

A Thesis Submitted

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To the Faculty of Arts of the University of Colombo

In partial fulfilment of the requirement

For the award of the degree of

DOCTOR OF PHILOSOPHY

Of the University of Colombo

Sri Lanka

September 2001

ABSTRACT

The plantation economy of Sri Lanka reached limits of growth after the first quarter of the 20th century. By this time, the country's elite was considering an alternative mode of production -- industrial development. In the absence of any 'pre-industrial experience' this vision took a long time, almost half a century, to materialise. The project of industrial development, however, commenced after independence. It was a joint project as both the state and the private sector were active partners of this project. The overall vision was the achievement of a 'fast and compressed' industrial development for Sri Lanka.

The industrial development of Sri Lanka should be looked at as a process or a mechanism to effect structural transformation from plantation-trade-finance orientation to an industrial orientation. It can also be viewed as a process of mobilising entrepreneurial resources in industry shifting them away from plantation-trade-finance sectors of the economy. The process, nevertheless, is largely dependent upon the motivational process being provided by the socio-political and economic environment of the country. There are a number of issues to be answered in respect of industrialisation although we pay special attention to the following in valuing the operational performance of the project.

The achievement of structural change in the system

The rate of growth of industrial accumulation

The forces of motivation to achieve the given degree of performance.

The roles played by different partners of the project of industrialisation,
and

The causes for sluggishness in industrial accumulation.

The study of the above issues involves an inter-disciplinary approach. Furthermore, a comprehensive study demands a detailed database covering a long period. The existing database apparently is not satisfactory and is not comprehensive enough to analyse the above issues of post-independence industrial accumulation. Our study, therefore, gives prominence to the construction of a detailed and comprehensive database to complement the existing database.

Evidently, Sri Lanka has been able to effect some structural changes over this long period in a manner favourable for industrial accumulation. However, its path of industrial development has been highly cyclical, slow and, therefore, long as compared with those of certain other 'new nations'. Many 'new nations' have achieved 'fast and compressed' industrial development relying very much upon the capitalist path of industrial development. Particularly, the countries in Southeast Asia have been able to achieve industrial targets sticking to market interventions advocated in 'development economics'. These countries successfully made use of the 'tripod structure' – state capital, domestic private capital and foreign capital— with 'borrowed technology' in the process of their industrial development. The most important prerequisite that these countries have initially had was the 'institutional readiness for capitalist economic growth' (Adelman, 2001:127).



Why was Sri Lanka slow in achieving industrial growth taking a longer route? One explanation may be that the economic policies that were implemented did not strictly adhere to the principles enunciated in 'development economics'. 'Development economics' insisted that the country carries out institutional changes favourable for a market economic system. 'Development economics' assures that good state-market relations would direct the economy towards a self-generating industrial growth process. In this process, the state has a commanding role to play as a 'leader', a 'promoter' and a facilitator of industrial development. The market friendly state would make use of the 'tripod structure' --domestic, foreign and state capital-- effectively in the process of industrial development. The state can provide financial stimuli to make manufacturing activities profitable. Initially, it is the state that would play the main role of a 'big entrepreneur' until the private sector takes it over in a state of maturity from the state.

From the point of implementation, the state of Sri Lanka apparently has deviated from the above norms and practices of 'development economics'. Its excessive intervention in the economy, specially after the mid 1950s, helped the growth of state capital but discouraged the participation of the important two 'pods', domestic and foreign capital, which are invaluable agents to make the policy of import substitution effective. The benefits produced by the policy of import substitution had been marginal to stimulate the private sector to take part in the drive. This behaviour of the state's excessive involvement in the economy was a product of socio-political institutions, which have been functioning strongly from the 1940s continuously hampering the growth of market forces in the system. These 'socio-institutional' forces

in the system continuously interfered and shaped the policies of the state. The anti-market forces preferred a planning-oriented policy of resource allocation for the ills of the nation.

The post-1977 period¹ marks the establishment of market friendly policies in the system. The decision-making agents have favourably responded well to market signals generated by the system until 1983. The economy experienced a high growth momentum in the period. But, new kinds of market-hostile forces which erupted in the system weakened the growth momentum of the economy. The intermittent disturbances of these forces eventually brought down the industrial accumulation to a lower level. There was disarray in the 'tripod structure', especially, because domestic and foreign capital began to play a neutral role in the system in the 1990s. Some of these surfaced as a product of conflicts between neoliberal and welfare policies. Others were exogenous in the sense that 'political decay' in 1983 and ethnic violence created instability in the economy. It appears that there has been no 'institutional readiness' for a process of capitalist economic growth in Sri Lanka guided by a 'fast and compressed' industrial development.

¹ Due to logistical problems of a thesis preparation, the period of study in this thesis has been restricted to the period up to the mid-1990s.