

Sri Lanka has made progress but faces formidable challenges in 2017

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Chandra R. de Silva reviews the achievements of Sri Lanka's new regime led by President Maitripala Sirisena and Prime Minister Ranil Wickremesinghe in 2016. He also assesses the challenges that lie ahead in 2017, as political divisions are likely to intensify over local and regional government elections, and foreign loans and inefficient state enterprises could disrupt the country's positive economic outlook.



Two years after the defeat of the incumbent President Mahinda Rajapaksa, and the emergence of a coalition government consisting of the two major political alliances, Sri Lanka has made some progress but faces major challenges in 2017.

The current government led by President Maitripala Sirisena, leader of the Sri Lanka Freedom Party (SLFP), and Prime Minister Ranil Wickremesinghe leader of the United National Party (UNP) has an overwhelming majority in Parliament. Although they lead groups which had long standing political rivalries, the two leaders have planned for a long-term alliance. One of their signal political achievements was the approval of the 19th Amendment to the Constitution in 2015. This provision circumscribed the power of the President by restricting the hitherto virtually unfettered power of the president to appoint a number of officers (such as judges of the Supreme Court) and also limited presidents to a maximum of two terms. In addition, the amendment prohibited the President from dissolving Parliament without its consent for four and a half years after the date of the last parliamentary election.

The new regime also took positive steps in 2016 in terms of safeguarding human rights, ethnic reconciliation, and minority protections. One such step was the Right to Access to Information Act approved in June 2016 and another was the establishment by law, of an Office of Missing Persons. This latter was intended to set up an investigative agency to help family members trace the fate of thousands of persons who 'disappeared' during the rule of President Rajapaksa. There were also continued restorations of land confiscated by the armed forces during the civil war, although at the end of 2016 there still remained some 10,000 acres of private land in Jaffna still under control of the armed forces. These steps softened the criticisms of the government of Sri Lanka by international agencies.

Nevertheless, the current regime is likely to face a number of formidable political challenges in 2017. Some of them arise from the very nature of the transition of political power in 2015. Soon after President Sirisena won the January 2015 Presidential Election, he secured leadership of the SLFP. However, many in that party retained political loyalties to former President Rajapaksa, who himself became an elected SLFP member of the legislature in August 2015. President Sirisena's challenge has been how to limit Rajapaksa's influence. In August 2016, he removed 41 SLFP party political organisers who were seen as Rajapaksa supporters. In November 2016, a renamed political party Sri Lanka Podujana Peramuna (SLPP) was set up to provide an alternative political home for Rajapaksa supporters. It is unlikely that many of them would defect from the SLFP immediately because according to the constitution, legislators who resign or are expelled from a party lose their seats. However, the SLPP provides Rajapaksa supporters with a new political option and raises the possibility that the coming year will see a political realignment.

A second and related challenge for the coalition in 2017 is how to retain grassroots support within each party while cooperating in governance. Some of Prime Minister Wickremesinghe's supporters are impatient at the slow pace at which allegations of corruption and criminal conduct during the Rajapaksa regime are being investigated. On the other hand, some in the SLFP would like President Sirisena to protect former ministers and officials from what they see as politically motivated investigations. This has already led to some public differences between the President and the Prime Minister. For example, in October 2016, President Sirisena publicly stated that military commanders

who led a successful campaign to crush separatist Tamil Tiger rebels in May 2009 should not be humiliated by bringing them to courts of justice. He also accused two institutions directly under the government – the Financial Crimes Investigations Division and the Criminal Investigations Division – as well as the independent Bribery Commission, of partisan action. This was widely perceived as an attempt to strengthen his base of support among the military and the SLFP. SLFP legislators have spoken up on allegations of financial improprieties which led to the resignation of the Governor of the Central Bank in 2016 and have tried to pin the responsibility on the Prime Minister. These strains are likely to worsen when the local and regional government elections (long postponed on grounds of electoral reform and delimitation) are held in the first half of 2017.

These developments have dimmed hopes of further constitutional reform. A Parliamentary Steering Committee chaired by the Prime Minister received recommendations from six parliamentary committees in late 2016 and but there seems to be little consensus even within the coalition government on the extent of devolution of power from the centre (of particular concern for reconciliation with the Tamil ethnic minority of the north and east), or the political structure of the center (Presidential vs Parliamentary Executive). The lack of further meaningful changes could undercut support from the moderate Tamil minority politicians who have expressed readiness to work with the Sri Lankan state.

On the economic front, the challenges appear to be less formidable. Both the overall GDP growth rate of just under 5% and the population growth rate of under 1% are expected to continue in 2017. Inflation is negligible. The deficit in the balance of trade is more than covered by steady remittances from Sri Lankans working abroad and increased earnings from a tourist industry (which has expanded by double digits in the past few years).

Nevertheless, some challenges loom in 2017. The first relates to repayment of foreign loans negotiated by the previous government for major infrastructure projects, some of which have turned out to be non-performing assets. It is estimated that in the next few years up to several billion dollars in repayments could come due to China alone. The current government has negotiated the transfer of 80% of a port in Sri Lanka for \$1.1 billion as part of the settlement (raising some apprehension in New Delhi) but continues to borrow more for much needed improvements in ports and roads. In 2017, Sri Lanka will have to attract new foreign direct investment (currently at a lamentable rate of under 1% of GDP and worsened by the flight of foreign private investment in late 2016). It also needs to provide incentives for export growth. Sri Lanka's 2015 merchandise trade-to-GDP ratio was 35.9 (down from 41.8 in 2013) which indicates a declining integration into world markets. Paratariffs and other trade barriers need to be assessed in terms of external engagement, particularly with other South Asian economies.

Finally, the state needs to examine losses in the over 200 state-owned enterprises, many of which are inefficiently run or (like the Ceylon Electricity Board and the Ceylon Petroleum Corporation) are burdened with prices set by the state at below cost-recovery levels. This has already begun for Sri Lankan Airlines but there is much more to be done. Some success in this area should enable the government to deal with regional economic disparities. A World Bank study released in February 2016 recorded that the poverty rate remains high in three districts affected by the civil war (Kilinochchi, Mannar and Mulaithivu) and in a rural district (Moneragala) in the south as well as in urban centers. Similarly, poverty in the plantation areas largely inhabited by the Tamil minority remains above the national norm.

The challenges look formidable but Sri Lanka has the resources to confront them and Sri Lanka's fiercely independent press is likely to keep these issues in public view in the coming months.

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