From Exports to Logistics: Transformations of the Productive Bases of the Sri Lankan Economy

Devaka Gunawardena[1]

Over the past several years, mainstream policy analysts and think tanks in Sri Lanka have promoted the logistics industry, while demanding a deeper commitment to the market-driven restructuring of the state and society.[2] This viewpoint is taken up by leaders in the current administration as well, including the Prime Minister (Dissanayake 2017).

Logistics refers to transporting and storing goods along a supply chain. Analysts believe that Sri Lanka's 'strategic position' as an island enables it to become a logistics hub, primarily via shipping in the Indian Ocean. This supposedly natural fact is part of an economic discourse that prioritizes certain industries over others, with severe implications for people's livelihoods, especially those working in agriculture and fisheries who continue to suffer neglect.

More importantly for the purposes of this essay, the sudden turn to logistics ignores limits inherent to the neoliberal regime of export industrialization. The government led by JR Jayewardene that came into power in 1977 shifted from the post-independence policy of import substitution to encouraging private enterprises to produce exports for the global market. The new policy was accompanied by the retreat of public investment, eliminating a key source of government revenue by offering tax concessions to private business.

In the case of the Export Processing Zones (EPZs), most of which were established on the western coast, enterprises operate mostly unhindered by the enforcement of labour laws, although they are technically subject to the rules and authority of the Board of Investment (BOI). The justification for the policy regime was the belief that foreign investors would come to Sri Lanka and introduce technologies and trade networks, thus creating jobs for people in new industries. This shift intersected with the state's increasing reliance on external debt for mega infrastructure projects.

The balance sheet of the neoliberal export regime shows, however, that it has not been able to diversify Sri Lanka's industrial base to create a sustainable economy.[3] Most manufacturing exports are still garments, which, just like tea before it, has become synonymous with Sri Lanka's dependent economy. Most of the major garment firms operating in EPZs are Sri Lankan-owned. Over the past several decades, they have reaped the benefits of tax concessions and trade advantages enabled by the quota system, which improved access to Northern markets.

These firms did not reinvest capital in new industries. The reason is that they could take advantage of depressed wages, relying on cheap labour to maintain profit margins. More recently, because of the expansion of the garment industry in places such as Ethiopia, Bangladesh, and Cambodia, Sri Lanka's relatively higher labour costs are considered disadvantageous. As a result, the number of jobs in enterprises operating under the BOI's jurisdiction has stagnated.

Analysts propose logistics as an all-encompassing solution to these problems. Their inability to question the neoliberal model means that they do not acknowledge that the private sector-driven strategy to produce exports for the global market affects logistics' potential. It is argued, for example, that Sri Lanka must further liberalize trade because Trade-to-GDP and Export-to-GDP ratios have been falling (Wijesinha 2016). Excluding public intervention into the economy, especially in the form of industrial planning, however, undermines diversification. How will logistics develop if the industry simply relies on Sri Lanka's geographic position for trans-shipments to India? What is Sri Lanka's industrial base for leveraging the supply chain?

In addition, analysts do not articulate the kinds of jobs the proposed expansion of logistics would supposedly generate. When Jayewardene initiated the EPZ regime, his and successive governments attempted to legitimize their strategy by arguing it would create employment for rural folk struggling with the rising cost of living. The assumption of the current rhetoric is that people with "skills and education"—meaning, the English-speaking urban middle class—will benefit from the turn to logistics. Analysts do not explain the mechanisms by which the industry will generate secure employment for all.

These blind spots are less surprising in the context of the prevailing ideology. Ultimately, mainstream analysts and think tanks use the rhetoric of logistics to argue for changes that they would like to see: trade liberalization, privatization, financialization, and, of course, 'labour flexibility,' or dismantling legal protections for workers. Their wish list cannot hide the fact that the proposed logistics-driven economy would likely produce few tangible benefits for most Sri Lankans.

In this essay, I attempt to demonstrate why the scope for logistics to transform the economy is limited, especially in the context of the global economic downturn after the financial crisis of 2008. I conclude by redefining logistics as a question about the reconfiguration of class, engaging studies of labour in the global North from the perspective of the South, and creating space for an alternative to neoliberal policy.

The State of the Logistics Industry

It has been pointed out that the logistics industry has achieved an impressive rate of growth over recent years, over and above the average Gross Domestic Product (GDP) rate (Daniel 2016). The question is, how will logistics transform the economy, and what kind of growth would be required to achieve this goal. The annual growth rate of an industry does not explain much unless we examine its interface with the rest of the economy. To address this question, in this section, I briefly discuss the impact of logistics from the viewpoint of the Sri Lankan multinational corporation.

Much of the rhetoric about logistics is based on abstractions, but we can break down the statistics at the firm level to get a better sense of the potential changes the industry entails. The Colombo Stock Exchange (CSE) does not have a separate listing for logistics companies, but several major corporations listed under 'Diversified Holdings' have logistics divisions. Based on a modified list of these companies and the annual revenue generated by their logistics divisions, we can produce the following table:

Figure 1

Rs. Mn.	Aitken Spence	Expolanka	Hayleys	Hemas	John Keells	TOTAL
2011/12	5,663	19,570	5,285	642	22,604	53,764
2012/13	5,743	32,183	11,343	1,101	25,113	75,483
2013/14	6,795	34,951	11,936	1,540	21,796	77,018
2014/15	7,519	40,650	14,181	1,518	20,114 [4]	83,774
2015/16	8,040	46,666	15,812	1,800	16,830	89,148

If we look at year-over-year growth, aside from FY 2012-13, when there was a 40% increase, Expolanka having launched its Initial Public Offering the year before, the average growth rate for the companies' combined logistics divisions over the past several years has been far more modest, under six percent. This rate alone does not justify the belief that the logistics industry is expanding rapidly enough to transform the entire economy. Despite the limited timeframe based on data from annual reports available online, we can infer the potential of logistics when combined with analysis of company reports.

The reports highlight several major operations of logistics divisions, of which, for the purposes of this essay, I will focus on ports and shipping and Third Party Logistics (3PL). In the case of ports and shipping, major Sri Lankan corporations own and operate several container terminals in the Colombo port, which handles the overwhelming amount of shipping via Sri Lanka. One manager notes that 80% of the volume of the Colombo International Container Terminal, for example, is trans-shipment cargo, the majority of which proceeds to India (Oxford Business Group 2016).

In contrast to policy analysts who believe Sri Lanka can become a 'maritime hub' competing with Dubai and Singapore, the reality is that it is more like an appendage of India. Even in this case, shipping is under pressure because on the one hand Sri Lanka depends on growth in the Indian market, but on the other hand there is a competitive process of upgrading ports in India as well.[5] The private sector has not explained sufficiently how Sri Lanka can capitalize on this niche, given that companies in general prefer direct shipping to trans-shipment (Peck 2014).

In addition, reports reveal that for the past several years logistics divisions have experienced stress because of the downturn in global demand linked to the financial crisis of 2008. Major shipping magnates such as Maersk (with which John Keells has an associate stake in Colombo Port's South Asia Gateway Terminal) and Hanjin have endured negative balance sheets or even gone bankrupt and require restructuring because of the shift in demand (Dias 2016). As a recent Aitken Spence report puts it:

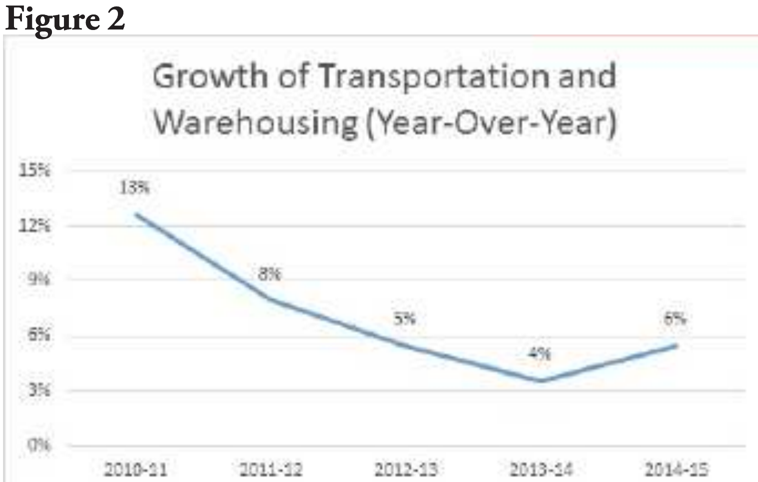
> The shipping industry is facing a major crisis due to the drop in cargo movement, over capacity arising from a large number of ships being built far outweighing demand, and a drop in freight rates on all sectors severely hampering the profitability of lines. All major shipping lines have thus been under pressure and consequently, mergers and acquisitions are rife in the market with stronger players buying over weaker lines and other shipping lines opting to merge to remain competitive…The bleak environment has resultantly put pressure on the businesses of the maritime services sector with shipping lines pushing agencies to reduce costs and commissions; pressurising ports and other service providers to reduce their tariff and charges, sometimes even avoiding calling ports where port charges are high, and reducing staff cadre thereby restricting the opportunities for cadets to join ships (2016, p. 75).

A Hayleys report further notes the "prolonged decline in global freight rates" (2016: 112). Sri Lankan logistics divisions' relatively modest growth rate is affected by overcapacity in the global economy combined with the effects of economic crisis (Brenner 2006).

A second operation of logistics divisions, supposedly with long-term growth potential, is Third Party Logistics (3PL). 3PL refers to enterprises that take over end-to-end functions of the supply chain, from inventory to preparing goods for markets. In the case of Sri Lankan corporate divisions, they are fundamentally constrained by relative growth in exports. As an Aitken Spence report notes, "The demand for traditional import/export logistic services is inextricably linked to the fortunes of the manufacturing sector, which in turn requires a stable policy environment to grow" (2015, p. 87). Given that Sri Lanka's industrial base has not diversified and expanded, it is unclear how logistics-centred firms will radically improve the country's location in supply chains designed primarily for garments.

These trends impact job creation. While the top companies listed on the CSE account for a relatively small portion of transportation and warehousing's overall contribution to GDP, theoretically they would be the best positioned to consolidate the market.

Figure 2



Source: Calculated from data available in Central Bank of Sri Lanka *(2015).*

The rate of profit in transportation and warehousing in Sri Lanka, however, does not seem to justify investment beyond a small cluster of logistics operations, including joint ventures in foreign ports. The five companies mentioned previously employ less than 10,000 people in their combined logistics divisions, most of whom are men. In comparison, BOI enterprises employ just under half a million people, the majority of whom are poorly paid women, which further reveals gender disparity at the heart of the neoliberal economy.

Logistics is located at the intersection of global demand and Sri Lanka's industrial capacity. Without the inter-linked expansion required in both, it is highly doubtful logistics can generate the employment necessary to justify analysts' current obsession with

Sri Lanka's potential as a hub. Analysts who point to abstract statistics about the average growth rate of the logistics industry, or the service sector in general for that matter, do not explain concretely how the Sri Lankan corporations supposedly leading this push will create good jobs for ordinary people struggling to survive.

The Limits of the Garment Industry

To understand why industrial production for exports remains concentrated in garments, we must analyse the trajectory of the neoliberal regime. As mentioned previously, garment companies reap profits on the backs of people whose wages they force down to stay competitive. There has not been a plan to reinvest profits in new industries. There is, however, an alternative capitalist approach to export promotion that provides a useful contrast to neoliberal policy.[6] Chibber (2009) argues that in the case of the relatively successful regime of export industrialization in South Korea, the state intervened by coordinating between the chaebols, or family-owned conglomerates.

The state's strategy depended on investing a significant amount in research and development while pursuing land reform to change the structure of agrarian property relations. While South Korean companies also relied initially on cheap labour, they had to confront a militant labour opposition that forced them to innovate, including using technology to increase productivity. Finally, South Korea was protected by the US Cold War defence apparatus and benefited from trade connections with Japan at a critical point in the recovery and transformation of the global economy soon after the devastation wrought by World War II.

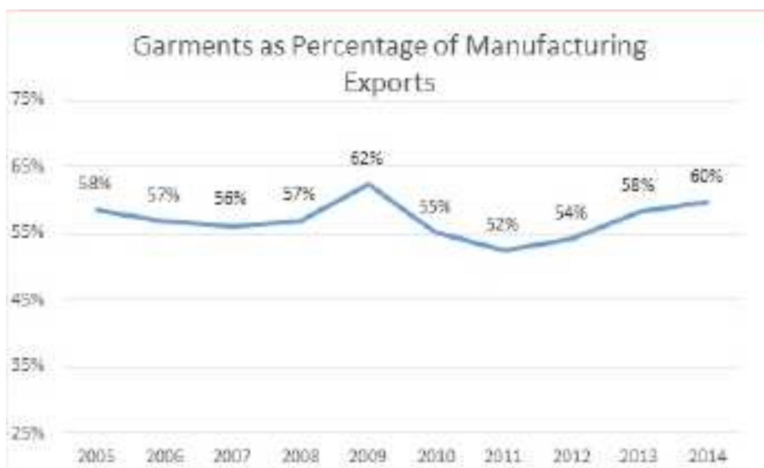
In contrast, Sri Lanka's latecomer approach to exports in the late 1970s was based on the emerging neoliberal imperative that the state must disengage from the economy. The country had a difficult experience with import substitution under previous governments because of declining terms of trade for importing the intermediate goods required to produce light goods in a small-scale economy. In addition, there was a global decline in prices for primary products, including tea and rubber, during the global economic crisis in the early 1970s (Deraniyagala and Fine 2001). Both these trends squeezed the balance of payments.

The government led by JR Jayewardene that came into power in 1977 contrasted itself with its predecessors by promising to create an 'open economy'. The reality is, however, that the model of import substitution also accepted the underlying market system of exchange. Nationalized industries continued to operate on a for-profit basis, thus engendering networks of patronage and class stratification in the bureaucracy, controls were imposed at the point of consumption rather than production, and the local bourgeoisie was subsidized.[7]

Though outside the scope of this paper, it would be useful to investigate whether Sri Lankan industrialists who may have benefited from trade protections under the old regime endorsed neoliberal policy because they could obtain tax concessions to produce exports under the new regime. Neoliberal policy, by rejecting industrial planning outright, left enterprises to their own devices. It expected the *deus ex machina* of 'foreign investment' to create the networks and expertise necessary to overcome technological barriers of entry to producing more advanced products.[8]

The results after nearly four decades of this regime, however, are plain to see in Sri Lanka. Garments have remained consistently above 50% of manufacturing exports over the past decade alone:

Figure 3



Source: Calculated from data available in Central Bank of Sri Lanka *(2015).*

In addition, there is even greater competitive pressure on the industry as places with cheaper labour such as countries in East Africa and Southeast Asia enter the global supply chain. The Sri Lankan garment industry asserts its continuing relevance based on two conditions: 1) Quota systems such as the recently regained Generalized System of Preferences (GSP+) for the European Union, which improve access to Northern markets, and 2) Sri Lanka's branding as the primary regional destination for ethical buyers and brands.

In the case of the first point, the idea of offering preferential access to markets for industrializing countries has been undermined by the global economic crisis, and the resurrection of protectionism by far right populists that potentially enables powerful states to impose trade barriers. The European Union is itself based on inequality between rich and poor countries within the union, which has been exposed by the harsh austerity imposed by its institutions on countries such as Greece, Portugal, and Spain. The quota system hinged on the idea of levelling inequality by easing duties on categories of exports from industrializing countries. This framework may soon collapse under the weight of contradiction if Northern voters become frustrated with what they perceive to be Southern countries' ability to compete 'unfairly' by exploiting cheap labour.

Secondly, Sri Lanka's branding as an ethical destination for garment exports means producing for increasingly compartmentalized niche markets, such as technically designed body wear and fast fashion. These markets theoretically have a higher barrier of entry for garment-producing countries because major brands require rigorous forms of inspection such as audits, in addition to shorter lead times resulting in the intensification of work.[9] The demand for inspection has enabled Sri Lankan garment enterprises to achieve stronger vertical integration to negotiate with large buyers. Nevertheless, they have not built the necessary links with other industries to move out of light industry, especially by investing in riskier businesses that require access to resources that only a much larger scale organization—the state—can provide.

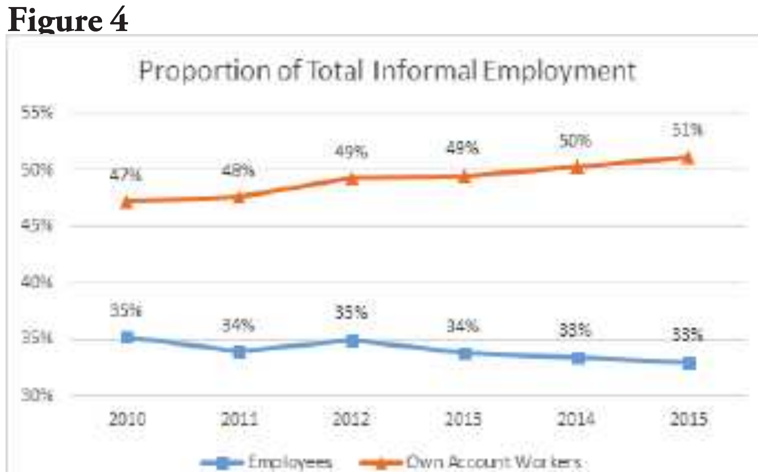
In both cases, Northern benevolence and private philanthropy cannot ensure rising living standards for garment workers in a competitive global industry where ultimately cheapest is best. The effects of the outright rejection of industrial planning as an illegitimate form of state intervention have become all too clear in Sri Lanka's failure to diversify production, even within a capitalist framework.[10] To return to the primary argument of this essay, superficial appeals to logistics do not reckon with the outcome of the neoliberal export regime. Instead such rhetoric ignores the fact that logistics-driven companies develop competence and expertise by participating in a complex, differentiated industrial system, which forces us to ask why this process has not occurred in Sri Lanka.

The Impact on the Working Class

Looking forward, there are intersecting trends in the informalization of work and livelihoods that will likely shape the logistics industry's impact on people. Mainstream analysts and think tanks demand labour flexibility, which means employment taking on increasingly casual characteristics, widening the scope for employer domination (Gunawardena 2015). This is what scholars in the North refer to as 'precariousness'. In Sri Lanka, it is epitomized by the expansion of manpower agencies across a variety of different industries. These changes result in the degradation of workers' control over the organization of the workplace.

More relevant to the question of generating employment in Southern countries is the fact that people are often forced to rely on a particularly severe regime of informal work, further requiring us to disaggregate the concept of precarity (Breman 2013).[11] Theoretically if mass employment was expanding, the ratio of formality to informality would increase as formalized employer-employee relationships crowd out informal work. Instead, the 40/60 split has remained basically the same over the past decade. In addition, there has been a subtle inverse trend in the share of the self-employed versus employees of total informal employment over the past five years:

Figure 4



Source: Calculated from data available in The Sri Lanka Labour Force Survey, Department of Census and Statistis 2010-2015.

While the share of employees participating in the informal sector has declined very slightly, accounting for just a third of the total, the self-employed have increased their share to over half. This paradox is expressed in people's lives. In the absence of jobs that can sustain households, many people are forced to rely on income from informal work, including trishaw drivers, tourist touts, and day labourers in industries such as construction. In addition, special attention must be focused on the gendered division of labour, especially unpaid household work often done by women.

The question of the relationship between formal and informal work is operationalized in economic growth's impact on the creation of jobs. Further research needs to be done to explore the effects of the capitalist economy on people's lives, but the celebratory rhetoric about logistics overlooks the difficult circumstances of ordinary people who do not enjoy the benefits of the industry's limited success. They are trapped by the informalization of livelihoods.

Furthermore, changes in the logistics industry may lead to the reconfiguration of the working class. Broadly speaking, scholars use the concept of outsourcing to refer to related yet different processes that impact the organization of firms. Two trends, subcontracting and offshoring, are often conflated. In the case of subcontracting, as mentioned previously, garment buyers require vertical integration, which restricts the output of household enterprises to the domestic market. Offshoring on the other hand has more scope to expand. Sri Lankan corporations are helping start factories in other countries to take advantage of cheaper labour, contributing to the global consolidation of the garment industry (Montlake 2011).

Outsourcing, especially offshoring, could potentially affect the prioritization of segments within the working class. Although it is highly unlikely that workers in logistics will overtake the number of people working in manufacturing, they could assume an important role in future struggles (Brooks and Moody 2016). The question is how their struggles respond to capitalist priorities, including newly announced Public Private Partnerships (PPPs) in places such as Hambantota port, especially considering last year's port workers' strike.

In the case of the private sector, Sri Lankan corporations may have competitive advantages in their respective industries, but the question is how these dynamics manifest in tax revenue and job creation. If companies invest abroad, they can easily evade enforcement by setting up tax havens. In addition, downsizing is a standard component of mergers and acquisitions, which again means it is highly doubtful the jobs created would outpace their decline in domestic enterprises.

To respond to these challenges, organizations rooted in the working class can build links between struggles by bringing back industrial planning and demanding its effective implementation by democratically accountable institutions within the state. Sri Lankan corporations have not necessarily built connections with each other across industries. While some enterprises have diversified their operations across areas such as logistics, tourism and leisure, plantation exports, and financial services, they do not integrate these activities into a plan for the entire economy. This process requires looking from the strategic vantage point of the state.

Conclusion

Only a collective agency broadly conceived that includes working class struggles can put the question of redistribution back onto the agenda, including making corporations pay their fair share to fund public investments in necessary commodities and services, along with implementing a plan for a longer time horizon. Given the cracks that have appeared in neoliberal globalization, including the recent political backlash against inequality in Northern countries, the question of *how* Sri Lanka, or other countries in the global South for that matter, are integrated into the regional and global economy is no longer off the table. In addition, who constitutes the working class must be articulated as a research question, along with consolidating its organizations vis-à-vis a political programme.

Regarding ideological opposition, Sri Lanka's mainstream analysts and think tanks, rather than explore the question of diversification in the context of global economic crisis, or the mechanisms by which growth generates employment, have used the rhetoric of logistics to advocate solutions they assume in advance are correct. They do not ask open-ended questions, even within a capitalist framework, about limits inherent to the neoliberal regime of export industrialization, even though its trajectory directly contradicts their argument: the decades-long decline of government expenditure as a proportion of GDP, the turn to external debt to fund mega infrastructure projects, and the resulting debt squeeze (Kotelawala 2016).

Neoliberal ideology forecloses alternatives by insisting on tone-deaf proposals to do more of the same: liberalize, privatize, financialize, and remove protections for workers. By pushing back against the epistemic authority of experts, however, hopefully we can create a much broader space for people to debate their needs and priorities in the new economy (Mitchell 2002).

Notes

1 I thank the anonymous reviewers and the editors of Polity for their comments and encouragement in the process of revising this article. All faults are my own.

2 I am thinking here of think tanks such as the Pathfinder Foundation, Institute for Policy Studies, and Advocata Institute, along with a network of experts and consultants who consider themselves the economic policy making vanguard in Sri Lanka.

3 Admittedly, the fundamental assumption of neoliberal export policy is that a country's comparative advantage in a relatively narrow set of products would enable it to generate the foreign exchange necessary for imports. Considering the competitive dynamic at the heart of the capitalist system, however, a country's economy must be able to develop capacity in new industries to maintain its edge.

4 There is a discrepancy between the John Keells Annual Reports 2014/15 and 2015/16 in terms of the total revenue recorded for its logistics division in 2014/2015. The table includes the higher number indicated in the 2015/16 report.

5 Weerakoon and Perera offer a useful analysis: "However, Colombo port is likely to face stiff competition, particularly from India with

its planned investments in port infrastructure. To mitigate the loss of cargo to Indian ports and other competitors, Sri Lanka will need to lower the charges on trans-shipment cargo and upgrade the port to a free port, i.e., enable port users to operate without additional charges other than port handling and rent or lease charges. This was announced in July 2013, as part of a policy decision to designate four ports, including Colombo, as free ports, to lure foreign investment by extending attractive tax incentives to port users. However, such concessions need to be balanced against the need to repay foreign loans obtained by the GOSL [Government of Sri Lanka] to develop port infrastructure" (2014, p. 17).

6 I thank Ahilan Kadirgamar for drawing my attention to this point.

7 Issue No. 25 of Jacobin magazine offers a useful overview of old and new Latin American responses to this challenge. There has been a debate in Sri Lanka that draws from the tradition of dependency theory developed in that region. See especially Ponnambalam (1981) and De Silva (2010). Herring (1987) also identifies the fundamental international constraints on Sri Lanka that blunt the neoliberal critique of post-independence governments' policy decisions, especially those that managed to improve living standards.

8 By the late 1980s, for example, an analytical report on multinational corporations in developing countries by consultants to the International Labour Organization argued that the EPZ regime is an inverted expression of German economist Friedrich List's protectionist defence of infant industries, foreshadowing a new paradigm of development (ILO 1988).

9 While buyers exercise financial (as opposed to managerial) control over the supply chain, they rarely address workers' economic plight, instead focusing on ensuring the quality of products.

10 For the case of India, see Patnaik (2014).

11 I thank Purnima Mankekar for helping with this distinction.

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