

RESEARCH ARTICLE

## The Developmental Government and Economic Development in Sri Lanka 2005–2019: Lessons from East Asian Developmentalism

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### Abstract

The political and economic development of Sri Lanka from 2005 to 2019 was occurred amidst much controversy. This article focuses on the relationship between economic growth and regime change in Sri Lanka during those fifteen years and the challenges these events pose to most theories of democratic development. Drawing on an ideal type of East Asian developmentalism to construct an explanatory framework for a comparative study of political and economic policies of the developmental government in Sri Lanka through case analysis and process tracing over three periods of governance, this article argues that efficient strongman leadership, an imbalanced bureaucracy, and simplified industrial policy are important explanatory variables for national development in Sri Lanka. An examination of these variables can clarify the characteristic strengths and weaknesses of developmental governments in Sri Lanka and lead to new explanations of related issues. The applicability of this framework remains to be tested, and the return of the Rajapaksa family to power may give an opportunity for this.

**Keywords:** Sri Lanka • East Asian developmentalism • Strong leadership • Bureaucracy • Industrial policy • Developmental government

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Since the end of its civil war, Sri Lanka has seen three governments: the Mahinda Rajapaksa government had two consecutive terms in power, from 2005 to 2015, and a coalition government between Maithripala Sirisena and Ranil Wickremesinghe led the country for one term, from 2015 to 2019. Macroeconomic data show that the Sri Lankan economy saw an upward trend overall from 2005 to 2019, showing GDP growth from \$24.4 billion in 2005 to \$84 billion in 2019, most notably after the civil war that ended in 2009 (Figure 1). The developmental environment of Sri Lanka over this decade and a half can be divided into two periods, first that of the war, over the first five years, followed by peace building in the most recent latest decade. The overall rapid economic growth of the country during both periods deserves investigation.

During the first term of the Mahinda Rajapaksa government, from 2005 to 2010, Sri Lanka's economy grew steadily reaching a GDP of \$42.1 billion in 2009, nearly doubling the 2005 GDP. This period was characterized by fluctuating but mainly declining yearly levels economic growth. It also coincided with a critical period in the government's war against the insurgent group Liberation Tigers of Tamil Eelam (LTTE), and the intensity of the war and the eventual victory of the government impacted both social stability and national development.

During its second term, after the end of the civil war, the Mahinda Rajapaksa government managed to bring about Sri Lanka's strongest economic performance until this point, with the economy growing from US\$56.7 billion to US\$80.6 billion. This was widely considered to be the period dividends of peace. Economic growth fluctuated significantly, reaching 8.0% in 2010 after a 3.5% growth in the previous year, with a high of 9.1% in 2012, but declining precipitously to 3.4% in 2013, and hitting a more stable 5% for the following two years.

In 2015, the Mahinda Rajapaksa regime was defeated in the presidential election, and a coalition government came to power with dominating the country's affairs from 2015 to 2019. Although Sri Lanka's GDP grew from \$80.6 billion to \$88.4 billion between 2015 and 2018, growth was relatively weak, with GDP even contracting to \$84 billion in 2019. Economic growth declined over this period, from 5.0% in 2015 to 2.3% in 2019. Overall, the economic picture was bleak during this period.

This pattern of economic growth shows several trends over these three terms. Interestingly, a strong correlation appears among the fluctuations in the growth rate, the election cycle, and the term of government.<sup>1</sup> When the economic growth rates are compared with the election results for 2010, 2015, and 2019, several anomalies appear: one government was re-elected in January 2010, but another regime failed in 2019

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1 Sri Lanka has a five-year election cycle, and the term of government was six years prior to the implementation of the 19th Amendment to the Constitution in 2015, but early presidential elections have made each government's term in that period de facto five years. More research on economic growth and election cycles, see Nordhaus (1975).

against a similar backdrop of a sustained economic downturn. In general, a government’s re-election is considered to be assured when economic aggregates are rising and growth rates are shifting from low to high, but in fact, at a time just like this, the 2015 presidential election produced a change of regime. These empirical facts indicate that the relationship between economic growth and electoral politics in Sri Lanka contradicts the economic voting theory.<sup>2</sup> This theory alone cannot explain the political economy of Sri Lanka.

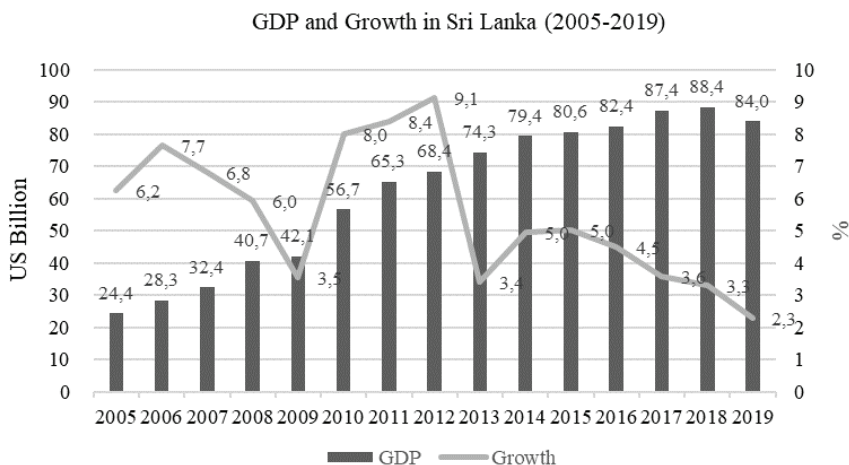


Figure 1. Macroeconomic Indicators of Sri Lanka, from 2005 to 2019.  
Source: The World Bank (2020).

To take account of these paradoxes, the following research questions were set: How has Sri Lanka achieved such rapid economic development since 2005? Why did the Mahinda Rajapaksa government fail to be re-elected on the basis of an improving economy? By opposing the Rajapaksa regime, a coalition government was able to come to power, but why did it not able to continue economic growth? This article analyzes the core factors of economic development in Sri Lanka in a developmentalist perspective, seeking to clarify the relationship between economic growth and regime change in Sri Lanka. The article begins with a review of previous work on this issue, followed by a discussion of the ideal type of East Asian developmentalism, and it concludes by constructing a theoretical explanation of developmental government in Sri Lanka through a comparison to the East Asian developmental experience.

<sup>2</sup> According to the economic voting theory, voters evaluate the incumbent’s performance in office based on the incumbent’s macroeconomic situation. They use their votes to support or reward the incumbent for re-election when the economy is doing well. In contrast, they vote for other representatives to deny or punish the incumbent when the economy is doing poorly. See Duch and Stevenson (2008).

### Literature Review

The relationship between economic growth and regime change in Sri Lanka has been neglected by most mainstream scholars over the last fifteen years of the country's development. Most existing studies focus either on economic growth or regime change, and the relationship between them has rarely been treated in-depth. Three main perspectives are seen in the literature: the economic effects of the war, the peculiarities of the presidential system, and economic interactions with East Asian countries.

First, studies of the civil war indicate that increased military spending can lead to reduced fiscal spending with economic goals, restricting domestic and foreign investment, trade, and commerce. If fiscal public resources are diverted from defense to the civilian economy, this should promote economic growth (Grobar & Gnanaselvam, 1993, pp. 395–405; Pradhan, 2001, pp. 375–384; Selvanathan & Selvanathan, 2014, pp. 69–76; Wijeweera & Webb, 2012, pp. 303–311). This would explain the size of the peace dividend following the civil war. The free market regained vitality and momentum, but a widening current account deficit was a source of support for post-war recovery (Athukorala, 2016; Collier & Hoeffler, 2000; Höglund & Orjuela, 2011, pp. 31–33; The World Bank, 2011). However, the explanatory power of this view seems limited. The peace dividend is weakly established, and although it could account for economic development, it says nothing about the subsequent decline. This view is characterized by its small scope and weak explanatory power, restricting its usefulness for this article.

Second, the presidential system receives a great deal of attention in this connection. In this perspective, the institutional dimension of the Sri Lankan presidential system is emphasized, and that the strongman presidency is taken to demonstrate its strengths and weaknesses. On the one hand, it can positively effect market reforms and is important for maintaining the unity of the country and efficiently addressing development challenges (Senaratne, 2019, pp. 625–638), while rationalizing the process of institutional reform from an actor-centered perspective (Venugopal, 2015, pp. 670–690). On the other hand, this necessitates a centralization of power, which implies a politically flawed governance that is more prone to corruption and nepotism. Here, economic development would be conducive to increased authority (Edirisuriya, 2017, pp. 211–228). This avenue is most closely related to the research questions pursued in this article. However, it cannot account for the conditions or logic of regime change or even identify causal relationships between economic development and regime change. It also includes an endogenous problem related to the discourse on economic development and regime persistence: does the regime enable development, or does development consolidate the regime? This approach leaves something to be desired.

Third, Sri Lanka's adoption of an open economic developmental model improved its position for participation in the international division of labor, including with relation

to East Asian countries. Taking this into account highlights the strengthened ties with East Asian countries that emerged through trade, foreign direct investment (FDI), foreign aid, loans, and infrastructure development, all of which increased total economic output and contributed to Sri Lanka's post-civil war economic development as a result (Javed et al., 2012, pp. 210–220; Sahoo & Dash, 2012, pp. 217–252; Sultanuzzaman et al., 2018). Here, Sri Lanka's economic ties with China in particular were a key aspect of its explanation. The increased aid flows from China had spillover effects on the strengthening of investment and trade ties and created both opportunities and challenges for Sri Lanka (Kelegama, 2014, pp. 131–147). As a result, China's influence has triggered concerns regarding security and the so-called debt trap (Samaranayake, 2011; Weerakoon, 2017, pp. 744–761). This type of economic interaction with East Asian countries indicates how Sri Lanka's developmental path has involved gaining external support and adapting it to its own needs. Such relationships can describe how a developmental government can be built and may have strong explanatory power for the economic growth following the civil war. However, this perspective cannot explain the economic downturn in 2015–2019. As noted above, it is difficult to form an effective developmental model through interactions with East Asian countries alone. This perspective is deficient in two respects: first, it ignores the components of domestic economic policies and economic growth; second, it fails to explain regime change and thus cannot be connected to the economic voting theory in the Sri Lankan case.

These perspectives generally account for the main theoretical trends in previous research, but they are not sufficient to explain the development of Sri Lanka since 2005. While its economic interactions with East Asian countries suggest that a development-oriented government is an option for Sri Lanka, the weakness of previous research prevents the easy construction of a model of this type. This article presents a comparative study of East Asian developmentalism in an ideal form and seeks the combination of conditions for a developmental model for Sri Lanka to construct a new explanatory framework that will extend previous research.

### **An Ideal Type of East Asian Developmentalism**

East Asian developmentalism should be assessed within a contrast between major Western economic theories and East Asian developmental practices, where the latter focuses on the developmental experiences of Japan and China in particular. Japanese developmentalism originated in the 1980s, at a period when the rapid development of the Japanese economy had provoked a theoretical crisis in the Western study of economics. The theories that had held sway, whether neoclassical, Keynesian, or Marxist, could not produce an acceptable explanation for Japan's development (Gao, 2002, p. 3). China's later development can be compared with Japan's to find both structural similarities and process differences. Economists have developed novel

explanations to account for the success of China's Reform and Opening Up policy over the past forty years. Among these, a comparative analysis that includes Japanese developmentalism, the East Asian economic renaissance as understood through the flying geese paradigm (Gill & Kharas, 2007), and the Chinese development model, would be of great importance. Studies have found that the main difference between China and Japan's developmental models is their divergent attitudes toward the market and the resulting institutional arrangements, specifically as regards capital formation, international market relations, degree of technological innovation, resource dependence, and trade dependence (Gao, 2006).

The experience and discourse of Japan and China on developmentalism has led to the production of an understanding of an ideal type of East Asian developmentalism, which has been measured according to the following three indicators.

#### **a. Effective Government**

Japanese developmentalism is theoretically based on a system of private property and a market economy (capitalism). However, this system is intended to produce national industrialization (continuous growth of per capita production). To achieve this goal, it admits of government intervention in the market over the long term (Murakami, 2013, pp. 272–273), and allows the government to intervene often for the sake of economic stimulus. Likewise, in China's socialist market economic system, the government's role is that of the visible hand in the economy.

#### **b. Bureaucracy**

The Japanese model emphasizes the selection of officials, creating a talented, elite bureaucracy with distinguished management, within a system that guarantees innovation and performance. Most of these officials, who have degrees from the best schools of law and management, are generalists in the formulation and implementation of public policy. They are responsible for identifying and selecting industrial structural policies, formulating industrial rationalization policies, and monitoring competition to ensure efficiency. Japan's model provides room for economic officials to innovate while preventing coercion by interest groups, separating the right to rule from the right to govern (Johnson, 1982).

#### **c. Industrial Policy**

Japanese developmentalism considers the state to be the basic unit of political economy and provides a minimal system that supports the market economy and provides redistribution in its broadest sense, namely, as imposing constraints on parliamentary democracy (Murakami, 2013, pp. 273–279). Here, Japanese

developmentalism appears as a form of industrialized economics that seeks a dynamic process of wealth creation in this post-industrialized country. It extracts economic effects from industrialization, the ability to coordinate production, and the expansion of national productivity, from industry to the economy at large. Thus, Japan's industrial policy follows a strategy to develop technology-intensive industries. By contrast, China pursues a strategy that encourages labor-intensive industry.

Japanese developmentalism has had success at home islands and in other Third World countries. Economic growth in certain newly industrializing economies in Southeast Asia and Latin America have become historical successful stories whose industrialization has even surpassed Japan's.

East Asian developmentalism is important as a model for Third World countries. Soon after independence, Sri Lanka ranked high on the list of developing countries on economic and social development indices, higher than Taiwan and South Korea. However, this advantage gradually declined as the times and policies changed. Although the Sri Lankan government attempted a partial economic liberalization in the late 1960s, it took much longer there than in other Asian countries to implement import substitution policies, and it fundamentally failed to change its economic performance. It was not until a new government came to power in 1977 that the economic strategy changed, and a liberalized economic structure was formally established. This began Sri Lanka's true integration into the world economy. Three factors allowed this policy shift: criticism of the previous inward-oriented economic policy, the model of the East Asian economic miracles, and the conditionality of the stabilization funds provided by the World Bank and other aid agencies (Karunaratne, 2000, p. 176). After this, market mechanisms began to play an important role in Sri Lanka's economy. However, after four decades of liberalization and an open market policy, Sri Lanka remains a developing country, although other countries and regions that followed the East Asian developmentalist model have escaped the developmental dilemma and become developed economies. However, Sri Lanka's economic development following its civil war has shown remarkable results, and the correlation between its achievement and East Asian developmentalism has become an interesting question. The ideal type of East Asian developmentalism is investigated to establish the analytical framework for this article, providing a more reasonable explanation to the political and economic development of Sri Lanka over the last fifteen years.

### **East Asian Developmentalism and Sri Lanka's Developmental Government**

Since its accession to power in 2005, the Mahinda Rajapaksa regime has been criticized to varying extents, both from within and outside the country, although its results in political stability and economic development are objectively praiseworthy.

The commitment of successive Sri Lankan regimes to development, including that of Mahinda Rajapaksa, has not wavered, and the 26-year civil war was ended under this regime. A detailed evaluation of the evolution of the Mahinda Rajapaksa regime from 2005 to 2015 and the coalition government from 2015 to 2019 will allow the nature of Sri Lanka's developmentalism and its choices to be grasped.

### **Government Intervention: Efficiency in Strongman Politics**

Government intervention is a central indicator of the ideal type of East Asian developmentalism. The effects of the government's intervention on economic development in Sri Lanka can be seen in terms of the efficiency of strongman politics.

The liberal and open economic system of Sri Lanka, in place since 1978, has long been running smoothly and has demonstrated adaptability and resilience. Free trade policies are theoretically based on the idea of a perfect market without government intervention, where price mechanisms play a leading role in resource allocation, and trade is regarded as the engine of economic growth. In reality, however, markets are imperfect, and price mechanisms cannot achieve their theoretically optimal effects. It has proven difficult, therefore, to achieve economic growth in Sri Lanka through free trade alone. Examination of political developments and economic growth in Sri Lanka from 2005 to 2019 finds that the governmental intervention into the Sri Lankan economy has long been institutionalized, and perceptible differences in its path and degree are directly related to aspects of economic growth. This divergence is rooted in differences in policy effects due to its strongman politics and diarchy, the former clearest under the Mahinda Rajapaksa regime and the latter in the coalition government.

Sri Lanka's political history reveals a de facto institutionalization of government intervention. Its presidential system was born of an elite impulse to create a stable, centralized, and authoritarian political structure to overcome and reverse the negative impact of a populist democratic electoral system on the economy (Venugopal, 2015, p. 673). The drastic economic liberalization reforms of 1978 were enabled by this system. The presidential system has stably been the form of government in Sri Lanka for many years. As an institutional and political background, if it is taken as an explanatory variable for Sri Lanka's economic growth, it will lack reliability and validity, as seen in previous study. At the same time, the institutionally determinist extrapolation of the disadvantages of the presidential system from the results of economic growth is far-fetched and may even put the cart before the horse. This article treats the presidential system as an institutional context. It should be noted that power is not the same for every president but depends on individual strength or weakness.

First, observing the effects of policies under a powerful presidency can allow the causal effects of strongman politics on economic growth to be analyzed. Mahinda



Rajapaksa's two terms in office, from 2005 to 2015, were marked by differing policy characteristics. An objective assessment of Mahinda Rajapaksa's policies during his terms will help us establish the course of Sri Lankan development. A comprehensive survey of the policies followed by his administration shows similarities to the East Asian developmental model. That model centers the role of government in the market and in institutional arrangements, along with participation in a globalized international division of labor (Gao, 2006). It should be noted that although an approach similar to the East Asian developmental model appeared during Mahinda Rajapaksa's administration, this does not mean that Mahinda Rajapaksa copied this model directly into his policy but may instead entail that the Sri Lankan tradition is similar to the that of the East Asian model, such that his administration formed policies similar to those by combining foreign examples with domestic thinking. These specific measures are reflected in the domestic and international impact of Mahinda Rajapaksa's government.

On the one hand, quelling the civil war and maintaining political stability were at the forefront of its policies. East Asian developmentalism occurs under conditions of political and social stability, implying a requirement for peace. The civil war in Sri Lanka was difficult to resolve, even over the course of several regime changes. For example, during the Kumaratunga regime, when the Sri Lankan government forces and the LTTE briefly reached a ceasefire agreement, as the conflict continued afterwards. International forces intervened to mediate the conflict during this period, but they failed. The LTTE's violence exhibited a terrorist flavor, with the assassination of dignitaries, suicide bombings, and the persecution of dissident Tamil civilians. However, successive governments became cautious about resolving the conflict through military action, due to the many defeats suffered by the Sri Lankan government forces as well as the enormous economic and human costs that resulted from attempting to quell the war. From 2006 to 2009, Mahinda Rajapaksa's government took decisive and aggressive military action against the LTTE. Unlike previous administrations, he gave the military absolute authority to fight the LTTE, sacrificing the economy, diplomacy, and international public opinion to achieve national unity (Devotta, 2009, pp. 1041–1042). Years of conflict had hampered Sri Lanka's development, exacerbated its brain drain, and led to social unrest. After the civil war, Sri Lanka had new opportunities for development.

On the other hand, the government efforts during this period prioritized improving the efficiency of government and the institutional environment. Sri Lanka has a history of government-led economic and institutional development. The efficient functioning of the government and improvement to the institutional environment have also helped promote economic development. The Mahinda Rajapaksa government has put a number of incentives and mechanisms in place to promote economic intervention, mainly focusing on encouraging investment, facilitating access to technology and credit, upgrading job skills and cultivating entrepreneurship, formulating industrial standards and norms, and

performing regulatory functions. The government's industrial policy focused on supporting small and medium-sized industrial enterprises, as well as assisting micro and small enterprises. Additionally, it promulgated a number of supportive measures to enable effective governmental intervention in the economy. These policies included improvements to the macroeconomic environment, enhancement of the level of public services, especially increased efficiency for strategic state-owned enterprises (SOEs), strengthening investments in science and technology, and promoting private investment in the construction of new industrial parks (Rajapaksa, 2005, p. vii).

Second, observing the effects of policies when presidential power is weak can enable analyses of the influencing mechanisms of diarchic politics on economic development. From 2015 to 2019, the coalition government followed a completely different path in political development. The advantages of presidential power in Sri Lanka have been the subject of criticism from Western scholars and democratic observers, especially during the decade of Mahinda Rajapaksa's administration. Sirisena's victory in the 2015 presidential election was considered to be a victory for democracy in the West (Devotta, 2016). As soon as Sirisena took office, he set his 100-day reform plan to promote political transformation into motion. Here, amending the constitution to weaken the president's power was an important task. At the end of April 2015, the 19th Amendment to the Constitution was passed by the Sri Lankan Parliament to reduce the president's power. Since then, checks and balances have gradually spread in Sri Lankan governance. In the process, the prime minister's power was strengthened, necessitating a bipolar political situation, where the president and the prime minister could jointly lead national affairs (He, 2020).

The subsequent power struggle between the prime minister and the president distracted the coalition government, and the struggle for power between the various factions took center stage as the main dynamic of Sri Lanka's politics, with decisively negative effects for the development of the country, most importantly, reduced good governance and greater inefficiency. During this period, two institutions managed economic affairs, namely, the Cabinet Committee on Economic Management (CCEM), headed by the prime minister, and the National Economic Council (NEC), headed by the president (SG, 2018). Their functions overlapped and constrained each other, which caused delays in development projects and caused Sri Lanka's macroeconomic performance to decline, with growth falling from 5% in 2015 to 3.3% in 2019. At the same time, social inequality and tensions between the rich and the poor became increasingly prominent under this regime, which lacked government prestige and economic vitality, and the frequency of communal conflict between Sinhalese and Muslims was significantly higher in this period than under previous regimes. For instance, the Ampara and Digana incidents of 2018 led to a state of emergency, and the 2019 Easter attack, which shattered Sri Lanka's national security shield, drew widespread international attention. The inefficiency of the

state apparatus and the intensity of social security tensions severely affected the stability of the Sri Lankan regime.

Thus, strongman politics, bringing efficiency and good governance, produced a peaceful environment and economic growth in Sri Lanka. However, non-strongman politics of diarchy, due to its inefficiency and sclerotic governance, squandered the chance of boosting economic vitality, and this aggravated social inequality and affected the stability of the regime.

Governmental intervention in the economy is an effective means of coordinating resources and regulating market allocation. The above analysis indicates that the effectiveness of governmental intervention into the democracy of Sri Lanka has depended on the degree of its political authority. After Mahinda Rajapaksa came to power, his government's authority grew as he implemented a number of policies, including the effort to end the civil war and return Sri Lanka to peace and stability, which gained the approval of the majority of Sri Lankans. This strengthened his authority, but he was also subject to criticism for what was perceived as democratic decline and authoritarian rule (DeVotta, 2010). However, developmentalism centers the pursuit of development, and excluding value judgments from the analytical framework will help us grasp Sri Lanka's reality more objectively. The positive aspects of the Mahinda Rajapaksa regime are reflected in more efficient governance. Through top-down reforms and policy changes, this regime combined a more open economic development philosophy with a promotion of Chinese investment in the country, as well as making institutional innovations that provided guarantees of stability, such that government efficiency could truly drive economic development. For example, while building infrastructure in the form of solid waste disposal, water supply, and sanitation, it also coordinated central, provincial, and local governments, and the 18th Amendment to the Constitution, passed in 2010 and championed by Mahinda Rajapaksa, gave more autonomous power to lower-level governance, and this improved coordination and efficiency, which proved important for infrastructure projects and enabled all levels of government to benefit from economies of scale in such projects (Biller & Nabi, 2013, p. 5).

As noted above, institutional arrangements and political leadership have played a key role in Sri Lankan developmentalism. The close relationships between the government and enterprises was considered the key to enterprises' success. This led to an effective public service system, supplemented by appropriate checks and balances to minimize potential abuses of power and corruption. This indicates that strong political leadership is a necessary condition for developmentalism in Sri Lanka.

## **Bureaucracy: A Critique of Familial Politics and Nepotism**

As seen in the ideal type of East Asian developmentalism, the form, size, and status of the bureaucracy is another important indicator of developmentalism. The process of selecting and appointing officials in relation to different interest groups is an intermediate factor for testing government efficiency and feeding back market signals. Hence, building an excellent bureaucratic team can lead to fruitful developmental results in terms of innovation and efficiency. The above analysis of effective government indicates that a bureaucracy is a tool that a government can use for reform and development. This presents a dilemma: it must be coordinated and efficient and escape being hijacked by interest groups. An analysis of Sri Lanka's bureaucracy provides a microcosm for understanding details of efficiency and equity in the country's development. In this section, the period from 2010 to 2019 was selected for comparative analysis. It was found that inadequate institutional design and dysfunctional organizational arrangements were the main causes of criticism of the Sri Lankan bureaucracy in the form of familial politics and nepotism.

The shortcomings of Sri Lanka's bureaucratic system are rooted in deficiencies of institutional design and in dysfunctional organizational arrangements. The poor institutional design is attributed to the fundamental influence of the Constitution and its amendments, and the operational dysfunction of the organizations is influenced by the division of functions and the limitations of the special committees that govern the bureaucracy.

After the constitutional reform of 1978, the president and the Cabinet gained power, and this made the bureaucracy and civil service system into an instrument for the president to use to achieve his political will. This gave the president a profound influence over all phases of the administration and deepened the politicization of the civil service (Priyantha et al., 2019, pp. 208–211). The 17th Amendment to the Constitution, ratified in 2001, added a provision that limited the president's jurisdiction over the public service, but this did not succeed due to political discrepancies over the appointment of council members. It was replaced by the 18th Amendment in 2010. The discrepancies among the council members, as mentioned above, mainly centered on the composition of the Constitutional Council, the importance of which is reflected in its power to make personnel decisions and to recommend and appoint suitable officers to subcommittees, offices, and the Public Service Commission (PSC). The PSC, which is empowered to formulate rules, regulations, and procedures pertaining to the recruitment, promotion, and transfer of and disciplinary action against public officers, is an important coordinating body for the bureaucracy and the recent political developments of Sri Lanka. In the 17th Amendment, the PSC was upgraded to an independent commission, accountable only to Parliament. This was intended by the Constitutional Commission to prevent excessive politicization of the public administration through checks and balances on the power of the political authorities (Priyantha et al., 2019, p. 198).

The Constitutional Council, established in 2001 generally has ten members.<sup>3</sup> This multi-stakeholder framework may be sufficient to reduce the president's authority and influence in the executive branch. The creation of this body was a meaningful attempt for Sri Lanka to seek a balance of power and pursue the spirit of democracy. Unfortunately, this attempt failed. The failure has strengthened the president's authority over public service, contrary to intention. The Mahinda Rajapaksa regime, ratifying the 18th Amendment to the Constitution, established the Parliamentary Council to replace the Constitutional Council. The most prominent feature of the Parliamentary Council is its small but representative membership. It consists of five members,<sup>4</sup> and its members are directly nominated by the ruling party, strengthening the president's power to influence political and executive decision-making. The replacement of the Constitutional Committee meant that the president was only required to consult with the Parliamentary Council. The PSC was brought back under the control of the Cabinet, and the Cabinet ministers were able to directly appoint department heads. The 19th Amendment to the Constitution, ratified in 2015, reduced the powers of the president, made rather few other changes to the functional arrangement of the PSC, which was re-established as the body that oversaw the administration of the civil service, with significant administrative responsibilities for managing personnel.

The design of the Sri Lankan bureaucracy has been lacking. Although it has undergone several changes, it is still not optimally constituted and has not formed a benign mechanism, which directly affects the selection of officials and leads to dysfunctional organizational arrangements. The relatively small percentage of professional elite bureaucrats in the talent structure, the preference for stringent loyalty tests for senior positions following the 18th Amendment, and the lower level of salaries in the government than in the private sector, also hinder the selection and retention of high-quality officials. For young civil servants, entry into the Sri Lanka Administrative Service (SLAS), achieved through a public selection examination administered by the PSC, amounts to an ideal political career for university graduates because SLAS officers enjoy social prestige and power, and they can hold key positions in the central government, provincial governments, or other public sector undertakings. Qualified university graduates between the ages of 22 and 28 are eligible for the exam, but the competition is fierce. For example, in the 2011/12 exam, only 112 of 13,423 candidates were accepted, or only 0.83 percent (Nanayakkara, 2015). This rate negatively affects the willingness of university graduates to take the SLAS or to pursue a career in the public service, which hinders the formation

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3 The Constitutional Council consists of the prime minister, the speaker, the leader of the opposition in parliament, one person appointed by the president, and five persons appointed by the president on the nomination of both the prime minister and the leader of the opposition. There is also one person nominated upon agreement by the majority of the members of parliament.

4 The Parliamentary Council consists of the prime minister, the speaker, the leader of the opposition, a nominee of the prime minister who is a member of parliament, and a nominee of the leader of the opposition who is also a member of parliament.

of a new generation of elite professional bureaucrats. Nonetheless, Sri Lanka's large bureaucracy is still developing, with approximately 30,000 graduates joining the civil service in 2012. However, the lack of opportunities for newly promoted young civil servants to develop technical expertise, coupled with frequent transfers, make them unattached to particular organizations, increasing their loyalty to particular cadres or officials and hence provide the necessary conditions for establishing personal attachment and nepotism (Liyanaage et al., 2019, p. 297).

This analysis shows that bureaucracy in Sri Lanka is at risk of negative impacts from its institutional design and organizational arrangements, which are characterized by political aims, close socio-economic ties, nepotism, and the separation of central and local bureaucracies (Irfan, 2016, p. 35). This leads additionally to an uneven distribution of interests among political groups (Table 1). The case of the Mahinda Rajapaksa regime illustrates the urgency of this problem, with Mahinda's brothers Chamal Rajapaksa as speaker, Basil Rajapaksa as minister of Economic Development, and Gotabaya Rajapaksa as secretary to the Ministry of Defense and Urban Development. The corruption and familial politics of this regime attracted much criticism and have been widely cited as key factors in the downfall of the Mahinda Rajapaksa regime (Edirisuriya, 2017; Attanayake & Kapur, 2018). Under the coalition government of 2015–2019, despite the constitutional changes, the massive bureaucracy was not able to be transformed so quickly. The coalition government's complaint against Mahinda Rajapaksa and its anti-corruption campaigns acquired the status of a political slogan, but they ultimately failed to reverse the shortcomings of the bureaucracy. In addition, the lack of unanimous political conviction within the political bloc paved the way for its ultimate downfall. In 2015, the bond scam of the Central Bank of Sri Lanka, considered to be the largest instance of financial fraud in the country's history, lifted the veil from the former government's corruption scandal, and its aftermath affected the government's credibility. Ravi Karunanayake, a former minister of Finance and of Foreign Affairs, resigned from his post in August 2017 due to a scandal involving improper dealings with the son-in-law of the former governor of the Central Bank. The following November, Prime Minister Wickremesinghe was questioned about this case, which was the first occasion in Sri Lanka's history where the prime minister testified before a Presidential Commission of Inquiry. There were numerous calls to protest this massive corruption and appeals for political transparency and accountability. Here, the coalition government's ability to govern was questioned (He, 2020), and it stepped down in 2019. This failure was essentially the result of an imbalance in the distribution of power between the bureaucracy and political groups.

Table 1  
*Attributes and Interests of Political Groups in Sri Lanka (2005–2019)*

	<b>Strong Leadership (2005–2015)</b>	<b>Weak Leadership (2015–2019)</b>	
Leader	Mahinda Rajapaksa	Maithripala Sirisena	Ranil Wickremesinghe
Party	Sri Lanka Freedom Party	Sri Lanka Freedom Party	United National Party
Familial relations	The Rajapaksa family	-	The Wickremesinghe family
Identity	Emerging ruling elite	Civilian petty bourgeoisie	Old guard ruling elite
Ideology	Oligarchic elitism	Populism	Democratic elitism
Interests and contradictions	external contradiction: conflicts between own group and other groups	internal contradiction: conflicts among intra groups	

Sri Lanka's bureaucratic system features institutional and organizational weaknesses. Familial politics and nepotism reflect the historical settlement of Sri Lankan political culture. The role of Sri Lanka's bureaucracy in the country's development process can be viewed in two ways. On the one hand, it has the advantage of ensuring efficiency in policy implementation. On the other hand, it restricts the room for reform and innovation. The selection mechanism for officials adopted by East Asian developmentalism, by contrast, provides a guarantee of technocratic professionalism as well as checks and balances that allow for innovation. The reformation of Sri Lanka's bureaucratic system still has a long way to go.

### **Economic Policy Choices: Strengths of Trade and Shortcomings of Industry**

The ideal type of East Asian developmentalism indicates that the ability to coordinate production processes in the domestic economy is an important indicator of a country's development potential. Although Sri Lanka's initial conditions for economic development were weaker than those of the countries of the East Asian region, it had the advantage of facing no serious external security threat after independence while retaining an excellent education system and well-developed infrastructure as a result of its colonial legacy. These initial conditions made free trade the most advantageous option for Sri Lanka's economic development. These historical facts also showed that the decade following economic liberalization in 1978 brought important opportunities for high growth. The continuation of its open economic system demonstrates that this features considerable flexibility and resilience, although it is subject to the constraints of the international market. In particular, in a small country, openness to trade in the world economy is susceptible to changes in the relationship between exports and international demand, so the question of how to keep domestic productivity away from interference by international markets is worth considering for Sri Lanka. As noted, the experience of East Asian developmentalism can be used for reference for addressing this issue. Therefore, this is another option small countries can choose to restore product competitiveness through industrial policy. The following section will analyze the

relationship between trade and industry and describe how trade is integrated with industry in Sri Lanka, along with the shortcomings of its industrial development.

### *Advantages of Trade Policy*

In the East Asian developmental model, the neoliberal developmentalism adopted by China differs from the classical developmentalism of Japan. The former actively opens the domestic market to foreign investment, participates in the global division of production with cheap labor, and drives exports and economic growth through processing trade (Gao, 2006). In the process of economic reform and development, an important part of trade policy is removing or reducing controls on international capital flows, the two most common forms of which are foreign direct investment and public developmental assistance.

Although Sri Lanka does not have a large endowment of natural resources, it was able to stimulate its economy by attracting significant foreign investment. The World Bank reported that FDI in Sri Lanka increased from \$171 million in 2001 to \$272 million in 2005, and then it rose exponentially from \$480 million in 2006 to \$955 million in 2011, finally reaching a peak at \$1.610 billion in 2018 (The World Bank, 2020). Sri Lanka desperately needs FDI for its development. Due to its low level of domestic savings and limited ability to use its own funds for development, Sri Lanka has a strong dependence on FDI. In this way, Sri Lanka may be able to fill the investment gap through foreign capital inflows.

Its political stability is of great importance to Sri Lanka. As its years of civil war have shown, political instability has a significant and negative impact on FDI inflows. The end of civil war was decisive in enabling a peaceful environment for FDI inflows. Moreover, opening up for trade had a positive impact on FDI inflows as well. Since the implementation of an open economic liberalization policy in 1977, successive governments have promoted reforms to reduce restrictions and encourage new investment, in particular the establishment of Export Processing Zones (EPZs) that feature export-oriented foreign-owned enterprises, as well as a privatization policy in 1987 that reduced the burden on SOEs and improve their efficiency and profitability. The size of the market reflects the space for economic development and has a positive impact on FDI. Higher GDPs lead to a larger market, so the momentum of GDP growth must be maintained to attract FDI inflows. In addition, Sri Lanka's FDI promotion system was redesigned to be more effective with the establishment of a Board of Investment (BOI) in 1992, which had its most important moment under the Mahinda Rajapaksa government. The BOI is vested with powers of tax relief and exercises administrative discretion in all FDI matters. The BOI provides a one-stop service for foreign investors, and its responsibilities include approving projects, granting incentives, arranging utility services, and facilitating import and export procedures. This institution



provides institutional support for the country to attract foreign investment. As a result of its work, GDP rose year over year during Mahinda Rajapaksa's two terms.

FDI energized infrastructure development. As FDI inflows increased, two other factors have come to contribute to Sri Lanka's sustained high economic growth; one is the international competitiveness of the export-oriented economy, and the other is urbanized promotion of productive economic activities. These two forces that drive growth, in turn, rely heavily on efficient infrastructure, as well-developed infrastructure can shorten supply chains and also produce agglomeration dividends (Biller & Nabi, 2013, p. 2). As a result, in the decade under the Mahinda Rajapaksa administration, infrastructure was rapidly developed, and projects such as roads, rails, ports, and airports have been developed, with remarkable success. As Table 2 shows, from 2010 to 2018, Sri Lanka attracted the most FDI in infrastructure, followed by manufacturing and services. The Mahinda Rajapaksa government's efforts to boost infrastructure through FDI, including the expansion of Colombo Port, the development of Hambantota, and the creation of the modern Bandaranaike Airport and Mattala International Airport, all of which have greatly improved the country's transportation capacity and brought Sri Lanka closer to a goal of being a dynamic maritime and aviation hub. From 2015 to 2018, it should be noted FDI in infrastructure fluctuated due to the transition to the coalition government, which brought new economic development goals and approaches to attract investment, which directly impacted Chinese investment in Sri Lanka. East Asia's neoliberal developmentalism, as represented by China, emphasizes opening domestic markets to foreign investment, and the Mahinda Rajapaksa government drew on the Chinese experience and achieved success with FDI for development. Driven by the growth in foreign investment, Sri Lanka's GNI per capita also increased, from \$830 in 2001 to \$1,200 in 2005, \$2,400 in 2010, and then \$3,760 in 2015 (The World Bank, 2020). The Mahinda Rajapaksa government achieved an impressive gain in per capita income growth and rapid economic development relative to previous regimes.

Table 2  
*Foreign Direct Investment in Sri Lanka (2010–2018)*

Attracted FDI (US \$ Million)									
Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018
Manufacturing	159.7	322.4	307.7	359.8	333.9	257.0	247.7	347.6	291.5
Agriculture	6.5	18.0	7.2	8.5	5.7	3.9	1.9	1.4	0.5
Services	29.5	269.2	426.7	236.3	506.3	255.4	211.9	317.8	301.3
Infrastructure	320.7	456.5	596.6	786.8	682.5	453.4	339.5	1043.5	1773.7
Total	516.3	1066.0	1338.1	1391.4	1616.6	969.7	801.0	1710.3	1188.7

Source: BOI and the Central Bank of Sri Lanka.<sup>5</sup>

5 See BOI (2015), Report of the Auditor General on the Financial Statements of the Board of Investment of Sri Lanka for the year ended 31 December 2015 in terms of Section 14(2) (c) of the Finance Act, No. 38 of 1971, p. 12. And also see Table 25, Lakshman (2020).

### *Deficient Industrial Policies*

The above analysis makes it clear that FDI is the external driver of Sri Lanka's economic development, but this is not matched by internal productive capacity. This is closely related to the characteristics and limitations of Sri Lanka's industrial development. The following section presents the shortcomings of Sri Lankan developmentalism by analyzing the composition of the industrial sectors and the ways in which the pillar industries operate.

The industrial sector in Sri Lanka is characterized by a simplified structure and low input. Although FDI in Sri Lanka is concentrated in infrastructure, services, and manufacturing, the industrial sector always receives the lowest share of FDI growth. In fact, Sri Lanka's industrial development has always been relatively weak. Table 3 shows that industrial output has taken a relatively stable proportion of GDP, hovering around 28% from 2005 to 2019. However, it is not difficult to see that the proportion of industry in GDP in 2005–2010 was higher than it was in 2015–2019, which reflects different industrial strategies under the two regimes. It is worth noting that the share of the construction sector has grown as growth has fluctuated, which reflects the impact of debt on the health of the construction sector (Athukorala, Ginting, Hill, & Kumar, 2017, p. 22). Among the parts of the industrial sector, manufacturing and construction are mainstays of industrial development. The main contributor to manufacturing output is from factories. Therefore, policy support for and development of the factory is an important measure of Sri Lanka's industrial performance.

Table 3  
*Sectoral Composition of GDP in Sri Lanka, Selective Years 2005–2019 (% of GDP)*

	2005–2009		2010–2014		2015–2019	
	2006	2009	2011	2014	2016	2019
Agriculture	16.8	12.0	11.2	7.8	7.1	7.0
Industry	27.0	28.6	29.3	26.7	26.6	26.4
Mining	1.9	2.1	2.5	2.5	2.4	2.3
Manufacturing	16.3	17.4	17.3	15.7	15.5	15.6
Factory	13.2	15.8	15.7	-	-	-
Energy*	1.9	2.4	2.4	1.0	1.0	1.1
Construction	7.2	6.6	7.1	7.2	7.1	6.9
Services	55.7	59.3	59.5	56.3	56.7	57.4

Note. \*Including electricity, gas, and water.

Source: Central Bank of Sri Lanka.

The development of the manufacturing in Sri Lanka can also be seen in the composition of merchandise exports. In the 1960s, more than 95% of Sri Lanka's exports were agricultural products. beginning with economic liberalization in the late 1970s, exports of manufactured goods have increased. Since the 1990s, the manufacturing sector has dominated Sri Lanka's merchandise exports, accounting for about three-quarters of total exports, with the labor-intensive garment industry dominating among these. Sri Lanka's total exports grew from \$1.97 billion in 1990 to

\$6.34 billion in 2005 and then continued to increase to US\$10.5 billion in 2015, achieving steady growth in absolute terms. Nevertheless, the share of Sri Lankan exports in GDP has shown a declining trend, from 32.3% in 2005 to 21% in 2015. Thus, there is a sharp contrast between the decline in the proportion of exports in GDP and the rapid growth of total exports. This has come about because the Sri Lankan government has shifted its focus to domestic development and construction, as can be seen in the share of the non-tradable sector in GDP, which rose from about 65% around 2005 to 70% in 2015. This change indicates that the Sri Lankan government is focusing more on domestic production. Nevertheless, no breakthrough in industrial production has appeared.

The factory industry, as a dominant part of manufacturing, is concentrated in EPZs, which are a feature of Sri Lanka's industrial policy. It should be noted that EPZ policy is intended as part of industrial policy, but it does not produce economies of scale.

The purpose of establishing the EPZs was to attract foreign investment and lay the foundation for a sound industrial sector. Here, a sound industrial sector relates to advantages in the form of creating jobs, connecting with local enterprises, and transferring technology to local entrepreneurs. In 2016, there were twelve EPZs and industrial parks operating under the administration of the BOI, with 279 companies involved, employing more than 130,000. However, it is noteworthy that less than one-third of the local enterprises are involved in the productive activities of the EPZs, and foreign enterprises in EPZs are largely manufacturing export-oriented economic products, mostly garments and textiles. This makes it difficult for the preferential policies of the EPZs to have effects on local enterprises or to activate local productivity (Agalewatte, 2008). The garment and textile industry is labor intensive, using simple technology and inexpensive labor, which allows it to grow continuously and squeeze out other industries wishing to set up in EPZs.

The establishment of the EPZs reflects global trends and is part of a broader restructuring of the economy, intended to integrate Sri Lanka into the world market and create jobs through export-led development policies. However, Sri Lanka's EPZs are not linked to other sectors of the economy, resulting in a simplification in industry, which is highly dependent on cheap labor and simple technology. Thus, it is difficult to promote industrial transformation or upgrading, and economies of scale are not created. As a result, while Sri Lanka's EPZs appear to be a small step forward in industrial policy, they in fact increase dependence on the old model.

Sri Lanka's experience in manufacturing exports further indicates how the simplification of industrial policy has hindered Sri Lanka's development. This deficiency has prevented workers in most sectors from enjoying the dividends of economic development. Increased income remains a realistic demand of the working

class. Wealth gaps and social inequality are a major issue in the political and economic development of the country. As noted above, FDI alone cannot produce a long-term solution to infrastructure development; instead, a rational reform is needed that will bring the country's industry in line with international standards, based on present advantages of labor and infrastructure. Sri Lanka, the first country in South Asia to open its economy to the world, undoubtedly has a first-mover advantage here in terms of becoming integrated into the international market, and it has improved the market competitiveness of its export products through its reforms, enabling export-oriented economic development.

The historical experience of Sri Lanka from 2005 to 2019 shows that its political and economic changes produced a model of development-oriented government, which centers optimal regulation between the government and the market to improve social and economic development. However, this analysis indicates that Sri Lanka's developmental government has an advantage in efficiency but a disadvantage as well in regulating the allocation of market resources and increasing productivity. The simplification of industrial policy is the main force that restricts the ability of a developmental Sri Lankan government to improve the political and economic development of the country.

### **Conclusion**

From 2005 to 2019, Sri Lanka experienced an intense period of civil war and a period of peaceful development with rapid economic growth under three governmental terms. The political and economic phenomena of these fifteen years attracted worldwide attention and promoted controversy. With reference to the development experience of East Asian countries and the ideal type of East Asian developmentalism, this article constructs a theoretical framework to assess the developmental government of Sri Lanka and finds that government intervention, the bureaucracy, and industrial policy provide a novel explanation for Sri Lanka's economic growth and regime change over the past fifteen years.

Sri Lanka has an adequate historical background and institutional conditions for governmental intervention in economic development. However, the role of governmental intervention in economic growth has been overlooked or underestimated by mainstream Western scholars. The achievements in development over the past fifteen years have shown that strongman politics is an effective government model and constituted a key factor for driving economic growth, as well as playing an incomparable role in maintaining a peaceful and stable environment for development and creating an efficient administration. Nevertheless, the deficiency of this strategy is obvious, and it has often been criticized for being at odds with Western values and even posing a crisis to the

legitimacy of the regime, ultimately losing the support of the voters despite improvements in economic performance. Then, the following coalition government, whose accession was called a win for democracy, was unable to stay in power past one term.

As observed throughout this fifteen-year path, the institutional and organizational shortcomings of the bureaucracy promote the risk of dysfunction. The cultural phenomena of familial politics and nepotism ultimately affect efficiency and fairness, exacerbating inequality and directly threatening the viability of the regime. This imbalance in the bureaucratic dynamic is a double-edged sword, both guaranteeing a certain degree of efficiency in policy implementation and restricting reform and innovation.

For Sri Lanka's economic policy, FDI has injected economic vitality into infrastructure development, but the shortcomings of the country's simplified industrial policy are also evident. The EPZs have not functioned as planned in industrial policy. Instead, the simplified industrial policy has led Sri Lanka to return to a dependence on export-oriented growth without taking advantage of industrial upgrading, technological innovation, or human resources to generate economies of scale. Finally, most do not enjoy the dividends of any economic development.

The combination of efficient strongman politics, imbalance of the bureaucratic system, and the simplification of industrial policy explains the relationships between fluctuations in economic growth and regime change in Sri Lanka. When the government uses strongman politics effectively, the weaknesses of bureaucratic imbalance and of the simplified industrial policy is covered up, and the economy gains growth momentum. When effective strongman politics and a weak or imbalanced bureaucracy appear together, the economy grows, but the regime may nevertheless be changed. Where strongman politics is absent, the faults of a weak or imbalanced bureaucracy and simplified industrial policy will be magnified, causing economic decline and possible regime change.

In Sri Lanka's eighth presidential election, in November 2019, Gotabaya Rajapaksa was elected as the new president. Gotabaya's military background and his philosophy of governance largely reinforced his position as a political strongman. Soon afterwards, in the parliamentary elections of August 2020, the Sri Lanka Podujana Peramuna (SLPP) became the largest party in parliament, and Mahinda Rajapaksa was appointed as prime minister. The regime of Gotabaya Rajapaksa and Mahinda Rajapaksa may herald a resurgence of strongman politics and a re-emergence of familial politics on the Sri Lankan political stage. Consequently, the applicability of the explanatory framework on the developmental government of Sri Lanka with regard to the political and economic development over the next five years remains to be seen.

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