

**GLOBALIZATION AND SOCIAL PROTECTION IN SRI LANKA:  
DIVERGING VIEWS BETWEEN CENTRE AND PERIPHERY**

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**Abstract**

Following the Asian financial crisis of 1997-98 the literature of the major international development agencies (centre), began to assert that the globalization process requires nations to build and sustain sophisticated social safety nets that can insure their populations against the volatility that characterises open economies. In this paper we utilize the experience of Sri Lanka as a test case to determine whether the new appreciation of the link between globalization and social protection is influencing the perspective and practices of agents within recipient countries (periphery). We conclude there is a lack of awareness of the globalization-safety net link amongst domestic stakeholders and a clear difference of views between the central offices and the local representatives of the IDAs. We suggest this is a cause of great concern not least because there exists a domestic constituency within Sri Lanka that would be receptive to proposals designed to strengthen social safety nets should the global agencies make a sustained effort to promote the message present in the rhetoric emanating from Washington and Manila.

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## GLOBALIZATION AND SOCIAL PROTECTION IN SRI LANKA: DIVERGING VIEWS BETWEEN CENTRE AND PERIPHERY

Globalization is a phenomenon that has both positive and negative dimensions. Somewhat belatedly, the Academy of International Business (AIB) has come to accept the validity of this observation (Academy of International Business, 1999). Having done so, it has lamented the fact that International Business scholars have accorded limited attention to the 'dark side' of globalization and to the 'social costs' associated with opening national economies to the global movement of trade, investment and ideas (Eden and Lenway, 2001). In this paper we respond to this lament by exploring the place that 'social protection' plays in the globalization process. By social protection we mean "the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income." (Asian Development Bank, 2003: 1).

Examination of the link between social protection and globalization is particularly appropriate at the present time. This is because the major international development agencies (IDAs) have come to accept that globalising nations need to insure their populations against the volatility and periodic shocks that beset open economies by building and sustaining sophisticated social safety nets that can assist their populations to cope during periods of crisis. If the importance now accorded social safety nets in the globalization rhetoric of the IDAs is incorporated into the development programs of nations that are recipients of IDA assistance, it will impact markedly on the business environment of these countries. Not least, it will tend to render globalization more acceptable to populations who otherwise believe themselves placed at risk by increased openness. However, it cannot be assumed the new rhetoric will become manifest in domestic policy. As Freeman (2002) has suggested it may be that the heightened emphasis placed on the globalization-safety net link in IDA literature may only be rhetoric designed to carry these bodies beyond what has been a difficult period. Even if this is not the case, changing ideas at the centre will not necessarily be reflected in the development of new practices at the periphery. For as Dollar and Svensson (2000) have shown a great many IDA ideas and projects fail with failure often being due to domestic political-economy factors. Failure may also occur because of bureaucratic difficulties. Ranis (1997) notes that within the IDAs it is common for two streams of knowledge and behaviour to coexist and never come into contact:

One [stream], encompassing the President's office, the Bank's research wings, and usually, the chief economist in each of the operating regions, is concerned with generating, or at least propagating, innovative ideas and analyses ... The other encompasses the operating departments, where the continuous flow of project and programme lending approvals is what matters, where the frequent arrival of 'new direction' ideas is met with a jaundiced eye and the well-worn bureaucratic response that 'we are already doing it', and where it is generally recognised that the bottom line chances for recognition and promotion are largely tied to being polite but getting on with the lending (Ranis, 1997: 79; see also Pincus, 2000).

In this paper, we seek to determine if the new IDA thinking that links globalization, social risk and social safety nets is influencing the views and policies of the IDA's local agents and the recipients of IDA assistance. We utilise Sri Lanka as a test case as it was the first country in South Asia to open itself to the world market and is presently the most open economy in the region (World Bank, 2000a: i). We first sketch the nature of the new social protection ideas emanating from the central offices of the IDAs and contrast these ideas with those present in IDA reports specific to Sri Lanka. We conclude there is a clear disjuncture between these two bodies of literature and that at the local level there is little evidence of an increased awareness that market openness can enhance the need for forms of social protection designed to insure populations against the types of shock that swept East Asia through 1997-1999.

When seeking to explain perceived differences between the ideas and practices promoted by the centre and the periphery IDA officials tend to blame domestic governments, weak local institutions, and a lack of commitment to neo-liberalism on the part of local functionaries (Dollar and Svensson, 1998). Pincus (2000), by contrast, suggests that an important share of the blame can also be apportioned to the IDAs themselves. He notes that there are a number of 'operational imperatives', internal to these bodies that limit the extent to

which theory and practice converge. Focussing on the World Bank as exemplar, he argues that these imperatives include the bank's status as a preferred creditor, pressure to lend, centralisation, and institutional capture. In this paper we suggest that to the list of difficulties identified, by internal and external observers, needs to be added three other factors. First, the high degree of enthusiasm for neo-liberal policies that often exists amongst powerful domestic state and business groupings tends to generate a high level of resistance to any efforts on the part of donor communities to deviate from these policies. Second, if IDA rhetoric is softened this will not necessarily be interpreted as a shift in the IDAs position. Rather, many will see the changing rhetoric as merely a tactical move designed to offset criticism while these bodies continue down the neo-liberal path favoured by donor communities. Third, the IDAs have a history of failing to apportion the level of resources needed to identify those nations likely to be effective reformers. Commenting on the World Bank to make the broader case, Dollar and Svensson (2000) note correctly, that the Bank has been more inclined to seek to create agents of reform than to identify existing opportunities. Extending this notion, we suggest that the IDAs have not, but should, accord greater attention to identifying whether there exists a body of reformers within nations that will welcome the reforms desired and assist their implementation than is presently the norm with these institutions.

In the case of Sri Lanka, we argue, all three of these factors are acting as impediments preventing the take up and diffusion of the new social policy ideas manifest in the globalization literature of the IDAs. We reached the latter conclusion after analysing texts produced by the IDAs and by undertaking two sets of interviews within Sri Lanka. The interview sets were spaced widely to allow for the possibility of 'cultural lag', that is, the possibility that it might take an extended period for new ideas and practices to be taken up by a community. Our results were discouraging. We found that across the period studied there was no significant change in the views expressed by local agents. Indeed our examination of relevant government reports led us to conclude that awareness of the notion of global social risk tended to become diluted through the period. This conclusion should be deemed a matter of concern. Asia has overcome much of the damage induced by the financial crisis of 1997-1999. However, the continuing instability, clearly manifest in global securities and finance markets, makes a repeat of that experience a decided possibility. But as the immediacy of the Asian crisis passes the likelihood the new thinking will be internalised and acted upon is tending to diminish. Given this is the case, it becomes ever less likely that policies and programs needed to insure populations against the periods of global financial instability, will be established.

## **SOCIAL PROTECTION AND GLOBALIZATION**

Through the second half of the twentieth century, the major IDAs maintained that state funded social protection was an undesirable constraint on the free operation of markets and a 'luxury' that developing societies cannot afford (Deacon, 1997; Yeates, 2001; Cornia, 2001). Utilizing conditionality to advance their views, the IDAs worked to convince recipient nations to open their economies and urged their governments to resist those who called for the establishment of social protection regimes that could insure populations against global volatility. It was held that to build a sound social protection system in a developing economy, was to put the cart before the horse. Rather, these countries should first marketise their economies, reap the growth that will supposedly be generated, and only once this process is completed should governments proceed to establish a welfare regime. The IDAs distaste for state managed social insurance policies was so intense their opposition even extended to the building of safety nets designed to cope with short-term crises. This was a message conveyed with particular enthusiasm by the IMF for which it has been taken to task by Stiglitz:

Perhaps of all the IMF's blunders, it is the mistakes in sequencing and pacing, and the failure to be sensitive to the broader social context, that have received the most attention - forcing liberalization before safety nets were put in place, before there was an adequate regulatory framework, before the countries could withstand the adverse consequences of the sudden changes in market sentiment that are part and parcel of modern capitalism .... Many of the sequencing mistakes reflected fundamental misunderstandings of both economic and political processes, misunderstandings that were particularly associated with those who believed in market fundamentalism (Stiglitz, 2002: 73).

At the end of the twentieth century, the IDA's enthusiasm for this perspective was tempered in a spectacular way by the 'Asian financial crisis'. The 'Asian Tigers' had deviated in significant ways from the development policies urged on them by the global development and financial agencies. But most had accepted social protection was a luxury they could defer and hence had failed to build the social safety nets that, all too belatedly, they discovered were desperately needed once the crisis was upon them (McFarlane and Nyland, 2001). The social instability, induced as a consequence of this failure, compelled the IDAs to reconsider the link between social protection, globalization and market risk. More specifically, they were induced to reconsider the need for safety nets that can protect the social interests of the vulnerable during periods of global financial turbulence.

The IDA's re-evaluation of the link between social protection and globalization was also motivated by research that in the 1990s revealed a sound social protection regime can make a positive long-term contribution to the globalization process (Mishra, 1999, Ratinoff, 1999, Alber and Standing, 2000). Notable scholars who contributed to this research included Rodrick (1998) who has shown that open economies tend to have large governments and argues that this is because of the high level of market risk associated with open markets (see also Rieger and Leibfried, 1998; International Labour Organization, 2001 & 2002). Recent publications that highlight the IDA's new enthusiasm for social protection strategies that can provide insurance against global social risks include the Asian Development Bank's (2001a) *Framework for Operations on Social Protection in Asia and the Pacific*, the World Bank's (2001) *Social Protection Sector Strategy: From Safety Net to Springboard* and the (2001a) IMF study *Social Dimensions of the IMF's Policy Dialogue*. These works urge government and business to recognise that while market openness offers opportunities it also exposes countries to new dangers and hence the government of open economies need to build and sustain effective instruments that can insure their populations against global risk. The new consensus is well captured by the ADB:

Globalization, while increasing the opportunities for growth, will also increase the country's vulnerability to external shocks, and the risk of increased unemployment and poverty and likely political instability. Most of the political reaction against globalization is a result of the absence of adequate social protection systems, which makes implementation of reforms very difficult given that populations may have to pay the costs of reform in the short term. Globalization requires the development of effective social protection systems. The world's forward looking development agendas give a (sic) social protection a primary role to sustain growth and well functioning markets (ADB, 2001a: 32).

The literature that the IDAs have published on the association between globalization, social protection and market risk provides a new framework for managing this form of risk that has the following features:

- Social protection is regarded as a springboard as well as a safety net for the poor;
- Social protection interventions are regarded as investments rather than costs. For example assisting poor people maintain their access to basic social services during global financial shocks fosters their future productive capacity;
- Greater focus is placed on the causes of market risk and on making it possible for poor people to engage in activities that involve higher risks but also higher returns (World Bank, 2001)

The need to ensure risk management instruments are established prior to the onset of financial crises has been especially prominent within the IDA literature. IMF officials, for example, now argue that the main challenge, once a financial crisis is upon a nation, is to choose a policy mix that restores macroeconomic equilibrium while minimising the impact of the crisis on highly vulnerable social groups. Specific proposals now advocated by the IMF include labour policies and work-fare programs that can counter the effects of unemployment on the poor, the erection of adequate social safety nets, and the protection of the poor from cuts in social programs. They also advise that it is imperative that programs for confronting crises be developed and institutionalised prior to the onset of the crisis.

Social safety nets should be put in place before a crisis and set up as permanent institutions that can be deployed as needed. Medium-term planning is crucial here, because setting up safety nets takes time and requires that the government be able to react on short notice. Nevertheless, social safety

nets should be flexible so that they can adjust to changes in the number and characteristics of the poor when the economy is hit by a shock, such as a financial crisis. Safety nets should take into account the poverty risks of different population groups, effectively targeting those most vulnerable. Because the poor often work in the informal sector, policies targeting this group should be designed differently from programs that aim to help vulnerable groups employed in the formal sector (Baldacci, Mello and Inchauste, 2002: 37).

## **GLOBALIZATION AND SOCIAL PROTECTION: THE CASE OF SRI LANKA**

The emphasis on the link between social protection globalization, market risk and social safety nets that is manifest in the literature produced by the central offices of the IDAs, is not apparent in the Sri Lankan specific publications produced by these agencies through 2001-2002 (ADB, 2001b & 2002; IMF, 2001b; World Bank, 2000a, 2000b, 2000c & 2002). Nor is there any mention in this literature of the notion that Sri Lanka needs to develop and implement a risk management strategy that can insure the vulnerable against the social costs of global financial shocks. Rather, what is manifest is a commitment to what appears an unreformed version of the Washington Consensus. Thus the notion that a large government sector is Janus Faced because though a cost it has a positive dimension in that enables the public sector to act as a shock absorber during periods of crisis receives no mention. Instead, the Government is urged to push rapidly forward with an expanded program of privatisation. Likewise, when discussing labour market reform no concession is made to the fact that a minimal level of job security can be an asset during times of global crisis. Instead, the government is criticised for allowing the continuance of laws and industrial relations practices that limit the capacity of employers to hire and fire at will. The same imbalance and distance from the rhetoric of the central offices of the IDAs is manifest in relation to the need to combat poverty. A commitment to poverty alleviation is invariably present but all suggestion that openness might increase the chance that people can fall into poverty is ignored. Instead, the importance of growth as a means of overcoming poverty is stressed even though it is noted, often with some surprise, that though Sri Lanka had a "generally satisfactory" rate of growth in the late 1990s this did not prevent the incidence of poverty increasing.

In short, examination of the literature produced by the IDA central offices and by local IDA agents in Sri Lanka indicates there exists a very significant difference between the social protection ideas of the centre and periphery. Indeed, we note that there are signs that sensitivity to the link between globalization and social protection, engendered by the Asian financial crisis is fading from the consciousness of policy makers and the IDAs. This is indicated, for example, by the Government's December 2002 *Regaining Sri Lanka: Vision and Strategy for Accelerated Development* document. Where the November 2000 *Framework for Poverty Reduction* at least paid lip service to the Janus Face of globalization there is no such recognition in the 2002 document. In this latter report the government asserts it is committed to promoting a new growth strategy that breaks with the past. But the focus is on privatisation, marketisation and curtailment of state support for welfare. In short, the report appears as no more than an endorsement of the Washington Consensus. More specifically, there is no acknowledgement that it is necessary to insure the nation's population against market risk when seeking to open the nation's economy. Management of social risk is acknowledged to be a primary aspect of social protection but it is made clear that what is being discussed to is not market risk but natural risk. Thus, the government intends to develop a 'disaster management plan and information system'. But it is intended that this will focus on 'natural disasters' and on the provision of support to "assist those suffering from natural disasters, through provision of agro-wells, flood resistant houses, agro-inputs purchase, and other forms of flood and drought relief." (Government of Sri Lanka, 2002: 81) What is of added concern is that the IDAs appear to have welcomed this perspective. This was indicated, for example, by the fact that the problem of global market risk was not discussed in the 2002 agreement forged between the Government and ADB titled *Poverty Reduction Partnership Agreement* a document subsequently applauded by the World Bank (World Bank, 2002).

The fact that there is a marked difference between the global social protection views of the centre and periphery within the IDAs suggests a major impediment exists within these bodies that is halting the diffusion of ideas from the centre. This conclusion was confirmed when the authors interviewed IDA staff in Colombo in 2002. We found that representatives of the ADB, for example, were not even aware there is new

thinking within the central offices of their organization regarding globalization, market risk and social protection. Moreover, rather than supporting the notion that insurance against global market risk is needed the local agents argued that the Sri Lankan government cannot afford the present level of social expenditure and must focus on curtailing what it presently provides. Our interviews with these officials also suggest that they believed Sri Lankan public officials were not aware there was new thinking in Washington and Manila. In order to determine the solidity of this conclusion in the next section of this paper we examine how Sri Lanka's post-independence social protection regime was shaped by globalization from 1977.

The development of a country's social protection regime is often best explained by reference to its history (Gough 2000) and this is certainly the case with Sri Lanka. Attaining independence from Britain in 1948 the nation established a social protection regime styled on the universalistic model then being built in the United Kingdom (Jayasuriya, 2000). This included an extensive system of food subsidies, free education and free health services. These provisions were tailored to function within a highly protected economy as part of an anti-poverty program. Sri Lanka, in effect, constructed an almost classic welfare state. With 19 million people the nation was able to maintain a literacy rate above 80 percent and life expectancy above 70 years (World Bank, 2000a).

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Table 1 about here  
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Key reasons why the welfare first strategy was embraced in the post-war years included the fact that it enabled conservative governments to 'deprive the left of popular support' (Athukorala and Jayasuriya, 1994: 7) and moderated social conflict between contending ethnic and social groupings (Jayasuriya, 2000). Together, these influences consolidated social protection as a dominant theme of competitive politics. Thus when in 1953 an attempt was made by the conservative national government to reduce food subsidies the party in office was soundly defeated in the following election. This experience became part of the country's political memory and as a result the universal approach to social protection survived until the 1970s.

During the 1960s Sri Lanka experienced deteriorating terms of trade and increasing government deficits. Foreign exchange reserves were depleted and economic growth slowed dramatically from 4.8% in 1965-69 to 2.7% in 1973-75. These developments forced the government to curtail social protection spending and in 1972 food subsidies were means-tested for the first time (Athukorala and Jayasuriya, 1994). This step constituted a fundamental challenge to the prevailing universal social protection regime (Jayasuriya, 2000). The political repercussions were explosive despite subsequent attempts by the left coalition government to moderate the process until 1976. The conservative United National Party capitalised on the discontent promising to restore food subsidies and consequently won a sweeping electoral victory in the 1977 election.

Though elected on a promise to continue food subsidies the new government chose to pursue a neo-liberal agenda abandoning welfarism and introducing the pro-market policies in trade and finance long demanded by domestic political leaders, significant sections of the business community, foreign investors and the leading IDAs. This dramatic change was made possible by the magnitude of the governments' parliamentary supremacy and its willingness to placate the demands of the investment community and the international financial agencies. The World Bank was particularly forthcoming in its willingness to provide the government with inducements to encourage it to embrace a pro-export oriented development strategy facilitating a significant increase in foreign loans and aid from 1977. This high level of assistance was continued through to the mid 1990s reaching 56.6% of GDP by 1995 with the Bank being the primary contributor (ADB, 1997).

As a consequence of the post-1977 reforms Sri Lanka became the first South Asian country to embrace the neo-liberal growth strategy. The impact of the policy changes on the deep-rooted social protection regime was dramatic. Social policy was shifted from redistribution to the promotion of export production. A great deal of public investment was focused on infrastructure projects a development that reflected the proposition then popular in the World Bank that large scale projects would provide low-income families with employment that could be substituted for welfare subsidies. In short, it was assumed the benefits of these projects would 'trickle down' and thereby reduce the state's fiscal burden and role in the provision of social

protection. The ADB argued in a similar vein that the “generous social welfare programs of the pre-1977 period ... maintained the poor in a low-level equilibrium, reducing the incentives for productivity and growth savings.” (ADB. 1997: 47). Consistent with this perspective the government limited social protection to the provision of residual social safety net services for low-income groups and severely curtailed social expenditure.

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Along with the curtailment of social expenditures privatisation was introduced into public transportation, health care and education with ‘the public-private mix [becoming] diluted in favour of the private sector’ and efforts were made to weaken the legal provisions shielding labour from market pressures (Jayasuriya, 2000: 19)

While the IDAs applauded the social protection changes adopted post 1977 they remained critical at the extent of reform and impatient at the pace with which governments introduced the neo-liberal agenda. This impatience on numerous occasions induced the IDAs to go beyond merely providing support for local initiatives. They were especially critical of government funded welfare programs, in particular Janasaviya, Janasaviya Trust Fund (JTP) and Samurdhi Programs which were deemed to be costly and misguided. As a consequence they sought to use their influence to accelerate the adoption of neo-liberal policies and halt any perceived tendency to backslide. This point is highlighted by Clad in relation to the Premadasa government of 1989:

Sri Lanka’s failure to stick to conditions set when the IMF last granted the country a three-year stabilisation package has resulted in President Ranasinghe Premadasa being tied down to a very tough, and very specific programme of promises as the price of resumed IMF lending. .... [In fact], the IMF’s executive board approved a revised policy framework paper (PEF) which Premadasa had little choice but to swallow. The PFP commits his government to cut public sector employment, sell estate companies, lower tariffs, slash welfare spending, and liberalise the trading and investment regimes (Clad, 1989: 57).

In this environment many families were compelled to rely on family resources and NGOs with the latter becoming an important provider of social protection (ADB, 1997; Davis, 2001). In summary, the universal welfare regime that had prevailed in Sri Lanka after independence was rolled back from 1977 with the enthusiastic encouragement of local business, many political leaders and the IDAs all of whom insisted that a high level of social protection was an unwarranted luxury and a constraint on the nation's capacity to globalise its economy. This was a perspective that continued to be reiterated by market enthusiasts even as the country’s civil war became an ever greater drain on the nation’s budget and the wellbeing of the population.

The social protection policies promoted by the UNP through the seventeen years it remained in office after 1977 were much criticised by the People’s Alliance (PA) - the major opposition party. But as with most social democratic organizations, free market enthusiasts became increasingly influential within the party from the mid 1970s. The extent to which this occurred became apparent when the PA won the national election of 1994. In short, the change of government had little impact on the level, quality and form of social protection provided to the population (World Bank, 2001).

What the latter development reveals is that by the mid 1990s the Washington Consensus approach to social protection had been accepted as a necessary feature of development across the political spectrum within Sri Lanka even if the continued popularity of the post-independence regime amongst recipients made it difficult to abandon all its elements. In choosing to embrace this perspective, Sri Lanka’s political, business and intellectual leaders had to internalise a mindset favourable to the neo-liberal social protection model.

It is our contention that the success achieved in promoting this objective has now become an important obstacle to the diffusion of the IDA's new ideas that link globalization, social protection, and the

management of risk. To determine if an explicit effort needs to be made to overcome this obstacle and if a potential audience is present that would welcome the new social protection ideas and assist their implementation we conducted interviews in Sri Lanka in January-February 2001 and June 2002.

Those interviewed included 3 national Ministers, 12 Senior Bureaucrats (Ministerial Secretaries and Directors in the public sector including a high officer of the Central Bank), 3 employees (from Ministry of Agriculture and Ministry of Education) and 5 ex-employees (from Mahaweli Authority, Ministry of Agriculture and the Steel Corporation); 3 Employer Association representatives, 3 Trade Union officials, and 5 Officials of the ADB and ILO. The selected politicians had major portfolios in the government and the public officials were responsible for policy implementation. The employees each had more than fifteen years of service in the public sector and had experienced the post 1977 changes to social protection. Three of the former employees had taken early retirement and two were retrenched due to privatisation in the 1990s. The employer associations and unions were major national organizations. In addition, a number of informal discussions were conducted with senior officials in the Ministries of Labour, Social Services and Finance. A structured questionnaire was used for the interviews that was designed to determine views regarding the:

- post-1977 liberalisation of the social protection regime;
- place of social protection in the nation's globalization strategy;
- the new social protection ideas being promoted by the IDA central offices.

The average interview was 30-90 minutes and was conducted both in Sinhala and English, whichever was more convenient to the participant.

## **FINDINGS AND DISCUSSION**

### **Post-1977 Liberalisation of the Social Protection Regime**

The individuals interviewed in Sri Lanka had divergent political and ideological allegiances and perspectives. A large minority (28 per cent) supported the neo-liberal perspective advocated by the Washington Consensus; a core group of 59 per cent supported an intermediate approach largely in sympathy with the views being expressed in the Post-Washington Consensus; while 13 per cent continued to support the post-independent welfare model though even this minority accepts that in the present circumstances an unmodified version of that strategy is not a viable option. The views of those interviewed are summarised in Table 3 utilizing a taxonomy that may shade some differences in perspective but does reveal patterns that are of significance.

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What is clear from the table is that there is a marked social/class pattern in the responses received. Only bureaucrats appear in all three groups. Employers, a number of high-ranking bureaucrats and politicians support the Washington Consensus model but no workers or their representatives support this position. A body of middle ranking bureaucrats, employees, ex-employees, union officials and politicians from the major political parties support an intermediate position. While, a mixture of high-ranking bureaucrats from the Ministry of Labour, employees and ex-employees support a social democratic model in which state provision predominates. No politicians or union leaders appear in this last category.

The liberal grouping applauded the post 1977 marketisation of social protection but insist the government needs to go further. Employer Association representatives were especially enthusiastic in voicing support for those aspects of the local IDA reports that insist Sri Lanka's labour laws need to be further reformed in ways that will enhance the capacity of employers to hire and fire at will. In advancing this claim employers repeatedly cited the fact that IDA reports invariably insist that 'inflexibility' in labour markets runs counter to the required development strategies of the country. Similarly, they cited the IDAs when arguing that the benefits of privatisation cannot be realised without reforming the existing labour market regulations and the present level of job security available to workers. Arguing along the same lines, high-ranking bureaucrats

complained that the continued strength of unions was being aided by the fact that successive governments have viewed job security as a means of ensuring income to employees in the absence of unemployment benefits. In particular, they were critical of the Termination of Employment and Workmen Act of 1972 that restricts employers' decision-making in relation to hire and fire. They conceded greater labour market flexibility might increase the market risk faced by employees but insisted this cost must be tolerated as part of the long-term development of the country.

The intermediate group also applauded the post 1977 reforms. They accepted the need for an outward development orientation but differed from the liberals in that they emphasised the need to promote social equity as well as marketisation and insisted this requires an active and interventionist government. In short, recognition of the fact that globalization is Janus Faced is a primary characteristic of the intermediate group. That this grouping has some influence in Sri Lanka is indicated by the fact that an awareness of the link between globalization and social protection and the consequent need for risk management strategies was manifest in the November 2000 government report titled *Sri Lanka: A Framework for Poverty Reduction*. This work also made it clear that within some social groups in Sri Lanka there is an explicit awareness that while globalization has the potential to greatly assist the reduction of poverty it can also be a source of poverty.

Sri Lanka's economy is highly open and is exposed to sudden changes in global trade and investment conditions. Increased globalization provides a myriad of opportunities for poverty reduction, but it also exposes the poor to volatile global commodity and capital market conditions. Sudden changes in global markets are difficult to anticipate and can have dramatic effects on the welfare of the poor (Government of Sri Lanka, 2000: 51).

In contrast to the high-ranking liberal bureaucrats who were unrestrained in their enthusiasm for the Washington Consensus, the middle ranking bureaucrats of the intermediate grouping highlighted the need for the government to identify target groups and specific social sectors in order to ensure that at least these groupings are accorded adequate social protection. Politicians who supported this view labelled their perspective a 'market model with a human face'. The latter insisted the globalization of the world economy has made it of vital importance that individual countries remain competitive in international markets. They share the liberal's view that the pre-1977 development strategy had limited the funds available for investment and production and created a dependency mentality within the population. As globalization proceeds, a representative of this grouping observed, "we need to act as participants, not as recipients". But they accepted there is a need to shelter the vulnerable from both natural and market risk.

While accepting the importance of market-oriented policies for job creation, employee and ex-employee members of the intermediate grouping emphasised the key role that government has to play in protecting employees from unemployment. Members of this grouping accepted the private sector and non-government entities (NGOs) could play an increased role in the provision of social protection but insisted it was the government that must bear final responsibility for assuring the basic needs (food, education, health) of the people of Sri Lanka. The trade unionists interviewed, all of whom belonged to the middle faction, were vocal in support of the latter claim. At the same time the union leaders made it clear that they appreciated the fact that they had been encouraged to become involved in an on-going discussion on labour issues with the Government and the World Bank. One union leader explained that the unions were eager to participate in debates and programs relating to such issues as employee relocation, restructuring and the development of vocational training programs designed to assist workers meet the challenges generated by globalization. How widespread such views are within organised labour is a moot point. This was highlighted by a social democratic bureaucrat who observed that the post-1977 governments had actively sought to promote their allies within labour organizations.

The new conservative government relaxed a number of labour laws and assisted its allies in the trade unions to win control of trade unions in the manufacturing and service sectors. Strong protests and strikes made by trade unions against these measures were severely dealt with. These efforts by the ruling party enhanced the capacity of employers to determine work place relations.

This observation lead us to query the extent to which our union interviewees represented the wider union movement but the fact that this perspective is present within the middle ranking group is notable. It is notable not least because it contrasts markedly with the blanket hostile depiction of Sri Lanka's union movement that tends to characterise country specific IDA reports which seldom recognise there exists a diversity of views within the ranks of organised labour (Rama, 1994).

The social democratic grouping stands out in that it continues to support the pre-1977 development model and perceives a strong link between open markets, social protection, and market risk. However, even this group accepts it would be difficult to return to the pre-1977 position in the present global context. The bureaucrats in this grouping highlighted the importance of government involvement and investment in sectors such as education, health, and industrial relations. However, they did not wish to see the return of a closed economy and instead argued that expanded state investment in human development is necessary if Sri Lanka is to be competitive in the global market. Repeatedly, it was observed that the government should look to successful East Asian states, such as Malaysia, that had refused to comply with the wishes of the World Bank and IMF during the Asian crisis and struck a more independent course that involved in depth government participation in the development of the human resources of the nation. One high-ranking bureaucrat, from the Department of Labour, insisted the government could not ignore its responsibility for the provision of basic social needs. He observed that labour retrenchment has become a common phenomenon in the country in recent times and workers expect the government to appreciate what this means for the lives of displaced workers and their families.

What I really see is that almost all employees expect that the government has the sole responsibility of safeguarding the welfare of workers, especially in the event of termination. However, there is no unemployment insurance scheme similar to that of developed countries. Skill development for alternative employment is remote. No machinery to monitor alternative employment or self-facilitating system for employment for semi-skilled or unskilled workers. Hence, there must be a regulatory government body that can monitor labour issues in the process of retrenchment.

Highlighting the link between open markets and social protection, he also noted that the state does little to protect employees when large firms, particularly foreign firms, terminate their activities. It was acknowledged that on occasion the state had sought to find alternative employers willing to restart such ventures but insisted the effort undertaken had been insufficient. Specific activities that he identified as needing to be strengthened included the institutionalisation of responsibility for locating alternative sources of finance for firms in difficulty, the provision of counselling for displaced workers, and the creation of retraining facilities that can assist the unemployed match their skills with the needs of the labour market.

Further highlighting the link between market openness and market risk the latter official went on to say that the insecurity of the poor had been enhanced by the establishment of export processing zones (EPZs) and the subsequent extension of the free trade regime to the whole country. The EPZs created a new type of workforce - young female workers – whose participation in the formal sector signified a new development in workplace relations and has undermined working conditions and increased the market risk borne by employees. As a consequence, low wages, unsafe work, and excessive production targets have become the norm. Further, it was noted that a number of multinationals had simply left the country for sites, such as Bangladesh, Burma, and Vietnam, when local employees dared to challenge the workplace policies and practices of these firms and when this had occurred the government had proven to be helpless.

Finally, the social democrats were also distinguished by the fact that they stressed the link between social security and the maintenance of social stability. Employees and ex-employees in the social democratic grouping were particularly vocal in insisting that social protection programs should address the specific problems of the hardest hit sectors of the economy to avoid a political backlash. They noted what they saw as a direct association between two youth upheavals, the first in 1971 and the second in 1989 and the failures of government social protection policies. They argued that if the needs of the rural youth had been given serious consideration, and if the government had provided opportunities for these marginalized groups in the process of development, it could have saved thousands of lives and a substantial amount of resources needed for the country's development could have been saved.

## **Place of Social protection in the Nation's Globalization Strategy**

Participants in all three groupings were in an agreement that social protection is important but accord this factor a varying degree of significance when questioned regarding the role they believe this factor should play in Sri Lanka's globalization strategy. The liberals believed that if Sri Lanka is to successfully extend its efforts to globalise it is imperative that the government ensure the countries' resources are utilised in ways that promote economic growth. By this they mean the development of infrastructure (transport, banking, telecommunication and information technology) that will facilitate and encourage both local and foreign investment. In this context they hold that government social protection expenses should be minimised and the gap filled by the private sector, local and international NGOs, and employer goodwill.

Liberals applauded the sequencing advocated by the Washington Consensus insisting that enhanced social protection should be the end-result of the process of globalization rather than an ingredient within a globalising strategy. To provide a high level of social protection while the nation is still seeking to become firmly integrated into the global economy, it was claimed, will divert the funds needed for investment. In voicing this perspective employer association representatives denounced the failure of unions to accept the need to dilute job security. Seeking to place a humanist gloss on this position they insisted that such activity will have to be curtailed because it restricts the opportunities available to workers in terms of career development and higher wages. In particular, one employer representative declared:

Trade unions always fight for higher wages and shorter working hours, but hardly look at the provision of increasing facilities such as vocational and technical training for their members. Flexible labour market policies make it possible for employers to increase efficiency and reduce the cost of production. This would be more beneficial for workers as they are obliged to increase efficiency or face the risk of losing their jobs.

When the suggestion was put to liberals that should the future path of globalization increase the market risks that workers bear it might be wise for the state to introduce unemployment insurance this notion was rejected firmly. One high-ranking bureaucrat of the liberal grouping captured the views of his peers when he explained:

People should be able to find new jobs if they lose their jobs. It is their responsibility to shape their abilities for the existing job market. We don't need a comprehensive social protection system but we do need effective management practices to boost the economic growth in the country.

The liberals understanding of what constitutes a correct sequencing was expressed elsewhere by the Finance Minister when he observed:

Over the next few years, this government is committed to correcting the under-funding of the social sectors. But this can only be accomplished once the government's revenue position improves, and wasteful and unproductive expenditure is curbed (Budget Speech, 2002, p.2).

Politicians differed from employers and bureaucrats in the liberal grouping only to the extent that they insisted that labour market 'flexibility' should not be understood to mean employers should be free to manipulate and exploit their employees without restraint. In passing it should be noted, the limited enthusiasm these politicians expressed for social protection in the interviews contrasts markedly with the enthusiastic views they have expressed within their political manifestos (UNP Manifesto, 2001 & PA Manifesto, 2001) produced for electoral purposes. Asked about the possibility that further limiting of social protection provisions is likely to lead to a political backlash liberals tended to reply that without economic growth the social instability will be even more intense. One high-ranking liberal bureaucrat assessed the situation thus:

Economic growth rate of the country is well below expectation due to a number of political and economic reasons from the past. Although the government claimed that the country provides the best investment opportunities in the region, it has failed to increase the confidence of the business

community to a significant level. What needs to be done is to address these [economic] issues urgently. Otherwise the people will face even more difficulties which might create political and social instability in the country.

By contrast with the liberals, participants of the intermediate grouping argued that social equity will have to be accorded a significant place in Sri Lanka's future globalization strategy. They insisted that market liberalisation would create many benefits but also accepted these benefits would not spread to the poor unless a conscious effort was made to include the marginalised within the globalization process. Resources committed to this process will need to be limited and carefully targeted with emphasis placed on income-promoting opportunities for the poorest but it was accepted this activity is fundamental to an effective globalization strategy. In particular, echoing what sounded like third-way social democracy it was stressed the state should encourage self-help programs and community projects.

The social democrats were distinguished from the other two groupings in that they opposed the idea that social protection should be either reduced or further targetted in order to further globalization. They insisted that it was necessary to appreciate that despite the fact that the government has provided MNEs with attractive benefits and infrastructure these enterprises have failed to make any long-term commitment to the nation and people of Sri Lanka. Therefore the central focus of the nation's future globalization strategy should be the needs of the people rather than the needs of the MNEs. Most importantly, it was suggested that this requires that the race to globalise should be slowed to what the nation can absorb with greater emphasis being placed on indigenous resources, skills, and local markets. They lamented that despite the fact that the nation's education and health services are still free of means testing, the quality of service is gradually deteriorating. As far as Sri Lanka's capacity to integrate into the global economy was concerned this was held to be a major source of concern both because of the inequity involved and because it would limit the ability of Sri Lanka to established a sound position within the global economy. As an aside it should be noted, this perspective was endorsed by the General Manager of the largest multinational operating in Sri Lanka. When interviewed (in Australia) he observed that his company would not have invested in the country had it not been for the high level of mass education made possible by the government's past interventions in the labour and training markets. Similarly, one high-ranking bureaucrat of the social democratic grouping observed:

Policy makers seem to assume that the increasing private sector participation in health and education would reduce the government expenditure on social protection. However, what they failed to realise is that the majority of the population would be increasingly marginalized as a result of the limited access to the facilities provided by the private sector. This means that their ability to compete in the global market is further constrained in the long run widening the gap between the rich and poor.

### **The IDAs New Ideas**

When questioned regarding their views on the new ideas relating social protection, globalization and market risk, that is manifest in the publications of the central offices of IDAs, there was unanimous agreement amongst the interviewees that they were not aware of these ideas. It was also agreed that had not been apparent in the policies and programs promoted by these agencies within Sri Lanka. But while there was unanimity that they had not heard that the IDAs were rethinking their ideas there was a clear diversity in way the three groupings responded when the new ideas were explained. Participants of the liberal grouping rejected the notion that globalization increases the risks borne by the population. They also insisted that the new weighting being proposed by the agencies should be rejected because the government could not afford to redirect resources away from the uses to which they were already committed. This perspective clearly followed from the liberals' belief that the government should focus on advancing economic growth and that social expenditure is an unjustified diversion of scarce resources. In short, what is apparent from the interviews is that the advocates of the liberal position remain firmly attached to an unreconstructed version of the Washington Consensus and will oppose any attempt to import the social protection ideas of the Post-Washington perspective into Sri Lanka.

The intermediate group, by contrast, welcomed the notion that there is a heightened appreciation within the IDAs that globalization can increase market risk and that social policies need to be institutionalised to manage this risk. Politicians were particularly enthusiastic on learning of this development expressing the hope that it would reduce the pressure they have been subjected to by the IDAs to further reduce welfare expenditure. However, the politicians voiced surprise at the notion that the IDAs were linking social protection and globalization and were advocating the adoption of appropriate risk management strategies. The surprise was even greater amongst employees, ex-employees, and union leaders from the intermediate group. While declaring repeatedly that they welcomed the new ideas they observed that they fell outside their understanding of the ideological perspective of the IDAs.

The surprise expressed by the latter individuals was matched by scepticism on the part of the social democratic grouping. It was insisted by the latter that the IDAs were simply incapable of divesting themselves of their commitment to the Washington Consensus. This perspective was adhered to even when it was observed that the World Bank had recently initiated a number of new projects in rural areas to alleviate poverty. Such steps were dismissed as in no way reflecting a rethinking on the part of the IDAs regarding the association between globalization, social protection and risk management. This perspective was echoed by social democratic bureaucrats who pointed to the fact that the government was currently pushing forward with a privatisation program largely because of pressure from the World Bank (World Bank, 2002) and the IMF (2001b). A high-ranking bureaucrat was particularly critical and noted that as with most of the reforms they have urged on Sri Lanka the privation proposals of the IDAs apportion scant attention to the social costs of reform.

Overall, the interviews revealed that through the intervening period between the two sets of interviews there was no increased awareness that the IDAs had embraced a new appreciation of the link between globalization and social protection. Nor, despite the extended period between the two interview sets, was there an awareness that these agencies were now arguing that the opening of markets requires the adoption of risk management strategies that can cope with the greater market vulnerability that comes with open economies.

## **CONCLUSION**

Intergovernmental Organizations and most IB scholars have appreciated the 'bright side' of globalization and have made effort to highlight the benefits of a market-friendly and open economic agenda. The severe financial and social problems that began in Asia and spread to many other parts of the world in the late 1990s forced governments, academics and the IDAs to reconsider the link between globalization, social protection and market risk. As a result, there has been a growing appreciation within the IDA central offices that globalization has both positive and negative aspects in that it can generate social risk and well as social benefits. We accept this is an important development. However, we have been unable to locate any indication of this new awareness in the country specific reports produced by the IDAs in relation to Sri Lanka. We have also been unable to find any signs amongst the local community within Sri Lanka that they are aware that a change of perspective has occurred within the IDAs.

We suggest that a divergence of this nature is a matter of deep concern for with time it is likely that sensitivity to the distress caused by the Asian crisis will fade. As the feeling of urgency is lost the likelihood that nations will institutionalise the various forms of insurance that are needed to protect their populations from global financial and market shocks will diminish unless they are encouraged and assisted by the IDAs. Indeed, we suggest that there are clear signs this is already happening in Sri Lanka and as consequence the social bulwarks that the IMF has advised need to be constructed before a crisis is upon a nation are not being built.

The fact that there is a marked difference in awareness regarding globalization and the management of social risk, in the literature produced by the IDAs, suggests the internal barriers that isolate the different internal streams within these bodies, that have been identified by Ranis (1997) and Pincus (2000), are preventing the diffusion of the awareness that is needed to facilitate reform. This is a situation that warrants close attention by these agencies. However, our interviews lead us to believe the problem is not only internal to the IDAs.

Nor is it, as Dollar and Svensson (1998) would argue, simply that there is institutional failure or a lack of commitment to neo-liberalism within Sri Lanka. Only a relatively small number of interviewees wished to slow the process of market opening and it is clear that there is a broad acceptance of the need for Sri Lanka to fully integrate into the global economy. Indeed, we suggest that the high degree to which neo-liberalism is embraced and what this perspective supposedly implies is a greater problem. Enthusiasm for the Washington Consensus approach has become deeply ingrained amongst business leaders and senior bureaucrats and this development has generated an influential community highly resistant to the social protection ideas associated with the Post-Washington Consensus. This context means that even should the IDAs clear the internal blockages that are preventing the diffusion of the new ideas from the centre to the periphery their diffusion outside of the agencies is likely to be strongly resisted by those who remain ardent supporters of a purer form of neo-liberalism.

Diffusion of these ideas will also be hampered by the mind-set that the long adherence of the IDAs to the Washington Consensus has induced amongst those Sri Lankans who dream of globalization with a human face. Our interviews indicated there is a large audience that would be sympathetic to the new IDA ideas being expressed by the central offices of these bodies. But we also found that those who shared these sympathies tended to be surprised that the IDAs would even consider the idea that globalization is Janus Faced and that they would urge the building of social bulwarks that can insure populations against global market risk. The fact that this audience exists should be seen by the IDAs as a positive development that can assist the diffusion and take up of the new ideas but the fact that there is doubt and in some cases disbelief that the agencies have adopted a new perspective is a barrier that will need to be overcome and this will require a conscious and continuing effort on the part of the IDAs. As we mentioned earlier, it is a critical ingredient to the success of IDA programs to identify this group of reformers who welcome the desired reforms of the IDA and implement them with a high degree of enthusiasm.

Whether the social protection ideas associated with the Post-Washington Consensus are an adequate response to the social risks associated with globalization is clearly a moot point. But at least they are an advance on the undiluted enthusiasm for market solutions that long characterised the IDAs prior to the Asian Financial Crisis. In short, recognition that globalization is a Janus Faced phenomenon and that communities need to insure against the dark side is an advance that is welcomed. But if change remains restricted to the rhetoric of the centre little will be done to act on this awareness. We are concerned that this appears to be the case in relation to Sri Lanka.

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**Table 1: Human Development Index (HDI) in Selected Countries 1975-1999**

Country/Year	1975	1980	1985	1990	1995	1999
Australia	0.842	0.859	0.871	0.886	0.926	0.836
Malaysia	0.614	0.657	0.691	0.720	0.758	0.774
<i>Sri Lanka</i>	<i>0.614</i>	<i>0.648</i>	<i>0.674</i>	<i>0.695</i>	<i>0.717</i>	<i>0.735</i>
China	0.522	0.533	0.590	0.624	0.679	0.718
Pakistan	0.343	0.370	0.403	0.441	0.476	0.498
Bangladesh	0.332	0.350	0.383	0.414	0.443	0.470

Source: UNDP, Human Development Report 2001, 145-47

**Table 2: Social Expenditure as Percentage of GDP**

	1951-55	1961-65	1971-75	1981-85	1991-95
Social Expenditure	7.1	10.5	9.9	5.5	9.3
Food security	2.4	3.7	4.3	0.2	0.9
Education	NS	4.0	2.9	1.9	2.8
Health	NA	2.0	1.5	1.0	1.5
Other social services	0	0.1	0.2	0.1	4.1

Source: Central Bank of Sri Lanka, *Annual Reports*, various years

**Table 3: Different Views of Social Protection Regime in Sri Lanka**

Political Ideology	Main Focus	Participants (%)	Participant Category
Liberal (Washington Consensus)	Market approach – trickle down effect	28.0	High ranking Bureaucrats/ politicians/Employer representatives
Intermediate (Post-Washington Consensus)	Market approach with social equity – growth and welfare	59.0	Middle ranking Bureaucrats/ Employees/Ex-employees/ politicians/union leaders
Social democratic (Limit Openness)	Welfare state – welfare oriented growth	13.0	High ranking Bureaucrats/Ex- employees/Employees

n=29 (excluding IDA officials)