



## SPOTLIGHTS

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LKI's *Spotlights* feature interviews with global thought leaders on aspects of contemporary international relations.

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### **Sri Lankan Economy in the Covid- 19 Era with Professor Sirimal Abeyratne**

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Interviewed by Ganeshan Wignaraja\*

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\***Ganeshan Wignaraja** is the Executive Director at the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI). The opinions expressed in this transcript are the speaker's own views and are not the institutional views of LKI.

**The Executive Director of the Lakshman Kadirgamar Institute of International Relations and Strategic Studies (LKI), Dr Ganeshan Wignaraja interviewed Professor Sirimal Abeyratne, Professor of Economics at the University of Colombo, and the current Chairman of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka, on Sri Lanka's economy in the Covid- 19 era.**

**This interview is part of the LKI Spotlight series which feature interviews with thought leaders, academics, diplomats, and professionals from around the world on current and emerging issues concerning international relations.**

**Professor Sirimal Abeyratne is Professor in Economics at the University of Colombo, and the current Chairman of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. He has also served as the Chairman of the Institute of Policy Studies in Sri Lanka. He is also a media economist appearing in both electronic and print media providing analyses on current economic affairs and participating in ongoing policy debates, while carrying out his weekly newspaper column “Down-to-earth Economics” in the Sunday Times newspaper in Sri Lanka. He has earned his PhD from the Free University Amsterdam, MA and MPhil degrees from International Institute of Social Studies, The Hague, and Bachelor's degree from the University of Colombo.**

**He has been a Visiting Fellow at International University of Japan, Ryukoku University in Kyoto, Australian National University, University of Trento in Italy, and the University of Economics in Ho Chi Minh City in Vietnam. He has served as a researcher and a consultant to several international organizations such as ADB, ILO, UNDP, JICA, JBIC and World Bank, local and international research institutes, government agencies, and corporate sector organizations in Sri Lanka. He teaches within the subject areas of Macroeconomics, International Economics, and Development Economics, while his research interests are related to international trade, policy reforms, economic dimensions of conflicts, development issues, and the current economic affairs.**

**See below for a lightly edited transcript of the email interview, featuring Prof. Abeyratne's responses to questions posed by Dr Ganeshan Wignaraja, Executive Director of LKI.**

**LKI: *What is the likely impact of COVID-19 on poverty incidence in Sri Lanka?***

**Prof. Abeyratne:** The depth and the width of poverty incidence of COVID-19 emanate from the loss of livelihoods, incomes, and jobs. The source of these poverty implications are basically three fold, namely the country's own lockdown strategy, breakdown of the country's international economic links, and the emerging global economic recession. This shows that, in general the poverty implications of COVID-19 issue would be substantial, while an analysis of its variation needs to be understood by looking at the current poverty outlook of the country.

According to official statistics, Sri Lanka's poverty is connected largely to rural agriculture. By national poverty line, only a 4 per cent of people in Sri Lanka which amounts to 845,000 in number remained poor in 2016. However, according to World Bank estimates, there are 2 million people living on less than US\$3.20 or approximately LKR 600 a day. And, interestingly more than 2 million people of the country's 8.5 million labour force is also in the agriculture sector.

Although rural agriculture sector is unlikely to get affected severely compared with industry and service sectors which suffered a direct hit, even the marginal impact due to the breakdown in supply chains and reduction in consumer demand has a greater impact on poverty. Moreover, it is part of the rural labor that have been employed in urban-based industry and service sectors due to prevalent poverty there so that the loss of incomes and jobs increases rural poverty. Apart from rural poverty, even the people who were not counted so far as poor, must have fallen below poverty line due to the loss of livelihood and incomes. This segment might include people in the informal sector, daily wage earners, and the employees who were laid off in the industry and service sectors.

**LKI:** *What economic reforms do you suggest which can benefit the poor in Sri Lanka?*

**Prof. Abeyratne:** Even though there are ideological disputes among economists with respect to the appropriate policy mix, policy changes are influenced greatly by the booms and busts. Given the current economic crisis, the available policy options are limited.

The policy mix should include both short-term and long-term policies, ranging from targeted subsidy transfers to economic stimuli and development strategies. As governments all over the world are focusing basically on fiscal and monetary policy stimuli, as part of such policy packages it would be effective to design targeted programmes which would benefit the poor the most. Apart from safety nets, it is important to support the revival of such economic activities which are important for mitigating poverty impact. That is why it is important to focus on domestic agriculture as well as small and medium scale enterprises. However, we should also acknowledge the limitations of such programmes to continue with as our main development policy thrust.

I think there is no ideological dispute over the fact that "economic progress is constrained by the size of the market" so that there is time to go beyond the boundaries of the home market towards the global market on the one hand. Similarly, there is no dispute over the fact that there is no remedy for poverty without creating jobs and generating incomes. When we consider these two fundamentals, there is a need for moving away from monetary and fiscal policy stimuli and to focus on international market horizon as quickly as possible. And there are unprecedented opportunities in difficulties in order to get prepared for that.

**LKI:** *What contribution can China's infrastructure investments play in the post-COVID economy of Sri Lanka? Have such projects brought net economic benefits to Sri Lanka?*

**Prof. Abeyratne:** China has a global vision, which can benefit Sri Lanka too, if we decide to get connected with that vision. In this context, China's investment in infrastructure projects in Sri Lanka can bring about long-term benefits to the country, if Sri Lanka is prepared to make use of such investment wisely, learning from the past. The first thing we need to understand is that we should divert our focus from foreign borrowings to foreign investment whether it is from China or elsewhere. In the past, we borrowed short-term and invested in long-term infrastructure projects against a weakening economic status.

Secondly, we need to make a balance between tradable and non-tradable growth. Infrastructure development, which basically a non-tradable activity, is necessary to support tradable growth with private investment. The latter requires a significant reform agenda in order to establish business confidence and investment-friendly policy environment and export growth.

Finally, many are skeptic about investment coming from a single source whether it is China or India or the USA. For me it is an opportunity for Sri Lanka so that we should promote our economic diplomacy and, fair and free policy environment which welcome the presence of multiple investors on competitive terms.

**LKI:** *What key external risks are likely to impinge on South Asia's growth and trade in 2020 and 2021?*

**Prof. Abeyratne:** The sequencing differences of the spread of COVID-19 among different regions in the world and the emerging global economic recession are likely to exert pressure on South Asia's growth prospects in 2020 and 2021. Before the outbreak of COVID-19, South Asia had emerged as the fastest-growing region in the world, as growth prospects were turning from East Asia to South Asia. But South Asian growth was also fueled by overwhelming domestic demand on the one hand and not was contributed much by trade within the region on the other hand. These weaknesses point to the fact there is a need for South Asia to divert its growth-drivers aggressively towards export growth.

All South Asian countries are strongly connected to the Western Europe and the USA which have now become the epicentres of COVID-19 issue as well as the epicentres of the emerging global economic recession. These issues in particular would delay South Asia's growth in the medium term. Even if countries like Sri Lanka quickly move away from the dangers of COVID-19 returning to normalcy, the country cannot progress in isolation from the rest of the world, which would equally applies to other South Asian countries as well.

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