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Asia | Transcript

An interview with the president of Sri Lanka

Ranil Wickremesinghe explains how he plans to help Sri Lanka's recovery

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We interviewed the president of Sri Lanka in Colombo on August 14th 2022. This transcript has been edited for length and clarity.

The Economist: Thank you very much for taking the time to see us, Mr Wickremesinghe. The last time we were here was three weeks ago, when it was obvious that this was a country in crisis. We got in last night and the vibe has changed tremendously. It's visible on the street, on the way in from the airport. What has happened since July 21st to have caused that change?

Ranil Wickremesinghe: Firstly, I think people wanted law and order. A lot of people are losing out…employed people couldn't go to work. They had complaints about the government, but when President Gotabaya [Rajapaksa, Mr Wickremesinghe's predecessor] left, they were willing to give us another chance. The election of the president went constitutionally, parliament voted, and has taken on the existing cabinet so that we can call for an all-party government, with people from outside within the committee system. We will devise some new mechanisms for that. People know that we are going in for a tough time. And they want to get out of it as soon as possible. Even those that supported the aragalaya [the protest movement], from about the end of May, they were getting tired of [the chaos]. And they didn't expect the violence that took place on the 9th and the 13th.

TE: Concretely though, there's obviously more fuel in the country, the QR code system seems to be a big success, the fuel queues have vanished. There are more cars and auto rickshaws on the street. What steps have been taken in the past three weeks to have changed the mood of the country?

RW: Well, first, we had to tackle the fuel issue. Second was the fact that we were reaching out to everyone. Even peaceful protesters in the aragalaya were welcomed. We are willing to establish people's assemblies to look at all the changes to be made. The new standing order for oversight committees makes room for five* youth representatives. And they can ask questions, with the permission of the chairman. And while they can't subscribe to the report, they can have their views recorded in it. And the parliament itself is grappling with ensuring that all the parties in the all-party administration can work together.

TE: You've said it's very important to you to form that kind of government. What's so important about it? And what makes it problematic?

RW: Well there's a big crisis here. So how do we even get parties to work together? I've taken the lead in pushing the 22nd Amendment [to reduce the powers of the executive presidency], which is what they all wanted. So we will bring that in. And then you can set a new study for a new constitution, if they want. I brought that together with the select committee, the oversight committee system, plus a new National Council, modelled on something like the European Council. Also, we will try to get behind a common minimum programme so that the government knows that we have party support. Other issues can be discussed regularly, once a month. That's to get the party leaders in. I said that I'm willing to have some of the chairmen of the oversight committees invited to cabinet as and when necessary.

TE: What have been the obstacles in setting up this all-party government?

RW: We're only in discussions and every party is now in different groups. It's not merely a question of parties, but groups and their point of view. The responsibility for the country coming out of the crisis lies with parliament. I

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refer even the IMF proposals to parliament. If anyone has better proposals, certainly we look at them. Otherwise we have to go ahead with what we have.

TE: You've been very honest in recent weeks about how difficult it's going to be, and what needs to happen to reduce the deficit and get back to a primary surplus, to reduce government debt. In terms of concrete steps, legislative priorities on economic policy, what are some of the things you need to tackle first?

RW: We need a public-finance bill on the new taxes, then on state-owned enterprises [SOEs]. My idea is to do a deep cut and make a legislative framework for a highly competitive export-oriented economy, and then ensure the recovery takes off by 2024. It's not worth dragging this out. Take a deep cut, but ensure that you can get recovery going so...

TE: What do you mean by deep cut?

RW: So that when you make changes, make it deep, make all the changes you have to make and then allow it to come up. Thailand did that but Thailand only had a banking crisis, they didn't have a budget crisis. We have both but I am confident we can somehow make it through.

TE: What does it mean in practice to say that you want to establish the legislative framework for a competitive economy?

RW: Firstly, budgetary. You take the fiscal and monetary steps to get your deficit down. At the same time you have to look at the legislative steps that are necessary to build a highly competitive, export-oriented economy. We did this back in 1977 when I was in the cabinet. We brought in legislation to open up the economy.

TE: So can you give us two or three examples, for the short term, for the budget, on income tax, VAT, SOEs?

RW: You will have to raise taxes, you will have to tax capital, tax wealth. The tax net has to be widened. And that will bring some of the lost revenue. By about the middle of next year, we'll have the same, or we'll even go beyond the tax net we had in 2018.

TE: You've also mentioned you want Sri Lanka to be not just upper-middle-income but upper income in 25 years. What are some of the things you need to do now to make that happen?

RW: That's a question about how do you open up? Before that, we've got to handle the whole issue of banks. We are looking now at disposing of some state assets, which will give us about $2bn-3bn. That's the groundwork. Then to open up we have some of the reports we used in 2018-19 that you could implement, but basically integrate yourself with the region. In South Asia itself I can't see very much regional integration. So we will look at closer relations with ASEAN [Association of South-East Asian Nations] and RCEP [Regional Comprehensive Economic Partnership Agreement, an Asian trade pact].

TE: Apart from Sri Lankan airlines, what are some of the marquee SOEs that could be privatised?

RW: Well, you can sell Sri Lanka Insurance, there's telecoms. What we do with the petroleum corporation is another question.

TE: So open up the petroleum market to other players?

RW: Yes, we'll open up investments, but we have to talk to all holders of concessions because some have been running for over 40 years. Laws governing the offshore economy also need to change. We're looking at Ireland as a model for that.

TE: What are some of the immediate laws you're going to bring in?

RW: A law similar to US Chapter 11 bankruptcy is one of the most immediate. The rest are about economic stability. We've also got some additional powers for the next year and a half to tackle the situation.

TE: You mentioned a few laws that you said you're going to bring into parliament. That's what I was referring to.

RW: Well this process will go on into 2024, company law has to be amended, a whole lot of commercial laws, we are looking at ease of doing business. So that means cutting through so many regulations. There are so many laws for how to operate even a basic item—there are so many authorities running by themselves. I'm also looking at the BOI [Board of Investment], we have to look at the overall investment effort of Sri Lanka. I'm not satisfied with it. The money we put in we haven't gotten back. So I suppose in one way this is a disaster, but it's also an opportunity to create something new, like we did in 1977.

TE: How much are the things that you were just talking about part of the demands from the International Monetary Fund, and how much goes beyond that?

RW: The demand is actually always tabulated for the four-year agreement. So we have to go ahead with that. That'll be the base for the restructuring, and then we'll be able to build on that.

TE: With some of the things you're talking about, it sounds like you're not just dealing with the immediate situation, but ensuring that Sri Lanka has a strong foundation.

RW: A strong foundation. And we won't be around then, but we'll become an upper-income country one day.

TE: You said that the IMF agreement, which was supposed to come in August, is probably only going to be in September?

RW: We've been discussing, there are about three items that have been finalised, the team is coming, then you're also picking up the discussions with Lazard and Clifford Chance [Sri Lanka's financial and legal advisers]. The problem is that the disturbances of July pushed back the time for this to go ahead.

TE: And then what does the timeline look like from September?

RW: If we can get the board agreement, then we can get at some of the other organisations' advance and get us some money until the tranche comes through. But more than that, it will inspire investor confidence. We speak to some other countries, too. The main issue thereafter is debt sustainability. First, we have to tackle this with the major official donors, then for the first time, you'd have to go to the London Club [of private creditors].

TE: What will determine whether the agreement happens?

RW: There are some outstanding issues. Debt sustainability, the criteria we have given, some of the incentives of taxation.

TE: You've been very complimentary in the press about India's assistance. How sympathetic have the other bilateral creditors been?

RW: Many of them are but they're saying first go to the IMF. They felt that Sri Lanka just allowed this crisis to happen. I think there will be more assistance once we get the IMF agreement.

TE: Are you encouraged by the agreement between China and Zambia?

RW: Yes, but it's for a low-income model, and we are in a middle-income country.

TE: Moving on from economics, there's been a lot in the Indian press in the last couple of weeks, not only about the Chinese ship that is supposed to dock at Hambantota but also the Pakistani ship that's supposed to dock or has docked in Colombo. Now Sri Lanka obviously cannot entirely align itself with one or another big Asian power. But how do you manage that balance of competing interests from big powerful neighbours?

RW: It's becoming more difficult now, especially after Ukraine and the agreement between Russia and China. You could see the pressure building up on the European side. And in particular my worry is that this rivalry can come into the Indian Ocean. We've so far kept out the power rivalry from the Indian Ocean. But I think we have to face up to that situation and work with everyone. Sri Lanka, of course, has a special relationship with India where we have to look after each other's interests. But most countries in the Indian Ocean want to stay out of the power rivalry. So we have to be clear about that and say what our policies are.

TE: So you think the rhetoric we see in the Pacific and the South China Sea, you think the Indian Ocean is perhaps the next venue for that sort of thing?

RW: You don't want that to happen. For instance, now, Nancy Pelosi on her own has created a crisis [in Taiwan]. I don't think the US government has been happy, but they had to back her up. We don't want any of that happening here. We see India as the net security provider in the area. And then all other countries can also be present as long as it doesn't lead to rising tensions or increase the rivalry between states.

TE: Are there lessons for other countries in how you're handling this?

RW: There'll be something to learn from what we have done and from what we haven't done.

TE: In the past few months Western publications have written that Sri Lanka could be the first of many countries to default. In the same vein, given the conditions of 2022, what lessons do you think there are for other countries to avoid some of the same mistakes made in the past few months and years economically?

RW: There are many lessons. For instance, you can't subsidise items every day, you will run out of money. Second, the balance of trade. That's the big issue for all of us, because we have greater disadvantages on the balance of trade compared to bigger economies like China and India. We have people leaving the country. We have to put our economy in order to attract investment, but for different reasons: the reason to go to Bangladesh is quite different from the reason to come to Sri Lanka. What I've learnt is that for the smaller economies in the region, you want to go to the IMF on time, be careful about the foreign debt that you run up. Basically governments have to make hard decisions if they want to prevent default.

TE: On the subject of making the economy more competitive, who do you see as your peers, or indeed your influences or competitors?

RW: We would like to be like Singapore, but let's start by emulating the standard of Thailand, Malaysia and Vietnam.

TE: In terms of what you were talking about earlier, making decisions to make the economy more competitive, cutting the debt and deficit, all of these are going to be painful decisions. How do you intend to take Sri Lankans with you after this period of political unrest?

RW: You have to be honest about what is happening, and how much money are you setting aside for the vulnerable people? I mean, people realise it's bad, they just want to get out of it, you can assure them that you can get out quickly then it'll be harder for a time. But get them out quickly is what we have to do, and there is hope. And you can't just reject what the government does if you can't offer a solid alternative.

TE: But how will you deal with it if there's renewed hostility or protests once people realise just how bad things are and how hard they're going to get? How much do you worry about that?

RW: I worry especially on food. People need food, we don't want them to go hungry. The middle class was expanding and now we've got to make cuts in their living standards, with people who were above the poverty line falling below it, we have to give support to them in the shortest possible time. We have to dispose of some state assets and have that money in our reserves.

TE: But it's a hard message, isn't it? I mean, after everything over the past six months, 12 months, to tell people, "You know what, things are going to be even

tougher now for a little while"?

RW: People know that, I mean, basically, we tell them the truth, tell them that we are going through a hard time.

TE: What's your experience been when telling people about this?

RW: I've been losing some elections.

TE: With SOE restructuring, in particular, the unions have been very hostile.

RW: I don't worry about unions, what matters is people. People are going to stand it if they think things can get better.

TE: One of the things the previous government did was pretend things were not so bad. And of course, people are not idiots. They knew things were bad, and they came on to the street. Is it perhaps a hope that by being honest to people by saying, "Look, I'm going to level with you, this is what's happening," that will persuade them that there's no point protesting, because that's just what things are?

RW: I hope so. And also we are looking at other political issues, at getting in the changes to the system that they want, to discuss those, to open up the political system.

TE: You've started to develop quite warm relationships with the military. That's not really something that people have been used to about you, can you talk us through that?

RW: I don't have warm relations with the military at all. As president and minister of defence I have certain functions. The only time that I did something out of the way was to give those certificates to the air mobile battalion that safeguarded parliament. Tomorrow I'm going to the handing over of the Dornier aircrafts by the Indians to us in the National Defence College, as the president. And the air mobile battalion is something I started in 1993. So I was quite happy to be amongst them. I go to the Security Council, which I have to do once a week. Other than that, some of the events I'm going to are just ones the president has to attend.

TE: So you wouldn't say there's been any change in your relationship with the military?

RW: No, just that one time I gave certificates to the people who protected parliament. If the parliament went, there would have been chaos in the country. And I wanted to give a message that the soldiers have done their duty. Now the MPs must do their duty too.

TE: The Dornier thing tomorrow is really interesting because again, it's Sri Lanka doing this balancing act. On the one hand there's this ship in Colombo, there's that ship in Hambantota and then the president is going and accepting surveillance aircraft from the Indians. Am I interpreting this correctly as balancing?

RW: We have been involved with India in the Colombo dialogue on the maritime security of this area. And this is a part of extending the Sri Lankan reach by having maritime surveillance aircraft. The Dornier is being given by India to train our people but we've been working alongside them. The problem now is the shortage of fuel. Our navy has not been able to operate at full capacity. There's a similar operation that we are carrying on with Australians on the boat people. We are intercepting a large number every week, I go to the defence ministry when people come in, it's 40, 50, 60 people every week who try to get from here to Australia. So, we are working with both India and Australia.

TE: Why did you decide to keep the defence ministry as part of your portfolio?

RW: The defence ministry is basically held by the president and I took it over so that we could stabilise and establish law and order. But I think we also have to make a lot of changes in the defence structure. And we are talking about defence [in] 2030, and have it embedded from then onwards. It's a part of the restructuring and modernisation we have to do.

TE: So what are the defence priorities for Sri Lanka?

RW: Firstly, to help the police, civil power to maintain security here. Secondly, we are looking and then working with India, Australia on the maritime side. But we are also looking outward, we are in Mali now and expanding our role in the UN peacekeeping forces. In Mali we're doing quite well. So we can expand that, see if we have a future there. But we also have to contain the defence budget.

TE: On the defence budget, that's one of the possible areas where you might need to make cuts. How are you going to do that?

RW: I think that's for the secretary of defence and the others to work out.

TE: On the subject of terrorism, one of the things you said while you were prime minister is about asking British intelligence to do a full proper inquiry about the 2019 Easter bombings.

RW: Yes, British intelligence is involved in these inquiries about the Easter bombings. There are so many issues that have been raised. And we are talking to the UK to get help to do a final review. We don't have their theories of what's happening.

TE: So the idea is to do an authoritative final one and put that to rest?

RW: Yes.

TE: Just to go back to the adjustments in the negotiation process with the IMF. So you're going to resume negotiations at the end of the month. And then hoping to get the staff level agreement some time in September? And how is that going? Are you already speaking to the various creditors, bilateral, private etc?

RW: We're talking to official creditors. I will be writing to the private creditors, maybe some time this week.

TE: And what are you asking them to do?

RW: We're informing them on the situation.

TE: Do you have a prediction to make: at what point does Sri Lanka return to, say, 2018 levels of prosperity? What can Sri Lankans look forward to?

RW: Maybe about 2024, 2025? Initially we thought 2024 but it looks like 2023 is going to be a bad year globally, so it can be 2024, 2025.

TE: And for Sri Lankans, will 2023 be a better or a worse year than 2022?

RW: I would say the beginning will be tough. But the ending will be better, we're trying to reduce the period of pain. If the revenue keeps coming in, we'll know in the next three months, then the end will be better.

TE: Are remittances picking up?

RW: A little. But it may get better next year, and there's the prospect of tourism returning too. We're trying to get the tourists starting this winter and prices will be cheap. But from next year onwards, we have to get the summer and the winter. This year, the attraction will be prices. I hope that prices won't be the attraction next year.

TE: To come back to our very first question, what are the concrete steps you took between coming in and now for things here in Colombo to at least look like they have improved?

RW: It's picking up now because with all the turbulence economic activity could not take place. Those economic activities are now taking place. We've had quite big festival crowds, people are feeling free and they're moving around. So they are feeling quite relaxed, more secure. But the turbulence was here. What happened here was originally very nice. I mean, young people protesting, saying the president has to go home. But at some stage they got taken over, they got pushed out. And many of them have spoken to me because they could not take on the more violent crowds. So we restored order here, and we've closed that place. We are now preparing another place where young people can go, maybe in a month's time hope that we can get it ready.

TE: As in, a designated protest site?

RW: Yeah for anyone, people who want to come and perform, similar to the site they had here earlier in April and early May.

TE: In the initial days after you became president, we met some of those people in front of the building here. They were convinced that you were somehow representing or protecting the Rajapaksas. How do you deal with that sort of perception amongst these people?

RW: I worked with President [Chandrika] Kumaratunga. I contested in the previous election [in 1999]. And in the [2001] election, I won parliament so we worked together for two years, then the whole thing came apart. Next time I went along with President [Maithripala] Sirisena, who was from another party but we carried him through. We had our own problems. So I have a habit of working with presidents who are on the other side when the situation arises. And there are some ministers who have done the same thing from both sides. And I came in because the situation was so bad, and we had to handle it economically. And I was not even the first choice, they offered it to Sajith Premadasa, the leader of the opposition. He didn't want to take it, so I came in and tried from that time to bring about a broader based government.

TE: Some of the laws you're going to bring to parliament are going to cause a lot of pain for people. Are you confident you can push them through?

RW: We have already said that if you don't want the IMF, you must come up with alternative plans.

TE: Do you foresee at some point in the 2020s or perhaps the 2030s a future President Rajapaksa?

RW: I can't speak to the future.

TE: Did you think you'd become president?

RW: I didn't think that my house would be burnt, so, you know...

TE: Was it a fair exchange, do you think?

RW: No.

TE: Do you feel that still—you're strong politically, but emotionally?

RW: Of course you feel it when you go home and you don't have books to read, or music to listen to.

TE: Mr Wickremesinghe, thank you very much for your time.

**Editor's note*: The standing order from May allowed for four youth representatives on each oversight committee, not five

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