

religious-ethnic and class divide as organising principles. We view the policy package as having been the outcome of conscious political (rather than purely economic) choices geared to strengthening patronage networks and buttressing political support. Over a period of some two decades, a package that included economic policy liberalisation (but also the PSIP, a new constitution with the executive presidency, and deliberate attack on the checks and balances of a democratic society) set the country on a path of socio-political decay. Once on this path, economic reforms often produced outcomes that were unexpected and undesirable, and which served to accelerate and to reinforce the steady downward spiral. Given the important similarities in social and political institutions, what has occurred can perhaps in some ways be seen as a South Asian phenomenon, with implications for further the future trajectories of countries such as India that are undertaking liberalisation.

Douglas North (1996:353) concluded in his Nobel lecture that: "...transferring the formal political and economic rules of successful Western economies to Third World or Eastern European economies is not a sufficient condition for good economic performance. Privatization is not a panacea for poor economic performance". We would go further in the light of Sri Lankan experience. Not only are they insufficient to ensure good economic performance but, in specific settings, they may produce little short of social and economic disaster. The Sri Lankan experience confirms that far more is needed than purely technocratic policy solutions. Reform programmes -- if they are to have broad-based success -- should not only address fundamental economic issues but should also be tailored to 'fit' specific institutional settings. And, when major class, ethnic or religious fault lines exist in society, the reform process needs to be very carefully managed. Policies have to be sensitive to multi-faceted distributional issues, account must be taken of the predictable responses of different actors, and trade-offs have to be made to maintain social cohesiveness. But for this to become a sustainable reality there must be legal and political institutions with adequate checks and balances to protect democratic freedoms. The revival of the economy and the reinvigoration of society both require an immediate political response. The rapid abolition of the executive presidency seems a first essential step on what will be a long and difficult journey if Sri Lanka is to achieve a prosperous economy with social harmony and a vibrant democracy.

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Notes

- Many of the arguments in this essay are elaborated in greater detail in "Economic Liberalisation and Socio-Political Decay: a case study of Sri Lanka", paper presented to the Development Studies Association Annual Conference at the University of Manchester, 10-12 September 2001.
- Of course, not all Tamils suffered. In the wake of the previous shortages, the immediate benefits of import liberalisation were widespread, and the urban middle class and those who controlled trade (including wealthy Tamil commercial interests) gained quite disproportionately.
- The government's political agenda was also of course part of the wider ideological-political imperatives that drove cuts in the food subsidy. Washington institutions, particularly the World Bank, had long pushed for removal of consumer subsidies and its motives can only be understood in the broader context of its global policy agenda.
- World Bank (2001):1
- It did not involve trade and exchange rate liberalisation so much as the dismantling of state controls over domestic and international trade, the freeing of capital flows and financial markets, and the drastic reduction of state ownership, including areas such as basic public utilities, traditionally considered the natural domain of the public sector.
- See, for example, papers in Elliot (1997). Robinson (1998), reviewing the failure of most anti-corruption measures in developing economies goes so far as to speculate that "...it may be that privatisation offers the only viable prospect of curbing corruption in the third world" (p.158).
- See, for example, Murphy, Shleifer & Vishny (1992).
- The conventional view that liberalisation generates growth and eases competitive pressures (by increasing the size of the economic pie), and that it reduces gains that can be made from discretionary use of state power (is no longer adequate in the face of experiences in former Soviet bloc countries and elsewhere. For a discussion of issues related to the links between liberalisation and corruption, see Rodrik (1994) and Elliot (1997).
- The fact that there are now some 30,000 deserters from the armed forces are considered an important contributory factor for the upsurge in violent crime (*The Sunday Times*, Colombo, 24 December 2000).

A SOCIAL COST OF 'WAR FOR PEACE'

Muttukrishna Sarvananthan

Introduction

The Government of Sri Lanka (GOSL) has been espousing a policy of 'War for Peace' since late 1995. It has been almost six years since this policy came into practice. It is high time to reflect on this policy in terms of social costs of civil war in Sri Lanka. This short paper compares and contrasts public expenditure allocated for defence and social sectors of the economy in the past ten years. The trend of public expenditures in the past ten years reveals the ascent of defence expenditure and descent of social expenditures (Health, indigenous medicine and social services, Education and higher education, Poverty alleviation programmes - Janasaviya & Samurdhi, and Rehabilitation and Reconstruction comprises social sectors in this paper). The gap between defence and social expenditures as proportions of total public expenditure has been expanding year after year, barring only 1999.

Defence Expenditures vis-à-vis Social Expenditures

The defence expenditure of Sri Lanka has become a bone of contention, especially since last year. After the fall of strategic Elephant Pass to the LTTE rebels in April 2000 Sri Lanka went on a shopping spree for modern weaponry. This shopping spree in the global armaments market severely strained the already precarious balance of payments position of Sri Lanka due to continued rise in global fuel prices since 1999. The defence expenditure consumed almost 7% of the GDP of Sri Lanka in 2000.

In the following table we compare and contrast defence expenditures with social expenditures as proportions of total public expenditures in the past ten years. A very disturbing trend is clear in the table. In the early 1990s defence expenditures as a proportion of total public expenditures were more or less equal to the total social expenditures as a proportion of total public expenditures. In contrast, since 1995 defence expenditures as a proportion of total public expenditures has begun to accelerate while social expenditures as a proportion of total public expenditures remained more or less at the same level. However, in 2000 social expenditures declined sharply whilst defence expenditures registered a hike. The gap between defence expenditures and total social expenditures widened in favour of the former during the last six years. In year 2000 defence expenditure was more than 75% greater than that of total social expenditures (see table).

The prioritisation of military development as against social development in the last six years is a consequence of the government policy of 'war for peace' (or 'peace through war', however it is phrased). This diabolical policy of 'war for peace'

has not only resulted in deterioration of the educational, health, social, and rehabilitation and reconstruction services in the country, but has also immensely contributed to corruption in the defence sector and rapid rise in crime rates throughout the island. It is the deserters from the armed forces who commit bulk of the crimes (murder, rape, robbery, and extortion) in southern and western parts of the country.

Even after spending such a colossal amount of public money on defence the government is nowhere near winning the war nor ushering in peace. It is high time the Government of Sri Lanka undertakes a genuine soul searching about its policy of 'war for peace'.

Defence / Social Expenditure as a Proportion of Total Public Expenditure (percentage)

	1991	'92	'93	'94	'95	'96	'97	'98	'99	2000
Defence Expenditures	11.2	12.0	10.9	12.9	14.3	17.7	16.8	16.9	16.4	17.7
Social Expenditures	11.2	13.0	9.9	12.8	12.7	13.5	12.6	12.0	12.7	9.8
(i) Education	3.5	5.4	4.3	4.5	3.5	4.2	4.2	4.7	5.0	3.8
(ii) Health	2.4	3.1	1.9	2.6	5.2	5.0	4.7	4.0	4.8	3.9
(iii) Poverty	5.3	4.5	3.7	5.7	2.0	3.2	3.0	2.5	2.6	2.0
(iv) R&R					2.0	1.1	0.69	0.80	0.27	0.14

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

Notes: (a) Education includes higher education as well.

(b) Health includes indigenous medicine and social services as well.

(c) Poverty alleviation programmes are Janasaviya (1991-1994) and Samurdhi (1995-2000).

(d) R&R means Rehabilitation and Reconstruction.

(e) From 1991 to 1994 R&R and Poverty are clubbed together.

Economic Growth

It is popularly extolled that the Sri Lankan economy is resilient despite a vicious civil war for the past 18 years; posting an average yearly (real GDP) growth rate of around 5%. We would argue that the "great resilience" of the Sri Lankan economy is nothing but a great myth. The negative growth areas such as the North-East province are conveniently left out of the national income accounting system and a partial and distorted picture of the economy is portrayed for public consumption. Likewise, the social indicators and human development index of Sri Lanka continue to rise and remain high according to the official statistics. Here again the bulk of North-East province is left out of

the official statistics during the last decade due to non-availability of data as a result of the civil war.

In the past fifty years (1951-2000) the real GDP growth of Sri Lanka was below one percent during two years only. In 1956 the real GDP growth rate plummeted to 0.7% and in 1971 to 0.2% (Central Bank of Sri Lanka, *Annual Report 2000*, special statistical appendix, table 7). The former year was marked by the ascendancy of a nationalist (inward looking) economic regime after eight years of liberal economic regime since independence in 1948. The latter year was marked by the first youth armed revolt of the country spearheaded by the JVP (Janata Vimukthi Peramuna — aka People's Liberation Front), and dawn of one of the worst dirigiste economic regimes in South Asia.

Now, the year 2001 is poised to become the third year in post-independence period to record less than one percent economic growth. The GDP growth in the first half of this year has been a dismal 0.9%. There is hardly any likelihood of an improvement to this pathetic economic performance in the second half of this year due to the multiple impacts of prolonged draught and the consequent power crisis, rebel military strike at the Katunayake airport, abyss of political crisis facing the country, and the US war on Afghanistan leading to deterioration in the international economic environment. Hence, it is almost a foregone conclusion that the annual growth rate for the current year would be less than what was recorded in the first half of this year.

The authorities are putting up a brave face amidst a very poor economic performance in the first half of this year by pointing out that the growth rate was comparable to some Southeast Asian countries. However, what they fail to acknowledge is that Sri Lanka's growth rate in the first six months is the lowest among South Asian countries, India leading with 3.5% growth.

IMF-GOSL Standby Credit Arrangement

The International Monetary Fund (IMF) has approved a US\$ 253million standby credit facility to Sri Lanka on April 20, 2001, to stabilise the macroeconomic fundamentals. An initial instalment of US\$ 131million has already been released, and the rest is expected to be released in four equal instalments (US\$ 30.5million each) on August 30, 2001, November 30, 2001, February 28, 2002, and May 15, 2002 depending on the performance of the economy. In addition to this, another US\$ 250million may be provided under the Poverty Reduction and Growth Facility (PRGF), successor to the Enhanced Structural Adjustment Facility.

To begin with, the military expenditures of Sri Lanka and the number of poor in Sri Lanka as reported by the IMF Country Report are significant underestimations. The author has dealt with this issue extensively elsewhere and therefore does not want to dwell on it here. The IMF forecasts for the economy of Sri Lanka and the commitments made by the GOSL to the IMF on institutional and structural reforms are constantly falling apart.

The IMF forecasted a growth rate of 4.5% for the year 2001, which seems far wide off the mark. The economic growth rate in the first half of the year was a meagre 0.9% as noted above, and the annual growth rate is expected to be worse than this. Inflation was expected to be contained to a single digit level but has remained above 10% during the second quarter of the year and there are no signs of improvement during the rest of the year.

As envisaged in the IMF standby credit arrangement, imports have been considerably reduced due to higher tax burden and depreciation of the rupee, which has resulted in a lesser trade deficit so far compared to the corresponding period last year. However, it is important to note that exports have also declined, though to a lesser extent. Besides, whilst lower imports have marginally helped the balance of payments position it has left a trail of import business closures and lay off of labour. A casual observation of the weekly government gazette notifications would reveal the number of business closures in recent months. Considerable reduction in imports during this year has burdened the banking sector with bad debts. Several small and medium enterprises are entrapped in a credit squeeze by the financial sector, who themselves are burdened with increasing number of non-performing loans. The Federation of Chambers of Commerce and Industry (FCCI) has called for amendment of the debt recovery laws due to the gravity of the problems encountered by small and medium enterprises.

The Government of Sri Lanka has breached its own undertaking to enforce a moratorium on public sector hiring on several occasions in recent months. The armed forces (army, navy, and airforce) continue to recruit personnel. Recruitment of schoolteachers goes on unabated. In October 2001 the government made over 40,000 casual employees in the public sector permanent as a gesture of goodwill to the masses in light of the impending parliamentary elections in December.

Again as a gesture of goodwill to the masses in light of the impending parliamentary elections, the employees of public sector, semi-governmental institutions, and public corporations and statutory boards were provided a pay hike of LKR 1,200 per month effective from October 2001. As a corollary, pensioners were also offered a hike of LKR.750 per month. This is against an explicit undertaking given by the GOSL to the IMF that public sector salaries will be frozen until end of this year. Whilst acknowledging the rapid rise in cost of living during this year and the consequent hardships faced by the masses, these pay hikes are a bit premature for an ailing economy.

There were other fiscal sweeteners to the electorate as well during October 2001; diesel vehicle tax, save the nation contribution, and import duties on raw materials of the construction industry were abolished. The national security levy was reduced to 6.5% from 7.5%. Import duty on cement was reduced.

All these pay hikes, tax concessions, and public sector recruitment are a manifestation of fiscal irresponsibility by a defunct

government amidst a deepening economic crisis and political morass. Further, with the dissolution of parliament institutional and structural reforms are stalled; even before that, economic reforms were lackadaisical. The planned divestiture of remaining state holding in Sri Lanka Telecom and Shell Gas (Lanka) Ltd this year has not taken place so far, primarily due to unfavourable market conditions.

In sum, both the IMF and the GOSL are unable and unwilling to deliver on their economic forecasts and institutional and structural reforms respectively.

Conclusion

The Sri Lankan economy is poised for a very low economic growth rate this year, perhaps the worst since independence. This will inevitably result in significantly lower public expenditure on social sectors and a marginal decline in defence expenditure compared to last year. What is alarming is that the gap between defence and social expenditures as proportions of public expenditure is expected to widen further. ■

CONFLICT RESOLUTION THEORIES AND THEIR RELEVANCE TO THE ETHNIC CONFLICT IN SRI LANKA

Ranjith Wijesinha

Conflict resolution is a discipline with a developing body of theory and practice. As an academic and professional study, conflict resolution developed largely in the United States and Europe. It was the Cold War and a number of changes within western nation states that led scholars, mainly in social sciences, to search for a science of conflict and its resolution.¹ Today conflict resolution has become a distinct field of study through the setting up of formal centres in academic institutions and the publication of professional journals. The period between 1950s and 1960s is considered as the foundation period of conflict resolution. Further construction and expansion occurred in the period 1970s to 1980s.² Conflict Resolution has a theoretical base and practical skills in resolving actual conflicts. The skills are for the resolution of conflict within an individual, between two individuals, between communities or organisations or conflict at the international level.

Conflict Theories

Theories of the nature and origins of conflict have a long history and include those of Freud and Marx. There are a number of conflict theories and theorists in conflict resolution. Two scholars who have been prolific contributors to conflict research are John Burton (international relations) and Johan Galtung (peace research). Both Burton and Galtung as human needs theorists share the view that denial of human needs is the central cause of conflict.³ There are also various scholars in the field of psychology who provide insights to conflict resolution.

Many social scientists have identified the role of human needs in understanding human behaviour. According to Burton human needs are 'universal and primordial, and perhaps genetic'. They are required for the development of the human species and will be

pursued by all means.⁴ Burton identifies nine human needs. These are consistency of response, stimulation, security, recognition, distributive justice, appearance of rationality, meaning, control, and role defence (defence of roles that permits satisfaction of needs).⁵

Galtung identifies four classes of human needs. These are: survival needs, well-being needs, identity needs and freedom needs.⁶ Although less precise, Galtung's formulation allows much greater scope for the social dimension of human existence and for variety of forms in which these needs manifest themselves. Galtung, who identifies the structural nature of protracted conflicts, has played a prominent role in identifying the social structures that give rise to protracted conflicts. He explains conflict in the form of a triangle and identifies three elements: the attitudinal aspects (consisting of cognitive and emotive elements), the behavioural aspects and the conflict itself. The construction of Self-Other image with significant differences between images held by different actors is the next important cognitive aspect. The cognitive aspect is reinforced by emotions enhancing Self-love and Other-hatred.⁷

Practical Skills in Conflict Resolution

Conflict resolution involves both the study and practice of skills in communication, problem solving, mediation and negotiation. Communication is vitally important as a means for carrying out the fight and to gain new supporters. Communication also lies at the heart of the resolution of conflicts. Inappropriate language very often leads to breakdown of peace talks. For example, during the failed talks between the LTTE and the government in 1995, the LTTE reacted angrily to the language of negotiations,