UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

October 2021

South-South Integration and the SDGs:
Enhancing Structural Transformation in Key Partner Countries of the Belt and Road Initiative

UNCTAD/BRI PROJECT/RP16

Debt sustainability and debt management in Sri Lanka – a reflection on the applicability of Chinese policy lessons

Kenneth De Zilwa
and
Shiran Illanperuma

Abstract

Debt and debt sustainability is a crucial factor in the process of economic development. Historical experience shows that countries tend to accumulate debt during periods of high growth. Developing countries, in particular, experience "debt traps", where productivity does not keep pace with debt, leading to macroeconomic instability.

China's rapid rise in the last 70 years was fuelled by policy stability, including economic planning and implementation. Through a state-owned development banking system, the country has financed infrastructure and manufacturing. This approach has facilitated growing exports and a trade surplus, enabling the country to lift millions out of poverty and become a net creditor.

Sri Lanka, which began at a relatively better position than China, has suffered from a lack of long-term finance for manufacturing and infrastructure. Combined with a liberal trade regime, this situation has led to balance of payments crises, currency devaluation and dependence on foreign loans.

Policy prescriptions from multinational institutions have not had the desired effects in alleviating Sri Lanka's debt distress. Sixteen IMF packages have led to currency devaluation, privatisation and trade liberalisation, but no sustainable growth. Meanwhile, China has forged a path independent of the IMF doctrine, achieving better results.

Though the size and nature of the two economies are different, Sri Lanka can learn from China's development experience. Crucial lessons include the importance of development banks, policy consistency, administrative decentralisation and a balance between long-term goals and short-term cash flow requirements.

Key words: Sri Lanka, debt sustainability, economic development

Contents

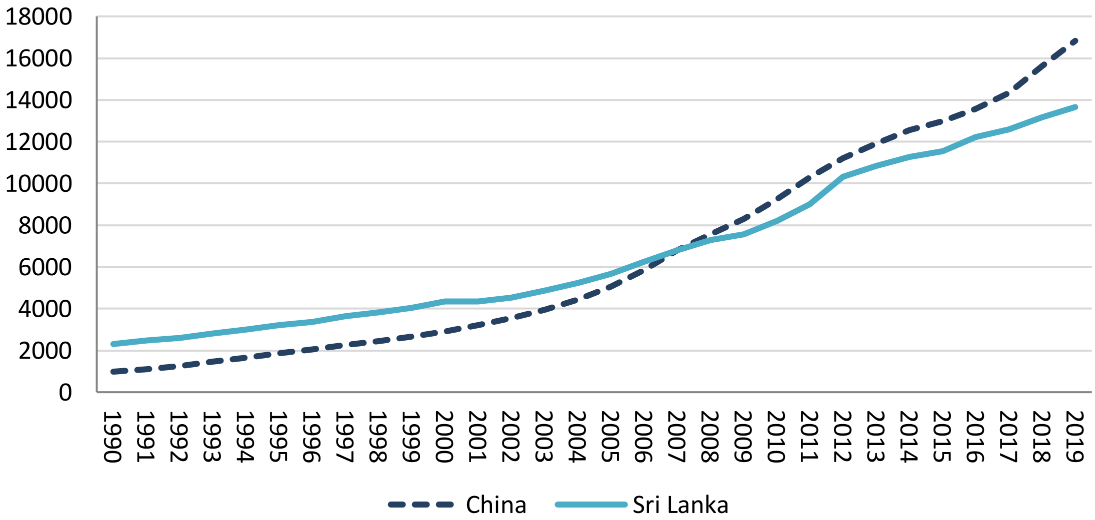
1. Introduction

China and Sri Lanka, formerly Ceylon, began their economic modernisation a year apart, in the aftermath of the second World War (WWII). At the time, Ceylon boasted strong foreign currency reserves and reasonable human development indicators for a decolonising country (Kelegama, 2006), while China was severely weakened by civil war, Japanese occupation, and an economic embargo.

In the 70 years since WWII, Sri Lanka and China established close trade, investment, and cultural ties but diverged in development outcomes. China has maintained social stability, emerged as the world's factory, and is now also one of the world's largest creditors (Farrell and Li, 2020), outdoing the 22 Paris Club members, IMF and World Bank in 2018. Sri Lanka, however, was mired in two insurrections and a 30-year civil war, remained dependent on exports of low value-added goods and services, and relied on foreign borrowings to finance its twin deficits (Kelegama, 2006).

The divergences in GDP per capita between China and Sri Lanka, as seen in Figure 1, are partly due to differing development ideologies and the financing structures adopted in managing debt sustainability. China's development model was not ideologically committed to the private sector. In particular, the banking sector was nationalised under the leadership of Mao Zedong in 1949. In 1976, banking reforms created specialised development banks for strategic sectors of the economy, including infrastructure, agriculture, energy, and construction (Chen and Vinson, 2016). With Deng Xiaoping's accession in 1978, the already established development banking structures saw little deviation from a centrally planned pragmatic development model (Farrell and Li, 2020). Sri Lanka, however, started with privately-owned commercial banks that provided credit primarily for trade. Attempts at building pro-development policy banks were delayed, and the few established institutions were either commercialised or privatised by the 1980s (Nicholas, 2017). In the absence of a domestic financing arrangement for economic production, the country was trapped in an external consumption cycle based on the 'comparative advantage' doctrine, funded by bourgeoning foreign borrowings.

Figure 1: GDP per capita PPP, China and Sri Lanka,1990-2019 (current international $)



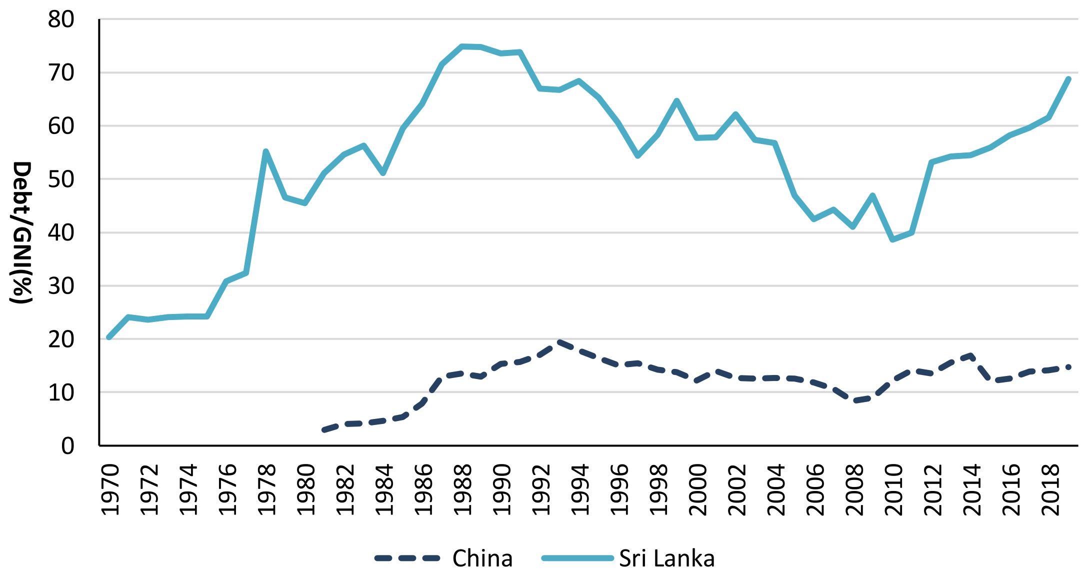
Source: World Bank Data.

Sri Lanka's debt sustainability dynamics differ from China's in part due to the vast amount of debt denominated in foreign currency, making restructuring a costly and painful process involving policy impositions by external entities. Furthermore, foreign borrowings have often financed excessive imports rather than stimulating domestic production. Concerning debt levels and sustainability, it is crucial to understand why China's government debt to GDP ratio of around 300 per cent attracts relatively little concern compared to Sri Lanka, which has a debt to GDP ratio of less than 100 per cent?

The answer lies in how that debt is structured and what it finances. For example, Figure 2 shows that Sri Lanka relies much more on external debt than China.

This paper will explore Sri Lanka's and China's different approaches to development financing, debt management, and debt sustainability. Sri Lanka's policy inconsistency and weaker state directionality will be contrasted with China's stronger leadership in the field of development and long-term policy stability. Moreover, China's financing of surplus yielding development projects will be compared with Sri Lanka's borrowing to settle BOP issues.

Figure 2: External Debt Stocks, China and Sri Lanka, 1970-2018 (% of GNI)



Source: World Bank Data

While the Chinese development model is in many ways unique to the country's history, culture, political system, raw material base and social conditions, there are many lessons to be learned for developing countries like Sri Lanka (Lu and Zhang, 2020). The most noteworthy lesson is the importance of a national development banking system in providing affordable long-term credit for infrastructure and strategic national agricultural and manufacturing industries while ensuring sustainable development and debt management (Farrell and Li, 2020).

Sri Lanka's recent policy interventions indicate that policymakers have already begun to make necessary adjustments to manage debt and generate surpluses through increased production. After 44 years of trade and financial liberalisation, many policies are being proposed, such as import-substitution, targeted lending quotas, and a new National

Development Bank (Rajapaksa, 2020). The example of China's rise has no doubt played some role in inspiring this policy direction.

This paper is divided into four main sections. The first will explore the concept of debt sustainability, with an elaboration of the methods used by the International Monetary Fund (IMF) and their shortcomings. The second section will outline China's development story, emphasising banking sector reform and the role of local government in targeting investment towards profitability and augmenting infrastructure industries. The third section will outline Sri Lanka's development story, emphasising its historical trade deficit, lack of development banking, and subsequent dependence on multinational lenders and sovereign bonds for financing. The fourth and final section of the paper will summarise the differences in Sri Lanka's and China's approaches to development and what Sri Lanka can learn from China's development model.

2. Analysing debt sustainability

Evaluating debt sustainability for a firm is a relatively simple task of weighing revenue-generating assets against financial liabilities. However, the debt of sovereign nations is more complicated and is usually measured in terms of solvency, which means their ability to generate a sufficient stream of income to roll over or service debt and avoid default (Guzman, 2018). Therefore, for nations, the debt source composition matters in the overall analysis. In this context, the International Monetary Fund (IMF) is viewed as the main multilateral institution tasked with gauging the stability of the international monetary system and thus plays a crucial role in formulating debt restructuring programs and providing bailout packages to debt-distressed countries. Therefore, The IMF's Debt Sustainability Analysis (DSA) is a preeminent template among orthodox economists.

This section summarises the IMF's DSA methodology and policy prescriptions for debt-distressed countries. This summary will be followed by a critique of such a "one-size fits all" approach and specific policy prescriptions that have counter-intuitive effects and lock countries in a cycle of debt. Notably, Sri Lanka has turned to the IMF for support sixteen times. At the same time, China's policy remained relatively independent – even influencing the IMF by having its currency added to the IMF's Special Drawing Rights basket (IMF News, 2016). Therefore, understanding the IMF's role is useful when contextualising Sri Lanka's and China's experiences with debt management and sustainability.

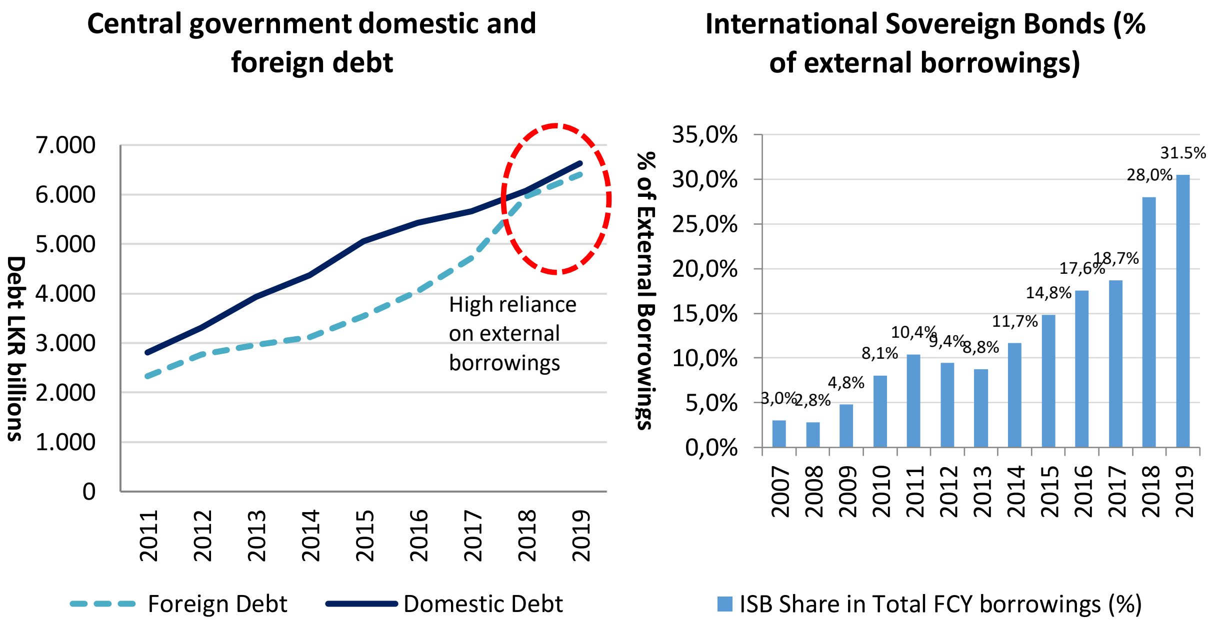
2.1. The IMF methodology and prescriptions

Since debt is a dynamic issue, with different implications for countries at different levels of development, the IMF has separated the DSA frameworks for "market-access" and "low-income" countries. According to a 2013 IMF Staff Guidance note for market-access countries:

> *"… public debt can be regarded as sustainable when the primary balance needed to at least stabilise debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level."*

The IMF analysis requires identifying the relevant variables of debt stocks (e.g. domestic, foreign, public, private, etc.) and assessing maturity structure (e.g. short-term, mediumterm, and long-term). The DSA analyses the probability of a debt being serviced and/or the size and scope of relief required to make an unsustainable debt more sustainable. For example, figure 3 shows that Sri Lankan government debt was split relatively evenly between domestic and foreign debt from 2011 to 2014. However, there is an apparent shift towards a greater dependency on foreign debt financing like high-coupon, long-term, USD bond issuances from 2015 to 2019, to which many credit rating agencies remained supportive (Ondaatjie, 2019). Figure 3 shows Sri Lanka's steady debt accumulation from issuances of International Sovereign Bonds (ISBs). From 2015 to 2018, the country issued over 10 billion U.S. dollars' worth of ISBs, amounting to nearly 12 per cent of GDP. ISB's now make up a quarter of the country's total debt, more than any other bilateral partner such as China or Japan.

Figure 3: External Debt Stocks, Sri Lanka (% of GNI)



Source: Central Bank of Sri Lanka.

Interestingly, the IMF's DSA process involves identifying specific constraints that a country faces in meeting its debt obligations. Constraints cited by the IMF tend to focus on budget deficits, specifically government spending on public goods and industrial subsidies. Other constraints commonly mentioned by the IMF include protectionist policies in commodity markets, labour and financial markets, assuming that these naturally lead to economic inefficiency. Once such constraints are identified, the IMF formulates a debt restructuring program. The typical policy prescriptions in IMF stabilisation packages for debt-distressed countries include currency devaluation, trade liberalisation, privatisation of state monopolies, fiscal policy targeting a budget surplus, and adopting a monetary policy targeting inflation (Lakshman, 1985).

2.2 Problems with the IMF approach

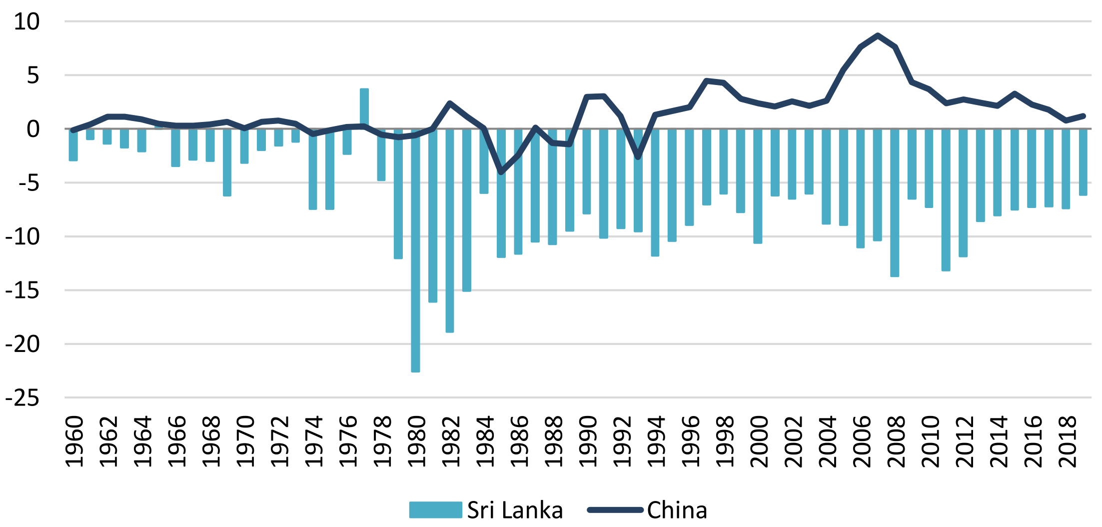
The IMF's DSA methodology is viewed as inherently probabilistic and forward looking, requiring the analyst to make educated but subjective assumptions on inflows and outflows (Heymann and Guzman, 2015). Such assumptions are based on historical trends, which can be misleading during crises when such trends are disrupted (Guzman, 2018). This is further complicated by the fact that the conclusions of a DSA can be selffulfilling prophecies. For example, default predictions can scare off foreign investors and drive up the rollover cost of external financing, causing other macro-economic and social implications.

Empirical evidence suggests that the IMF's standard stabilisation packages– which push for austerity, privatisation, and market liberalisation– can cause significant social instability, leading to economic stagnation (Heymann and Guzman, 2015; Stiglitz, 2002). Therefore, IMF policy packages worsen a country's debt crisis rather than resolving it, similar to what we have seen in Greece and Ireland (Das, 2016).

Ideological blind spots, such as the "comparative advantage" doctrine, can lead to misplaced identification of constraints to debt sustainability. For example, the IMF recommends "trade openness" to Sri Lanka (IMF Communications Department, 2020). However, it neglects the chronic balance of payments issues– linked to a mismatch between the excessive intermediary and consumer imports, and raw material and low-value-added exports– as a significant fiscal and external resource constraint.

Figure 4 demonstrates Sri Lanka and China's external balance of goods and services as a percentage of GDP. The data clearly shows Sri Lanka's trade deficit widening in relation to GDP since 1977, at the onset of trade liberalisation reforms. Compared with Figure 2, there is an apparent correlation with rising external debt-to-GDP in the same period. Despite this empirical evidence, the IMF's methodology often disregards excessive trade openness as a genuine barrier to debt sustainability, and in practice, advocates for more openness.

Figure 4: Sri Lanka's and China's external balance on goods and services (% of GDP)

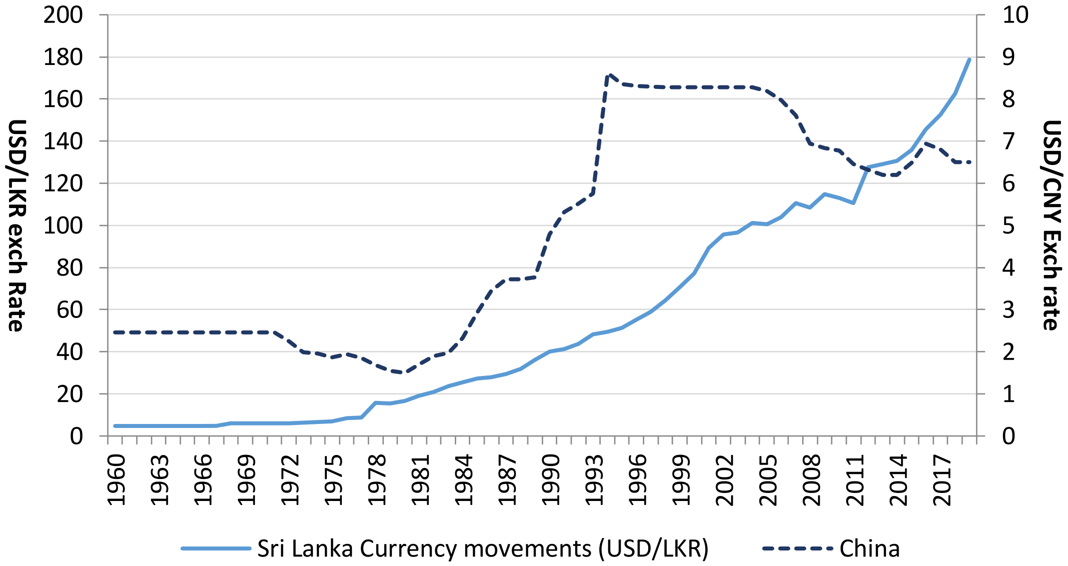


Source: World Bank Data.

Similarly, IMF promotion of financial liberalisation– including currency devaluation, privatisation of development banks, abolishing targeted lending quotas, and marketisation of interest rates– increases production costs and hampers industrialisation efforts, especially when combined with trade openness (Chang and Grabel, 2004). These policies effectively force low- and middle-income countries to depend on foreign financing, compounding problems with external debt sustainability.

Figure 5 shows Sri Lankan rupee and Chinese renminbi exchange rate movements against the U.S. dollar since 1960. The data clearly shows that the rupee's soft-peg since the late 1970s – which was made market-based since the 1990s – has led to steady depreciation on the back of liberal policies, with no corresponding increase in exports or FDI, as theory would suggest. In comparison, the renminbi exchange rate has remained pegged, with changes determined by government policy. In the context of this exchange rate policy, China recorded significant external sector surpluses while elevating lifting 700 million out of poverty (Farrell and Li, 2020).

Figure 5: Official nominal exchange rate of rupee and renminbi (LCU per US$, period average)



Source: International Monetary Fund, International Financial Statistics.

Therefore, both IMF's diagnosis and prescription often misses the mark when attempting to evaluate nationally specific economic problems. Indeed, consistent devaluation of the rupee in Sri Lanka has done little to discourage imports and reduce the trade deficit. Rather, devaluation is experienced as inflation for domestic producers, affecting the cost of intermediate and capital goods. Monetary tightening to this inflation exacerbate the issue further, affecting the ability of local firms to export competitively. The trade deficit fuelled "debt trap" then becomes a deadly cycle.

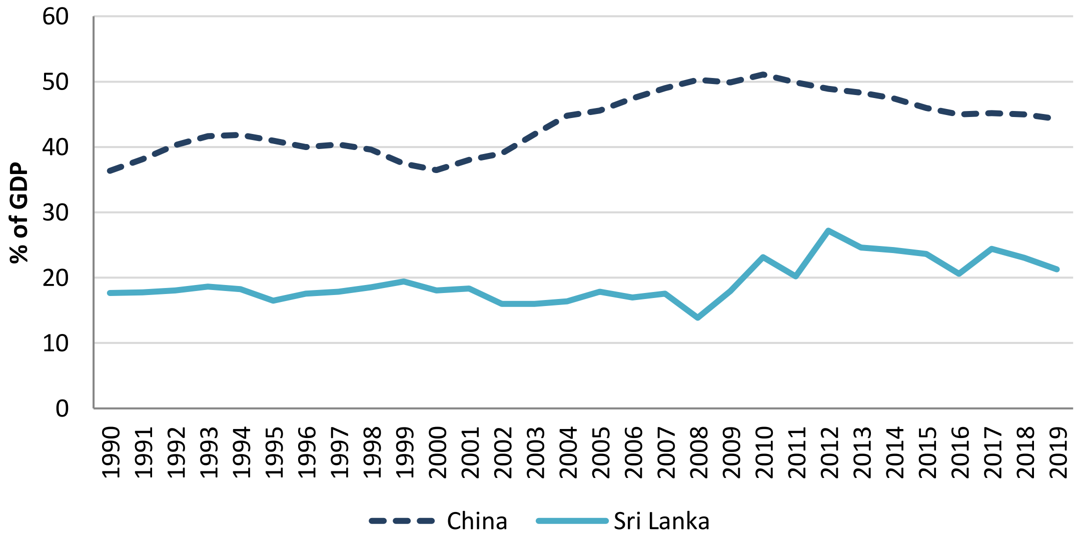
3. China's development path

In 1949, the People's Republic of China (PRC) set on a path of reconstruction and industrialisation largely based on public-ownership and a closed economy. Most land, factories, and banks were nationalised, and production was centrally planned. China's first phase of industrialisation, between 1953 and 1978, emphasised heavy industry, especially through the "Great Leap Forward" and later the "Cultural Revolution", which sought to foment industries in the countryside (Lu and Zhang, 2020).

In 1978, the policy of "Reform and Opening-up" was initiated by Deng Xiaoping, who gradually replaced elements of central planning with market forces to non-disruptively develop competitive domestic manufacturing and attract foreign investment and technology. From 1979 to 1999, the focus shifted to light industries (Lu and Zhang, 2020). However, the Chinese economy remained guided by the state and dominated by State-Owned Enterprises (SOEs), which underpinned rapid growth (Li and Farrell, 2020). Heavy industries and SOEs built up in the Maoist era supplied Town and Village Enterprises (TVEs), which emerged as powerful manufacturing engines until the 1990s (Pan, 2015).

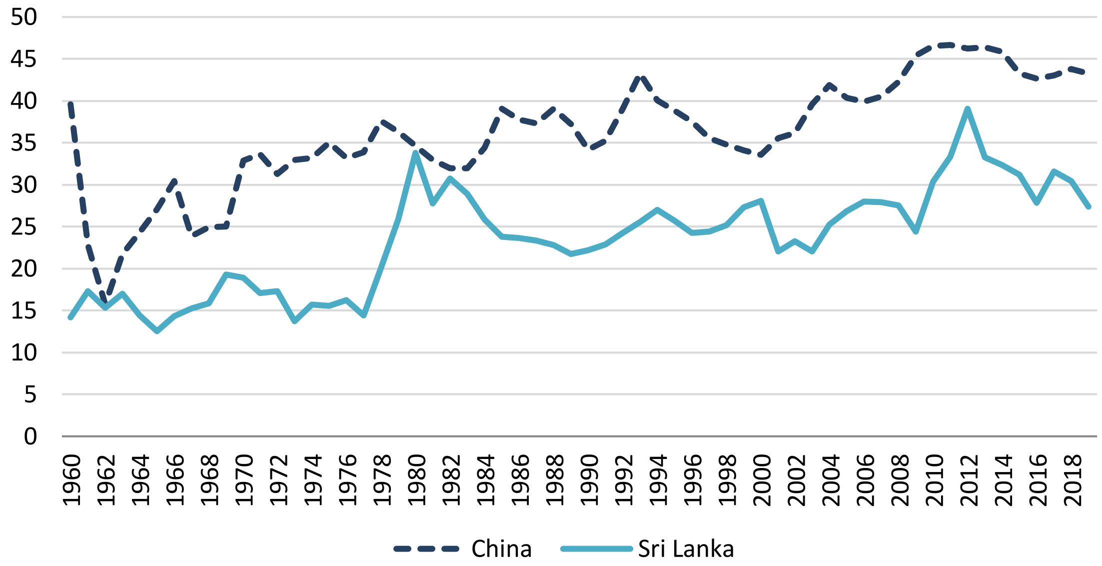
Financial repression and the maturation of the Chinese development banking system and provided the impetus for rapid growth, averaging around 10 percent per year from the late 1970s onwards (World Bank, 2021). This policy was matched by a high rate of domestic savings (i.e., profits) and gross fixed capital formation, which are illustrated in figures 6 and 7. Spurred by high profits, China entered a period of self-perpetuating growth. The country has now leveraged its trade surpluses to become a bilateral and commercial lender to developed and developing countries. In comparison, Sri Lanka has maintained lower savings despite higher real interest rates than most competitor countries. Therefore, one can argue that higher interest rates impeded growth and national savings in Sri Lanka.

Figure 6: Sri Lanka's and China's Gross Domestic Savings (% of GDP)



Source: World Bank Data.

Figure 7: Sri Lanka's and China's Gross Capital Formation (% of GDP)

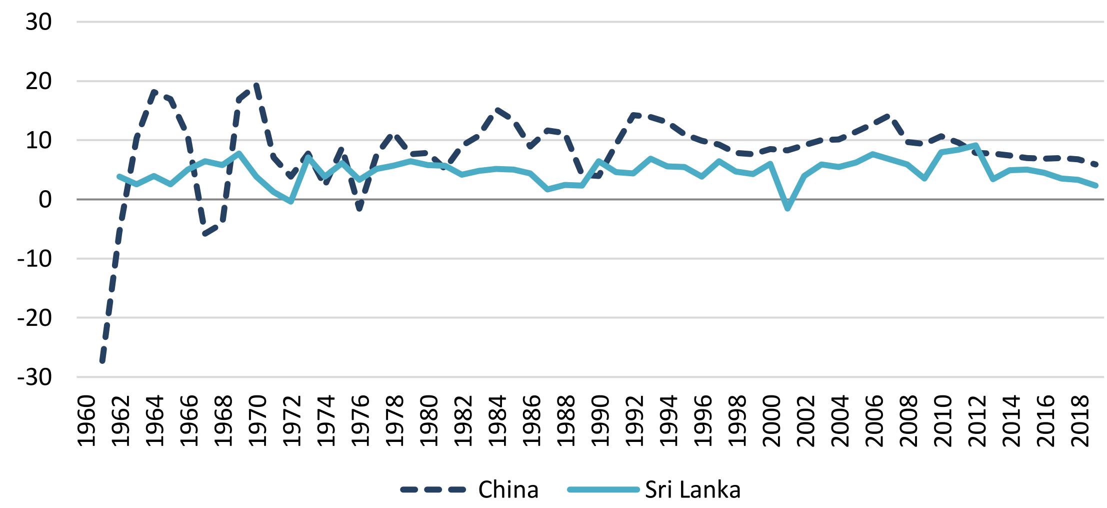


Source: World Bank Data.

The emergence of domestic industrial clusters and Special Economic Zones (SEZs), combined with lower interest rates, production, and labour costs– due to infrastructure investment and a healthy and educated labour force– made China a desirable destination for foreign direct investment for export-oriented production companies to relocate manufacturing plants (Lu and Zhang, 2020). Therefore, China's initial domestically financed industrialisation attracted foreign investments, which are needed for generating foreign-currency export projects in the SEZs. By 1993, FDI amounted to 6 percent of China's GDP and has averaged around 4 percent for two decades (Figure 9).

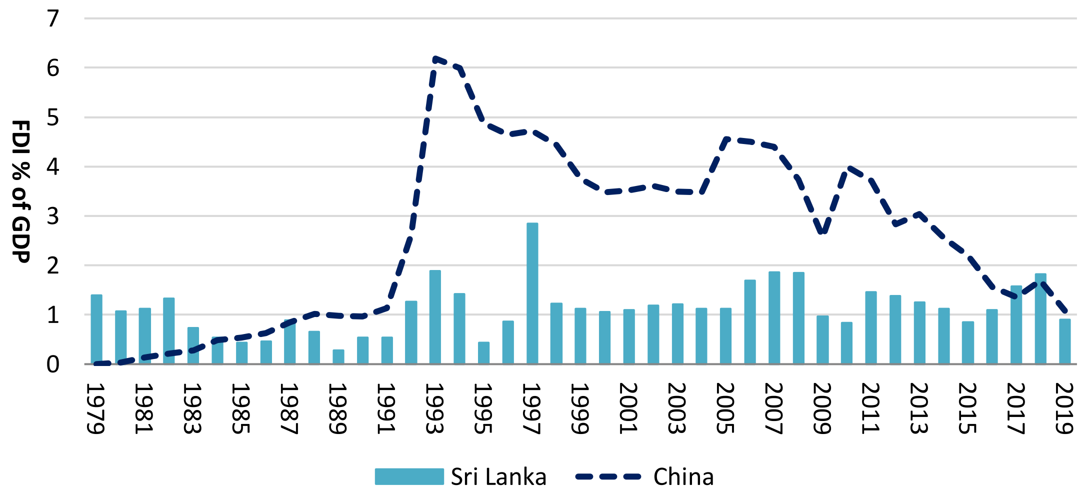
Meanwhile, exports of goods and services as a percentage of GDP grew from 4.3 percent in 1960 to 36 percent in 2006. Compared to developing countries, China continued to have relatively low external debt as a percentage of GNI, averaging at 13.8 percent since the 1990s. According to figures from the Institute of International Finance, China's total national debt to GDP increased from around 120 percent in 1997 to roughly 300 percent in 2019. This data indicates that the majority of China's debt is denominated in local currency. China's domestically financed production model attracted investments, helping to avoid the external 'debt trap' that countries like Sri Lanka have entered.

Figure 8: Sri Lanka and China Economic Growth Rates (GDP, annual %)



Source: World Bank Data.

Figure 9: Foreign direct investment, net inflows (% of GDP)



Source: World Bank Data.

3.1 The evolution of China’s development banking system

A key driver behind China’s development journey, especially since 1979, has been its extensive development banking infrastructure. For the first 30 years after its foundation, China had just one bank – the People’s Bank of China (PBOC). The PBOC functioned as a commercial and policy bank, leading to centralisation and financial repression (Chen and Vinson, 2016).

Reforms implemented in 1979 split some of the PBOC’s functions into three distinct entities: The Agricultural Bank of China (ABC), the Bank of China (BOC), and the People’s Construction Bank of China (PCBC) (Chen and Vinson, 2016). This reform introduced specialisation into the modern Chinese banking system, with the ABC focusing on agriculture, the BOC on foreign exchange and international business, and the CBC on infrastructure. In 1983, the PBOC was officially designated as a Central

Bank, making it responsible for regulating the country's infant banking system, and by 1984 the commercial functions of the PBOC were transferred to the Industrial and Commercial Bank of China (ICBC) (Chen and Vinson, 2016). The next round of development in the banking sector came in the 1990s when now-famous policy banks such as the China Development Bank (CDB), Import and Export Bank of China (CHEXIM), and the Agricultural Development Bank of China (ADBC) were established (Chen and Vinson, 2016).

By the late 1990s, China had all the elements of a modern banking system. However, the system was largely under the control of the state, which funnelled investment towards large SOEs, targeting high employment and long-term cash flow generating infrastructure development. The resulting high GDP growth was accompanied by non-performing loans (NPLs), reaching a ratio of 30 percent in state-owned banks (Chen and Vinson, 2016). Notwithstanding the relatively high NPLs, China's state-owned banks have played a crucial role in financing infrastructure development that has expanded market boundaries. Patient long-term investment financing is favourable for growth, reducing production and transaction costs (Lu and Zhang, 2020). Therefore, despite SOEs relying on loans from state-banks for their operations, the resulting investments have been crucial for the profitability of the private sector (Lu and Zhang, 2020).

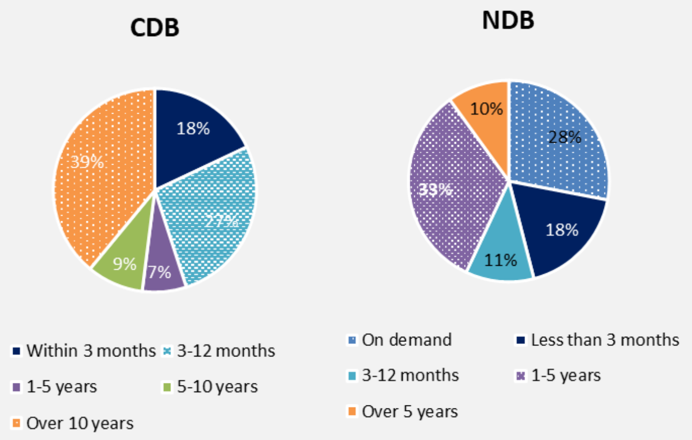
After the 1990s, active state intervention was required to formulate massive bailouts, restructure debt, and create asset management companies (Chen and Vinson, 2016). Despite periodic concerns over debt sustainability, the Chinese economy remained stable compared to the United States and European Union. Today, China is a net creditor and home to the four largest banks in the world. China's outward investment and lending has been a crucial surplus recycling mechanism, enabling developing countries like Sri Lanka to build infrastructure and reduce external financing costs.

Box 1: The case studies of China Development Bank (CDB) and National Development Bank (NDB)

In order to understand the difference in lending practices between China and Sri Lanka, it is useful to carry out a case study. We will look at the portfolios of state-owned China Development Bank (CDB) founded in 1994 and Sri Lanka's National Development Bank created in the 1970s but privatised in the 1980s.

The CDB's 2019 annual report shows that 39 percent of loans and advances to customers are over 10 years, considered long-term loans. In comparison, NDB's 2019 annual report shows that 33 percent of loans and advances are for 1–5 years. NDB does not even have a category for loans over ten years. This indicates a lack of long-term credit in Sri Lanka's return-oriented banking system, compared to China's development-oriented model.

Figure 10: Maturity period of loans and advances for CDB and NDB



Source: CDB Annual Report 2019, NDB Annual Report 2019

A sectoral breakdown of loans and advances in both banks is even more revealing. The leading sectors for CDB are urban renewal (26%) and road transportation (16%), while for NDB, the leading sectors are services (23%) and agriculture and fisheries (11%). This reflects the availability of credit for infrastructure development in China, compared to Sri Lankan banks' penchant for services.

On balance, CDB provides long-term credit to various infrastructure and productive sectors of the economy, while the NDB offers short-term credit to non-productive sectors. CDB empowers the real economy, while NDB is risk-averse and service-oriented. NDB's lending pattern is arguably the result of its privatisation and conversion to a commercial bank.

In summary, the different portfolios of the two banks reveal the ideological underpinnings of the economies of Sri Lanka and China.

Table 1: Bank's Assets Allocations -Sri Lankan and Chinese development bank

Loans and advances to customers by sector (China Development Bank, end 2019)	
Urban renewal	26%
Road transportation	16%
Electric power, heating and water production and supply	9%
Railway transportation	8%
Water conservation, environmental protection and public utilities	7%
Petroleum, petrochemical and chemical industry	6%
Urban public transport	6%
Manufacturing industry	5%
Mining industry	2%
Other transportation	3%
Financial industry	3%
Education	1%
Telecommunication and other information transmission services	1%
Others	7%

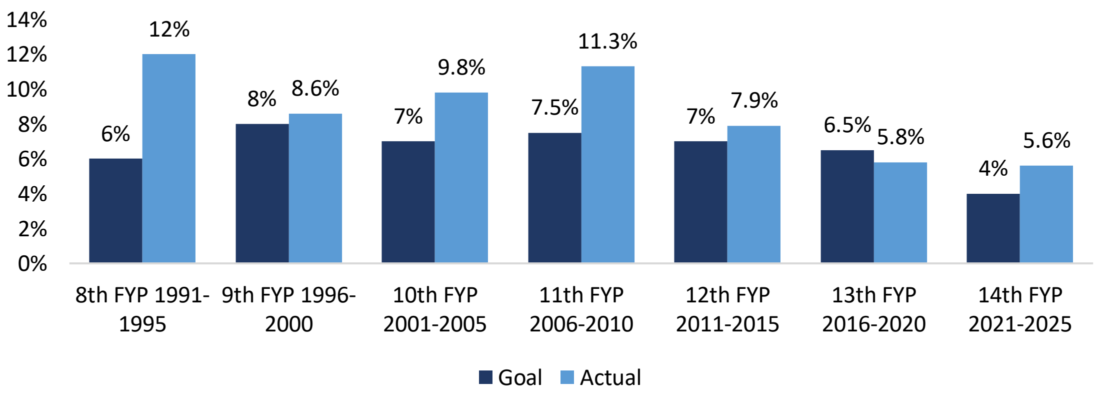
Loans and receivables to other customers by industry (Sri Lanka National Development Bank, end 2019)	
Services	23%
Consumers	10%
Agriculture, agro-business and fisheries	11%
Trading	9%
Constructions and housing finance	10%
Utilities	6%
Metals, chemicals and engineering	9%
Textiles and garments	6%
Hotels and tourism	5%
Food, beverages and tobacco	5%
Transport	3%
Wood and paper products	2%
Leather and plastic products	1%
Others	-

Source: NDB and CDB annual reports, Econsult Asia.

3.2 The role of the Chinese government in directing investment

China's ability to sustainably manage its debt is partially explained by its effectiveness in maintaining policy stability, setting out clear goals, and coordinating the public and private sector to achieve these goals. Figure 10 shows China's goals and actual achievements during the last seven five-year plans. In most cases, actual growth has comfortably exceeded the government's targets. By contrast, post-independence Sri Lanka never fully implemented its year-plans and has now abandoned planning altogether.

Figure 10: GDP growth goals in China's Five-Year Plans and the actual results



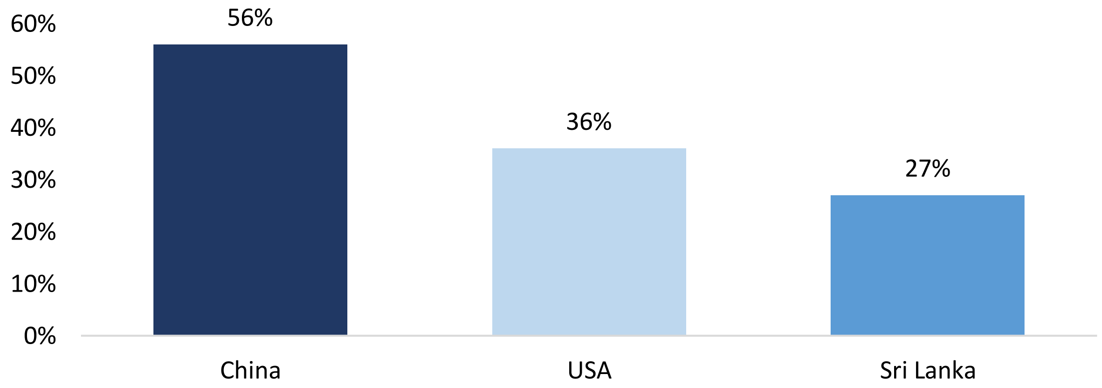
Source: KPMG.

Alongside a growing market economy, the Chinese state has only grown stronger as regulator and market players. Though pursuing reform and consolidation, China has never opted to wholesale privatise its SOEs, which continue to play a prominent role in the economy. Figure 11 shows the extent of government intervention in the Chinese economy, compared to Sri Lanka and the United States. Despite joining the World Trade

Organization (WTO) in 2001, China has closed strategic sectors closed to foreign investment and competition (Farrell and

Li, 2020). Incentives such as subsidies and tariffs induce investment in areas determined as strategic to advancing the country's technological and productive capacity. This policy mix complements the banking system by encouraging investment and securing the supply side of the balance sheet.

Figure 11: Government involvement in the economy (SOE turnover and state capital expenses as a % of GDP)



Source: World Bank, CBSL, Econsult.

Being the fourth largest country in terms of landmass and the largest in terms of population, it is unsurprising that local government plays an important role in all aspects of governance, finance, and investment. China's governance model incentivises growth for career advancement in the public sector. The Chinese Communist Party had around 22.3 million party members aged 35 years or younger as of 2019; at the local government level, this dynamism encourages competition for investment and other resources. This competitive and merit-based system delegates investment targeting to lower-level government officials with closer proximity to investment sites. Encouragement to spur growth and empowerment to raise their financing streams make Chinese provinces effective administrative bodies for development.

In the mid-1980s, Chinese local governments were encouraged to use credit streams rather than fiscal revenue to finance development (Lu and Zhang, 2020). Until about 1994, local governments were able to issue municipal bonds to finance development projects. Data from the Wind Financial Database shows that local governments contribute a lion share of total government investment. In 1999, 70 percent of investments came from local governments. This ratio has risen to around 90 percent by 2017 (Lu and Zhang, 2020). This tendency indicates that the central government has increasingly delegated its investment responsibilities to local governments, who are more in touch with the grassroots while enabling central authorities to focus on macroeconomics.

By clustering development projects into a portfolio, Local Government Funding Vehicles (LGFV) can raise funds for multiple complementary development projects with different rates of return and maturity profiles (Lu and Zhang, 2020). This process helps diversify risk and ensure return on investment that makes debt sustainable for local governments. Of course, this is not without risk, as shown by the crisis surrounding Evergrande which is a side-effect of incentives for local government to raise revenue through lease of land.

However, the dominance of SOEs, state-owned banks, and domestic financing in China ensures that occurrences like Evergrande can be managed without a Lehman Brothers style contagion collapse (Jim and Xu, 2021).

4. Sri Lanka's Development Story

In 1948, Sri Lanka, previously named Ceylon, achieved independence and inherited a predominantly raw material export-dependent economy, with just three agricultural raw materials: tea, rubber, and coconut (Kelegama, 2006). The country started with a solid foreign currency reserve amounting to 13 months of imports but lacked a modern manufacturing sector and a national banking system. Despite this head start, the first governments essentially continued the plantation economy, dismantling the few industries established by the British during the Second World War.

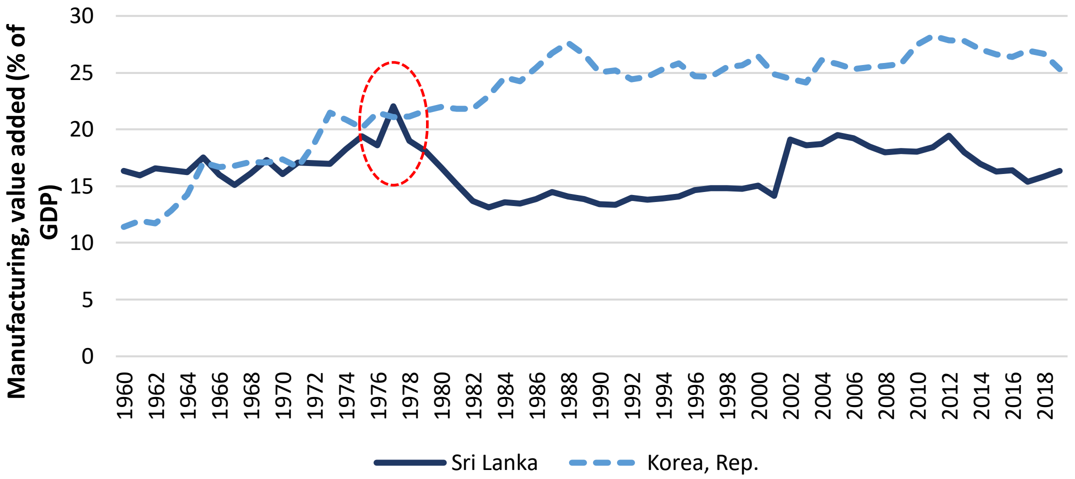
The need for a development bank, mainly to finance agriculture, manufacturing, and infrastructure, was recognised as early as 1934 by the Ceylon Banking Commission (Ramiya, 1935). This commission concluded that "the existing bank organisation with its nerve center thousands of miles away and whose management lacks touch with the population is unfitted to meet reasonable indigenous demand for credit." The authorities' recommendations were never fully implemented even after independence when the risk-averse private banking sector restricted itself to trade and merchant activity and neglected production. A report by the World Bank mission to Sri Lanka in 1953 also suggested setting up a development bank, though it advised against investing too heavily in industries (Lakshman, 1985). Development Finance Corporation of Ceylon (DFCC), the country's first national development bank, was set up in 1955[1].

In the decade after independence, deterioration in terms of trade applied pressure on the country's foreign reserves, forcing it to adopt import-substitution policies to boost domestic production while preserving foreign exchange (Lakshman, 1985). While aid from the Council for Mutual Economic Assistance (COMECON) and China introduced the first industries to post-Independence Sri Lanka, there was still a shortage of credit to stimulate private sector growth. In 1958, plans were mooted to set up a cooperative development bank to finance rural industrialisation, emulating aspects of the East Asian development experience. After some delays and watering down of the original proposals, the People's Bank of Sri Lanka – named after the Peoples Bank of China – was set up in 1961 (Meegama, 2008). The Bank of Ceylon, which was founded in 1939, was also nationalised.

Despite external challenges such as the 1970s energy and food crises, indigenous manufacturing increased under these policies. Unfortunately, data on China is not readily available for these years as the country was in the throes of the Cultural Revolution. Therefore, we have used the Republic of Korea – considered one of the four East Asian Tigers – for comparison. Figure 12 shows that by 1977, manufacturing contributed to 22 percent of Sri Lanka's GDP, compared to 16 percent a decade earlier – placing it on the same footing as Korea. Similarly, Figure 13 shows merchandise exports as a percentage of GDP increased during this development phase, even surpassing Korea.

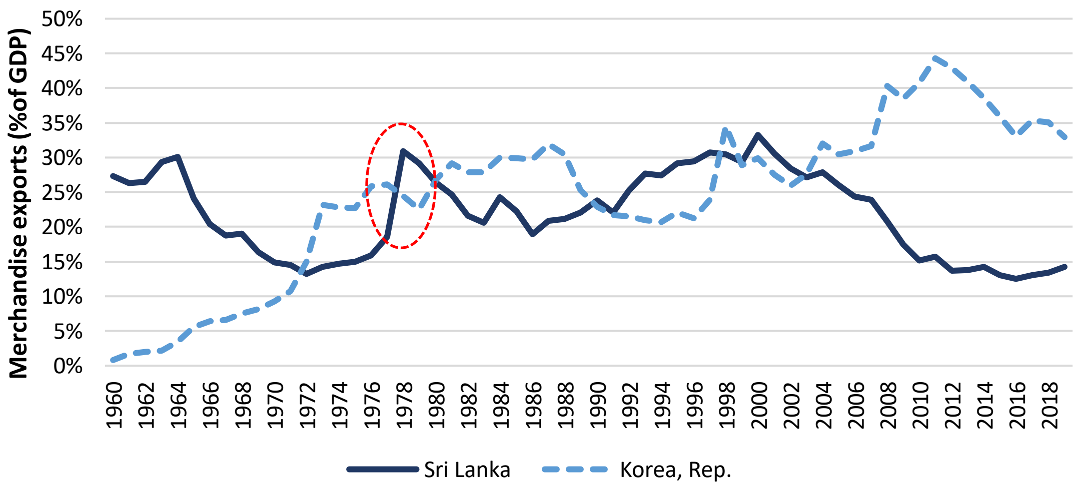
[1] https://www.dfcc.lk/history/

Figure 12: Sri Lanka's manufacturing contribution to GDP compared to Korea – an East Asian Tiger



Source: World Bank Data.

Figure 13: Merchandise exports as a percentage of GDP for Sri Lanka and the Republic of Korea.



Source: World Bank Data, Econsult.

In 1977, Sri Lanka abruptly changed its economic ideology and policy, choosing to embrace an "open economy". A "big bang" liberalisation of price controls, exchange controls, and subsidies led to a period of high inflation and the manufacturing sector's decline. By the early 1980s, the contribution of manufacturing to GDP declined and plateaued. The country adopted an IMF-recommended program of privatisation in the late 1980s. Development banks such as the National Development Bank (NDB) and the older DFCC were privatised despite their high profitability, at the behest of experts from multilateral institutions such as the IMF, which tied loans to budget surpluses. Now, these banks function as commercial banks, prioritising shareholder's interest over state development goals and face restrictive covenants placed by foreign lenders.

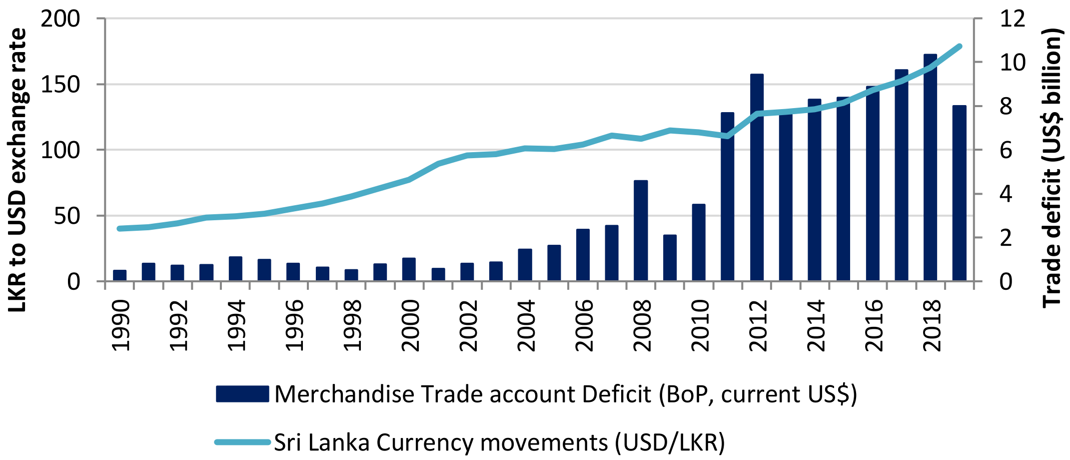
In contrast to China, Sri Lanka's process of "Opening Up" put a temporary end to the possibility of a domestically financed development agenda, forcing the country to depend more on concessional bilateral and multilateral lenders. This process essentially paved the way to an external "debt trap".

4.1 From multilateral borrowing to sovereign bonds

Sri Lanka procured its first loans from multilateral financial institutions in the mid-1960s; after that period, its external debt problem has only grown (Lakshman, 1985). Megaprojects such as the Mahaweli Development program to increase arable land, availability of water for agriculture, and capacity for hydroelectric power were financed through loans from bilateral partners and multilateral institutions like the World Bank (Kelegama, 2006). Sri Lanka has committed to sixteen different IMF loans since 1965. These include ten Standby Arrangement Facilities and six Extended Credit Facilities, amounting to a total borrowing of US$4.3 billion. Repeated attempts at IMF reforms have failed to solve the underlying problems in Sri Lanka's economy – namely the lack of domestic credit, production capacity, and an over-dependence on imports, from food to intermediary goods and capital goods (Lakshman, 1985). In 2018 alone, the country spent US$1.8 billion on currency interventions defending the rupee due to excessive imports (Central Bank of Sri Lanka, 2020).

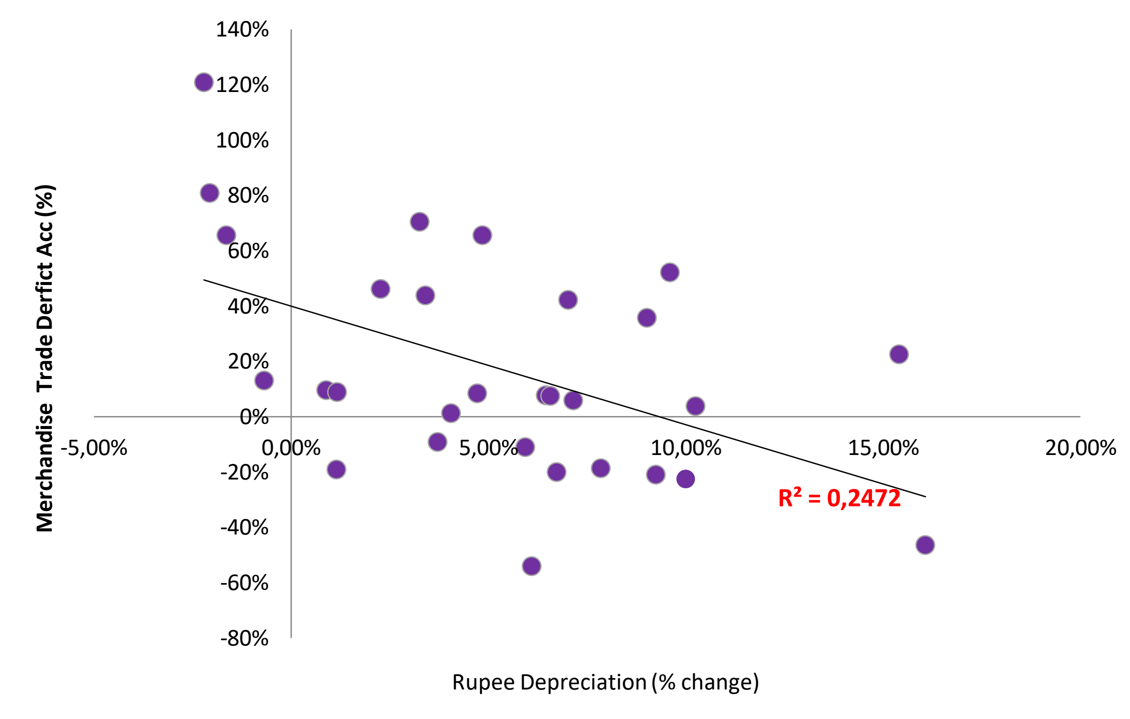
After the 1980s, in the absence of a national development banking system, a depreciating currency, and an ongoing Civil War, Sri Lanka resorted to funding its widening trade deficit from the IMF. Therefore, the country implemented many aspects of the standard structural adjustment program, including currency devaluation. Meanwhile, lending agencies like the World Bank and Asian Development Bank were relied upon to fund crucial infrastructure projects such as roads, ports, and energy production. In 2005, 50 percent of Sri Lanka's total external debt was owed to the World Bank and Asian Development Bank alone, while another 29 percent was owed to Japan, the leading bilateral lender at the time (Ministry of Finance and Planning, 2006). This debt structure is in stark contrast to China, which mobilised its own development banks to build infrastructure while maintaining a fixed exchange rate. Figure 14 tracks Sri Lanka's widening merchandise trade deficit since 1990, alongside the steady devaluation of the currency.

Figure 14: Sri Lanka trade deficit and rupee exchange rate, 1990-2019.



Source: World Bank data and Central Bank of Sri Lanka Annual reports.

Figure 15: Correlation between Sri Lanka's merchandise trade deficit and rupee exchange rate (US$/LKR) 1990 to 2019



Source: World Bank data and Central Bank of Sri Lanka Annual reports.

As Figure 15 shows, there is a correlation between Sri Lanka's merchandise trade deficit and the rupee's depreciation (a weaker rupee). This correlation could indicate that the country's trade deficit partially explains rupee depreciation. Sri Lanka's graduation from low-income to lower-middle-income status in 2009 meant that the country would eventually have to wean off multilateral and bilateral concessional loans. Therefore, Sri Lanka would have to access international capital markets for its fiscal needs from that year on, giving rise to USD exposure and, hence, greater exchange rates risk. In the relative absence of domestic financing streams, Sri Lanka prepared to begin issuing International Sovereign Bonds (ISBs) in the early 2000s. In 2005, Fitch Ratings and Standards and Poor's' were appointed to rate Sri Lanka, and two years later, the CBSL issued the country's first sovereign bond (Siriwardena, 2011). With a benchmark size of US$500 million, a maturity period of five years, and a fixed coupon rate of 8.25 percent per year, the issue attracted subscriptions amounting to 3.2 times the offer – US$1.6 billion from 136 investors around the world (Siriwardena, 2011).

Table 2 shows how ISBs fundamentally changed the debt dynamics of Sri Lanka. ISBs have grown to be the country's single largest debt burden, outweighing debt owed to multilateral institutions and bilateral partners. Between 2009 and 2019, Sri Lanka issued sovereign bonds amounting to US$17 billion (Central Bank of Sri Lanka, 2020). Of this amount, 70 percent was issued between 2015 and 2019, when the country underwent reforms under an IMF Extended Credit Facility and credit rating reviews.

Table 2: Sri Lanka's External Borrowings and ISB Issuance, 2007-2019

Year	Issuance	Outstanding ISBs (US$ Mn)	Total Foreign Debt (US$ Mn)	External Gov. Debt (US$ Mn)	ISB Share in Total FCY borrowings (%)	ISB Share in Gov. borrowing (%)
2007	500	500	16,483	11,744	3.0%	4.3%
2008	-	500	17,775	12,593	2.8%	4.0%
2009	500	1,000	20,913	13,769	4.8%	7.3%
2010	1,000	2,000	24,830	16,076	8.1%	12.4%
2011	1,000	3,000	28,851	18,508	10.4%	16.2%
2012	1,000	3,500	37,098	22,123	9.4%	15.8%
2013	-	3,500	39,905	22,290	8.8%	15.7%
2014	1,500	5,000	42,914	24,132	11.7%	20.7%
2015	2,150	6,650	44,797	24,681	14.8%	26.9%
2016	1,500	8,150	46,418	27,197	17.6%	30.0%
2017	1,500	9,650	51,604	31,355	18.7%	30.8%
2018	5,000	14,650	52,310	32,009	28.0%	45.8%
2019	4,400	17,050	55,916	35,377	30.5%	48.2%

Source: Ministry of Finance and Central Bank of Sri Lanka

According to data from the External Resources Department, by 2019, 47 percent of Sri Lanka's debt was owed to ISB holders, ten percent owed to Japan, an additional ten percent to China, two percent to India, and the remaining to multilateral institutions. Sovereign bond repayments make up around a quarter of annual debt servicing, and unlike bilateral and multilateral debt, they cannot be easily renegotiated or restructured. The payment structure of bonds can also pose a challenge to a debt distressed country due to principal payments at the time of maturity. US-based funds and banks hold a large portion of bonds.

4.2 Chinese development finance in Sri Lanka

In 2009, in the aftermath of a 30-year-old civil war, the government began tapping into China's rapidly increasing development finance. Between 2009 and 2018, Sri Lanka borrowed around US$7.8 billion to develop transport and energy infrastructure – about 9.3 percent of 2019's GDP. During this time, Sri Lanka maintained an average growth rate of 5.4 percent and an average gross capital formation of 31 percent of GDP. A report by the Ministry of Finance notes the importance of China as a leading development partner for Sri Lanka, dating back to at least 1971. "The funds received under loan assistance has been invested in high priority strategic development areas of roads, aviation, power and energy, highways, irrigation and ports," the report said (Ministry of Finance and Planning, 2013).

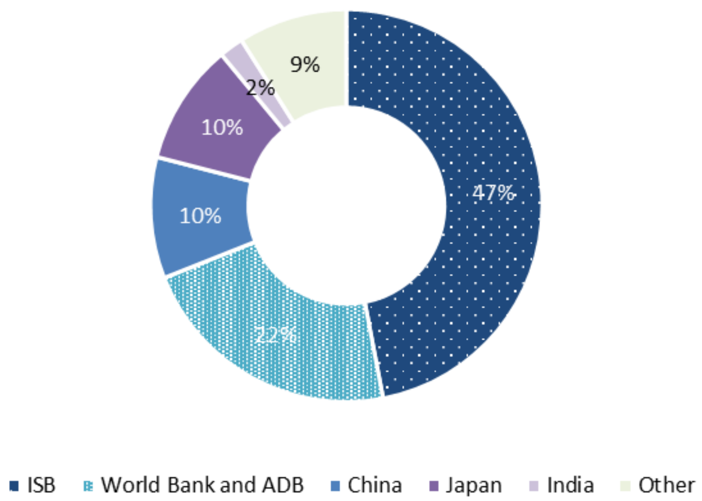
For developing countries such as Sri Lanka, China is seen as a desirable lending partner because of the availability of large scale finance, with less bureaucracy and no policy interventions (Dollar, 2016). Chinese finance is generally available at favourable terms, including lower interest rates, and within shorter processing periods compared to Western and multilateral agencies (Ministry of Finance and Planning, 2013). Despite some loans being tied to a contractor, these generally incur lower consultancy and contracting costs than the alternatives. Therefore, Chinese financing and investment tend to be more risk tolerant compared to Western lenders. Moreover, Chinese entities are more willing to provide patient, long-term credit and grace periods for ambitious infrastructure projects (Dollar, 2016). Chinese lending also demonstrates tolerance for countries that score lower in indexes related to ease of doing business and transparency, allowing countries to grow before undergoing political reforms (Dollar, 2016).

Sri Lankan policymakers view Chinese contractors favourably due to their good balance of speed, efficiency, and product quality. Additionally, they often finishing projects ahead of time, while engaging in extensive CSR activities benefiting local constituents. (Ministry of Finance and Planning, 2013). For post-conflict countries like Sri Lanka, which was desperate to develop after a three-decade war, China was the only available source of lending for long-term project financing and equity investments, especially at the height of the 2008 Global Financial Crisis.

4.3 Sustainability of debt to China

Previous studies on the sustainability of Chinese development finance in Sri Lanka have focused largely on the total composition of Sri Lanka’s outstanding debt (Hundlani, Kannngara, Panditaratne, and Wignaraja, 2020). Independent studies using official data conclude that the percentage of outstanding debt owed to China is not alarmingly disproportional. Sri Lanka’s debt to China only marginally surpasses its obligations to Japan and India. As noted by other studies, International Sovereign Bonds, the majority held by US-based fund companies, are the single largest source of Sri Lanka's debt – amounting to almost half of all outstanding debt, as Figure 16 shows.

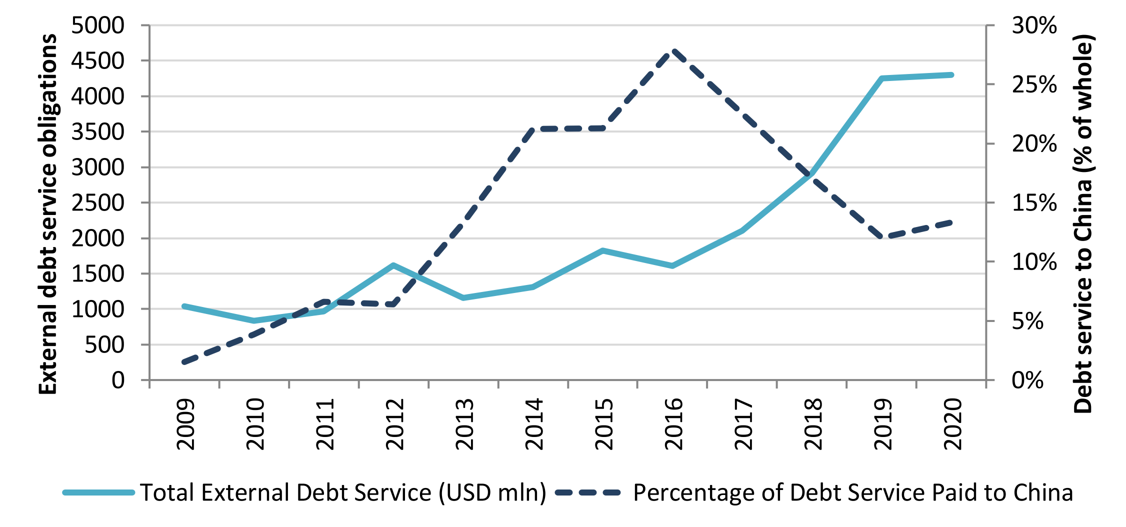
Figure 16: Composition of Sri Lanka’s external debt



Source: Department of External Resources, Sri Lanka.

Data from the Ministry of Finance shows that Sri Lanka has serviced US$3,542.2 million to three Chinese entities (namely, the EXIM Bank of China, China Development Bank, and the Govt. of the People’s Republic of China) between 2009 and 2020. For this period, the average external debt servicing to China was US$295.2 million per year, accounting for 14.7 percent of the total external debt servicing, which was an average of US$1,994.8 million per year. As a total sum, annual debt servicing to China grew from US$15.9 million in 2009 to US$103.6 million in 2012. The annual percentage of debt paid to China remained in single digits between 2009 and 2012, growing from 2 percent to 6 percent. As the grace period of the first major debt-financed infrastructure projects ended, this increased to 13 percent in 2013 and climbed to a high of 28 percent in 2016. The percentage of debt servicing paid to China has never exceeded 30 percent of the total in the past 10 years, and is currently on a downward trajectory, as seen in Figure 17. This data indicates that debt servicing to China is at sustainable levels.

Figure 17: Sri Lanka's annual debt servicing and the percentage allocated to Chinese debt



Source: Ministry of Finance, Econsult.

4.4 Policy framework for prudent external debt management

The current government policy for managing public debt is based on a two-pronged strategy: 1) to reduce high-cost future borrowing and instead finance development projects through foreign direct investments, i.e., equity, 2) to reduce the ratios of foreign to domestic borrowing and encourage more domestic financing (Rajapaksa, 2020).

On the fiscal side, the government has committed to cash flow management by import rationalisation to save foreign currency (Jayasundera, 2021), and stimulate the competitiveness of the productive domestic sectors, some of which may also be export-oriented. While the government's tax policy has come under fire by International Credit Ratings Agencies (Fitch Ratings, 2020), the Minister of Finance and Central Bank Governor have emphasised the need for such tax concessions as a form of fiscal stimulus to increase the size of the economic pie.

The government's National Policy Framework states that a key Macroeconomic policy is to, "Get rid of the debt-trap" while "promoting domestic investments, reducing import expenditures and raising export incomes." The policy aims at "promoting domestic resources based high value exports" and "expanding the export economy to new Asian destinations" (National Policy Framework Vistas of Prosperity and Splendor, 2020). Supporting this initiative is the creation of a National Development Banking

Corporation (NDBC) as proposed in the National Policy Framework and officially included in the government's Budget for 2021 (Rajapaksa, 2020).

Since the onset of the COVID-19 pandemic, the government has requested a Rapid Financing Instrument from the IMF to top up its foreign currency reserves (Chandrasena, 2020) The government has also pursued currency swaps amounting to over US$2.5 billion with India, China, and Bangladesh. The government has also managed to attract foreign investments including a US$ 300 million tyre factory in the Hambantota Industrial Zone (Board of Investment Sri Lanka, 2020) and a US$1 billion investment by local company LOLC in the Port City Colombo (Daily FT, 2020).

It is noteworthy that special economic zones such as the Hambantota Port and Port City Colombo, developed in partnership with China, are the main sources of foreign direct investment. This information indicates that investments in fixed infrastructure such as roads and energy production are starting to show returns. For example, Port City Colombo is projected to attract a total of US$13 billion during its construction stage, or about US$1.5 billion per year until completion in 2041 (PricewaterhouseCoopers, 2020). This project alone ensures a steady supply of foreign exchange to ease forecasted debt serving of about US$4 billion per year for the next four to five years.

5. Conclusion: What Sri Lanka can learn from China

Sri Lanka's privatised and risk-averse banking sector has failed to provide credit for production and infrastructure. Combined with a liberal trade regime, the country has experienced chronic merchandise trade deficits and, in turn, exchange rate depreciation. These are the structural causes of Sri Lanka's so-called "debt trap", which in reality is an external debt trap.

By contrast, China has developed a healthy, specialised, state-owned banking sector that has provided patient, long-term credit for infrastructure and manufacturing. While adopting markets to enhance competitiveness, China has ensured the continuation of planning and policy stability. Local production has led to high exports, revenue from which has helped China turn into one of the world's largest creditors.

We think Sri Lanka can learn four main lessons from China's development and debt management story. Of course, Sri Lanka cannot just mechanically copy China's institutions. However, Sri Lanka could incorporate come key principles and approaches as it seeks to manage its external debt and expand investment in strategic economic activities that can create jobs, and improve people's income and livelihoods, and propel growth.

State-owned development banking

Sri Lanka's lack of a state-owned Development Bank is an impediment to development, and it is arguably the main difference that sets it apart from China and the Asian Tiger economies. While state-owned banks are the most prominent players in Sri Lanka's financial sector, most– if not all– functions are similar to private commercial banks. Sri Lankan banks continue to be risk-averse and focus on providing dividends to shareholders, which has prevented long term capital formation – a characteristic of many East Asian success stories. A state-owned development bank, preferably a handful of them specialising in different sectors of the economy, is essential if the country is to reduce dependency on external borrowings.

Planning and policy consistency

Post-independence Sri Lanka adopted 5- and 6-year plans but targets were rarely met. Changes in government often led to the discontinuance of plans and the formulation of new ones. One of the country's most ambitious plans, the 10-year plan formulated in 1959, was never fully implemented. Following liberalisation, Sri Lanka has neglected planning institutions, with state oversight of the economy being restricted to the macro level via the Central Bank and Ministry of Finance. In this regard, Sri Lanka can learn much from China's well-researched planning methods and strict follow-through and implementation.

Decentralising government investment

Sri Lanka could emulate aspects of China's administrative decentralisation to target the right mix of regional investments that address local needs. Local government is often more in touch with ground realities and better equipped to evaluate the creditworthiness of regional infrastructure investments. The proximity between rural borrowers and local government officials may also help streamline the investment and capital formation process, compared to the dominance of a lender dominating the central government. However, since Sri Lanka is relatively small compared to China, centralised oversight and coordination must not be totally abandoned.

Project maturity and cash flow stress testing

Sri Lanka has often borrowed large sums for long-term investment at the cost of short-term cash flow. For example, the government that initiated the Mahaweli Program aimed to finish in 30 years. However, the new government at that time narrowed the timeframe down to six years, leading to massive deficits and significant foreign borrowings. Sri Lanka could therefore learn from China's Local Government Funding Vehicles, which mitigate risk by diversifying maturity profiles. Sri Lanka needs to manage the cash outflows caused by the trade imbalance and plough back savings into strategic, long-term, cost-reducing, and incremental revenue-generating investments.

References

Board of Investment Sri Lanka (2020). The Board of Investment of Sri Lanka signed an agreement with a leading Chinese Tyre manufacturer in the world. 16 December. Available at: https://investsrilanka.com/2020/12/16/the-board-of-investment-of-sri-lanka-signed-an-agreement-with-a-leading-chinese-tyre-manufacturer-in-the-world/ (Accessed 5 March 2021).

Brautigam D and Rithmire M (2021). The Chinese 'Debt Trap' Is a Myth. *The Atlantic.* 6 February. Available at: https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/ (Accessed 5 March 2021).

Central Bank of Sri Lanka (2019). Roadmap for Sustainable Finance in Sri Lanka. Colombo: Central Bank of Sri Lanka. Available at: https://www.cbsl.gov.lk/sites/default/files/Sri%20Lanka%20Sustainable%20Finance%20Roadmap%20FINAL%2008.04.19.pdf (Accessed 5 March 2021)

Central Bank of Sri Lanka. (2020). *Annual Report 2019*. Colombo: Central Bank of Sri Lanka. Available at: https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2019 (Accessed 5 March 2021)

Chandrasena C (2020). Sri Lanka requests emergency funding from IMF: New programme to replace EFF? *The Morning. 19* April. Available at: https://www.themorning.lk/sri-lanka-requests-emergency-funding-from-imf-new-programme-to-replace-eff/ (Accessed 5 March 2021).

Chang H-J and Grabel I (2004). *Reclaiming Development: An Alternative Economic Policy Manual*. London: Zed Books.

Chen L and Vinson S (2016). An Overview of the Chinese Banking System: Its History, Challenges and Risks. *Journal of Business and Economics*. 7 (10): 1613-1617.

China Development Bank (2020). *2019 Annual Report*. Beijing: China Development Bank.

Daily FT (2020). Browns and CHEC join forces for $ 450 m CIFC. 18 December. Available at: http://www.ft.lk/top-story/Browns-and-CHEC-join-forces-for-450-m-CIFC/26-710398 (Accessed 5 March 2021).

Das M (2016). *Life after Austeriry: Did Ireland Succeed and Greece Fail? A Modern Money Approach*. Senior Projects Spring Bard College 235. Available at: https://digitalcommons.bard.edu/cgi/viewcontent.cgi?article=1098andcontext=senproj_s2016 (Accessed 5 March 2021).

Dollar D (2016). *China as a Global Investor*. Asia Working Group Paper No. 4. Brookings Institution. Available at: https://www.brookings.edu/wp-content/uploads/2016/07/China-as-a-Global-Investor_Asia-Working-Paper-4-2.pdf (Accessed2 5 March 2021).

Farrell M and Li S (2020). The emergence of China, Inc.: behind and beyond the trade war. *International Journal of Emerging Markets.* 16 (4): 745: 764. Available at: https://www.researchgate.net/publication/341357034_The_emergence_of_China_Inc_behind_and_beyond_the_trade_war (Accessed 25 March 2021).

Fitch Ratings. (2020). *Fitch Downgrades Sri Lanka to 'B-'; Outlook Negative*. 24 April. Available at: https://www.fitchratings.com/research/sovereigns/fitch-downgrades-sri-lanka-to-b-outlook-negative-24-04-2020 (Accessed 25 March 2021).

Ghosh J (2021). Credit-Rating Agencies Could Derail Economic Recovery. *Project Syndicate*. 16 March. Available at: https://www.project-syndicate.org/commentary/credit-rating-agencies-could-derail-economic-recovery-by-jayati-ghosh-2021-03?barrier=accesspaylog (Accessed 25 March 2021).

Guzman M (2018). *The Elements of Sovereign Debt Sustainability Analysis*. Centre for International Governance Innovation. CIGI Papers No. 196. Available at: https://www.cigionline.org/sites/default/files/documents/Paper%20No.196web.pdf (Accessed 25 March 2021).

Heymann D and Guzman M (2015). The IMF Debt Sustainability Analysis: Issues and Problems. *Journal of Globalization and Development.* 6 (2): 387-404. Available at: https://martinmguzman.files.wordpress.com/2017/04/guzman-heymann-2015.pdf (Accessed 25 March 2021).

Hundlani D, Kannangara P, Panditaratne D, and Wignaraja G (2020). *Chinese Investment and the BRI in Sri Lanka*. 24 March. Chatham House Research Paper. Available at: https://www.chathamhouse.org/2020/03/chinese-investment-and-bri-sri-lanka (Accessed 25 March 2021).

IMF Communications Department (2020). IMF Staff Concludes Visit to Sri Lanka. 27 February. Available at: https://www.imf.org/en/News/Articles/2020/02/07/pr2042-sri-lanka-imf-staff-concludes-visit-to-sri-lanka (Accessed 25 March 2021).

IMF News (2016). IMF Adds Chinese Renminbi to Special Drawing Rights Basket. 30 September. Available at: https://www.imf.org/en/News/Articles/2016/09/29/AM16-NA093016IMF-Adds-Chinese-Renminbi-to-Special-Drawing-Rights-Basket (Accessed 25 March 2021).

Jayasundera P B (2021). Road Not Taken – Colombo Development Dialouge. Available at: https://www.youtube.com/watch?v=SJAv4ZJc97sandt=24sandab_channel=BiznomicsSriLanka (Accessed 30 March 2021).

Stiglitz J E (2002). *Globalisation and Its Discontents*. New York: WW Norton.

Jim, C and Xu J (2021). China asking state-backed firms to pick up Evergrande assets – sources. Available at: https://www.reuters.com/world/china/china-asking-state-backed-firms-pick-up-evergrande-assets-sources-2021-09-28/ (Accessed 1 October 2021).

Kelegama S (2006). *Development under stress*. New Delhi: Sage Publications.

Lakshman W (1985). The IMF-World Bank Intervention in Sri Lankan Economic Policy: Historical Trends and Patterns. *Social Scientist*. 13 (2): 3-19.

Lu T and Zhang B (2020). *Debt Sustainability and Debt Management: Lessons from China.* United Nations Conference on Trade and Development BRI Project No. RP5

Meegama A (2008). *Philip Gunawardena and The 1956 Revolution in Sri Lanka*. Colombo: Godage International Publishers.

Ministry of Finance and Planning (2006). *Annual Report 2005.* Colombo: Ministry of Finance and Planning.

Ministry of Finance and Planning (2013). *Annual Report 2012*. Colombo: Ministry of Finance and Planning.

Ministry of Finance. (2020). *National Policy framework Vistas of Prosperity and Splendour*. Available at: http://oldportal.treasury.gov.lk/documents/10181/791429/FinalDovVer02+English.pdf/10e8fd3e-8b8d-452b-bb50-c2b053ea626c (Accessed 25 March 2021).

Nicholas H (2017). *Sri Lanka Development Journey*. Available at: https://www.youtube.com/watch?v=jM1aw7Riacwandab_channel=SriLankaInc (Accessed 25 March 2021).

Ondaatjie A (2019). Sri Lanka's 24 billion debt obligation will cover its 2019 debt obligation. 8 March. Bloomberg. Available at: https://www.bloomberg.com/news/articles/2019-03-08/sri-lanka-s-2-4-billion-bond-sale-to-cover-19-debt-obligations (Accessed 18 October 2021)

Pan W (2015). *Behind China's Economic Miracle: The Coalition of Rural Collective Industries and Grassroots Authorities*. Beijing: Foreign Language Press.

PricewaterhouseCoopers. (2020). *Economic Impact Assesment of the Port City Colombo*. Colombo: PricewaterhouseCoopers. Available at: https://www.pwc.com/lk/en/assets/document/2020/Port-City-Report.pdf (Accessed 25 March 2021).

Rajapaksa M. (2020). Budget Speech 2021. November. Available at: https://www.treasury.gov.lk/documents/budget/2021/budget_speech_en.pdf (Accessed 25 March 2021)

Ramiya A (1935). The Ceylon Banking Commission. *The Economic Journal*. 4 (178): 378-382.

Li S and Farrell M (2020). The Emergence of China Inc: Behind and Beyond the Trade War. *International Journal of Emerging Markets.* 16 (4): 745-764.

Siriwardena C (2011). Sri Lanka Steps into International Capital Markets. Available at: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/otherpub/60th_anniversary_sri_lanka_steps_into_international_capital_market.pdf (Accessed 25 March 2021).