

## **Webinar: Will COVID-19 reverse regional connectivity? Perspectives from South Asia**

On 13<sup>th</sup> May 2020, Brookings India organised a Foreign Policy & Security Studies webinar panel discussion, “Will COVID reverse regional connectivity? Perspectives from South Asia.”

The panel featured Munir Khasru, Chairman, Institute for Policy, Advocacy, and Governance, Bangladesh; Dr. Dinusha Panditaratne, Nonresident Fellow, Lakshman Kadirgamar Institute, Sri Lanka; Dr. George Varughese, Senior Strategic Advisor, Niti Foundation, Nepal. The panel was moderated by Dr. Constantino Xavier, Fellow, Foreign Policy and Security Studies, Brookings India. The full discussion can be viewed [here](#).

***Below is an abridged transcript of questions by Dr. Constantino Xavier, Fellow of Brookings India and responses by Dr. Dinusha Panditaratne, Nonresident Fellow of LKI:***

*Constantino Xavier, Brookings India:*

*So far, the response has been quite good in terms of the public health challenge in Sri Lanka, but I'd like you to talk a bit about the political context in Sri Lanka and the policies of the country. You have elections coming up, the dates have been changed, and there's a big discussion about that. You have a strong government led by brothers, a Prime Minister and a President deeply entrenched in the country. But at the same time, Sri Lanka has been the forefront of the agendas of connectivity, economic openness, free trade in the region. Would you see now a tendency towards more self-reliance and protectionism in Sri Lanka or can we still count on Sri Lanka to take a more proactive policy agenda for the region?*

*Dinusha Panditaratne, LKI:*

Thank you very much Tino for having me. It's great to be in this conversation with you and George and Munir. Great question to start on, in terms of whether Sri Lanka is closing on itself due to the pandemic. If I can just briefly preface those remarks by explaining where Sri Lanka is in trying to contain the pandemic. You alluded to a strong government and indeed, the approach can be characterized as a decisive approach to containing the outbreak. So very strong border controls were imposed, curfew was imposed nation-wide; in some parts continuously and some parts not continuously, but overall, for about 7 weeks. It was just relaxed this week. Numbers are relatively low; less than 1000 cases and 9 deaths.

These numbers have been attributed to the strong government and state that you rightly identified. A couple of different surveys have come out from independent sources on how well people think the government has handled this outbreak of COVID-19 and both surveys pointed to a very high degree of public satisfaction; over 90% satisfaction with the health service and the armed forces – which have been very involved, again consistent with that strong statist approach that you mentioned. And very high ratings for the President himself; interestingly, less high ratings for the

Prime Minister, who has been taking more of a back-seat role. In a sense, what I think the majority of voters voted for in November 2019 was in fact that strong government, a statist strong government. The push for that came off a very difficult few years culminating in the Easter attacks, and I mean difficult in a sense of presenting a strong government. So, the will for a strong government was there and the government has tried to show the benefits of that in this period.

In terms of protectionism, whether it's closing in on itself, here I think the outcomes are being driven by the economic realities. Generally, there's a favorable health outcome so far; the caveats to that of course are testing levels and what happens when we relax the curfew. But the health outcomes have been relatively good so far. What has been pretty devastating is the economic outcomes, on the heels of Sri Lanka's very high debt levels, the need to service that debt, and low foreign currency reserves. In reaction to that economic hit, it has imposed very strong and comprehensive import controls until July, except for essential goods and for goods that are inputs into Sri Lanka's exports. I think that is being driven by pragmatic economic considerations rather than an ideological backlash against that connectivity history that you described of Sri Lanka.

At the same time, there is an underlying paradox that Sri Lanka has yet to resolve in the long term, of this incredible location at the centre of global trading routes: we always talk about Sri Lanka's strategic location, but there is also somewhat of an ambivalence towards the outside world for historical reasons. So that's a little bit part of it and that's in the background, but I think at the moment the central driver is the economic realities.

*Constantino Xavier, Brookings India:*

*I think you already mentioned that the debt ceiling is being reached this month or next month?*

Dinusha Panditaratne, LKI:

Yes, I didn't mention that but that's correct. It has gone beyond the debt ceiling that was approved on the vote of account, so that issue is there. But the more long-standing issue is Sri Lanka's overall debt to GDP ratio which is nearing 90% and its low level of foreign reserves, and that's the stronger driver.

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*Constantino Xavier, Brookings India:*

*Former Prime Minister of Sri Lanka, Ranil Wickremesinghe, has been quite bullish on the regional cooperation agenda. After retiring, he's given several speeches. I remember him in February proposing an economic integration roadmap for South Asia. Then in April, already during the pandemic crisis, he spoke against the tide and I quote him, "This is a good time for regional*

*cooperation programs.” He suggests India, maybe Pakistan also, should take a lead. SAARC should also be involved. As you know, the current Secretary-General of SAARC is actually a very reputed high-profile diplomat from Sri Lanka, who’s heading the institution now in the Secretariat in Kathmandu. At the same time, you have this whole SAARC talk; we talk about SAARC Fund, SAARC Summits, but the regional organization hasn’t really done much. Is that the sense you get also in Colombo or what do you see in terms of the prospective positions that the Sri Lankan government may take towards the region?*

Dinusha Panditaratne, LKI:

I’m speaking obviously from an unofficial perspective here. But I think people are slightly perplexed as to why the central regional organizations can’t play a more central role. And that’s true of SAARC as well as for BIMSTEC. You rightly pointed out that BIMSTEC has a dedicated sectoral focus on Public Health, and if that cannot be activated at a time like this with a clear public health crisis, one has to really question all the resources – not just in monetary terms, but in terms of human resources and time and energy – that is spent on these organizations. And that’s particularly so when as you also rightly pointed out they have excellent heads or capacity at the Secretariats themselves and you mentioned very rightly Mr. Weerakoon as a very capable Secretary-General at SAARC.

A couple of things to say here. One is that I think SAARC could prioritize a couple of different areas at this point. The first is something that was mentioned by my colleague, Ganeshan Wignaraja, that SAARC could prioritize medical treatment of COVID to ensure that any eventual vaccine or any eventual medical treatment is accessible throughout South Asia as opposed to in the production centers, which may be well away from South Asia. So that’s something that they could focus on. And the second aspect for SAARC is a more long-term project of really trying to build the cultural identity. We take it for granted that we have longstanding cultural, linguistic and people-to-people links but when you cut through those and especially see the people-to-people links being built by China, there is really a need to build a more cohesive regional identity that SAARC could feed, perhaps in digital ways as well. We had at LKI a seminar last year on cultural heritage and how that could perhaps be protected through virtual museums, digital museums. That’s a big thing all around the world at the moment. It doesn’t take much money to do that. You could focus perhaps even on post-independence modern art so that you present it as a forward-looking project. So, a couple of things for SAARC there.

The one organization we haven’t mentioned so far which is regional, though of course it doesn’t encompass everyone in SAARC, is the Indian Ocean Rim Association (IORA). IORA has, I think from a Sri Lankan perspective, strong potential as a complementary organization to SAARC and BIMSTEC, partly because Sri Lanka’s geography is a little bit different to some of the other South Asian countries; more maritime-centered. There are a couple of things that would push IORA to

be more effective. One is it has Australia, Singapore and other member states with more resources to offer that can push the agenda a little bit. And from a Sri Lankan perspective also, the goals of IORA in terms of sustainable/green development, maritime security and scientific exploration also fit quite well for Sri Lanka's needs in the future. Australia and India have both been very active on digital diplomacy in terms of convening foreign ministers, senior officials. Perhaps, the next step could be for them to push such a digital forum for IORA.

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*Constantino Xavier, Brookings India:*

*Let me now push you to the geopolitics a bit. We've seen in mid-March, China announcing a \$500 million financial package of support to Sri Lanka over ten years or something. We don't know exactly the details and maybe you can help us. If you could put this in the context of Sri Lanka's balancing game, between keeping India happy, connecting with India, a lot of good initiatives happening between India and Sri Lanka. At the same time, a possible MCC grant with the US, which didn't go ahead for security and political, non-alignment concerns. And the Chinese coming in who have added on support. If you could navigate us a bit through these difficult choices for Sri Lanka, what you expect in terms of re-alignments or is it just business as usual in Sri Lankan foreign policy.*

Dinusha Panditaratne, LKI:

One of the things that is difficult for all smaller states at this point is watching the rising US-China tensions. I was struck by a comment by Ian Bremmer of the Eurasia Group in a recent video interview where he described the US as increasingly 'non-aligned', which I thought was quite a remarkable term to use for the dominant power, but also increasingly apt. For Sri Lanka, if the US is moving to more non-alignment, you can imagine that smaller states are also really in a state of flux and trying to manage it by going back to first principles of their foreign policy. And non-alignment has been a theme.

Of course, there are difficulties with the term non-alignment in that it means different things to different people. But broadly speaking, Sri Lanka has been trying to engage with a plurality of actors and that includes anyone it feels can contribute to its immediate needs. And its immediate needs as I mentioned earlier are very much economic. It has sought both bilateral and multilateral aid from a variety of sources. So, it's in talks with ADB and the AIIB as well for \$300 million. I think AIIB has granted a \$500 million facility to India, and ADB \$500 million to Bangladesh. Sri Lanka is still in talks for those. It has received some funding from the World Bank, around \$127 million I believe, and around twenty something million from the EU, but the bigger amounts are not yet coming from the other bilateral and multilateral actors. In that situation, the ones that get

publicity are the Chinese loans. And I echo what George said about there are a lot of people contributing but sometimes the Chinese contributions get outsized focus.

You raised a very good point about the MCC. There is a real question as to why Sri Lanka refused the MCC. It appears to be still on the table. That is something that would seem logical, given that we're going for loans and swap facilities; a \$400 million swap facility was approved by India. Should we look at the MCC again? That would seem a rational thing to do in these circumstances.

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*Constantino Xavier, Brookings India [Question from a viewer]:*

*Do you see a reduced role in global development institutions in this region relating to connectivity and development? And I think he's alluding also to this bilateralism coming up: India giving support to Sri Lanka, you have the Chinese coming in, the Americans also in a bilateral approach to MCC, for example. To what extent do we have global classic institutions like the World Bank, the Asian Development Bank (ADB), the IMF still calling the shots or as influential as they used to be 10 years ago. And if they're not, is that good, is that bad, are there alternatives, like the AIIB? How do you look at that from Sri Lanka?*

Dinusha Panditaratne, LKI:

I would say that it's too early to count out global institutions from the mix of actors that Sri Lanka will look to, in order to meet its development and foreign policy goals. As I mentioned earlier, it has gone to the AIIB and the ADB, World Bank, the IFC – the whole range – and equally pursued the bilateral routes as well. So, I would say that these are complementary rather than exclusive or one pushing out the other. Certainly, the AIIB added more options to the menu of multilateral organizations, just as China has increased the capacity for bilateral lending. As China as given more, we have seen things like the MCC grant present themselves as options as well for Sri Lanka. Interestingly, you're also seeing partnerships between particular countries and international institutions. I think it was just recently that Sri Lanka received \$800,000 worth of medical supplies from the WHO but supported by DFAT in Australia; so, an Australia-WHO consortium.

In some ways, I think the reliance on international organizations might even slightly increase, particularly as international organizations start supporting private equity-type of funding arrangements. Sri Lanka is now making quite a lot of noise about needing to fund infrastructure by equity rather than debt. Equity is a more fluid environment but we have seen the AIIB give very substantial support to private equity funds. And those are something that Sri Lanka can tap into. The Green Climate Fund is something else along the same lines that Sri Lanka did get a small grant from back in 2016. So, I think you're seeing a wider menu.

In terms of bilateral assistance, however, and this ties into what Munir was saying about India taking more of a lead, I do see a potential opening for India on infrastructure development. China has now almost branded itself as the ‘physical infrastructure’ funder for Southeast Asia, South Asia and beyond. There is an opening for India to come in, especially at this time, as the ‘digital infrastructure’ provider. We always talk about e-commerce, and I spoke about virtual museums and so forth, but internet penetration rates are low, and mobile smartphone penetration rates are also low. In order to harness what we really need in terms of digital growth in South Asia, I think India is uniquely placed to try and fill that vacuum. It would need to act very fast, however, because China is already in that space. Just one example of that was Alibaba’s purchase of Daraz, an online ecommerce platform which also exists in Bangladesh, Nepal, Pakistan and Myanmar. So they’re already in there and India would move quite quickly to reap the possible benefits.

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*Constantino Xavier, Brookings India:*

*Sri Lanka is in a very different geographic situation from Nepal. You are an island state; you are exposed at the height of the Indian Ocean. This has been an area of tremendous competition but also very interesting developments with new regional institutions; IORA being revived or capacitated, this whole focus on the Indo-Pacific, from the US to Australia and Japan, the Japanese with their Asia-Africa Growth Corridor – I’m not sure where that is now, but certainly an emphasis there on the maritime aspects of connectivity and governance – and most recently, the Quadrilateral Dialogue between US, Japan, Australia and India, which we traditionally looked at only from defence and security, had a whole discussion on health emergencies and response to COVID. How do you see the debate shaping in Sri Lanka on this southern angle of your foreign policy, on the Indian Ocean region, whether there are opportunities there, or will this lead to a Sri Lanka that is again more aligned northwards towards India, to China, Southeast Asia or will we see a more outwards Sri Lanka towards Australia, Africa maybe and the Indian Ocean island states?*

Dinusha Panditaratne, LKI:

I think you’ll see a little more reticence with engaging actively with security-related groupings. IORA has a more multi-dimensional image. I take your point that the Quad is trying to change but its original purpose and perceived purpose is very much security-focused. In this situation, we’ll see Sri Lanka relying more on those first principles that I spoke about earlier; the neutrality, the non-alignment, a previous foreign minister used the words omni-directionality of foreign policy; rather than trying to engage very actively with security-related groupings or perceived security-related groupings. One example of this was recently there was a press release by the Ministry of Foreign Relations thanking Cuba for its role in helping Sri Lankan nationals in Haiti. So you’re seeing thanks go out a wide variety of countries right across the globe. At the same time, I think

we will continue to see the natural engagement with India on security-related exercises, and with the Maldives as well in the trilateral. We would expect to see that continue, and multiple ship visits, for example; I would say that those would all continue.

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*Constantino Xavier, Brookings India:*

*[At this time of prophecies of doom while other speak of opportunity] what is your optimism or pessimism as we look at the future?*

There is opportunity here, but it comes with a willingness to engage intellectually and to pass a period of deep introversion. And I don't mean protectionism or any of that but I'm talking about an intellectual introversion that is needed to think about how do we go forward in the long term. For Sri Lanka there are some really constant, deep, underlying questions that keep growing year by year. Unfortunately, the more pragmatic, immediate questions of economic necessity are dominating. They need to dominate now – I see that. But we're never really going to escape from this wheel if we don't go back to the drawing board and think about some of the larger questions. I raised one of these in the beginning of the discussion, which is that paradox of what is Sri Lanka's place in the world. We're at this particular geography but how do we interact with the world? There's lots of ambivalence about this, lots of layers of ambivalence. So, there's a real need to go back to the drawing board and think about fundamentals like health – I really like the suggestion of a definition of vulnerability discussed earlier – of education, which is a longstanding issue and hasn't been changed for a long time. And we're seeing that now, in terms of the nimbleness of how to respond being limited by the fairly archaic education system. And there are bigger questions of unity and diversity that are always on the backburner and they won't go away until we address them. So, there is an opportunity now to address them. I question whether we will really get there, but in principle there is that opportunity.

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