for there are base politicians who would gladly undermine him and politicise the Central Bank.

There have been no serious reforms to liberalise the economy – to remove domestic restrictions on doing business and to open up international trade and investment. So, predictably, domestic private investment has not increased, exports languish, and foreign investment has nosedived from an already low base.

Sri Lanka has deteriorated to 110th position in the World Bank's Doing Business Index. FTA negotiations with India, China and Singapore, and seeking restored GSP-Plus from the EU, are a pathetic excuse for trade policy; they will hardly trigger the trade and investment regeneration the country needs. The public sector remains as bloated as ever, employing 1.5 million people in a workforce of about eight million.

Sri Lanka is stuck in a low-productivity trap. There is little competition in the economy: one or a handful of companies dominate most sectors, protected from foreign and domestic competitors; their bosses bankroll senior politicians and finance their election campaigns. New entrepreneurs are deterred and consumers screwed.

Finally, foreign policy has drifted back to China's warm embrace. Chinese projects are back on track, most recently with a debt-for-equity swap that gives majority ownership in management of Hambantota Port to a Chinese state-owned operator. This would not be a problem if Chinese state-backed investment were counterbalanced with more productive private-sector investment from India, the West and elsewhere. But Chinese investment is the only big foreign-investment game in town. That is worrying, on economic and national-security grounds. The danger is that the Chinese state and



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its proxies will buy up Sri Lanka's political and commercial elites, just as they have done elsewhere in Asia.

Why has so little changed for the better? Why does Sri Lanka keep squandering opportunities? To begin with, this Government came to power unexpectedly, with no economic plan except gimmicks and populist giveaways. And there were bad appointments to senior positions. But there is an underlying cultural reason: Sri Lanka's eternal, accursed complacency.

In one of his Odes, the Roman poet Horace wrote that "Blessed is he to whom Nature has given with a sparing hand". Nature, though, has endowed Sri Lanka abundantly. The Wet Zone's natural bounty breeds a fatal complacency, especially in Sinhala-Buddhist culture. Robert Knox captured this evocatively in his *An Historical Relation of the Island Ceylon*. It is ever-present. Too many Sri Lankans, and certainly their governing elite, expect coconuts to keep falling into their laps. The realisation has never dawned that the world does not owe Sri Lanka a living. A culture of working hard, planning for the future and earning one's success has never taken root. It has among the minorities – hardy Tamils used to eking out a living in the barren north and east, Muslim traders, Colombo's tiny Indian trading castes, even Christians – but not really among Sinhala Buddhists.

Finally, the post-Rajapaksa record convinces me that nothing will change fundamentally unless a new generation breaks through in politics and public institutions. The Government changed, but the same old political elite plays musical chairs around the cabinet table. The political class remains intact and unchanged; its ways have not changed. It talks high and performs low. The last thing insiders want is to open their door to young, clean, competent outsiders who would threaten their power and privileges – especially their powers of patronage to accumulate wealth and finance election campaigns. The status quo suits them fine. Why would they want to change it? But how can a younger generation that thinks and acts differently break through when their way is barred by entrenched insiders? That is Sri Lanka's biggest political conundrum.

If the present pattern continues, Sri Lanka will drift into the future with an ossified political and business elite, highly politicised, third-rate institutions, corruption and nepotism, an underperforming economy always verging on crisis, simmering ethnic tensions, and overdependence on China. Complacency and mediocrity will continue to rule; Sri Lanka will remain a backwater. The Colombo chattering class will continue to predict stellar future achievements, which will always remain unachieved. Brazil, so the saying goes, is the land of the future; it always was and always will be. The same can be said of Sri Lanka.

Such musings are academic to the Colombo elite. Its members will continue to party regardless, enjoying the fruits of power and influence-peddling at home, educating their offspring at pukka pub-

lic schools and universities abroad, and indulging in shopping sprees in London, Paris, Dubai and Singapore. But continued national drift matters to Sri Lankans outside this charmed circle. The broad majority will continue to be undereducated, underskilled, underemployed and underpaid, leading underdeveloped lives they will pass on to their children and grandchildren. They will be deprived of the life-chances they deserve.

This is the lot of Sri Lanka's swollen male army of three-wheeler drivers, hanging around street corners waiting for scraps of work. And the lot of its swollen female army of housemaids in the Middle East, often subject to discrimination and leading lonely lives cut off from their families, condemning their children to a motherless childhood. That still leaves a desperate minority, perhaps 10% of the population, who live hand-to-mouth, either in or on the borderline of abject poverty. These are the Sri Lankans who pay the price of drift.

Scenario Two: "Take-Off"

This scenario is what aspirational Sri Lankans hoped for with regime change in January 2015. It envisions a Sri Lanka that grasps its opportunities and achieves its long-heralded potential.

This starts with the economy. Growth will rise to about eight per cent a year, driven by productivity gains, the private sector and foreign investment, not by more debt and the public sector. Real wages and living standards for the broad majority will rise sustainably. They will have better housing, education and health care. There will be more competition and entrepreneurship. Volumes of exports, imports and foreign investment will rise substantially. Trade will be over 100% of GDP (more than double the number today), and annual inward investment about 3-5% of GDP (up to a tenfold increase on today's number). Multinational firms will establish South Asia hubs in Sri Lanka and link it to global supply chains in manufacturing and services. Sri Lanka will have much closer links with South India, its big business houses and its 200 million consumers. It will be South Asia's hub and gateway for trade in the Indian Ocean.

But none of this will happen without substantial policy reforms – fiscal and monetary stabilisation, domestic deregulation, trade-and-foreign-investment liberalisation, and, later, downsizing the public sector, deregulating land and labour markets, upgrading education and skills, and liberalising agriculture. Policy reforms also need institutional reforms: limits on the discretionary power politicians and bureaucrats exercise, overhauling the civil service, and decentralising power from Colombo to cities and regions.

Economic take-off is also the prerequisite for ethnic reconciliation. A stagnant economy exacerbates ethnic tensions that erupt into mass violence – as happened in the 1960s and '70s, when unemployed and underemployed youth swelled the ranks of both the JVP and Tamil militant groups. An expanding economy, with more investment, and more and better-paying jobs, will keep ethnic tensions at bay, and provide the resources – for education, housing, health care and infrastructure – to reduce those tensions and forge bonds among all Sri Lanka's ethnic and religious communities. A flourishing economy, then, is the best hope for a peaceful Sri Lanka. Sri Lanka, not a strife-torn Sinhala-Buddhist Sri Lanka.

Finally, this scenario envisages prop-

erly balanced foreign relations. Large-scale private-sector foreign investment from the West, India and elsewhere will balance Chinese state-backed investment. Sri Lanka will have stronger political, commercial and cultural links with its civilisational friends – the world's liberal democracies and open societies.

Overall, this vision is of a peaceful, open, tolerant and prosperous Sri Lanka. People will be freer, less dependent on the whims and favours of politicians, bureaucrats and sundry "big men". They will have what Adam Smith called "natural liberty, upon the liberal plan of freedom, equality and justice" – free to take charge of their own lives and explore its possibilities. A younger generation will break through and transform politics, public institutions, business and society. But all this is a long way off. It will not happen without radical change. The odds are it will not happen.

Scenario Three: "Relapse"

This is my last, dystopian scenario. Relapse means reverting to something like the Rajapaksa years, with echoes of previous UNP and SLFP governments led by Premadasa, J.R. Jayawardene, and Mr. and Mrs. Bandaranaike.

The few liberal gains since January 2015 will be reversed. A Big Man will return to power, possibly in the next presidential election. This could be a Rajapaksa, perhaps Gotabaya Rajapaksa, whose authoritarian and Sinhala chauvinist predilections are even more developed than his brother Mahinda's. Such a Big Man only needs to get about 60% of the Sinhala-Buddhist vote to override the minorities, who will vote for the UNP and ethnic-based parties or not at all. Whoever it is, this Big Man will promise his supporters to cleanse politics and institutions and "get things done". He will co-opt opponents into his big tent, as Mahinda did so successfully. He will neuter remaining opponents and institutions he does not fully control, including the police, judiciary, armed forces and NGOs. He will centralise patronage politics and make it more comprehensive and systematic. There will be no rule of law. Sri Lanka will slide back to illiberal democracy, becoming again a tropical analogue to Vladimir Putin's Russia.

The economy will be state-led again. The public sector will expand, crowding out the productive parts of the private sector. Trade will shrink further and non-Chinese foreign investment will stay away. This is a recipe for economic calcification, even crisis.

The new Big Man will ride to power on a chauvinist Sinhala-Buddhist agenda. He will pander to the worst instincts of Sinhala Buddhists. He will tell them the present national-unity government has pandered to the minorities and sold Sinhala Buddhism down the Mahaveli. He will spur extremist groups like Bodhu Bala Sena to action. Ethnic tensions will boil up and perhaps spill over into violence. Muslims and perhaps Sinhala Christians, not just Tamils, will be at risk. There is little medium-term prospect of

another ethnic war, but the minorities will retreat further into their shells in response to Sinhala-Buddhist aggression. More than ever, Sri Lanka's ethnic communities will live in separate solitudes.

Finally, Sri Lanka will again distance itself from India and the West, and become ever more dependent on Chinese projects and loans. The Chinese state and its proxies will buy up its political and business elites. It will be a Chinese tributary state – rather like a brief interlude in the 15th century, when Admiral Zheng He abducted the king of the Kotte and took him back to Beijing to pay obeisance to the Emperor, after which Kotte kings paid an annual tribute to China.

Many in Colombo dismiss this Relapse scenario. They say there is little chance of a Rajapaksa renaissance. Really? This is conventional wisdom in a Colombo bubble, detached from ordinary Sri Lankans outside Colombo and Western Province. I think this scenario is entirely plausible – more plausible than the Take-Off scenario: there is a good chance it will happen – unless present drift morphs into economic take-off. For I do not think present drift is stable: it will either regenerate into "take-off" or degenerate into "relapse". Ordinary Sri Lankans are intensely frustrated by political business-as-usual and lack of change under the present government. They see no improvement in their lives; prices keep rising, but without new investment and new jobs. They view this Government as dysfunctional and incompetent, while the Rajapaksas, for all their faults, won a war, restored peace and built new infrastructure. To me this is fertile ground for a Big Man to appeal to Sinhala-Buddhist "habits of the heart".

Colombo optimists tell me Sri Lanka's history of ferocious communal violence is behind it. Really? Abominations happened in very recent history, perpetrated by Sinhalese and Tamils. Their wounds still bleed, without genuine ethnic reconciliation. When I imagine how communal bloodletting might recur, I think of the second verse of From Greenland's Icy Mountains, Bishop Reginald Heber's missionary hymn from the 1820s:

*What though the spicy breezes
Blow soft o'er Ceylon's isle,
Though every prospect pleases,
And only man is vile.*

Above all, I hope it does not come to this. Even if it does, Sri Lanka will still have its achingly lovely landscapes and warm, welcoming, party-loving people. It will still have individuals – journalists, professionals, businesspeople, citizen-activists and humanitarians – who will fight the good fight for the disadvantaged and suffering. But that will hardly diminish another Sri Lankan tragedy. And that is why present drift must be converted to repair and renewal. The stakes are very high.

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My View



Global Economics

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