

Reforms in Sri Lanka

Emerging Trends in Elite Politics

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In times of volatility, elite groups try to stay relevant and increase their relative power. The conditions under which bargains and increased competition among elite groups happen, help understand the country's economic and democratic trajectory, and what options are available for progressive interventions. An analysis of various elite groups' responses to domestic debt restructuring, labour law reforms, anti-corruption, and a new counterterrorism act reveals patterns in terms of shaping the outcomes and impact of these reforms.

Sri Lanka is on the verge of becoming a poster child of International Monetary Fund (IMF) reforms. The country's inflation has dipped to a single digit after two years, being one of the highest in the world a year ago (Ondaatje 2023). At a time when many Asian, African, and Latin American (peripheral market) countries are facing severe economic and balance of payment stress and are likely to seek IMF bailouts sooner or later, such narratives of success or failure are important to these countries (Reuters 2023). They are also important to international financial institutions (IFIs) such as the IMF, who are champions of eliminating price controls, deregulating capital flows, and dismantling trade barriers, what is often called the "neo-liberal agenda."

At a different level of the same play, the local implementation of these IFI-led reforms by groups of local elites with access to state power does not always align with the intentions of a global agenda of neo-liberalism. IFIs are not always well-intended players whose intentions get hijacked by local elite power plays; rather they remain active enablers of state coercive power and passive commentators of its abuse.

Local elites that implement these reforms try to consolidate their power by elbowing out other elite groups and gatekeeping new competitors. In implementing reforms, these elites externalise the costs of debt and reforms to a wider and less-powerful section of society. The post-COVID-19 economic stress that led to the debt crisis and mass protests have led to a policy window that those in power use to push through reforms in a heightened frenzy. How elite contestations play out define the way in which reforms are going to benefit a larger section of society, or be democratised.

Elite politics involve a degree of competition, which is how elites try to elbow out their competitors or ring-fence themselves with privileges. However, there are

also moments when elites reach a consensus or "elite bargains" when they see it is in their self-interest to come to a working agreement, when they realise either they cannot benefit further, without opening up for further competition and innovation, or when they realise that without a bargain, it is impossible to prevent a future elite from challenging the prevailing order (Nye 2011). The perceptions of the elites may sometimes be based on false reading of the situation too. However, the most significant failure probably arises from an elite group's inability to preserve its long-term "class" interests. Elites find themselves legitimised as long as the system maintained by them creates a specific "public good" (North et al 2009).

Mapping Elite Groups against Reforms

In this article, we identify key elite groups which have strong relevance to the ongoing reform process. There are four categories of actors we look at. There is a significant overlap between these groups, and they respond to reforms in different and complex ways. While there can be long-lasting alignments among some groups of elites, other intra- and inter-elite group alliances are formed based on issues.

The first and possibly the most powerful group is the political elites in power, the opposition (often considered the government-in-waiting), and those who challenge the above two alternating elite blocs. These elites organise the people through political parties, using a combination of ideological narratives and patron-client relations (by way of various welfare schemes and privileges).

A second group of elites is foreign governments, international financial institutions, and multilateral agencies. These geopolitical actors influence national policies to derive desired outcomes in accordance with their geopolitical, commercial, and ideological interests.

Another group of actors is interest groups such as civil society, trade unions, chambers of commerce or industries, etc. These groups generally maintain demands for fair play, welfare, and/or competition.

The rent-seeking clients of the regime are another small and powerful group. They come from among the businesses

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Figure 1: Elite Groups in Sri Lanka

Ruling political elite	UNP	SLPP	SLFP			
Opposition political elite	SJB	FPC	ULS	Independents		
Minority political parties	TNA	TPA	CWC	EPDP	ACTC	SLMC, APMC
Political party challengers	NPP					
Foreign governments	US	India	China			
International financial institutions and multilateral bodies	IMF	World Bank	ADB			
International economic actors	MNCs	ISB Holders				
Domestic economic actors	Import lobby	Export lobby	Private banks financial	Local industrialists	Service industry lobby	Media elite
Religious elite	Buddhist establishment	Christian denominations				
Trade union elite	Teachers	Doctors	University lecturers	SOE Unions (energy, ports)	Key service delivery departmental unions	
Bureaucratic actors	SLAS	Judiciary				
Civil society	Domestic	Diaspora				
Security sector elite	Army, navy, airforce	Law enforcement agencies				

Source: Compiled by authors.

and relatively lower rungs of the political class. This group’s activities are based on strong patron–client relationships and often involve interpersonal transactions of corruption and scandals (Figure 1).

Mapping Key Reforms across Elite Contestations

The reforms that have been deliberated since July 2022 and examined in this article are mainly constitutional amendments, bills presented in Parliament, proposed reforms (by way of concept notes, framework documents, or policy statements), or other structural reforms implemented by the executive. These reforms in turn can be broadly categorised into two types: governance reforms and economic reforms. The reforms below are selected to illustrate the contestations over the reform process among elite groups (Table 1).

In the interests of brevity, we select four reforms that provide insights into how elite groups react to particular types of reforms.

Domestic debt restructuring: The government announced the restructuring of its domestic debt (DDR) at the end of June 2023. The proposed DDR is important to ensure overall debt sustainability, an essential IMF-bailout package precondition. Major international hedge funds that hold Sri Lanka’s bonds announced domestic debt restructuring as a prerequisite for negotiating restructuring their debt (Do Rosario and Campos 2023). The proposed domestic restructuring framework, which was

passed in Parliament with a majority vote, covers around 40% of total domestic debt (Counterpoint 2023; Athukorala 2023). However, both short- as well as long-term debt (in the form of treasury bills and treasury bonds), held by commercial banks, have been exempted from the domestic debt restructuring.

This is a partial coverage of the domestic debt. Moreover, exempting banks from their long-term debt (bonds) is not usual in standard debt restructuring practice. Its implications are that the burden is transferred unequally to the pension fund contributors. This is partly a result of both the EPF (state-managed pension funds) and the Central Bank of Sri Lanka (CBSL) being governed by the monetary board of Sri Lanka, which is not fully insulated from political pressure or insider dealing (NewsFirst 2020).

For the ruling elites, passing the burden on the least strong of the competing elites (that is, the divided trade unions) appears to be the easiest way to restructure the debt. The terms of the DDR have exempted

the banks, and this satisfies a small yet powerful group of local business elite, in whose hands ownership of private commercial banks and financial institutions is concentrated, and who have close links of patronage with the political elite (Island 2023).

Unionisation among EPF-contributing workers remains strong in sectors such as the free trade zones, banking, and some big SOEs (telecom, electricity board, petroleum, etc). In the service industry, however, workers are generally poorly unionised. In each sector, some unions remain politically independent although major political parties maintain affiliated trade unions. At present, unions are highly divided and that makes them a relatively weak elite group.

For example, attempts to unite trade unions to negotiate more favourable terms for their pension funds faced the challenge of Janatha Vimukthi Peramuna (JVP)-led unions not committing to a common platform. The JVP, which forms the main political party in the National People’s Power (NPP), poses a credible challenge to the establishment parties. Its interests are aligned more with using the present calamities to attract more voters than choosing a politics of solidarity. This factionalism among the lower rungs of the elite benefits the more powerful groups.

Labour law reforms: In May 2023, the government released a “concept note” to replace 13 laws that govern the labour sector with what is commonly referred to as “the single law.” The proposal was presented to the National Labour Advisory Council and called for inputs from interested parties (Ministry of Labour and Foreign Employment 2023). While these reforms have some progressive elements, such as increasing protections against workplace discrimination, bringing more female labour

Table 1: Type of Key Reforms in Sri Lanka, 2022–23

Governance Reforms	Economic Reforms
Anti-corruption Bill	Domestic debt restructuring (DDR)
Anti-terrorism Act	Labour law reforms
Amending the 20th Amendment to the Constitution	Tax reforms
Reforms regarding the 13th Amendment to the Constitution	SOE reforms; specifically restructuring loss-making public enterprises
Bills presented in Parliament concerning electoral reforms	Legal reforms to enhance the independence of the central bank
Broadcasting Regulatory Commission Act	Aswesuma social welfare scheme
Online Safety Bill	
NGO Secretariat Bill	

Source: Compiled by authors.

into the economy, and digitalising labour processes, they also have provisions that decrease the accountability of employers to employees and weaken compensation mechanisms.

For the ruling political elite, reforming “outdated” labour laws is aimed at reducing unemployment while promoting economic growth. This means encouraging foreign investment through easy access to cheap and mobile labour. While the cabinet has not yet approved these proposed reforms, no major dissent has manifested from either the government or the major opposition parties. The JVP (main party within the NPP), which commands considerable trade union power, however, seems less committed to mobilising its full force against the reforms, compared to previous practice.

For domestic and foreign economic elites, this is a typical liberalising reform that secures individualist rights but stifles collective bargaining, and opens more space to exploit labour for potential increases in productivity and “ease of doing business.” The complementing interests among elite groups explain why these reforms never became a major topic of public debate beyond trade union and civil society circles.

Almost all major trade unions and union federations agree that the reforms have a negative impact on their members’ welfare. Large and small trade unions and several labour federations have jointly opposed the draft labour reforms claiming that they fell short of International Labour Organization Conventions governing tripartite consultation and failing to realise norms such as “decent work” (Dias 2023). Lack of due process and unfair gatekeeping tactics by officials have aggravated relations between the elite who implement reforms (political aides and civil service groups) and the trade unions. In one instance, before the introduction of the reforms concept note to the National Labour Advisory Council, the Commercial and Industrial Workers Union (CIWU) which had been a member since its inception was removed. This set a bad precedent as CIWU’s representative was the only female presence in the tripartite national advisory council.

The proposed labour reforms are illustrative of many of the problems in the way

in which reforms are being introduced. These include the new “Employment Act” not being available in Tamil (violating the country’s official language policy), the lack of due process as these reforms come without a decision by the cabinet, and a very short window for public consultation.

Anti-corruption Bill: In April 2023, the Sri Lankan Parliament passed an Anti-corruption Bill without a vote. This bill replaces the previous laws on bribery, asset declaration, and the law that governed the Commission to Investigate Allegations of Bribery and Corruption (CIABOC). This reform claims to strengthen the CIABOC and comes at a time when the IMF (2023) announced it was conducting an “in-depth governance diagnostic exercise.” The new bill has some progressive elements such as digitisation of the declaration of assets, widening the types of professionals who had to declare assets, and strengthening the CIABOC’s capacity to collaborate with local and international law enforcement agencies to conduct investigations.

The fact that Parliament passed this law without a vote means that there was considerable consensus among the political elite (ruling and opposition) on the new act. Opposition parties, such as the SJB, were keen to have provisions for asset recovery in the act (*EconomyNext* 2023). The NPP, the challenger to the establishment parties, also emphasised the need to have retroactive provisions, quoting large-scale corruption scandals during past governments. Key relevant civil society groups mostly welcomed the reform and adopted a correctionist approach, suggesting increased protections for whistleblowers and inclusion of asset recovery also within the ambit of this act (Jayasinghe 2023).

Marking another elite competition between the political elite and the public officials, the new act gives the three-member commission that governs CIABOC more powers over key officials in the bribery commission by removing internal checks and balances, such as hiring and firing of officials, which were previously under the ambit of another independent commission. As has often been seen, the incumbent government has always had considerable power to appoint members they prefer to

the commission, navigating constitutional barricades. This means that increased powers often become subverted for political control and consolidation. Effectively, the role of bureaucrats (judiciary and public servants), an otherwise key elite group in checking arbitrary political power, becomes weakened and/or neutralised. The new bribery law illustrates how a reform increases the efficiency and effectiveness of institutions to deal with an issue, while drastically buttressing the powers of incumbent governments to subvert the legal machinery to safeguard themselves and weaponise it against political opponents.

Anti-terrorism Act: A draft of a new Anti-terrorism Act (ATA) was gazetted by the government in March 2023, with the aim of replacing the Prevention of Terrorism Act (PTA) of 1979. Following widespread pushback, the presentation of the bill in Parliament was postponed. A revised act introduced in September 2023 retains problematic aspects, such as the broad definition of terrorism, authorising prolonged detention without charge, and granting excessive powers to the executive (CPA 2023).

There is a broad consensus among major political and social groups that the PTA, a draconian law that emerged at the onset of the civil war, is now outdated. The ATA is the government’s bid to reform the PTA, which has in the past, impeded the country’s access to trade privileges such as the EU’s GSP+ scheme. The proposed bill is a mixed bag, introducing transparency in prisons and detention centres and bringing the bar low on the repression side. However, its extremely broad definition of terrorism and lowered bar for arresting people under the suspicion of terrorism empowers more state actors with arbitrary powers than even the existing PTA does.

When mapping the discourse around the ATA, the President and the cabinet, that is, the ruling political elite, have the most to gain from it. The security sector is the other group of elites empowered through iron-fisted acts of this nature. These actors are pursuing a zero-sum game to ensure they retain power, weaponising the bill to be mobilised against groups demanding system change: sections of protestors, trade

unions, media, and civil society. It also appears that some powerful international elite groups, such as the IMF that demand better economic governance seem unlikely to hold the government to stringent democratic standards as long as their economic targets are met. However, geopolitical actors including Western embassies, where diaspora communities reside, have raised concerns about laws that threaten such democratic aspects of governance.

Opposition political parties, such as the Samagi Jana Balawegaya, Tamil National Alliance (TNA), and NPP, were also united in their rejection of the act. This is likely driven by fears of what such reforms might do to their own freedoms to operate as non-incumbent political actors. Minority political parties such as the TNA and All Ceylon Tamil Congress have been especially active in mobilising campaigns to repeal the PTA in the past, due to the disproportionate negative impact of the act on the minority Tamil community. Strong opposition to the ATA emerged from several civil society groups. Their main concern was that the new act provided even more powers to the executive and security forces to restrict freedom of expression and dissent, in the guise of national security. The way in which civil society, which has a liberal inclination, responds with regard to reforms reflects what they (probably unconsciously) perceive as a cleavage in the government of United National Party and Sri Lanka Podujana Perumana (SLPP). Key civil society groups generally support liberal economic reforms that the President seems to spearhead and take opposition to reforms that securitises the state, and are associated with the SLPP faction of the government.

In Conclusion

Mapping elite groups and interests in the context of reforms is a useful exercise to understand better why some reforms face more resistance than others, how they are likely to be shaped, and their impact on the people and institutions. In studying the politics that surround various reforms, a few trends are observed.

First, while implementing reforms mandated by the IMF's Extended Fund Facility arrangement, reforms are prioritised selectively. For instance, the implemented income tax reforms aim to raise government

income by LKR 100 billion. In contrast, the state airlines' losses are over LKR 160 billion but are more or less absent as a reform item in the official reform discourse or timeline. This is an illustration of how the ruling elites try to safeguard their interests and pass on the burden to the lower rungs of the society, following its remarkable recovery from the severe setback in 2022. In doing so, they have quickly appropriated and diluted ideas generated from among the protests last year such as setting up mechanisms of participatory democracy. In consolidating their power, the ruling elites try to bypass the multi-elite power compromise among the government, the opposition, and civil society in the form of the Constitutional Council, by keeping to itself the hiring and firing powers of members to new commissions they propose to set up, such as recently for online safety and electronic media regulations.

When proposing reforms, ruling elites also use tactics such as sequencing them in a particular order to overload those affected, who must now deal with several reforms simultaneously. Another apparent tactic is decoying laws with other purported reforms, so as to misdirect attention while the "principal" reform passes with limited resistance. The proposed laws also allow for very limited public consultation and provide a short time window to engage them. The only time the ruling elite would commit to broad consultations is when there appears to be a critical mass of support to pass these laws initially.

The dynamics discussed in this article also reconfirm the thesis that where IMF reforms happen, they generally try to serve both local and global elite interests. These interests are sometimes complementary and sometimes contradict one another. It is at this intersection that the reforms take on a distinct national trajectory and where domestic pushback on the reform process is enabled.

On reforms concerning fundamental rights, the governing elite follows a tick-box approach, complying with some procedural elements of democratic governance and transparency (mainly to qualify for Western economic benefits), while undermining the essence of equality and democracy. These reforms, when they are proposed and if passed as they are

without resistance, will have the effect of flattening out other elite groups. This allows a core political elite to emerge as a nodal super-elite and establish themselves as paramount and indispensable.

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