

Importance of Economic Development for Political Stability in the Northern and Eastern Provinces of Sri Lanka

Introduction

The objective of this article is to identify a potential development approach for the North and East (N&E) of Sri Lanka for achieving durable political stability and sustainable growth momentum, not only in the N&E regions, but also in the rest of the country. This exercise is important for many reasons. Firstly, the N&E regions were economically and socially reclusive regions to a varying degree for nearly three decades, so that their integration into the rest of the economy needs to be looked at with a fresh outlook. Secondly, at the dawn of peace which has just embraced us, the policymakers, as expected, would be confused with how to proceed with their economic agenda with clear direction. Thirdly, the N&E conflict, not only has caused heavy damages to the economy, but it has also mutilated basic social values, requiring government to revisit its social policy goals, particularly in respect of N&E. Finally, numerous micro-level development programs which are being undertaken by public and private sector at present can be aligned efficiently in line

with policy intentions of government, if such policies are explicitly known and available in public domain.

This article expands under seven sub-headings, namely, introduction, strengths of N&E, economic and social downturn of N&E, political repercussions under economic deprivation, evidence from Malaysia, a potential development approach for N&E and the conclusion. Fourth and fifth sections were selectively developed in order to stress the importance of economic development for political stability. This study suffers from the unavailability of latest data on certain areas of economic and social importance of the N&E.

Strengths of the N&E

A brief survey of the resource profile of the Northern and Eastern provinces indicate that the progress of the regional economy has been centred around three key areas, namely, agriculture, fisheries and livestock. The conflict situation prevailed during the last three decades has resulted in the regions

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to operate with less than full potentials as reflected by data given in Table 1.

In 1981, Northern and Eastern provinces accounted for 39 percent and 13 percent of total fish production of the country respectively. However, by 2007, the fish production of Northern and Eastern provinces dropped to 13 percent and 06 percent of the country's fish production respectively, mainly due to conflict situation prevailed in the area. Agriculture was also affected by the conflict to a lesser extent. For instance, the average production of red onions and ground nut by the Northern province for the period of 2003-2007 stood at 45 percent and 18 percent of country's production of these two crops respectively. The average production of cowpea, ground nut and maize in the Eastern province stood at 30 percent, 18 percent and 15 percent

Table 1: Data on selected variables related to resources in N&E of Sri Lanka

Province	Land Area (Sq. km)	Estimated Population		Extent of Paddy Cultivation (ha)		Marine Sector Fish Production (t)		Cattle and Buffalo Population	
		2007	1981	2007	1981	2007	1981	2007	1981
Northern	8,884	1,159	1,109	49,558	77,480	32,500	68,178	197,405	n.a
Eastern	9,996	1,461	975	153,419	166,214	15,250	22,780	265,920	n.a
Sri Lanka	65,610	20,010	14,847	816,764	876,745	252,670	175,074	1,474,140	2,618,500

n.a. - Not available

Source: Statistical Abstract 2008, 1981, Dept of Census & Statistics (DCS), Sri Lanka

<http://www.statistics.gov.lk>

of country's production of these crops respectively, during the period of 2003-2007. The N&E has a great potential to improve dairy farming while many rural-based micro-level projects, particularly fisheries and cultivation of paddy, palmyrah, cashew and other field crops can also be developed in these regions, (Department of Census and Statistics (DCS), 2008).

Further, the N&E is blessed with natural resources including, forests, wetlands, bays and lagoons, natural harbours and places of tourist attraction, such as, Nilaweli, Passikudah and Arugam Bay. Cement factory at Kankasanthurai and chemical factory at Paranthan can be revived to provide diversification base in economic activities in these regions. It is also believed that there is a large deposit of silica sand useful for manufacturing glass products in Jaffna peninsula. Limestone deposits in Kankasanthurai area, mineral sand deposit in Pulmodai area can be harnessed in a manner that the socio-economic conditions of the people living in these areas could also be improved.

Economic and Social Downturn in the N&E

The economic and social progress achieved by the N&E has been poor as compared with that in the rest of the country as reflected by the Sri Lanka Prosperity Index (SLPI)¹, gross domestic product (GDP), poverty and income inequity.

Sri Lanka Prosperity Index (SLPI)

SLPI constructed by the Central bank of Sri Lanka (CBSL) on provincial basis explicitly show that two provinces have performed poorly in different facets of economic and social activities.

Two provinces have reported low SLPIs compared to the national level figure. Further, it was

observed that SLPIs of all other provinces recorded during 2000-2007 were higher than corresponding SLPIs reported for Northern and Eastern provinces (Table 2).

Provincial GDP

Contribution to the GDP by the two provinces is rather low (also reflected by the SLPIs) and proven to be insufficient, given the availability of resources, including land, and labour and potential for development in agriculture, livestock and fisheries sectors.

Both the Northern and Eastern provinces have contributed only approximately 8 percent to the country's GDP in 2007 (Table 3). However, the land area of the two provinces represents 28 percent of

Table 3: GDP shares by Northern and Eastern provinces

Year	Northern Province	Eastern Province
2003	2.8	6.1
2004	2.9	4.9
2005	3	4.7
2006	2.8	4.9
2007	2.9	5.0

Source: Annual Report 2008, Central Bank of Sri Lanka

Table 2: SLPI in Northern and Eastern Provinces (2000-2007)

Year	Eastern Province	Northern Province	Sri Lanka
2000	35.1	35.4	42.4
2001	36.5	37.5	43.9
2002	37.1	38.1	45.3
2003	37.6	39.1	45.9
2004	39.3	39.8	46.4
2005	40.5	41.8	48.1
2006	41.9	43.3	50.3
2007	44.2	43.6	52.7

Source: Annual Report 2008, Central Bank of Sri Lanka

total land area in the country while the population, despite the large-scale migration resulting from conflict situation remained at 13 percent of total population of the country in 2007.

Poverty and inequity

Not only that the majority of the people living in these provinces are in abject poverty, but they also suffer from severe economic inequity. The highest 10 percent of income receivers account for nearly 80 times income than the income received by the lowest 10 percent of income receivers in the two provinces, although the income of the former group is only 36 times higher than the income of the latter group, according to the country average (Table 4).

According to socio-economic survey, 2003/04 conducted by the Central Bank of Sri Lanka, Northern and Eastern provinces reported GINI ratios of 0.52 and 0.55

Table 4: Income shares of income receivers 2003/04

Income receiver	Northern province*	Eastern province	Sri Lanka
Lowest 10%	0.5	0.5	1.1
Lowest 40%	10.4	9.6	11.9
Highest 10%	39.8	43.9	39.7

*Excluding Killinochchi, Mannar and Mullaitivu Districts
Source: Annual Report 2008, Central Bank of Sri Lanka

respectively, (based on income received) as against the corresponding national level GINI ratio of

0.50, indicating that unequal distribution of income in two provinces is comparatively high. Further, it is evident that many other social and economic conditions, such as, child and maternal mortality, school leaving population without reaching next level of education, have also deteriorated in the provinces remarkably in recent times.

Sectoral composition of GDP

Northern and Eastern provinces have contributed to the provincial GDP in 2007 by about 16 percent and 17 percent respectively from agriculture, 78 percent and 49 percent respectively from services. It is ideal to have a significant contribution to GDP from industry in order to change the current status quo of low level of GDP reported from two provinces.

Political Repercussions under Economic Deprivation

This section attempts to find out how the political stability is affected when the majority of people are engrossed with challenges while their potentials are not fully utilised. Macro-economic policies are meaningful if they can address a whole gamut of economic problems that are linked to quality of life of the people on fair and equal manner. However, more often, developing countries are vulnerable to commit policy errors, getting entangled with the socio-economic problems which will further aggravate under distorted market conditions. Understanding of the political repercussions

resulting from policy errors would help us to formulate a new development approach for developing N&E. Two different lines of approaches have been adopted to expand our knowledge on the political repercussions under economic policy errors. One is the search of economic reasons that were supposed to be responsible for social and political destabilisation. The other is the empirical evidence on economic prosperity achieved by Malaysia establishing durable political stability which is discussed in the next section.

It should be mentioned that economists have not delved much into analysing the possible existence of causality running from economic growth to political stability for various reasons, including unavailability of data and inclination of economists to examine the predominantly held view, the reversal causality running from political stability to economic growth (e.g. Alesina *et al.*, 1996; Butkiewicz and Yanikkaya 2005; Xu *et al.* 2007). However, there are a few research studies which have well documented that unequal access to resources, leading to inequality and poverty, by the deprived could cause political instability (Stewart and O'Sullivan 1999; Stewart *et al.*, 2001). Berthélemy *et al.* (2002), conclude that some of faster-growing African countries are less likely to experience political instability, or in other words, the growth has softened troubles in African countries. Bhardhan (1997), in particular, emphasises that *'failed economic policies often provide the context of despair and desperation which encourage channelling of frustrations on ethnic lines'*.

The Sri Lankan political conflict has been widely discussed in the literature from different point of views. However, only a few of them have attempted

to investigate that the political instability is a result of economic problems. For instance, Peiris (1999) stresses that increasing economic disparities and incidence of poverty and deprivation among certain segments of the population as contributory causes for the violent political conflicts in Sri Lanka during the past two decades. Abeyrathna (2000) indicates that twin political problems (armed struggles of Sinhalese youth in southern areas and Tamil youth in northern areas) of Sri Lanka have had some links to the economic policy errors committed in the past. The main aim of this article provide no room for us to examine much into verifying the causal relationship whether the economic policy adopted in the past has had some impact on political problems prevailed in the country. However, it is possible to identify two policy régimes (one in particular during 1960-78 where the government economic policies had placed much emphasis on 'basic need provision' and the other after 1978 to date, where, the economic policies were more or less geared to achieve growth) representing varying degrees of political instability, amidst a bone of contention over the direction of causality of policy and stability nexus.

There is no consensus among scholars on how the economic policies adopted in the past have been successful in addressing the issues of unemployment and inequality, social exclusion of youth of the country, etc. A substantial amount of literature is providing diverse results in this regard. Sen (1981) indicates that *'there is little doubt that the social welfare programmes of Sri Lanka place it at an advantaged position in terms of poverty removal and longevity increase given its income level.'* Anand and Kanbur (1991), using a time series data analysis suggest that direct government intervention during 1960-78 has worked in upgrading social welfare of the people. However, Bhalla and Glewwe (1986) found that improvements in living

Table 5: Sectoral composition of GDP in 2007

Sector	Northern Province	Eastern Province	Sri Lanka
Agriculture	16.4	17.3	11.9
Industry	05.4	33.6	28.5
Services	77.8	49.1	59.6

Source: Annual Report 2008, Central Bank of Sri Lanka

standards recorded under the direct welfare measures adopted during 1960-78 were not exceptional. Rajapathirana (1988), mentions that the interventionist period saw a decline in Sri Lanka's relative position in social progress. According to Ilsenman (1980), '*Sri Lanka's social expenditures had a substantial cost in growth and unemployment*'.

Bhalla and Glewwe (1986) further emphasise that the change in expenditure inequality was not significant during the growth-promoting policy regime of 1977-84, and assert that several living standard indicators have continued to improve during this period, which however, stands contrary to views expressed by many scholars. Kakwani (1988) concludes that conditions under which the modern sector enlargement and enrichment of individual sectors under post-1977 policies could lead to higher social welfare and lower income inequality and poverty.

A large amount of researches points out that liberalised policies have been responsible for many social and economic woes experienced by the country. Ravallion and Jayasuriya (1987) argue against the Glewwe's (1986, 1988) argument that liberalised policy improved equality and stress that post-1977 policy changes are more likely to have increased inequality. Dunham and Jayasooriya (2000) commenting on the post-liberalisation economic reforms state that '*Sri Lanka has paid a high price for (twin political problems) its inadequate attention to distributional issues in the course of economic liberalization...., but unless distributional implications are seriously addressed it is likely to be accompanied by social turbulence and violent conflict.*' They further indicate the importance of welfare expenditure in buying social peace, and contend that growth driven liberalised economic policies could actually jeopardise the equity concerns. The post-1977 economic policies are also blamed for

inducing disparities within regions in the country. For instance, Hettige (2007) indicates that regional disparities and regional diversity of the production structure have been widening in the economy of Sri Lanka since the introduction of liberalised trade policies in 1977. Divisekera and Felmingham (1988) study indicates that inequality worsens in the era of liberalisation.

The success and failure arguments related to growth, equity and employment, and connecting them to economic policy adopted remain to exist without a conclusion. Similarly, reasoning the policy adopted in the past caused political instability of the country has become a contentious issue. Nevertheless, it is known for sure that, for some reasons, economic growth slowed down and unemployment rate rose sharply along with some other adverse economic consequences under high welfare status². The political situation during 1960-78 was precarious and reached a climax with an aborted youth insurrection in 1971, and it is hypothesised from forgoing analysis that economic policy driven under a welfare regime could have induced political uncertainty prevailed in the country at that time. On the other hand, from the latter part of the 1970s, the government policies rather focused on promoting private investment and increasing employment. Market-oriented policy reforms, among other things, included the liberalisation of financial markets, relaxation of foreign trade and gradual removal of exchange controls. The level of unemployment fell drastically and average annual economic growth increased to 5 percent during the initial years of reforms³. The post-1977 period too, however, witnessed some social and political tensions with a major uprising of youth during the latter part of the 1980s and continuation of a secessionist war in the N&E of the country. It can be assumed that growth-oriented approach has not

done enough justice in lessening political instability.

The foregoing analysis further indicates that neither the welfare-oriented policy nor the growth-led policy has been able to find ways and means in addressing social and economic problems of the country effectively. The growing socio-political instability has only caused in evaporating the initial advantageous position, Sri Lanka had after the independence. In view of the situation so far described, it is worth exploring a macro- and micro-level development policy approach vis-a-vis. N&E of Sri Lanka that will also facilitate in bringing about durable peace, not only for those regions but also for the rest of the country.

Evidence from Malaysia

The main aim of this section is to show how a country can achieve durable political stability under a well-planned economic policy. Malaysia, a country which was similar, in many respects, to Sri Lanka during the 1960s, but experienced a rapid growth momentum lately, has become a classic example to examine growth-stability nexus. Succinctly, Malaysia has adopted a development approach that ensures growth plus social justice to achieve stability, which helps their economy to move to a new level of growth based on stability⁴.

Malaysia has a total land area of 329,758 sq. km. The Malays and other indigenous peoples make up the largest ethnic group, constituting about 62% of the total population; the Chinese constitute about 30%; and Indians and Pakistanis, about 8%. According to a World Bank classification, by the end of 2008, Malaysia was the 48th largest economy in the world by purchasing power parity (PPP) with GDP per capita income of \$ 14,215. Malaysia's public debt stood at 43% of GDP while the shares of GDP from the industry, services and agriculture stood at 47.8%, 43.6%

and 8.6% respectively, by the end of 2008. The Southeast-Asian nation experienced an economic boom and underwent rapid development during the late 20th century (World Bank, 2009).

The communal riot in 1969 destabilised the multi-racial country to some extent, but the united Malaysia learnt a lesson, i.e., with the improvement of economic status of the people, they re-established a delicate balance and harmony among the communities of the country. The challenges posed by the communal riots of 1969 turned out to be a 'blessing in disguise' for Malaysia as the government made efforts in bridging the economic disparities among ethnic groups after 1969. A failure to reduce economic inequality in a plural society could have derailed the economic progress achieved by the country. However, Malaysia was successful in containing poverty and reducing the identification of race with economic functions. The government tried to push the country into a higher growth path via export-led industrialisation.

In comparative terms with Malaysia, Sri Lanka has a total land area of 65,610 sq. km. Sri Lanka had an ethnic composition of 82.0% Sinhalese, 7.9% Sri Lankan Moors, 5.1% Indian Tamils, 4.3% Sri Lankan Tamils, 0.7% people in other ethnicities in 2001⁵. The World Bank ranking for Sri Lanka economy was 99th place by PPP with a per capita income of US\$ 4585 by the end of 2008. Sri Lanka's public debt was 81% of its GDP while the shares of GDP from the industry, services and agriculture stood at 27%, 56.6% and 16.4% respectively, by end of 2008. At present, the difference between Malaysia and Sri Lanka in the achievement of economic development and political stability is enormous.

As indicated in Table 6, Malaysia has progressed well beyond expectation during last 5-6 decades compared with many other developing countries which were at similar level of economic achievements in the 1950s and 1960s.

Table 5 provides the statistics on the progress achieved by both Sri Lanka and Malaysia on selected

economic variables. Figure 1 further shows that Sri Lanka and Malaysia have recorded a similar trend in GDP, exports and imports from 1955 to the mid 1970s, and thereafter, these variables in the Malaysian economy have recorded rapid increases with its economy leapfrogging each year as against a background of a moderate economic growth experienced by Sri Lanka.

Malaysia's achievements could be linked to government efforts of establishing heavy industries aiming at higher growth while taking actions to correct ethnically-based economic inequality for maintaining stability (Ritchie, 2005).

A Potential Development Approach for the N&E

Historical failures points out that Sri Lanka needs to achieve rapid economic growth with social justice to overcome the existing socio-economic problems. Social justice would bring about the harmony among and within communities which is essential for long-term stability. The maintenance of stability is a key to many potential achievements, particularly in

improving capabilities of people, augmenting productivity/production, managing workers' interests, applying a sound fiscal and monetary policies (taxes, government debt), etc., all of which would have a significant impact on the growth. In the way that the fiscal

Table 6: GDP, Exports, Imports and Population of Sri Lanka and Malaysia (1955-2007)

Year	GDP (US \$)		Exports (US \$)		Imports (US \$)		Population	
	Malaysia	Sri Lanka	Malaysia	Sri Lanka	Malaysia	Sri Lanka	Malaysia	Sri Lanka
1955	1,631	1,178	813	434	516	348	7	9
1960	1,916	1,407	1,017	423	752	465	8	10
1965	2,958	1,693	1,328	438	1,195	431	10	11
1970	3,843	2,293	1,751	583	1,588	655	11	13
1975	8,628	3,445	3,929	947	3,891	1,204	12	14
1980	23,986	3,695	13,803	1,191	13,202	2,025	14	15
1985	31,926	5,924	17,530	1,541	15,891	2,249	16	16
1990	44,079	7,996	32,824	2,413	31,923	3,043	18	17
1995	87,518	12,355	82,345	4,398	85,789	5,688	21	18
2000	93,789	15,229	112,369	5,942	94,350	7,557	23	19
2005	138,212	24,019	162,353	7,767	130,797	9,912	26	20
2007	194,121	32,914	213,868	9,622	174,538	13,007	27	20

Source: International Financial Statistics CD-ROM, IMF

consolidation and monetary management are important for economic stability, a planned and systematic approach to achieve growth with social justice is important for achieving durable political stability.

Macro-economic policy direction

Many business models currently being discussed have focused on project-based development scenarios and private sector, as usual, and the government have not delved much into assessing the need to focus on a macro-level direction as a prerequisite. The market mechanism is unable to address whole gamut of problems that the people in the N&E are facing, and economic and social woes would continue to remain, if macro-economic policy direction is not properly spelt out with efforts to achieve the policy goals. Lack of policies and policy directions would ultimately shatter hopes and aspiration of people, consequently creating conducive environment for unanticipated political repercussions. A society not governed under socio-economic policy can be swamped with all sorts of evils; rising disparities while clusters of society enjoying a luxurious life, proportionate increase in crimes, breakdown of law and order, gang culture, violation of human rights and many more.

Overall policy intention of the government which usually includes achieving higher level of standard of living, should encompass workable strategies vis-à-vis N&E, on wide range of economic matters (e.g., promoting projects with comparative advantages, improving credit accessibility, implementing a sound tax policy, etc.). Sri Lanka could benefit in following the economic model adopted by Malaysia whose export-led growth came mostly from industrial exports. Products and services based on agriculture, livestock and fisheries of N&E regions could be designed in a manner that would

earn comparative advantages and generate foreign exchange. In the service sector in particular, innovative means are needed to generate more value additions to the services so provided. Government policy direction also involves public sector improvement in N&E⁶.

Economic equality

It is necessary to adopt disparity and poverty reduction policy aiming at managing political instability. Those who have been under enormous difficulties in meeting their basic needs, particularly people in the abysmal depth of poverty, require special attention by the government under such a policy. As predicted by the 'trickle down' hypothesis, when certain sectors/businesses are growing fast due to tax concessions, those people who are in poverty could also be benefited. However, if the resultant progress increases the incidence of relative poverty to a level where the political challenges could be built up, government could intervene and adjust taxes to rectify the situation.

Social value creation

Society as a whole should enjoy democracy and freedom equally. The social framework should be so designed that individual rights are protected irrespective of cast, creed, race, culture, religion, endowments, physical appearance, etc. of the person concerned. A process of social mobilisation is very important to counter the problems associated with social marginalisation. This aspect of

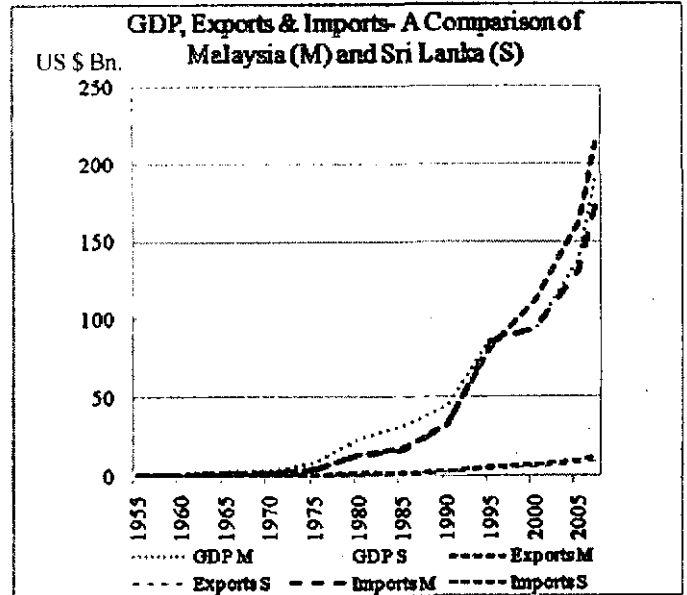


Figure 1: Variation of GDP, exports and imports in Malaysia and Sri Lanka from 1955 to 2007

social inclusion is needed for re-organising the society divided under various concepts and ideologies which have, sometimes, acted as causes of poverty.

It is important to bring about attitudinal changes of the people who were economically and socially deprived of many essential things of life due to conflict situation prevailed in the N&E. Development of arts, sports, education, training and social interaction could enhance the enrichment of social values. Once the society is devoid of rich culture-bred and nurtured on arts and literature, entire social fabric could be vulnerable to various types of socio-economic evils. Promoting the society towards utility maximising objectives under imperfect market mechanism could be of little advantageous, considering the level of hopelessness, tension and frustration experienced by the people living in the N&E for such a long period of time.

Improvement of capability

Identification of the capabilities of people and improvement of such capabilities for economic prosperity is important in political stabilisation process. As Sen (1992) has mentioned, our overall

aim should be on achieving 'equality in capabilities' rather than equality of income. Poverty is defined as capability deprivation, not only on how human beings actually function, but also on their having the capability to function in important ways if they so wish. Sen's approach expands to include deprivation of capabilities in many ways such as by ignorance, government oppression, lack of financial resources, or false consciousness. Therefore, programmes aiming at improving the capabilities of people living in the N&E would be an essential component of any development approaches designed to be implemented in respect of N&E.

Promoting a multi-ethnic, multi-cultural society

It is envisaged that Sri Lanka would achieve a quantum jump in development with the arrival of peace. It is a non-recurrent opportunity which should not be allowed to slip away from us. This hour of peace requires the policy planners to have a multi-pronged attack on inhibitors of development, particularly, emanating from partisan policies. The political drive has to be genuine for achieving long-term corporation from all recognised political entities, groups and the civil society. A multi-ethnic, multi-cultural society should be nourished under common principles that will be admired and appreciated by majority of people irrespective of their divisions under ethnicity, religion, etc. for achieving socio-economic progress. This process needs a far reaching vision from the centre.

Civil service

Civil service comprises of an influential class within any community, and strong and robust civil service can play a guiding role in uplifting the living standards of people in many ways. For instance, people can be made to feel that they are treated in a fair manner in any businesses that they are involved with, if there are no corruption, delays, etc. in getting their work done. However, any political interference in public service would

erode its impartiality and affect efficiency of work badly. Hence, a dedicated, honest and transparent civil service has to be created in the N&E, giving priority to remunerate devoted civil servants on the basis of sacrifices and commitment made by them sans any political interference. It is the political leadership that is capable of revitalising the civil service to give strength in achieving fast development in the N&E in this hour of need.

Investor-friendly atmosphere

Apart from programmes that would be useful in establishing political stability, many other factors, including the inflow of investment to the two provinces which also depends on the strength of political stability, affect regional prosperity. Investors usually consider institutional efficiency (protection of legal and contractual property rights, etc.), infrastructure facilities available, commodity and labour market efficiency, technological readiness, etc. before investing in any projects. However, the Global Competitiveness Report 2009-2010 which considers 12 pillars of competitiveness in assessing competitiveness of countries, has ranked Sri Lanka at 79th position out of 133 countries. This would indicate how difficult the country is, to cope with inviting foreign investment, particularly to embark on business activities at regional level. Ground realities show that there is a need for speedy coordination among ministries dealing with environmental issues, trade and provincial and pradeshiya sabhas in the N&E for matters related to project approvals, legal clearance and land transfers, etc.

Government support

People in the provinces have to be prepared for starting innovative projects and making the process of production and production designs suit the country conditions. Human resources available within provinces have to be developed through the establishment of skills development centres, training centres, etc. (even though, the education has continued in the N&E under conflict situation,

archaic mismatch that prevails between the capabilities and learning has hit the provincial job creation). The agriculture-dominated two provinces need certain agricultural implements, fertiliser, weedicides and pesticides that could be produced locally to suit our own conditions. Two provinces have a great potential for developing fishing industry, and our own technology may be improved farther to produce boats, nets, cool rooms, solar dryers, etc. The new products that comprise innovative features have to be developed, particularly aiming at export market for which marketing and pricing support could be provided by the State. Government support is also necessary, particularly in areas such as research and development and human resource development, assuring that there are enough scientists and engineers who can move the N&E forward to achieve economic prosperity.

Clearing bottlenecks for inclusive development

The N&E of Sri Lanka was confined itself to limited socio-economic aspects for nearly three decades due to conflict situation. Therefore, the integration of the regional economy with social, economic and financial system of the rest of the country is an issue requiring urgent attention. Certainly, financial support extended by some institutions, including the Central Bank of Sri Lanka, would improve their access to banking facilities. Credit support alone is not enough to achieve sustainable inclusive development. It is also of paramount importance to provide knowledge in areas, such as information technology, identification and preparation of project proposals, English and other languages, etc. to the people in the N&E who were deprived of facilities to acquire such knowledge for a long period of time. When the world is integrating into one entity through information technology day by day, current digital divide of the people in remote areas of the N&E has to be reversed, particularly aiming at enhancing economic prosperity of the people. The process of inclusive development would also comprise the integration

of ex-combatants of the N&E regions into the core process of development of the country, which would also be a meaningful step in achieving durable political stability.

Conclusion

Certainly, the dark period of political instability resulting from ethnically-motivated violence has disappeared for the moment. However, by and large, the root causes that induced political instability vis-à-vis N&E of the country remain unaddressed in a systematic manner. Therefore, it is of paramount importance to pay due attention to adopt a sound and credible development approach for N&E, aiming at achieving twin goals, i.e., economic prosperity and durable political stability, not only in the N&E regions, but also in the rest of the country. It is evident from the foregoing analysis that neither the welfare-oriented policy nor the growth-oriented policy is capable of establishing durable political stability in Sri Lanka. Thus, any development approach vis-à-vis N&E of the country, needs to accommodate equity concerns of income, capabilities and social status of the people living in the N&E, perhaps by learning from the experiences of Malaysia which has implemented an economic policy that bridged the disparity gaps among and within ethnic groups, following the communal riots in 1969. The causal relationship of potential development approach suggested for the N&E would run from growth to political stability initially, generating a reverse causality, and moving the provincial economies to a higher growth path later.

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Footnotes:

¹The SLPI is a composite index and its value (0-100) depends on the level of socio-economic progress achieved under 20 variables which fall into three sub-indices, 'economy and business climate, well-being of the people' and 'socio-economic infrastructure'. The value of the index is useful in gaining insight into the level of socio economic progress achieved at provincial levels (Annual Report of CBSL 2008, pp.51-52)

² For instance, unemployment rate increased to 22 percent in 1975.

³ In contrast, the average annual growth rate of Sri Lanka from 1948 to 1977 had been only 3.5 percent.

⁴ "...in this attention to liberalization and economic reform as the drivers behind economic growth veils the way coalitional politics drove illiberal government intervention to address ethnically based economic inequality, create national heavy industries, and favour politically well-connected entrepreneurs. Equally important, it conflates outcomes of economic growth, or raw wealth creation, with economic upgrading, the process of moving to ever-higher levels of innovation and value-added in the production process" (quoted: Ritchie, 2005).

⁵Data are from Census of Population and Housing 2001, Dept of Census & Statistics and exclude the districts of Jaffna, Mannar, Vavuniya, Mullaitivu, Kilinochchi, Batticaloa and Trincomalee.

⁶e.g. The dept of immigration and emigration and dept of motor traffic are now functioning with improved efficiency due to introduction of new process change with the inclusion of some marginal commercial features into their operations.

