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ASIA MAIOR

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Asia in the Waning Shadow of American Hegemony

Edited by

Michelguglielmo Torri, Elisabetta Basile, Nicola Mocci

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Fabio Leone

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In 2017, the Lankan internal situation was a constant cause of difficulty for President Sirisena and the governing coalition. First, the government was challenged by the unexpected political initiative of former President Rajapaksa's «Joint Opposition». Second, the Tamil communities in the north and the east of the country expressed their growing frustration and discontent against the government. Finally, the most distressing development was the rise of Buddhist religious extremism and the consequent violent attacks against non-Buddhist individuals and groups.

At the economic level, the year under review witnessed a constant improvement of the economy. Economic reforms were implemented to comply with the demands of the financial international institutions. Among these reforms, the long-awaited Inland Revenue Act (IRA) introduced a new tax system characterised by a direct/indirect taxation ratio favouring direct taxation. Moreover the government presented an ambitious long-term economic reform program: «Vision 2025: A Rich Country». Among the main goals of «Vision 2015» were the raising of per capita income; the creation of jobs; the increase of foreign direct investments; the promotion of exports; the creation of a more competitive market; the widening of social justice; the promotion of digitalisation; the implementation of a balance between environmental conservation and economic development.

As far as foreign policy is concerned, 2017 saw Sri Lanka acting as a «tightrope walker», striving to keep the balance between India and China, and desperately trying to avoid being crushed between the two Asian giants. In addition the new US presidency caused contrasting effects on Sri Lanka-US relations. On the one hand the existing structures, created to strengthen and deepen the economic and military bilateral ties, remained in place and continued to properly work. On the other, the US-Sri Lanka political relations went through a series of problems, mainly caused by the new US administration's concerns about Chinese presence in Sri Lanka.

1. Introduction

In 2017, the Sri Lankan domestic political landscape was characterised by the fact that President Sirisena and the yahapalayanaya (good governance) coalition, to wit, the governing coalition, were continuously under pressure because of a host of domestic problems.

The year under review was also characterised by both the implementation of economic measures promised to the financial international insti-

tutions and by the presentation of an ambitious long-term programme of further economic reforms.

As far as the foreign policy front is concerned, 2017 saw the further tightening of the ties between Sri Lanka and China. This, in turn, caused India's sustained attempt to strengthen its relations with the island state, to counterbalance China. Also, the year under review saw the worsening of Sri Lanka-US relations.

The remainder of this article is organised as follows. First, the problematic domestic political situation will be analysed. Second, Sri Lanka's ties with India and with China will be assessed. Then the analysis will dwell on the Lankan relations with Washington. Finally, the economic measures taken, the long-term economic programme presented and the provisions included in the 2018 budget will be discussed.

2. *Domestic policy*

During 2017, the domestic situation was a constant cause of difficulty for President Sirisena and the governing coalition. First, the opposition led by Rajapaksa unexpectedly regained the political initiative and was sometimes successful in hampering the legislative activity of the majority. Second, the Tamil communities in the north and the east expressed a growing feeling of frustration and discontent towards the government. Third, Buddhism religious extremism and intolerance surfaced again.

2.1. *The Rajapaksa's «Joint Opposition» (JO) unexpected activism*

After the defeat in 2015, ex-President Mahinda Rajapaksa was able to retain both the loyalty of most of the Sri Lanka Freedom Party (SLFP), and his popularity among at least a sizeable part of the Sinhalese public opinion. During 2016, 51 MPs supporting Rajapaksa – of whom 35 belonged to the SLFP – formed the «Joint Opposition» (JO).¹ The JO, however, appeared unable to seriously challenge the government, basically because of its lack of a reliable and influential leadership and because of structural weakness. Rajapaksa himself seemed unable to wield an effective leadership. Thus many expected the JO's early demise. However, contrary to all expectations, in the year under review the JO was able to take its first real political initiative, proactively challenging the government in parliament. The main battleground of the JO counterattack was the 20th constitutional amendment. The 20th amendment was aimed at inserting a new clause in the constitution, stating that the elections to the Provincial Councils (PC) were to be held on the same day throughout the country and the date of the PC dissolution

1. Fabio Leone, 'Sri Lanka 2016: Does the new era continue?', *Asia Maior* 2016, pp. 304-305.

was to be declared by parliament. According to the government, the 20th amendment was needed both because having the local government elections in a single day would simplify things, and to save money. For its part, the Opposition claimed that the main government purpose was delaying the scheduled PC polls in the north central and eastern provinces. According to them the governing coalition forces were not sure of their electoral success in local polls; consequently they intended to take time to organise and to develop an effective electoral strategy. It is worth noting that most analysts agreed with the Opposition's argument.² It is also true that the elections were repeatedly delayed: originally to be held in June 2016, they were postponed to the early months of 2017, and again to September 2017. Finally the government stated that the Provincial Council polls were to be scheduled for the early months of 2018 in three of the nine provinces in the country.³ These repeated delays raised protests. The JO showed its discontent in the large May Day rally at Galle, reiterating its demand to conduct the local polls as soon as possible.⁴ The May Day rally was an important test of the Opposition's strength. It showed both the organisational ability of JO and the size of the support that it then enjoyed.⁵ It also revealed that JO was able to capitalise on the growing dissatisfaction of a large part of the Lankan common people.

Amidst the chaos of the protests and debates, the government strived to have the 20th amendment approved. The 20th amendment to the Constitution Bill draft was approved by the cabinet and was then tabled in parliament in August. The parliamentary debates were heated. The JO took the initiative and tried to bring on its side the pro-government SLFP group, whose support was indispensable to guarantee the pro-government simple majority in parliament.⁶ It was declared that the 20th amendment would infringe Article 10 of the constitution (which upholds the freedom of thought and conscience) and that it would restrict the ability of the citizens to exercise a free choice in the provinces.⁷ The JO demanded the intervention of the Supreme Court on the constitutionality of the 20th amendment. Moreover it argued that a two-thirds parliamentary majority was not sufficient

2. Shamindra Ferdinando, 'MPs elected on UPFA ticket urged to help torpedo 20A', *The Island*, 22 August 2017.

3. Ashanthi Warunasuriya, 'Delimitation Drama Continues', *The Sunday Leader*, 8 January 2017.

4. Meera Srinivasan, 'Message from Sri Lanka rallies', *The Hindu*, 3 May 2017.

5. All the JO MPs attended the rally at Galle Face Green. None of them (including the SLFP members) were present at the SLFP May Day rally at Gatambe. N. Sathiya Moorthy, 'May Day Call and After', *The Sunday Leader*, 14 May 2017.

6. Shamindra Ferdinando, 'MPs elected on UPFA ticket urged to help torpedo 20A'.

7. 'Sri Lanka: CPA challenges the Twentieth Amendment to the constitution bill', *Sri Lanka Brief*, 29 August 2017.

to approve the amendment and a referendum was needed.⁸ The Supreme Court decided to judge the constitutionality of the proposed amendment and the relative parliamentary debates were adjourned. In September the Supreme Court decided that, in order to adopt the amendment, a referendum had to be held in addition to obtaining a two-thirds majority in Parliament.⁹ The Supreme Court also decided that the government could not postpone elections.¹⁰

With its back to the wall, the government attempted to shift public attention to other issues. In particular, the Provincial Council Elections Bill and amendments to the new Elections Law on local authorities were approved. These acts introduced, *inter alia*, a new electoral system (a hybrid of the first-past-the-post and the proportional systems) and the enlargement of the women's representation.¹¹

The Opposition's new spirit of initiative was much less effective in the constitution-making process. Even though the governing coalition was internally divided, which created difficulties and slowed down the constitutional reform process at the end of 2016 and for most of 2017, the JO was not able to take the opportunity to put a spoke in the governing coalition's wheel. At first, during the most part of 2017, many key issues were discussed, but the governing coalition was unable to reach a consensus. In September 2017, however, despite these disagreements, the Steering Committee of the Constitutional Assembly,¹² issued its interim report. It sketched out the key issues under discussion and offered comments and observations on the problems discussed by the sub-committees in their areas of expertise (such as Nature of the State, Sovereignty, Religion, Form of Government, Electoral Reforms, Principles of Devolution).¹³ Finally the committee suggested its own solutions on many key issues: among these there were the proposal that Sri Lanka remained a unitary country;¹⁴ that the provinces became the primary unity for devolution of power; that the Executive

8. Shamindra Ferdinando, 'MPs elected on UPFA ticket urged to help torpedo 20A'

9. C.A. Chandraprema, 'Govt. in hot water if 20A gamble backfires', *The Island*, 16 September 2017.

10. Manjula Ferdinando, 'Former CJ Sarath N Silva cannot challenge a Bill passed in Parliament - Dr. Jayampathy Wickramaratne', *Sunday Observer*, 8 October 2017.

11. 'PC Bill passed, Govt displays overwhelming majority', *Sunday Observer*, 24 September 2017.

12. The 21 member Steering Committee for the Constitutional Assembly is responsible for the business of the Constitutional Assembly and for preparing a Draft Constitutional Proposal.

13. 'Hopes and fears - On Sri Lanka's Constitutional reform', *The Hindu*, 23 September 2017.

14. Sinhala and Tamil terms that suggest an undivided country will be used to describe the republic, instead of controversial terms as «unitary» and «federal».

Presidency be abolished and the parliamentary system be adopted; that the mixed electoral system be introduced;¹⁵ that a second chamber, representing the Provinces be created. At the end of the day, in spite of its internal divisions, the yahapalayanaya coalition dominated the constitution-making process, while the JO was unable to take the political initiative.¹⁶

Or, rather, the JO was able to take the initiative on these issues only outside parliament, by creating a platform or forum for questioning the constitution-making process and for sharing alternative ideas and proposals. The «Eliya initiative»¹⁷ was launched in September and was led by Gota-baya Rajapaksa,¹⁸ one of Mahinda Rajapaksa's brothers and a very controversial figure.¹⁹ The Eliya initiative debated topics dear to the Opposition, such as the international tutelage of Sri Lanka by foreign actors (mainly the US and the financial international institutions),²⁰ the legitimacy of the mandate for a new constitution and the credibility of those who were drafting it.²¹ The Eliya initiative was useful for circulating the JO positions among public opinion, but failed to yield really useful ideas and suggestions for the constitution-making process.

2.2. Growing Discontent in Tamil-majority north and east

A second source of problems was the growing discontent and frustration of the Tamil community, namely a key constituency of the governing coalition, which had contributed to bring Sirisena and the Good Governance coalition to power in 2015. However, one year later, among the Tamils enthusiasm had already begun to be replaced by a growing sense of discontent and mistrust, caused by the continuing heavy military presence and the slowness of progress in addressing the war legacy.

The year under review opened with a wave of protests (hunger strikes and sit-downs outside military camps) across the Tamil-majority north and the east areas of the country. Protesters demanded the return of military-occupied land and information on the disappeared. Following a direct appeal

15. 60% of MPs will be elected under the first-past-the-post system, the remaining 40% will be elected under the proportional (MMP) system.

16. 'Participation in constitution making process: Joint Opposition divided', *The Island*, 12 October 2017.

17. Eliya, namely «light» (in the meaning of the natural agent that stimulates sight and makes things visible).

18. 'C. A. Chandraprema, «Eliya» to be Gota's pitch for the Presidency', *The Island*, 9 September 2017.

19. He has been accused of heading a secret hit squad, responsible for killing at least 17 journalists, while Secretary to the Ministry of Defence during his brother's presidency (2005-15). 'Ex-leader's brother «led death squad» in Sri Lanka', *Al Jazeera*, 20 Mar 2017.

20. 'C. A. Chandraprema, «Eliya» to be Gota's pitch for the Presidency'.

21. Maheesha Mudugamuwa, 'Constitution making process an American project – Tamara', *The Island*, 7 September 2017.

of Tamil National Alliance (TNA) to President Sirisena and several meetings between TNA politicians and the military, the government adopted some measures to restore calm. In March, 40 acres of military-held land were released in Mullaitivu district and a further 29 acres were returned to owners in Valikamam (Jaffna).²² Moreover the Navy agreed to vacate an additional 40 acres, surrounding the Catholic church in Mullikulam.²³

In May the long-delayed National Reconciliation Policy (NRP) was approved by the cabinet.²⁴ It was expected to serve as a guideline for achieving the national reconciliation plan. However, at the closing of the present article, the NRP text had not been made public and had not been discussed by parliament. Similarly the government's implementation of the housing plan in favour of war-affected families in the north did not take off. Its realisation appears to be arduous both technically and economically. So much so that Tamil politicians and organisations questioned the government's ability to implement it.²⁵ Even in this case, as the present article went to press, the full project document had not been issued.

The government's clumsy policies produced a further burning sense of grievance among the Tamil community and its political representatives. The result was that the government's measures did not stop protests and violence. In August a further wave of violent incidents took place. Protesters called for the release of the list of political prisoners still in detention. The security forces and military added fuel to the flames, by publicly declaring that the return of Tamil terrorism was under way.²⁶ The Tamil's response was even more heated. The TNA as well as the Global Tamil Forum (GTF) declared the end of their support to the government constitution-making process.²⁷

2.3. *The rise of Buddhist extremism*

A further source of problems for the yahapalayanaya coalition was the emergence (or re-emergence) of religious extremism and intolerance, in particular Buddhist extremism.

During the Rajapaksa regime (2005-2015), Buddhist extremism was already a growing phenomenon. There were numerous campaigns of vio-

22. 'Measures to placate Sri Lanka's Tamil minority are stalling', *The Economist*, 18 March 2017.

23. 'Crisis Watch – Sri Lanka', *International Crisis Group*, April 2017.

24. 'Cabinet approves national reconciliation policy', *Sunday Observer*, 7 May 2017.

25. Ashanthi Warunasuriya 'Prefabricated Housing Project Moves Ahead Despite Concerns', *The Sunday Leader*, 11 June 2017.

26. Indika Sri Aravinda, 'Violence In North, LTTE Resurgence Feared', *The Sunday Leader*, 13 August 2017.

27. 'TNA's Relationship with Government on the Rocks', *The Sunday Leader*, 20 August 2017.

lence and attacks against other religious communities. Most of these attacks were led by the Bodu Bala Sena (BBS or «Buddhist Power Force»). The Muslim and Christian communities were the main targets because they were seen as threats to the position of Buddhism as both the dominant religion and the key component of Lankan identity.²⁸ After Mahinda Rajapaksa's fall from power, the magnitude of this phenomenon seemed to decline.²⁹ At the end of 2016, however, the warning signs of Buddhist violent activity began to emerge again. In November the BBS held its largest rally. Its leaders denounced the alleged Islamic threat against Lankan Buddhist identity and threatened violence against the Muslim community if «dangerous» Muslim activities were not stopped. The risk of even greater violence was such that the government called a meeting of the Emergency Security Council and announced that every racist violent attack would be blocked resolutely.

Later the tensions between communities further increased when Justice Minister Wijeyadasa Rajapakse (also spelled Rajapakshe) defended the BBS and its controversial leader – the Venerable Galagoda Aththe Gnanasara Thero – from racist accusations and denounced the alleged Muslims' attempts to destroy the religious Buddhist archaeological sites.³⁰ The Muslim Council of Sri Lanka (MCSL) and some Muslim members of parliament signed a petition to the president and the prime minister requesting the removal of the justice minister. Even the Opposition declared that the yahapalayanaya government under President Sirisena and Prime Minister Wickremesinghe had betrayed the minorities, especially the Muslim community.³¹

In the year under review, tensions and violent attacks continued to increase in intensity. In April 2017, the extremist Buddhist militants became the perpetrators of a new wave of violence against other religious communities. A very large number of arson attacks and vandalism against mosques and Muslim businesses took place. Attacks against Christian churches and places of worship were also reported.³² The climax of violence was reached

28. 74.9% of the population of the Sri Lankan population are Sinhalese, the Tamil ethnic group makes up about 11.2%, the Moors or Muslims are the 7.1% of Sri Lanka's population. Benjamin Elisha Sawe, 'The Population Of Sri Lanka', *WorldAtlas.com*, 25 April 2017.

29. Danila Berloff, 'Sri Lanka 2015: The Dawning of a new Era', *Asia Maior* 2015.

30. Hilmy Ahamed, 'Justice Minister Draws Flak', *The Sunday Leader*, 1 January 2017.

31. Hilmy Ahamed, 'Yahapalanaya Lapses Cause Instability', *The Sunday Leader*, 23 January 2017.

32. Since the beginning of 2017, the National Christian Evangelical Alliance of Sri-Lanka (NCEASL) has reported over 20 incidents of violence and intimidation against Christian places of worship and clergy (since 2015 the incidents of religious violence against churches have numbered more than 190). Since April 2017 more than 20 attacks on Muslims have been documented. 'Concerns Raised Over Attacks On Religious Minorities', *The Sunday Leader*, 4 June 2017.

in May, when a large crowd of Buddhist militants (approximately 30 Buddhist monks and a mob of around 2,000 people) attacked a Christian place of worship in Devinuwara (Matara District).³³ The government appeared slow and hesitant in acting against these attacks. It was only in June that it resolved to take counter measures, issuing instructions to the police to stop the violence and hate speeches. The police arrested numerous BBS leaders and members (including several Buddhist monks and police officers) suspected of involvement in arson attacks. The main BBS leader, the Venerable Gnanasara, was also imprisoned. For its part, the BBS refuted the accusations and claimed not to be behind the violent attacks. It also claimed that an international and domestic conspiracy against Sinhala Buddhism was under way, alleging as proof the supposed continuous and provocative activities by other religious groups against Buddhist customs and ethics.³⁴

The growing violence also triggered strong international and domestic criticisms. The Muslim civil organisations urged the government to act resolutely. Diplomats from the Organization of Islamic Cooperation exhorted the government to take firm action against any attack on places of worship. Similarly the US ambassador to Sri Lanka Atul Keshap asked the Lankan government to put an end to religious violence. Even the Opposition (which had itself many supporters among the ranks of the BBS) accused the government in parliament of delaying action against Buddhist extremism.

The government found itself in a delicate situation, and seemed in a hurry to spread a curtain of silence over the crisis caused by extremist attacks. It is worth stressing that the governing coalition had tried to acquire the support of the Sinhala-Buddhist community since the beginning of 2017. The governing coalition (especially the SLFP) had also been working to gain support from the Sinhala New Right – the most extreme and conservative sections of the Sinhala community (which was also the core constituency of the Rajapaksa camp).³⁵ Also, the yahapalayanaya coalition had been trying to conquer the support of the Sinhala Buddhist Diaspora with a blue-collar mindset (which had been funding and propelling the recent rise of the Sinhala New Right).³⁶ It is no coincidence that President Sirisena refused to meet a delegation of Muslim parliamentarians who wanted to discuss the hate crimes against their community.³⁷ Moreover, President Sirisena has publicly acknowledged the extremist BBS leader, the Venerable

33. *Ibid.*

34. Munza Mushtaq, 'Sri Lankan Buddhist monk unleashes terror against Muslims', *Asia Times*, 1 June 2017.

35. Dayan Jayatilaka, 'The rise of the Sinhala fundamentalist new right', *The Island*, 6 October 2017.

36. Hilmy Ahamed, 'Yahapalanaya Lapses Cause Instability'.

37. Munza Mushtaq, 'Sri Lankan Buddhist monk unleashes terror against Muslims'.

Galagoda Aththe Gnanasara Thero as an estimable figure, comparing him with the respected Mahanayakes of the Asgiriya and Malwatte Chapters.³⁸

3. *Foreign policy*

Since the regime change of 2015, Sri Lankan foreign policy has appeared to be characterised by the pursuit of two main goals: maintaining and strengthening good relations with the main actors on the world and regional stage, and getting all possible foreign help in promoting Sri Lanka's own economic development. These goals have been pursued by following two main strategies: first, the developing and deepening of political, military and economic relations with the US and India; second, a successful rapprochement with China (after the cooling of relations with China, following the Sri Lanka regime change in 2015).³⁹ In 2017 the two main strategic goals and the main strategies to achieve them remained unchanged.

3.1. *Acting as a «tightrope walker»: Sri Lanka between China and India*

In the year under review, the rapprochement between Sri Lanka and China and the strengthening of their political and economic relations continued.

At the beginning of 2017 China issued a white paper outlining its vision for the Asia-Pacific security cooperation and on the region's concerns.⁴⁰ The white paper featured six key points that can be condensed to five main goals: promoting common prosperity and development; building partnerships rather than «cold war-style» alliances; improving the existing regional multilateral frameworks; advancing cooperation while rejecting disputes; following the existing international and regional norms (including the Five Principles of Peaceful Coexistence).⁴¹ China's vision also included a «new model» of international relations centered on mutually beneficial cooperation. The white paper pointed out that China intended to follow the path of peaceful development and mutually beneficial strategies as the principal means to manage the relations with the main countries in the region. On the whole the intention of this policy was to build up China's capabilities, to stabilise its periphery, strengthening its hold on Asia while keeping other

38. «Mahanayaka theros» are high-ranking Buddhist monks who supervise and regulate the Buddhist clergy in Theravada Buddhist countries.

39. Fabio Leone, 'Sri Lanka 2016: Does the new era continue?', pp. 305-308.

40. The State Council the People's Republic of China, 'China's Policies on Asia-Pacific Security Cooperation', 11 January 2017. (http://english.gov.cn/archive/white_paper/2017/01/11/content_281475539078636.htm).

41. Prashanth Parameswaran, 'China New White Paper, Old Asia Conundrum', *The Diplomat*, 4 February 2017.

main actors, like the United States, out.⁴² The document assigned an important role to Sri Lanka in the Chinese Asia-Pacific policy.⁴³ It sent the message that China was ready to continue to improve its partnership with Sri Lanka intensifying mutual visits of officials, information sharing, personnel training, technological exchanges, simulation exercises, scientific research cooperation. The white paper also suggested the enhancing of practical bilateral and multilateral cooperation in disaster relief, disaster mitigation and relief capacity in the Asia-Pacific area. Moreover the paper implied that Sri Lanka could be involved in numerous further Chinese initiatives in the region (such as the Chinese initiative and cooperation on Maritime Security and Regional Non-Traditional Security Cooperation).⁴⁴ This significant recognition was followed by Chinese Defence Minister Chang Wanquan's visit to Sri Lanka in March.⁴⁵

In May a Lankan delegation headed by Sri Lankan Prime Minister Ranil Wickremesinghe was in Beijing to take part in China's Belt and Road Forum. During this event Wickremesinghe met Chinese President Xi Jinping. Beijing offered more loans to countries taking part in the Belt and Road Initiative (BRI). In particular, China offered an additional US\$ 24 billion to Sri Lanka.⁴⁶ In response, Wickremesinghe stated that his government had gladly accepted the Chinese investment in Sri Lanka major infrastructure projects. He also said that Sri Lanka welcomed the Chinese investments in the Hambantota and Colombo Port City projects. Moreover, he pointed out that the Lankan intended to finalise a free trade agreement with China by the end of the year (which was the 65th anniversary of the beginning of trade relations between the two countries).⁴⁷ However, interestingly enough, while in China Wickremesinghe declared that the Lankan government understood India's concerns on territorial integrity and strategic interests, allegedly threatened, according to New Delhi, by the BRI.⁴⁸

A further sign of the warming of relations between Colombo and Beijing was the signing of the controversial and long delayed Hambantota port agreement in July. The agreement had started to be negotiated in December 2016 but its signature had been postponed several times. The Lankan-Chinese deal was so controversial that it had triggered many debates in

42. *Ibid.*

43. Easwaran Rutnam, 'China's «White Paper» And Sri Lanka', *The Sunday Leader*, 15 January 2017.

44. *Ibid.*

45. 'Chinese defense minister to visit Sri Lanka, Nepal', *Reuters*, 19 March 2017.

46. 'China willing to give Sri Lanka \$ 24 billion more as part of OBOR', *The Economic Times*, 17 May 2017.

47. 'Sri Lanka PM courts increased infrastructure investment from China: Xinhua', *Reuters*, 16 May 2017.

48. 'Sri Lanka backs India's concern over Kashmir in China's OBOR project', *The Hindu*, 16 May 2017.

the political and diplomatic circles.⁴⁹ At the beginning of 2017, tensions over the agreement escalated into near-riots.⁵⁰ The agreement was changed and, under the new terms, the Lankan government limited China's role in the management of commercial operations at the port, while maintaining the supervision of security arrangements. Under the new deal the two state firms, Sri Lanka Ports Authority (SLPA) and China Merchant Port Holdings Company Ltd (CMPort), created a joint venture to handle the commercial operations in the Chinese-built port.⁵¹

However, the «debt issue» or «debt trap» – as some scholars called it – weighed heavily on renewed and positive Sri Lanka-China economic relations. Sri Lanka's national debt is estimated to be about US\$ 64.9 billion,⁵² of which US\$ 8 billion is owed to China.⁵³ Moreover Chinese loans to Sri Lanka were burdened with high interest rates.⁵⁴ This being the situation, Sri Lanka's slow economic growth did not allow Colombo to pay its debts to Beijing. The Sri Lankan government tried to resolve its debt crisis through several strategies, such as the conversion of Chinese debt into equity and allowing Chinese firms to acquire larger operating and managing control on projects and infrastructures.⁵⁵

Scholars and policymakers – both outside and inside Sri Lanka – expressed their concerns on the debt trap. Lankan Opposition considered it a

49. Ashanthi Warunasuriya, 'H'tota Port Issue: Controversy Continues!', *The Sunday Leader*, 15 January 2017.

50. Shihar Aneez, 'China's «Silk Road» push stirs resentment and protest in Sri Lanka', *Reuters*, 1 February 2017.

51. Under the new agreement the Hambantota International Port Services Co. (Pvt) Ltd (with a capital of US\$ 606 million and 50.7% shares belonging to SLPA and 49.3% to CMPort) was established as a joint venture between SLPA and CMPort and assigned a 99-year lease of 15,000 acres (23 sq miles). The Hambantota International Port Group (Pvt) Ltd was also established with a capital of US\$ 794 million and 15% shares assigned to SLPA and 85% to CMPort. The shares of the overall investment were revised, assigning 69.55% of them to CMPort and 30.45% for SLPA, instead of 80:20 as in the initial agreement. The parts/ports also agreed on a plan to convert loans worth US\$6 billion, which Sri Lanka owes to China, into equity. 'Sri Lanka, China sign \$1.1 billion Hambantota port deal', *The Hindu*, 29 July 2017.

52. In 2016 Lankan debt rose to 79.3 % of GDP from 71.3% in 2014. The government planned to cut it to 70% by 2020. 'Sri Lanka seeks to reschedule debt repayments via new bill', *Reuters*, 20 September 2017.

53. Veasna Var & Sovinda Po, 'Cambodia, Sri Lanka and the China debt trap', *Asia Times*, 27 March 2017.

54. Sri Lanka borrowed US\$ 301 million from China to finance the Hambantota port project, at 6.3% interest rate, whereas World Bank and Asian Development Bank loans carried interest rates ranging from 0.25% to 3% only. *Ibid*.

55. Sri Lanka also planned to reschedule some loans through a new bill which would introduce mechanisms for ensuring a sustainable debt management (such as buybacks and reissuance of existing debt). The bill was at a draft stage September 2017. 'Sri Lanka seeks to reschedule debt repayments via new bill'; Veasna Var & Sovinda Po 'Cambodia, Sri Lanka and the China debt trap'.

serious threat to national security and sovereignty. Scholars and policy makers thought that it would impair the China-Sri Lanka bilateral relationship. Moreover they argued that China's advantageous situation and its growing influence on Sri Lanka could have significant future implications for the balance of power in Asia. They argued that China, by inserting Sri Lanka in its orbit, could acquire a dominant strategic military position in the Indian Ocean; also Beijing's influence could force Colombo to accept both the One China Policy and Beijing's position regarding the South China Sea.⁵⁶

Conversely, bilateral relations between India and Sri Lanka became stronger both at the political and economic level. In April 2017, the Lankan Premier visited India and wide-ranging talks with his Indian counterpart took place. In particular, these yielded a Memorandum of Understanding (MoU) for «Cooperation in Economic Projects». This document outlined the agenda for further bilateral economic cooperation, and also provided a framework to identify the Lankan infrastructure projects in which Delhi could invest.⁵⁷ The two parts also signed an additional MoU about Indian investments aimed at developing the ports and oil tank farms in Trincomalee. A deal on energy was also signed.⁵⁸ It is worth stressing that this Indian proposal of investments for the development of port and energy infrastructures was clearly devoted to balance (or re-balance) the Chinese investment in Lankan ports and infrastructures.⁵⁹ More meaningful for assessing the status of the relationship between Sri Lanka and India was Indian Premier Narendra Modi's visit to Colombo in May. This was Modi's second state visit to Sri Lanka. The Indian premier arrived in Colombo to take part in the 14th UN Vesak day celebrations⁶⁰ and to visit the Gangaramaya Buddha Rashmi Vesak Zone.⁶¹ Modi used his UN Vesak day message to emphasise India's security vision. In particular, he claimed that the security of India and Sri Lanka could not be divided, because of Sri Lanka's pivotal role in the Indian military strategy in the Indian Ocean.⁶² Modi's

56. Veasna Var & Sovinda Po, 'Cambodia, Sri Lanka and the China debt trap'.

57. 'India, Sri Lanka ink pact for economic cooperation', *The Hindu Business Line*, 26 April 2017.

58. They agreed to build a Liquefied Natural Gas (LNG) power plant and terminal in Colombo. 'PM's visit to India to open series of economic benefits', *Sunday Observer*, 30 April 2017.

59. Sachin Parashari, 'Sri Lanka to offer India port development to balance out China', *The Times of India*, 19 April 2017. During the year under review, India's foreign policy became increasingly characterized by its adversarial bent vis-à-vis China. On this, see Michelguglielmo Torri & Diego Maiorano, 'India 2017', in this same volume.

60. The Vesak day, or Buddha day, is traditionally celebrated by both Buddhists and Hindus.

61. The Gangaramaya Buddha Rashmi Vesak Zone is an international religious and cultural festival which is celebrated annually.

62. Shamindra Ferdinando, 'Is security of India and Sri Lanka indivisible?', *The Island*, 16 May 2017.

visit was reciprocated by that of new Lankan Foreign Affairs Minister Ravi Karunanayake to New Delhi in June. He met Narendra Modi and Indian Foreign Minister Sushma Swaraj, discussing mainly the implementation of economic cooperation projects. A new deal was signed: India opened a US\$ 318 line of credit to Sri Lanka to help the island state to develop its railway sector.⁶³ Karunanayake declared that Sri Lanka welcomed Indian investment, in particular in the «East Terminal» of the Colombo Port; however he defended the Lankan government's decision to join the Chinese BRI.⁶⁴ Karunanayake also met Indian National Security Advisor Ajit Doval and Foreign Secretary S. Jaishankar, discussing military issues of mutual interest. Moreover, the fifth edition of the «Mitra Shakti» joint exercise – an important joint military exercise between the armies of Sri Lanka and India – took place in Pune (India) in October.⁶⁵

3.2. Sri Lanka-US connection

In 2017, the US and Sri Lanka connection was characterised by contrasting developments. On the one hand the structures created to strengthen and deepen economic and military bilateral relations continued to properly work. On the other, with the coming into office of the Trump administration, problems emerged in bilateral relations.

The first half of the year was defined by cool relations between the two countries. However, in September, President Trump's Acting Assistant Secretary of State for South and Central Asian Affairs Alice Wells visited Sri Lanka and argued that the US president had completed his new strategy programme for south Asia and the Pacific Region, emphasising the role of Sri Lanka as a key US partner in the region.⁶⁶ This was followed by the concerns expressed by Alice Wells about the Chinese presence in Sri Lanka. The acting assistant secretary of state for South and Central Asian affairs publicly stated that the US was concerned about the unsustainable debt burden incurred by Sri Lanka, caused by non-concessional loans from China. On the whole, Wells conveyed the distinct impression that the US admin-

63. 'India, Sri Lanka sign pact for \$ 318 million line of credit', *The Hindu Business Line*, 6 June 2017.

64. Suhasini Haidar, 'Sri Lanka defends China's Belt and Road project', *The Hindu*, 7 June 2017.

65. '«To counter China», India-Sri Lanka joint military exercise in Pune from Oct 13', *The Indian Express*, 11 October 2017.

66. President Trump outlined the main elements of his administration's overall Asia policy during his stop in Vietnam, the fourth of his five-nation tour of Asia in November 2017 (which included China, Vietnam, The Philippines, Japan and South Korea). Patrick M. Cronin 'Trump's Post-Pivot Strategy', *The Diplomat*, 11 November 2017. These elements became part of the National Security Strategy issued in December 2017. *National Security Strategy of the United States of America*, December 2017 (<http://nssarchive.us/national-security-strategy-2017>), p. 50.

istration was worried about China's substantial investments and loans, as well as China's future military supplies to Colombo.⁶⁷ In September, these concerns motivated the US administration proposal to drastically cut US aid to Sri Lanka (to the tune of a 92% reduction in assistance compared to the previous fiscal year). The proposal, however, was blocked by the Senate Appropriations Committee.⁶⁸

In spite of all the above, the structures already in place, created to strengthen and deepen the economic relations between the two countries, continued to work successfully. Symptomatically, the US administration stated that there were no changes in the US trade policy to Sri Lanka.⁶⁹ Also, the US Government foreign aid agency – Millennium Challenge Corporation (MCC) – declared to be ready to assist Sri Lanka in 2017 and 2018. In June an initial US\$ 7.4 million sum was allocated by the MCC in order to finance potential projects in the Lankan transport and land sectors.⁷⁰ In November, the 2nd US-Sri Lanka Partnership Dialogue took place. Sri Lanka Foreign Minister Prasad Kariyawasam and US Under Secretary of State for Political Affairs Thomas A. Shannon led the event in Colombo. The representatives of the two governments «resolved to work together toward a free and open Indo-Pacific region and for greater peace and stability around the world» and discussed how to «develop Sri Lanka as a regional hub for trade and investment in Asia, which would connect trade flows among ASEAN, India, the Middle East and Africa through free and open seas». On a more practical side, in the joint statement that concluded the dialogue, the US announced the offer of «a second U.S. Coast Guard cutter to the Sri Lankan Navy» and «a \$ 21 million/3,150,000,000 Sri Lankan rupees project, awarded by the U.S. Department of Agriculture's Food for Progress program, to modernize and strengthen Sri Lanka's dairy sector». Also, the US assured that «the development of a Millennium Challenge Corporation compact for grant assistance for Sri Lanka [would] continue through 2017-2018.»⁷¹ Moreover Sri Lanka continued to be involved in the US military skill and procedures training programme. In October, the Lankan Navy was part of the annual Cooperation Afloat Readiness and Training (CARAT) exercise together with US Navy.⁷²

67. Shamindra Ferdinando, 'US influences Lanka's foreign policy, undermines China relations', *The Island*, 17 October 2017.

68. 'Senate Committee rejects Trump's proposed budget cut for Sri Lanka', *The Sunday Leader*, 12 September 2017.

69. 'USA will make no major change in its trade policy towards Sri Lanka: envoy', *The Island*, 18 September 2017.

70. 'Sri Lanka's reform agenda prompting growth in ties with US', *The Business Standard News*, 7 September 2017.

71. U.S. Embassy in Sri Lanka, *Joint Statement on the Second U.S. – Sri Lanka Partnership Dialogue*, 6 November 2017.

72. 'US And Sri Lanka Partner To Expand Maritime Security Engagement', *The Sunday Leader*, 8 October 2017.

4. *The economy*

In the year under review, The Lankan government was expected to achieve two main objectives: on the one hand, keeping the economic promises made to the international financial institutions; on the other, putting the Lankan economy on a path of high growth and development. The Lankan government strategy for achieving these goals was based on the implementation of a series of economic reforms and the formulation of an ambitious long-term programme.

This section will concentrate on three main points. First, it will give a brief look at the 2017 Lankan's macroeconomic indicators. Second, it will examine the government's key economic reforms. Finally, it will discuss the Budget provisions for 2018.

4.1. *Economic trends: an improving but still weak economy*

In the first half of 2017 Sri Lanka economic performance remained largely satisfactory despite natural disasters and challenges posed by a complex political environment.⁷³

GDP witnessed a growth rate equal to 3.9% year-on-year (the GDP growth rate was equal to 3.8% in the Q1 [first quarter] of 2017 and 4.0% in the Q2).⁷⁴ The industrial sector grew 5.8%.⁷⁵ The services sector witnessed a growth rate of 4.0%.⁷⁶ Export also grew 5.2% year-on-year.⁷⁷ Inflation was 7.0% (with a peak of 11.8% reached in April).⁷⁸ The Central Bank maintained the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) unchanged.⁷⁹ Fitch Ratings Inc., namely one of the «big three» credit rating agencies, revised Sri Lanka's rating upwards.⁸⁰ Nevertheless there were also fewer positive results. In the first half of the year, the agricultural sector was hit by drought and by continuing floods which caused a marked reduction of agricultural output, particularly as far as rice,

73. The World Bank, *The World Bank in Sri Lanka. Overview*, 11 October 2017.

74. Asian Development Bank, *Asian Development Outlook 2017 Update*, pp. 173-174.

75. In the Q1 industry sector expanded by 6.3%; in Q2 it expanded by 5.2%.

Ibid. p. 174

76. In Q1 and in Q2, services grew by 3.5% and by 4.5% respectively. *Ibid.* p. 174.

77. During the first three months of 2017, the merchandise exports (valued at US\$ 2.7 billion) grew 2% (compared to the same period in 2016). Export values of essential oils showed the highest growth (around 41%), followed by electronic/electrical and machinery products and parts. Tea exports also grew. 'Positive outlook for Sri Lanka's exports in 1Q 2017', *The Island*, 21 May 2017.

78. *Asian Development Outlook 2017 Update*, p.174.

79. 7.25% and 8.75% respectively. 'Monetary Policy Review', *The Island*, 25 June 2017.

80. Fitch revised Sri Lanka's Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) to B+. 'Fitch Affirms Sri Lanka at «B+»; Outlook Revised to Stable', *Reuters*, 9 February 2017.

tea and rubber were concerned.⁸¹ The trade deficit also widened, reaching nearly US\$ 600 million.⁸² This was due to the negative effect of some intertwined phenomena: the increasing expenditure on imports (which grew by 8.9%),⁸³ the fall of worker remittances.⁸⁴ Moreover, foreign direct investments (FDI) remained low.⁸⁵

The second half of the year witnessed similar economic trends. The GDP rate of growth reached 4.5%.⁸⁶ Both industrial production and exports continued to grow in Q3.⁸⁷ However, the trade deficit continued to increase due to the same negative factors as the first half of the year.

4.2. Economic reforms

In 2017, the Lankan government enacted three major economic reforms. In March, the cabinet approved the Statements of Corporate Intent

81. *Asian Development Outlook 2017 Update*, p. 173. In the composition of the Sri Lanka GDP (at current prices) by sectors, the value of agriculture was US\$ 6.48 billion (8% of GDP) in 2016. The World Bank, World Development Indicators: Structure of output.

82. 'Drop in remittance from West Asia hurts economy', *The Island*, 27 August 2017.

83. This was a result of higher spending incurred on intermediate goods. In particular, the growth of import was mainly due to the expenses for crude oil and petroleum products (accounting for more than 40% of expenses of import). The rise of expenses for oil and petroleum products was caused by the combined effect of high prices in the international market and the scarcity of indigenous fossil fuels for the production of electricity. *Asian Development Outlook 2017 Update*, p.174; The Ceylon Chamber of Commerce, *EIU- November 2017. Economic Update* (<https://www.chamber.lk/economic-update-november-2017>), p. 1. See also Asian Development Bank, *100% Electricity Generation through Renewable Energy by 2050. Assessment of Sri Lanka's Power Sector*, 2017.

84. During the first half of 2017 inflows from workers' remittances declined 7.2% in comparison to the same period of 2016. Experts argue that the fall of workers' remittances was presumably caused by low oil prices and by the so-called Qatar-Gulf crisis. The Qatar-Gulf crisis refers to the conflict between Qatar and Saudi Arabia that took place in second half of 2017. In June 2017 Saudi Arabia (and four other countries: United Arab Emirates, Bahrain, Egypt and Yemen) abruptly cut off diplomatic relations with Qatar and accused Qatar of supporting terrorism and the Muslim brotherhood. However, experts argue that crisis arose from the attempt of five countries to isolate Qatar because of its pro-Iran position. 'Drop in remittance from West Asia hurts economy'.

85. The World Bank, *The World Bank in Sri Lanka. Overview*. The low level of FDI flows was due to the Lankan unfavorable economic environment, characterised by economic restrictions, inefficiencies, low level of competitiveness, and low levels of economic integration into global value chain. Kithmina Hewage & Harini Weerasekera 'Budget 2018: Will clarity in thought translate into clarity in action?', *The Island*, 13 November 2017.

86. *Asian Development Outlook 2017 Update*, p. 174.

87. The Ceylon Chamber of Commerce, *EIU- November 2017. Economic Update*, p. 1 (<https://www.chamber.lk/economic-update-november-2017>).

(SCI) for making the state firms more efficient and autonomous in their economic management. It was part of the conditions requested by the IMF for a US\$ 1.5 billion loan (approved in mid-2016). According to the SCI, the government and the state-owned business enterprises or SOBE would enter into a contract which would commit the latter to improve efficiency, value-for-money and value-for-capital, and to increase profits and efficiency in management.⁸⁸ The first round of deals between The Ministry of Finance and five SOBE – The Ceylon Electricity Board, Sri Lanka Ports Authority, National Water Supply and Drainage Board, Airport and Aviation Services and the Ceylon Petroleum Corporation – took place in the same month. The second round of agreements – the government signed SCI with ten more SOBE – took place in October.

The second major economic reform concerned taxation and consisted in the adoption of the Inland Revenue Act (IRA). The new tax measure had been demanded by the IMF as a condition for a third tranche of loan. The IRA introduced a new income tax structure aimed at expanding tax revenues and seeking to eradicate tax evasion (when implemented at the start of fiscal year 2018). It is true that, in the previous two years, the tax revenue had gone up to 12.4% of GDP.⁸⁹ However this result was still considered unsatisfactory as, according to experts, ideally the tax-to-GDP ratio should be around 18% of GDP.⁹⁰

The new Inland Revenue Bill was tabled in parliament in July. The measure encountered numerous obstacles,⁹¹ before being finally approved by parliament in September. In spite of the many changes introduced during the parliamentary process, the new tax system – hailed as the major tax reform since independence – decisively enhanced direct-indirect taxation ratio in favour of the former.⁹² Among the new act's main provisions there were: the deletion of the statutory income as a taxable item;⁹³ the separate assessment of the various sources of income of any person; the introduction

88. 'Sri Lanka approves IMF reforms to loss-making state firms', *Reuters*, 1 March 2017.

89. Shihar Aneez, 'New Sri Lanka tax bill aims to widen tax net, cut indirect taxes', *Reuters*, 21 July 2017.

90. Lalin Fernadopulle, 'Decades-old IRA weathers change', *Sunday Observer*, 16 July 2017.

91. Lalin Fernadopulle, 'Milestone in reforming current tax system', *Sunday Observer*, 27 August 2017.

92. The previous taxation was a regressive one, which weighed on the low income sector with indirect taxes (about 83% of the whole tax revenue). Shihar Aneez 'New Sri Lanka tax bill aims to widen tax net, cut indirect taxes'.

93. Statutory income refers to the total aggregated income of a person. Under the new bill, all the sources of income will not be computed together; this means that the sources of income of a person will be separately calculated and assessed. Thus the tax payer should have separate tax threshold for each and every source of income. 'Proposed Inland Revenue Bill 2017', *Sunday Observer*, 17 September 2017.

of several tax thresholds.⁹⁴ It was undoubtedly a major success for Sirisena and the good governance coalition.

The government also set up the National Economic Council (NEC), aimed at planning the economic development and strengthening of decisional process as far as the national economy was concerned. The decisions of the NEC concerned mainly the agricultural and industrial sectors.⁹⁵ The first session of The National Economic Council took place in September.

In September the government also launched the «Vision 2025. A Country Enriched» manifesto.⁹⁶ It was an eight-year economic development and reform plan. It had several objectives, such as, *inter alia*, the raising of per capita income (up to US\$ 5,000 per year); the creation of new jobs (one million); the increasing of the FDI (up to US\$ 5 billion per year); the increase of Lankan exports (up to US\$ 20 billion per year); the promotion of market competition; the widening of social justice; the enforcement of the knowledge-based, highly competitive, social-market economy model; the implementation of international standards in agriculture; the widening of digitalisation; the balance between environmental conservation and economic development; the improvement of education and skills' development; the promotion of affordable public health; the implementation of pension reforms; the launching of a safe and reliable housing plan and public transport system.⁹⁷

The plan stirred debate and criticism, highlighting the difficulties in its implementation and its over-optimistic growth targets. It was also pointed out that the adoption of some measures could produce unexpected negative side effects, such as the dwindling of FDI inflows, exactly the opposite of the government's aim.⁹⁸

4.3. Budget 2018

The Finance Minister presented the budget for 2018 at the beginning of November. Introducing it under the label «Blue-Green-Enterprise Sri Lanka», Minister of Finance and Media Mangala Samaraweera claimed

94. *Ibid.*

95. 'Govt launches third year with positive action', *Sunday Observer*, 20 August 2017.

96. Government of Sri Lanka, The prime minister' office, 'Vision 2025. A Country Enriched' (http://www.pmooffice.gov.lk/download/press/D00000000061_EN.pdf); 'Eight-year economic development plan: «Vision 2025» a country enriched', *Sunday Observer*, 10 September 2017.

97. Government of Sri Lanka, the Prime Minister's Office 'Vision 2025. A Country Enriched'; Zacki Jabbar 'V2025 launched: Per capita income of USD 5,000, one million more jobs targeted', *The Island*, 4 September 2017.

98. Sirimevan Colombage '«V2025: A Country Enriched»: A wish-list far beyond reach', *The Island*, 17 September 2017.

that the budget was placed in continuity with the government's «Vision 2025» programme and pursued a sustainable development strategy.⁹⁹ This sustainable development strategy was founded on three main initiatives. First, the «Blue economy» initiative: the support and implementation of a development strategy taking into account the full economic potential of activities connected with the ocean. Under this initiative, the government intended to support economic activities aimed both at the sustainable economic use of ocean natural resources (such as sustainable fishery ventures) and at the protection of the same marine resources (the protection of the coastal line from pollution and degradation, for example).¹⁰⁰ Second, the «Green economy» initiative: the support and the implementation of an environmentally and developmentally sustainable economy. Under this initiative, the government intended to propose measures to increase the use of renewable energy (such as the use of off-grid solar power) in the electric car-charging stations, in agriculture and in the hotel industry.¹⁰¹ Also, the same initiative introduced measures for building a disaster-ready mechanism, for containing environmental pollution and for supporting sustainable development (such as a carbon tax on selected motor vehicles, and excise duties on plastic resins to discourage the use of polythene and plastic products).¹⁰² Third, the «Enterprise Sri Lanka» initiative: the support of the entrepreneurship skills and the promotion of small and medium sized business enterprises as well as start-up enterprises for sustainable growth. Under this initiative, the government intended to propose incentives for domestic investments aimed at job creation, development of fixed assets in designated zones, and promotion of information technology.¹⁰³

Moreover, the budget sought to increase FDI and boost Sri Lanka's economic competitiveness. The restrictions on the foreign ownership of specific industries and entrepreneurial sectors were removed (such as the restrictions on foreign ownership of shipping and freight forwarding business or the restrictions on foreigner's ownership of freehold rights of land).¹⁰⁴ The budget also proposed to remove about 1200 para-tariffs on import items not carrying any customs duties.¹⁰⁵

99. 'BUDGET 2018 Shortest Sri Lankan budget speech in history', *The Sunday Times*, 9 November 2017.

100. Government of Sri Lanka, Ministry of Finance, *Budget Speech - 2018*, 9 November 2017 (<http://www.treasury.gov.lk/documents/10181/470884/budgetspeech2018E.pdf/9a9b081b-a709-418f-88ec-64f397db6ab4>) [hereafter *Budget Speech*], pp. 10-13.

101. *Budget 2018*, §21, p. 8.

102. *Budget 2018*, §22 and §23, p.8; Kithmina Hewage & Harini Weerasekera, 'Budget 2018: Will clarity in thought translate into clarity in action?.'

103. *Budget Speech*, pp. 4-5, 14-24, 73.

104. *Ibid.*, pp. 21, 28.

105. Kithmina Hewage & Harini Weerasekera 'Budget 2018: Will clarity in thought translate into clarity in action?.'

The finance minister confirmed that budget deficit reduction and fiscal consolidation were also pivotal goals of the government in the next fiscal year. Budget 2018 provided numerous measures for increasing the tax revenue; among these were: motor vehicles excise duty and luxury tax revisions, duty revisions on VAT and NBT,¹⁰⁶ and the introduction of a Debt Repayment Levy (DRL).¹⁰⁷ In line with the new Inland Revenue Act (IRA), the government intended to increase the share of direct taxation,¹⁰⁸ bringing tax revenue close to 20% of GDP over the medium-term.¹⁰⁹ In addition, the government intended to reduce the budget deficit from 5.2% in 2017 to 4.8% in 2018.¹¹⁰ The government expected a GDP growth of 5% in 2018, and inflation at around 6%. Moreover, it expected to achieve a primary surplus of 1% of GDP.¹¹¹ The government also planned to maintain those public expenditures well targeted and rationalised, at 5.3% of GDP (total budget expenditure was planned around Rs. 2,903 bn.), and to preserve capital expenditure/GDP at an elevated level, while keeping the expenditure/GDP ratio unchanged.¹¹² Moreover, some key medium-term targets were also planned: per capita income of US\$ 5,000, one million new jobs, FDI inflows of US\$ 5 billion, and the doubling of exports to US\$ 20 billion.¹¹³ Parliament approved budget 2018 in early December 2017.

Some international institutions and multinational companies (such as the World Bank and Deloitte) expressed positive opinions on the Lankan budget 2018. They argued that it included some encouraging measures to increase the revenue and improve economic competitiveness. However, there were doubts whether the government would be able to achieve the promised goals. In fact, no clear timeline or road map under which the proposed measures were to be implemented had been set. The past behaviour of the government, which has often maintained some hesitancy on certain decisions – implementing, repealing and re-implementing them – does not bode well for the future.¹¹⁴

106. *Ibid.*

107. DRL is a new levy on cash transactions by financial institutions at the rate of 0.02% for a period of three years. *Budget Speech*, pp. 50-51

108. Kithmina Hewage & Harini Weerasekera 'Budget 2018: Will clarity in thought translate into clarity in action?'

109. *Budget Speech*, p. 3.

110. Moreover it was estimated to decline to 3.5% of GDP by 2020. *Budget Speech*, pp. 5,103.

111. *Ibid.*, p. 5

112. *Ibid.* p. 105.

113. *Ibid.* p. 5.

114. Kithmina Hewage & Harini Weerasekera 'Budget 2018: Will clarity in thought translate into clarity in action?'