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Industrial Policy for Sri Lanka?: Insights from a Multi-stakeholder Roundtable

Background

Centre for a Smart Future (CSF) and the SOAS Centre for Sustainable Finance hosted an Expert Roundtable on 'The Return of Industrial Policy: Considerations for Trade, Competitiveness, and Green Growth in Sri Lanka' on 13 July 2026, with the aim of providing greater clarity for interested stakeholders on the policy choices Sri Lanka has. The focus of the presentations and the discussion was on the re-emergence of industrial policy approaches globally over the last decade - both in advanced economies in the West, and in East Asia, and emerging economies in South East Asia - and its implications for Sri Lanka. This Analytical Note serves as a recap of the key themes and takeaways from the session, with a focus on the tensions, trade-offs, and strategic directions raised for Sri Lanka's industrial and trade policy.

Overview

Industrial Policy, once dismissed in mainstream development thinking as prone to inefficiency, has returned to the thinking behind global economic strategy. For Sri Lanka, this shift arrives at a pivotal moment where the country is emerging from a severe economic crisis, navigating an IMF-supported reform programme, while simultaneously needing to reposition its productive sectors for export competitiveness, climate resilience, and higher value addition. However, for a fiscally-constrained economy like Sri Lanka, with limited state capacity, the policy pathways are more contested.

This discussion brought together key national and international stakeholders, including representatives from the Ministry of Industries and Entrepreneurship Development, Ministry of Trade, Export Development Board, Central Bank of Sri Lanka, and the National Innovation Agency, as well as the World Bank and Asian Development Bank. The private sector was represented by leading firms in the apparel and technology sectors, alongside academics from the University of Colombo and University of Moratuwa, and researchers from several prominent think tanks.

Dr. Diana Barrowclough, Senior Economist at UNCTAD, opened by reframing industrial policy as 'production transformation policy' and setting out what is old (the need for institutional capability and public development banks) versus new (its green and geoeconomic security framing) about the current global wave. Mr. Anushka Wijesinha, Economist and Co-founder/ Director of CSF, then presented cross-country lessons from recent Asian industrial policy approaches highlighting common threads of de-risking and high-level political commitment. Dr. Asanka Wijesinghe, Research Fellow at the Institute of Policy Studies of Sri Lanka, followed with a proposed framework for export-led industrial policy in Sri Lanka, identifying feasible target sectors using comparative advantage and market growth criteria, and setting out the case for tariff reform to correct the economy's built-in anti-export bias. Professor Ulrich Volz, Director of the SOAS Centre for Sustainable Finance, closed with a presentation on finance as the core execution mechanism of industrial policy, making the case for a well-governed public development bank given the mismatch between Sri Lanka's short-term commercial credit and the patient capital industrial projects required.

Following the presentations, the floor opened for reflections in turn from academia and think tanks, the private sector, and government representatives.

Clarifying Sri Lanka's Industrial Policy Focus

There was broad agreement that industrial policy itself is not new. Every industrialised country has used some form of targeted state intervention on its development journey. What is new, participants argued, is the framing. Today's wave is wrapped in decarbonisation goals, geoeconomic security, and supply-chain resilience.

A contested question of the session was whether the government should support specific sectors that can support job creation, upgrading, and diversification goals, or should it be a more sector-agnostic approach, focusing instead on fixing structural constraints of land, labour, energy and access to finance.

"Is it that the government should be able to identify industries with comparative advantage and provide evidence to the public sector, or create an enabling environment for the private sector to identify industry?"
- Leading university academic.

Some proposed approach shortlisting sectors using export growth history, comparative advantage, and WTO-compatibility, on the logic that this reduces the government's chances of picking losers. Others argued that Sri Lanka's priority should be to address structural constraints affecting all sectors:

"Regardless of the sector chosen, the same market challenges are there like land, labour, energy... just picking one sector, in my view, it is difficult to move because the fundamental issues are still there."
- Think tank head.

Another question raised was to what extent the focus of industrial policy remains manufacturing-centric, given that manufacturing concentrates the overwhelming majority of global private R&D and technological capability. Industrial policy in the past, and even today, is being utilised to enhance manufacturing capabilities, and stakeholders argued that Sri Lanka has severely lagged behind in boosting manufacturing capabilities. Some participants argued that recent institutional reframing of the concept dilutes the historical, manufacturing-specific formula behind East Asia's industrial success:

"We see technological capabilities in manufacturing that we still don't see in any other sector... 80% of global R&D happens in the manufacturing sector."
- University lecturer and researchers.

Others took the view that industrial policy should be understood as a broader process of economic transformation rather than a manufacturing-specific programme, extending naturally into services, agriculture, and innovation.

"Industrial policy could also just as well be called production transformation policy, because that's actually what we're trying to do... it's more open - related to services, agriculture, and innovation."
- Dr. Diana Barrowclough, UNCTAD.

Bottlenecks of Political Discontinuity

Participants acknowledged that Sri Lanka's past struggles with industrial policy were perhaps not a function of the quality of the policies themselves, but a lack of political will to implement them consistently. Policies were redesigned or abandoned with each change of government, without ever evaluating what had worked and what had not.

"We may be able to make very good industrial policies... but ultimately it depends on the willingness of the government to implement these."
- Central Banker.

A related concern was about the politicisation of the policymaking process itself. A leading economic researcher questioned whether Sri Lanka's institutions are capable of insulating industrial policy from political interference at all, pointing to a track record of weak enforcement and limited accountability even where rules and legal commitments already exist.

"How do we depoliticise the process and make it more democratic?... We live in a country where no one takes these things seriously, so can it even work? No one is held accountable."
- Think Tank head.

Financing Industrial Policy

It was recognised that a key, compounding bottleneck is financing. Government fiscal pockets are strained, making large budgetary outlays for industrial policy unviable and unwise. Commercial banks in Sri Lanka were repeatedly described as structurally unsuited to supporting long-term industrial transformation, as they offer short-term, collateral-based credit instead. Prof. Ulrich Volz argued that finance is a core execution mechanism of industrial policy, and needs to be designed alongside the strategy from the outset - especially to mobilize the patient, long-term capital that industrial transformation needs. He pointed to tools like targeted credit, export credits, tax incentives, and central bank regulation to redirect lending away from carbon-intensive activities, and set out specific conditions for the proposed public development bank: independent governance, strict project screening, sunset clauses, and funding tied to clear KPIs rather than open-ended support. He also flagged pipeline development as a gap only a public development bank can fill, since commercial lenders won't invest in building bankable projects from the ground up.

"It is not about the government providing all the finance. That's absolutely impossible... it is about providing the right incentives: carrots and sticks."
- Prof. Ulrich Volz, SOAS Centre for Sustainable Finance.

A separate point raised was about how capital that already exists in the system is being deployed. A leading technology entrepreneur pointed to Sri Lanka's insurance companies and provident funds as large pools of long-term capital that are currently invested conservatively and short-term, rather than toward productive, long-horizon investment.

On Research and Development (R&D), many noted not a shortage of funding but a weak commercialisation pipeline. An example cited was a recent government R&D funding round that drew a strong volume of applications but few that were investable, with promising researchers frequently lacking a route from good research to market-ready proposals.

"It's not a funding problem, mainly [it's] how to get the real R&D connected to... commercialization. That's the problem I see."
- Senior Government official.

Global Lessons, Local Relevance

The session highlighted a range of country cases to illustrate different features of the current global wave of industrial policy, especially in Asia. They included South Korea's time-bound resource dependency reduction target (its "3050" strategy), Japan's state-backed semiconductor consortium, and Indonesia's state-led nickel value-addition and battery development strategy. Dr. Barrowclough added that increasingly industrial policy approaches in Asia are looking at tools beyond subsidies.

"High income countries use subsidies for about 30% of their industrial policies… low-income countries use subsidies about 5% of the time… there are many, many things you can do with industrial policy that are not subsidies."
- Dr. Diana Barrowclough, UNCTAD, Speaker.

However, participants from international organisations cautioned against treating these global cases as templates. Research was cited showing that directly copying frontier-economy industrial policy tends to reduce, rather than increase, productivity in slower-growing economies, because frontier economies also spent decades building the underlying institutions that cannot be imported alongside the policy itself. The more useful reference points for Sri Lanka, several participants argued, are countries that deepened existing strengths such as moving apparel into technical textiles, rubber into more sophisticated goods, and tea into higher-quality products, rather than attempting to leapfrog into frontier sectors such as semiconductors.

"If you just copy exactly what frontier economies are doing… productivity falls, and falls by a lot… frontier countries didn't copy their institutions either."
- Representative from a Multilateral development bank.

This context-specificity was echoed in the discussion of Sri Lanka's tariff structure, which Dr. Asanka Wijesinghe agreed carries a built-in anti-export bias once cascading duties like CESS, and VAT are stacked, with effective protection running well above headline rates.

A proposal was floated to sequence tariff and CESS reform using a data-driven approach to identify priority lines for negotiation, but this in turn raised an implementation question: which agency would hold the mandate, and the political durability, to negotiate concessions and monitor compliance over time particularly as global buyers increasingly attach their own conditions to market access.

A related, more structural argument was that Sri Lanka's comparatively undamaged natural resource base could itself be the foundation for a resource or biodiversity-oriented industrial strategy, rather than a constraint on one.

"If you look at the industries we are looking at [for] a new policy, that should be based on what has been protected all this time, because we wasted our lands [in] the 19th century industrial revolution."
- Innovation ecosystem leader.

Ten Key Takeaways and Observations

1. Industrial policy will only hold if it is anchored in institutions built to survive changes of government. Sri Lanka's past track record of policy continuity does not provide an encouraging reference point. Implementing coherent and consistent industrial policy approaches require long-term commitments.
2. The reforms since the economic crisis of 2022 provide a potentially durable macroeconomic landscape, and a point at which to now experiment around policies that support growth. The strong fiscal surplus and the predictability around policies must now be leveraged.
3. In recent decades Sri Lanka has neglected the manufacturing sector, with policies biased against industrial development. New industrial policy approaches practiced globally necessarily prioritise improving industrial capabilities - for export competitiveness, R&D and technology adoption, and supply-chain resilience.

4. There were strong competing views around whether the government should support certain strategic sectors or provide more horizontal support instead. The broader consensus seemed to be that there is little state capacity to effectively target sectors, and therefore tackling structural economy-wide constraints might be more desirable. Yet, it was clear that different parts of government are currently pursuing both approaches at once.
5. Commercial banks are poorly equipped to finance industrial policy objectives, and a public development bank, with strong independent governance, multi-layered financing, and support tied to performance, can supply the patient capital that industrial projects and SMEs currently cannot access.
6. Frontier-economy strategies - especially in the West and in advanced Asian economies - offer useful institutional lessons and insightful reference points - but are inappropriate templates to copy directly. Their fiscal strength, institutional competencies, and implementation capabilities are far ahead of Sri Lanka's, and attempts at replication would waste resources and yield weak outcomes.
7. SME export underperformance and weak R&D commercialisation are execution and capacity problems, not primarily funding problems, and should be addressed with capacity-building and market linkages rather than just new financing instruments alone.
8. Sustainability and market-access standards need to be built into the design of any industrial policy approaches from the outset, since export markets are already treating them as a condition of access rather than an optional extra.
9. Any industrial strategy needs to be weighed against the country's broader fiscal picture, including competing claims on public resources from education, health, and social protection, since these were raised as foundational to industrialisation rather than separate from it.
10. As Sri Lanka recalibrates a range of other policies - around education, climate, tax, investment, trade, energy, etc. - industrial policy considerations must necessarily be considered alongside these, for more holistic and coherent outcomes.

Centre for a Smart Future (CSF) is a Colombo-based think-tank with researchers, advisors, and partners around the world.

We conduct high-quality research, promote collaboration across disciplines, and generate actionable ideas. Our current work is anchored to influencing a just recovery from Sri Lanka's polycrisis, with the environment and human wellbeing at the core. Our research has partnered with organisations such as Institute of Development Studies, London School of Economics, International Labour Organization, Open Society Foundation, Blue Resources Trust, and Biodiversity Sri Lanka. What sets us apart is our interdisciplinary approach to research and policy advocacy. We like being imaginative in how we think about challenges and solutions.

We continually engage with a spectrum of stakeholders - from local communities to policymakers - which ensures that our research is relevant and accessible to a broad audience, while also contributing to meaningful policy change.

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