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Chulanee Attanayake: The Economic Plight in Sri Lanka and Its Impacts on Domestic Politics

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About RCAS

RCAS is a non-profit research organization focusing on the maritime issues and regional integration in the Indo-Pacific region. It is a newly-established institution founded in February 2022 by Dr. Nian Peng, Associate Professor of the School of Foreign Studies at Hainan Normal University, Haikou, China. We, at the moment, have an international research team with resident/non-resident researchers from China and other Asian states.

RCAS seizes the opportunity that China is building Hainan Free-Trade Port in which the Hainan Island will become an important window for China's opening up to the Pacific Ocean and the Indian Ocean to become a leading research institute and think tank on maritime affairs in the Indo-Pacific region. So far, RCAS focuses on the maritime disputes and maritime cooperation in the Pacific Ocean and the Indian Ocean, and various regional cooperation mechanisms such as BRI, LMC, RCEP and so on. It is committed to promoting the maritime cooperation, regional integration and academic exchanges in the Indo-Pacific region at large.

RCAS has received a number of research funding from universities and foundations, and conducted research programs of the South China Sea(SCS) dispute, China-South/Southeast Asian relations, BRI in South/Southeast Asia, terrorism/anti-terrorism in Afghanistan, and so on. RCAS researchers have won various awards from the Chinese Ministry of Commerce and the Hainan government.

RCAS has published nearly 10 books in Chinese and English, and more than 20 papers on SSCI/SCOPUS/CSSCI-indexed journals. Recent English publications include *Populism, Nationalism and South China Sea Dispute: Chinese and Southeast Asian Perspectives*(Singapore: Springer Nature, 2022); *Crossing the Himalayas: Buddhist Ties, Regional Integration and Great-Power Rivalry*(Singapore: Springer Nature, 2021); *The Reshaping of China-Southeast Asia Relations in Light of the COVID-19 Pandemic*(Singapore: Springer Nature, 2021); *International Pressures, Strategic Preference and Myanmar's China Policy since 1988*(Singapore: Springer Nature, 2020); *Managing the South China Sea Dispute: Multilateral and Bilateral Approaches*(2022); *Hedging Against the Dragon: Myanmar's Tangled Relations with China since 1988*(2021); *The Budding Indo-Myanmar Relations: Rising But Limited Challenges for China*(2019).

RCAS has also published hundreds of articles and been interviewed in various local and international media outlets such as Asia Centre in France, *The Diplomat* in the United States, *East Asian Forum(EAF)* in Australia, *Bangkok Post* in Thailand, *Lian He Zao Bao* and *Think China* in Singapore, *South China Morning Post(SCMP)* and *China-US Focus* in Hong Kong, *CGTN* and *Global Times* in China. RCAS researchers have actively participated in international conferences or study visits in the US, India, Pakistan, Sri Lanka, Nepal, Myanmar, Cambodia, and other places. Welcome to visit our website: <http://www.rcas.top>.

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RCAS Commentary

China Weathers Supply Chain Turbulence

Nian Peng

The latest round of COVID-19 in China has brought the suspension of some foreign factories in Shanghai, the biggest commercial center and the most infected area since early this year. At the same time, the economies of Vietnam and India have continued to recover, with their foreign exports have increased significantly. Some analysts, therefore, conclude that the pandemic has seriously affected China's position in the global supply chain, and Vietnam and India will catch up or even replace it.

This reminds me of the beginning of the COVID-19 pandemic two years ago, when the Western media claimed that the Chinese economy would decline, with a sharp decrease in Chinese foreign exports resulting in the loss of the center of global supply. But China's economy recovered quickly and returned to a relatively rapid growth rate. Moreover, the country's advantages in the global supply chain have solidified in the new context of a reconstructed industrial chain, which is moving eastward.

According to the General Administration of Customs of China, China's exports of goods increased by 13.5 percent in the first quarter of this year and by 21.2 percent in 2021. Among these goods, the export of mechanical and electrical products, which are at the core of the supply chain, maintained good growth. This sector increased by 9.8 percent in the first quarter of this year and by 20.4 percent in 2021. China's foreign export growth trend is obvious, and mechanical and electrical products remain competitive in the global market.

In Vietnam during the same period, exports increased by 12.9 percent in the first quarter of 2022 and 19 percent in 2021, according to its Ministry of Industry and Trade. India's trade ministry reported an export increase of 43.2 percent in the 2021-22 fiscal year (April 2021 to March 2022)

3-the highest export growth rate, followed by China and Vietnam. This reflects a good economic recovery in Vietnam and India. With the global industrial shift, their position in the supply chain has gradually risen.

Still, it is not easy for Vietnam and India to replace China. First of all, the two are not on the same order of magnitude as China. In fact, whether speaking of total export volume or the export value of mechanical and electrical products, there is little comparison. For example, China's total exports of goods in the first quarter of this year and the whole of 2021 were \$791.3 billion and \$3.28 trillion, respectively. Vietnam was only \$89.1 billion and \$336.3 billion respectively. India was only \$418 billion between April 2021 and March 2022. In 2021, China's mechanical and electrical products exports were \$1.9 trillion, Vietnam's were \$57.54 billion India's were only \$16.1 billion.

Of course, considering the rapid growth of exports in Vietnam and India at present and for some time to come-especially in the fast-growing field of electrical products-they will compete with Chinese exports.

Second, the supply chains of Vietnam and India have their problems. According to the Chinese Ministry of Industry and Information Technology, in October 2020 China was the only country in the world with all 41 industrial categories. Of the more than 500 major industrial products worldwide, China has more than 220. This has greatly improved the ability of China's supply chain to withstand more pressure and absorb economic blows.

Compared with China, Vietnam and India have not yet established a complete industrial system. Further, the upstream and downstream industries of their supply chains are uneven. This has led

to a heavy external dependence on supply chains in both countries and wobbly supply chains. For example, Samsung's Vietnam factory was unable to organize production when the external supply chain was broken during the pandemic because most of the raw materials, semi-finished products and excipients had to be imported from the outside.

In addition, although Vietnam and India's exports have grown rapidly in recent years, the two countries include a large share of resources and agricultural products among their export commodities, and the proportion of manufactured goods is low. Therefore, Vietnam and India need to undergo industrial upgrading to significantly improve their position in the global supply chain. This is not an easy task.

Finally, while the United States, Japan and other Western countries currently support Vietnam and India vigorously to replace China as the new "world factory," those countries have many problems with infrastructure construction and institutional management that hinder the large-scale entry of foreign companies. This limits the ability of Vietnam and India to quickly and efficiently establish large-scale industrial clusters by attracting foreign investment.

The restructuring of global supply chains is still in progress, and industrial transfers between countries is normal. But there is still a big gap between industry transfers and supply chain building. Rational policies, abundant funding, advanced technology and the emergence of significant opportunities are all necessary conditions to create robust supply chains. In this regard, Vietnam and India still have a long way to go. China has also fully recognized the negative impact of the COVID-19 pandemic on the stability of its supply chains. Controlling the pandemic, selectively resuming production and work and continuing to strengthen its supply chains around the world are China's top priorities.

About Author



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RCAS Commentary

Kishida's Visit to Thailand:

Significance to Regional Geopolitics in the GMS

Narut Charoensri

The diplomatic relationship between Japan and Thailand has been challenged by many factors in the last decades. The rise of China is one of the challenges. The Chinese government has stepped into Southeast Asia, particularly the Mekong subregion which comprises Myanmar, Thailand, Laos, Cambodia, and Vietnam through its bilateral relations and regional initiatives such as the Lancang-Mekong Co-operation(MLC).

Kishida Fumio's visit to Thailand between 1 and 2 May 2022 is his first official visit since Kishida took his PM position in 2021. The main objective of this visit is to celebrate the 130th-anniversary diplomatic relations between Japan and Thailand and to strengthen the relations. This visit is part of his tour to the UK, Italy, Thailand, Indonesia, and Vietnam. This visit emphasises the importance of what Southeast Asia means to Japan from both economic and strategic perspectives. Japan is a very important economic partner of Thailand. In 2021, Japan is the 2nd largest trade partner to Thailand, whilst Thailand is the 5th largest trade partner to Japan.

This visit should be seen as a strategy that Japan aims to integrate the regional diplomatic relations that tackle many regional issues, including economic, political, and security issues. Japan approached Thailand as one of the main security partners in the region. The discussion between Kishida and Prayut Chan-o-cha, Prime Minister of Thailand, touched on many critical issues. One of the most significant milestones of this visit is the announcement of new defence ties. This includes the technology and military transfer from Japan. The Thai government anticipates an increase in the Japanese defence industry in Thailand. This move is different from what Japan moved in Vietnam and Indonesia. The substantial issues that Japan made with

Vietnam and Indonesia focus on infrastructure development and energy. The expected military transfer between Japan and Thailand reflects Japan's endeavour on balancing China in the subregion. We have witnessed the emerging engagement of China in the Mekong subregion in many ways. China initiated the LMC and launched many hard infrastructure development projects in Laos, and Cambodia.

However, when we consider the importance of Vietnam and Indonesia from a regional production network perspective, these two countries have received considerable interest from Japanese investors. Many studies have shown that the increase in minimum wage along with the uncertain political situation that has undergone for more than a decade in Thailand had a significant impact on the decision of Japanese investors to move out of Thailand. Vietnam and Indonesia are the two main options if they had to relocate the factory and investment. Kishida's visits to Thailand, Vietnam, and Indonesia, thereby, reflect how Japan keeps the relations with the three countries based on economic and business relations.

Nonetheless, Thailand is still a strong production base for Japanese manufacturers. Kishida visited KOSEN-KMITL, a higher education institute in Thailand that focuses on engineering. A survey by JETRO in Thailand revealed that many Japanese manufacturers in Thailand see the insufficient of engineers in Thailand as a constraint on economic and industrial development. In fact, not only did the KOSEN initiated by Japan, Thammasat University's SIIT was also kicked off and supported by Keidanren. Kishida's stop at KOSEN highlights how Japan is help developing human resources in Thailand to support economic and industrial development.

The visit to Thailand and other countries also emphasised what was Japan's position in the Russia-Ukraine conflict. Kishida stressed how Japan values the rule-based international order which is also one of the key elements in the Indo-Pacific Strategy (FOIP). Thailand voted at the 11th Emergency Special Session of the UN General Assembly (UNGA) to condemn Russia's aggression.

Not only did Kishida's tour promotes Japan's economic and political interests, but it also shed light on value-based diplomacy. Japan has been promoting a rules-based international order which can be seen in the idea of the Free and Open Indo-Pacific Strategy (FOIP). The visit to Thailand, Vietnam, and Indonesia reflect how Japan would like to highlight the ideas of order through the dialogue on the Russia-Ukraine conflict, and the South China Sea conflict. Hence, the visit to Southeast Asia is another key step for Japan in strengthening its relations with Southeast Asia whilst keeping enunciating the value-based diplomacy.

Kishida's visit to Southeast Asia, accordingly, help integrate and strengthen Japan's goals in help forming a strong regional arrangement through the development of economic and business co-operation, and the might of military co-operation. This helped regain Japan's leading position in the region which China has stepped into many development projects. In other words, the visit is how Japan is upholding its position in challenging regional geopolitics.

About Author



Dr. Narut Charoensri is Non-resident Fellow of RCAS, as well as Assistant Professor at Chiang Mai University, Thailand. He holds a Ph.D. in Japanese and Southeast Asian Studies at University of Leeds, UK. His main research interests are in the areas of International Politics of International Transport in East Asia, Economic Cooperation in the Greater Mekong Sub-Region, Japanese Foreign Policy towards Southeast Asia, International Political Economy of East Asia, and Comparative Regionalism. He published dozens of monographs, book chapters, research articles and conference papers in English and Thai, and got various research funds from the Chiang Mai University and Chulalongkorn University.

RCAS Talk

The Economic Plight in Sri Lanka and Its Impacts on Domestic Politics

Speaker:



Dr. Chulanee Attanayake, Institute of South Asian Studies, National University of Singapore.

Presenter:



Dr. Nian Peng, Director of RCAS, China

Nian Peng: Dr. Chulanee, thanks very much for accepting our interview request. Today, we invite Dr. Chulanee from National University of Singapore to give us a short talk on the recent Sri Lanka economic plight. So, the first question is, what are the main reasons of the economic plight in Sri Lanka?

Chulanee Attanayake: Oh, thank you for having me here. The current economic plight is not something that happened overnight, and it was in the making for a longer period. what we see today is a result of both indigenous and exogenous factors. So, these indigenous factors are both historical and contemporaries. So, I'll try to briefly explain both these factors.

Firstly, for the case, Sri Lanka has experienced microeconomic instability and economic stagnation, volatile business environment, etc. For a long period of time. As a result of this, Sri Lanka is suffering from between deficit problem, which is a balance of payment problem and a foreign exchange deficit problem.

Now, due to years of economic, these are result of years of economic mismanagement and corruption by successive governments. Even though Sri Lanka opened the economy nearly in the 1990s, it was like it did not become an export led economy. Instead, it became an import-led economy. And the external deficit problem is a result of high imports law and rising in debt. Also, since 1990s, successive government followed an economic policy that provided tax exemption and tax reductions for multinational corporations, business community, etc.

As a result of this, government's revenue collection has been very low, in steady decline, and in 2021, its tax revenue was only 9.6% of the GDP, against the expenditure, close to 20% of the GDP. So, these are basically the historical law like long period issues that was there for a long period of time.

Now this get aggravated because of some misplaced policies of this present government. This government again further reduced taxes when it came to power in 2019, despite the warnings of by many economists that this is this will affect Sri Lanka's economy. And also, it placed some overnight ban, like chemical fertilizer ban, which is affected the food shortage, etc.

Finally, there are external factors, such as the Covid-19 pandemic and the Ukraine crisis, that intensified the issue. Now, as a result of the pandemic Sri Lanka lost its primary sources of foreign currency, which is tourism and foreign remittance from the migrant purpose.

Tourism was anyway badly affected due to the Easter attack in 2019. Now, as a result of the pandemic, many Sri Lankans also returned from abroad after losing their jobs, which affected the unemployment, rising unemployment and urban poverty, etc.

Nian Peng: Now, all these factors affected the Sri Lanka right now. As you mentioned, a lot of people lost job. So, how has the economic plight affect the political situation in Sri Lanka, as we know that the opposition parties has organized the anti-government protest since the early April?

Chulanee Attanayake: OK. First of all, I should say that the protests were not initially organized by any political party. They were self-organized by people because of their frustrations.

Now, prior to this, there were months of months people having to wait in long queues to obtain full over ten-hour power cut with, so people were without electricity. All these things happened for a long period of time, which led for people to come into the street, so they not initially organizing by any political party. Right now, of course, there are protests organized by political parties and trade unions, but I should say that at the beginning, it was not like that.

Now the effects are to affect such tremendous, they are effect impacting both the economy and political stability.

First of all, they lack of work and basic essentials are disturbed, disrupting the day to day life of all the Sri Lankans. We saw cases where people died of exertion, waiting in the old people died of exertion, waiting in the queue for long hours.

The factories and businesses cannot run as usual because of frequent power cuts. Then the tourists cannot, even though they are interested in come to Sri Lanka, now they cannot come because of the lack of transport , then there's no electricity, internet or etc.

So this is affecting the economic service. On the other hand, public is generally frustrated. Their frustration is increasing as the time goes by. So, in some areas, we saw the protest turning a bit violent when the when the protesters collided with the police. So this has also destabilized the general security of the country.

So I would say, like Sri Lanka is facing one of the biggest crisis of its time. And everyday we see new developments.

Nian Peng: Ok, thanks very much Dr. Chulanee, thanks for clarifying it. So far, we see that the Sri Lanka government negotiated with the IMF on receiving loans, and the other foreign countries, like India, it claimed to provide the financial assistance to Sri Lanka. So, how has the foreign countries help Sri Lanka overcome this economic crisis?

Chulanee Attanayake: Now, yes, Sri Lanka approached higher IMF in an effort to get an emergency funding. But IMF has a great plan that includes Sri Lanka in one of its long-term plants. This comes with some conditions, including that restructuring, that restructuring is the main condition. And, Sri Lanka is in the process of discussing with China, Japan, and other bilateral partners on debt restructuring. In the meantime, a majority of the debt is with the commercial creditors, so they have to see a way of how to restructure that part.

It has also approached World Bank for some freely funding to facilitate and obtain essential food and medicine additionally. As you rightly mention, Sri Lanka as approach partners like India and China for credit lines and currency swaps. Now, both countries, during the past two years, have provided these credit lines, currency, and emergency loans from time to time to get required essentials and strengthen the weakening Foreign Exchange Reserve. Sri Lanka has approached multiple partners, and it is still in a very negotiation space.

So we do not know, for sure, what will happen in the next couple of months. Well, what we know is that the World Bank has agreed to provide emergency funding, which is expected to come in the next few weeks, according to the Finance Ministry.

Nian Peng: Ok, the last question is what measures can be expected for the Chinese government to help Sri Lanka overcome this economic difficulty?

Chulanee Attanayake: Well, I think China will have one of the biggest roles to play in the current crisis. The reason I am saying this is China is also one of the biggest bilateral creditors of Sri Lanka. As I mentioned, IMF already is has put a pre-condition of the debt restructuring, and Sri Lankan government have to the restructure. So now is that China has offered to provide additional loans instead of debt restructuring. But this will definitely will not be of help to Sri Lanka's case, because right now, Sri Lanka badly need the IMF funding.

So if China do not come forward and assist Sri Lanka in that restructuring, then the Western allegations only will get strengthened, and it will be as if that China is willingly providing more ammunition to support their allegations. And also it will affect China s image as a global power.

As a global power, I don't think China would want to be seen as a country, as a power that do not come forward and assist one of his biggest partners. On the other hand, China has massive investment in Sri Lanka. Obviously only if Sri Lanka's economy comes back on track that it will be able to reap the benefit from these investments, including the port city project.

So I think that what China do right now, in terms of Sri Lanka's economic crisis, will have tremendous impact on both bilateral relationship, its relationship with the ah Sri Lanka, and also its global image.

Nian Peng: Ok, thanks very much for accepting our interview. We do hope that Sri Lanka overcome the economic crisis and have a bright future. So, thank you very much and see you

later. I will send you the videos once it is finished. Ok, thanks so much. Let's keep in touch, see you.

Chulanee Attanayake: Thank you.