Supporters holding up images of Mr Sirisena as they celebrate in the streets of Colombo last week. The new government is extremely diverse and could easily fall apart. PHOTO: AFP

A CHANCE TO PUT SRI LANKA IN ORDER

Things have gone terribly wrong with Sri Lanka's politics, ethnic relations, economy and foreign policy. The regime change offers fresh opportunity. BY RAZEEN SALLY

IN NOVEMBER last year, Sri Lanka's then president, Mahinda Rajapaksa, called a snap election believing he would cruise to a third term in power. But, out of the blue, a hitherto feeble and divided opposition united around a common presidential candidate, Maithripala Sirisena. Against most odds, he won the election on January 8. A decade of Rajapaksa rule has collapsed suddenly. Sri Lanka has an unexpected fresh start.

President Rajapaksa campaigned on his economic record after comprehensively defeating the Tamil Tigers in 2009. On the surface, Sri Lanka looks a lot better. It has among the highest growth rates in Asia – an average of 7.5 per cent per annum in the last five years. There is peace. Infrastructure has improved massively. And tourism is booming.

But this surface reality is deceptive. Things have gone terribly wrong with Sri Lanka's politics, ethnic relations, economy and foreign policy.

First, politics became a one-family business. Power was centralised in a quartet – the president, his two brothers Gotabhaya and Basil, and his son Namal. The Rajapaksa clan – an outer circle of relatives and hangers-on – were appointed as senior government officials, heads of state-owned enterprises and ambassadors. The clan indulged in unprecedented levels of corruption. Public institutions – the civil service, legislature, judiciary, local government, police and military – were emasculated. Business was co-opted. The media and NGOs were repressed. Sri Lanka became an "illiberal democracy", less like India and more like Russia and Venezuela.

Second, ethnic relations did not improve after the end of the war. There was no attempt at genuine reconciliation with Tamils in the war-scarred north and east. Senior members of the government promoted Boddhu Bala Sena, an organisation led by Buddhist monks, which attacked mosques and Muslim shops, and even some Christian churches. There seemed to be a concerted attempt to stoke Sinhala-Buddhist chauvinism to shore up the Mr Rajapksas' Sinhala vote base.

Third, the economy's structural problems became more acute. This seems surprising, for headline numbers on growth, inflation, the budget deficit, public debt, interest rates, extreme poverty and unemployment all look much better since the end of the war.

But many serious observers dispute the government's economic numbers. More worrying is that post-war growth is debt-fuelled and driven by an expanding, inefficient public sector, not by productivity gains. The government has gone on a borrowing spree abroad. Foreign debt is now 43 per cent of total debt and servicing it gobbles up 25 per cent of export earnings. Sri Lanka is increasingly vulnerable to volatile international capital markets for debt financing.

The last decade has also seen much more government intervention in markets. Subsidies to loss-making state-owned enterprises have increased and there are more restrictions on the private sector. Trade protectionism has increased and export competitiveness has declined. Trade has shrunk dramatically as a share of GDP, and exports have not diversified beyond garments and plantation crops. Foreign investment is stagnant, with the exception of hotel and real estate projects. Infrastructure projects have had massive cost overruns. The defence budget has increased, and the military has diversified into business activities.

Fourth, foreign policy swung strongly in favour of China and away from the West and India. Chinese loans pay for much of Sri Lanka's new infrastructure and Rajapaksa vanity projects. But this runs directly counter to Sri Lanka's global economic interests. The US and EU account for two-thirds of Sri Lankan exports. Most tourist arrivals are still from EU countries. India is a far bigger trade partner than China with huge potential for closer trade and investment links, particularly with the four states of South India. Sri Lanka should have good relations with China, but it has become far too dependent on China, at the expense of other more important relationships.

POPULIST POLICIES

If Mr Rajapaksa won, Sri Lanka would have slipped further into political authoritarianism, Sinhala-Buddhist chauvinism and ethnic strife, economic nationalism and dependence on China. So Mr Sirisena's victory presents a golden opportunity for a fresh start. He and his new prime minister, Ranil Wickremesinghe, head a coalition that spans all ethnic and religious communities. He was elected with the overwhelming support of the minorities and a significant share of the Sinhala-Buddhist vote. The young and aspirational, fed up with quasi-feudal, dynastic politics, flocked to his banner. Hence there is a good prospect for a return to open democracy and a liberal flowering in the media and other parts of civil society.

But this is far from assured. The new government is extremely diverse and could easily fall apart. There could be recriminations against the minorities. Public institutions are still packed with Rajapaksa lackeys. And Sri Lanka has squandered rare opportunities for regeneration before.

The new government has announced an ambitious 100-day programme. At its core is constitutional and political reform. The all-powerful executive presidency will be abolished and a Westminster-style parliamentary system restored. A 19th Amendment to the constitution will re-establish the independence of institutions such as the police, judiciary and public service. New Independent Commissions will be responsible for making public appointments. There will be a Right to Information Bill. And new parliamentary elections will be followed by a cross-party government for at least two years.

The 100-day programme has nothing to say on ethnic relations except to reject international jurisdiction over the investigation of war crimes. Those who favour genuine ethnic reconciliation will have to fight their corner. Long-delayed devolution of powers to provincial councils, including those in the Tamil north and Tamil-Muslim east, must be part of the solution.

What the 100-day programme has to say on the economy is interventionist and populist. Public-sector salaries, pensions and welfare benefits will be raised and taxes reduced. There will be guaranteed purchase prices for some agricultural and plantation products. Farmers will have debt relief. There will even be a new government agency for drivers of three-wheelers. All this is for short-term political gain, but it is economically nonsensical. It puts further stress on already precarious public finances.

This makes it all the more urgent for Sri Lanka's tiny number of economic liberals to make the case for a radical economic overhaul. Priorities should be the repair of public finances; domestic deregulation to liberate the private sector; trade liberalisation and an open door to foreign investment; public sector reform; and lower defence spending. Realistically, these reforms will have to await the outcome of the parliamentary election. The best hope for market reforms is a strong performance by the United National Party. That would allow Mr Wickremesinghe, its leader, and a competent economic team to pursue at least some core reforms.

Finally, foreign policy should be reoriented, emphasising better relations with the West and India. Thankfully, this seems to be underway already. But a more open, liberal Sri Lanka also presents a fresh opportunity for closer relations with East Asian countries – Asean, Japan and South Korea, extending to Australia and New Zealand. Singapore should be at the head of this list.

The writer is associate professor at the Lee Kuan Yew School of Public Policy, National University of Singapore