

Policy Studies 44

Economy of the Conflict Region in Sri Lanka: From Embargo to Repression

Muttukrishna Sarvananthan



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List of Acronyms

CFA	Ceasefire Agreement
CFS	Consumer Finances and Socioeconomic Survey
CSE	Colombo Stock Exchange
DS	Divisional Secretariat
G.C.E. A/L	General Certificate of Education, Advanced Level (higher secondary)
G.C.E. O/L	General Certificate of Education, Ordinary Level (lower secondary)
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
HSZ	High Security Zone
JVP	Janatha Vimukthi Peramuna
LKR	Lankan Rupees
LTTE	Liberation Tigers of Tamil Eelam
NEPC	North East Provincial Council
NGO	nongovernmental organization

PGDP	Provincial Gross Domestic Product
UNDP	United Nations Development Programme
UNF	United National Front

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Executive Summary

This study examines the nature of the economy in the Northern and Eastern Provinces of Sri Lanka and explores the causes and effects of economic and social decline in the region during the past quarter century of civil conflict. It compares the economic and social development of the conflict region over time and vis-à-vis other provinces during the pre-conflict, civil war, and ceasefire periods and argues that despite the higher growth rate during the ceasefire period, very little positive change has occurred in the structure, nature, and extent of the region's economy.

In terms of income and consumption poverty, the conflict region is worse off than all other Sri Lankan provinces. The northeast region has the lowest per capita income in the country and scores worse than other provinces on selected indicators of relative deprivation. Income inequality measured by the Gini coefficient is highest in Eastern Province, and the region as a whole is more vulnerable to food insecurity than other parts of the country.

Numerous direct and indirect causes can be identified for the economic and social decline in the region during the past quarter century of civil conflict, and especially from 1990 to 2001. These include: an economic embargo imposed by the Government of Sri Lanka on the conflict region, illegal taxation (or extortion) by the Liberation Tigers of Tamil Eelam (LTTE), unceasing violence against individuals, the establishment of high security zones, restrictions on fishing, land mines set on agricultural lands, closure of numerous roads, a lack of transport facilities, massive displacement of the population, lack of electricity, lack of teaching and health professionals, and lack of physical security for inhabitants of the region. Of these causes, the economic embargo imposed by the

Government of Sri Lanka between 1990 and 2001 was the single most important cause of the economic and social decline.

Northern Province had the smallest economy of Sri Lanka's nine provinces during the fifteen-year period between 1991 and 2005. Eastern Province was the lowest contributor to the national economy in 1990 and second lowest between 1991 and 1995. During the civil war, the economy of Northern Province was transformed from a predominantly agrarian economy to a service-oriented economy. By 2001, more than 70 percent of provincial gross domestic product (PGDP) accrued from the service sector. The single highest contributor to PGDP in Northern Province was the "public administration and defense" subsector, which accounted for 38 percent of PGDP in 2003. Although agriculture contributed only around 20 percent to the PGDP of the north in 2001, approximately 56 percent of the employed population in the province worked in this sector. Therefore, in terms of livelihood agriculture was the dominant sector in the north.

Rice, red onions, green chili, potatoes, tobacco, fish, dairy products, and eggs are the major agricultural products of the northeast. In Eastern Province, rice, red onions, and green chili outputs increased between 1980 and 2001, while output of these products declined in Northern Province in absolute as well as relative terms. Notably, the fish catch in Northern Province in 2000 was only about one-third the level it had been in 1980. During the ceasefire that held from early 2002 to 2005, rice, red onions, and green chili outputs decreased or remained constant in Eastern Province, while increasing in Northern Province. Yet output in Northern Province has not attained the levels of the pre-conflict period (1980). In 2005, due to the impact of the December 2004 tsunami, production of these crops declined in Eastern Province.

In the industrial sector, although the total number of enterprises increased in Eastern and Northern Provinces, the share of industrial employment halved as a percent of the provincial employment between 1983 and 2003. In terms of economic infrastructure, the northeast region has had the lowest road density, number of telephones per capita, and households with electricity in the country in recent years.

Northern and Eastern Provinces also rank poorly in health and education indicators, which represent causes as well as effects of poverty and deprivation. Although time series data is not available, the latest available statistics on infant mortality rates, maternal mortality rates, underweight newborn babies, underweight infants and toddlers (less than five years old), home births, and access to safe sanitation all show the conflict region to be worse off than the national averages. In terms of educational

achievement, students in the northeast region earn the lowest scores in the country on primary school and lower secondary school exams (although in higher secondary school exams, the region's students earn the best marks in the country, a surprising phenomenon that is also examined in the monograph).

Although the economy of the region recovered considerably during the ceasefire period of 2002–05, it did not attain pre-conflict levels, let alone catch up with the rest of the country. An increase in illegal taxation by the LTTE has been the single most important cause for the nonrealization of the full potential of the economy of the conflict region during the ceasefire. The economy of the conflict region has fallen from the frying pan (economic embargo by the government) into the fire (economic repression by the LTTE).

With these challenges, the study proposes strategies for the economies of Eastern and Northern Provinces given their factor and resource endowments and national and international comparative and competitive advantages. The study recommends that Eastern Province could become an industrial economy and a tourist center in the long run, given the advantages of the Trincomalee harbor, a productive labor force, the availability of natural resources, and some of the best beaches in the country. Northern Province is poised to play a greater role in the knowledge-based economy, given the high human capital endowment in the region and in its diaspora.

Economy of the Conflict Region in Sri Lanka: From Embargo to Repression

In the past three decades of civil war in Sri Lanka—one of the most intractable internal conflicts in the world—almost 70,000 people have died,¹ more than one hundred thousand have been physically maimed, nearly a million have been displaced, and more than one hundred thousand homes and thousands of buildings have been partially damaged or destroyed.² The economic and social costs in terms of physical, human, and environmental damage have run into the billions of rupees (Arunatilake et al. 2000; Gunatilleke et al. 2001).

The civil war in Sri Lanka can be divided into four phases: Eelam War I between 1983 and 1987; Eelam War II between 1990 and 1994; Eelam War III from 1995 to 2001; and Eelam War IV from 2006 onward. Although the civil war started in 1983, the economy of the conflict region experienced dramatic decline only after 1990. After the failed attempt by India to foster peace in Sri Lanka between 1987 and 1989 through the deployment of an Indian Peace Keeping Force, the civil war resumed between the Sri Lankan security forces and the Liberation Tigers of Tamil Eelam (LTTE) in 1990. Just before the resumption of the civil war in 1990, the LTTE had gained control of Jaffna Peninsula—marking the first time the LTTE was able to bring the densely populated Jaffna Peninsula and Mannar Island under its full control by eliminating the top and mid-level leadership of other Tamil armed groups from the north. With the Vanni region of the mainland already under its control, taking control of Jaffna gave the LTTE sway over virtually the entire Northern Province except for a large part of the Vavuniya District.

The economic and social costs of the civil war have been studied at the national level (see Arunatilake et al. 2000; Goonetilleke 1998; Grobar and Gnanaselvam 1993; Gunatilleke et al. 2001; Kelegama 1999; Richardson and Samarasinghe 1991; Ross and Samaranyake 1986). The costs of civil war to the regional economy of northern Sri Lanka have also been studied by Ravano (2001) and Seabright (1986). However, no study has been undertaken of the impact prior to the ceasefire of the civil war on the economy of the east. The lack of research on the regional economies of Northern and Eastern Provinces is not surprising because physical access to vast areas was restricted until early 2002.

Since the indefinite Ceasefire Agreement (CFA) between the Government of Sri Lanka and the LTTE was signed in February 2002, several limited studies have been made of the regional economy of Northern and Eastern Provinces during the conflict and the ceasefire (see Abeyratne and Lakshman 2005; Sarvananthan 2003, 2004). However, this monograph is the first to address the nature, extent, and transformation of the regional economy of the north and east during the war and ceasefire. It also examines the factors inhibiting the resurgence and economic development of conflict-affected regions in Sri Lanka.

Since 2000, scholars have increasingly turned their attention to the economic dimensions of domestic conflicts (see, for example, Ballentine and Sherman 2003; Berdal and Malone 2000; Pugh et al. 2004; Suhrke et al. 2005). The present study adds to this growing literature on economic dimensions of civil wars around the world. It is intended to address the conflict in Sri Lanka from an economic perspective and add critical details to studies undertaken on the conflict from the perspectives of politics, history, anthropology, and sociology (see, for example, Abeysekera and Gunasinghe 1987; de Silva 1998; Tambiah 1986; Uyangoda 2007; Wilson 2000).

This study compares the regional economy of the conflict-affected areas over time with other provinces in Sri Lanka. This is done at the macro level (in terms of provincial gross domestic product [PGDP] and by broad sectors) and micro level (through a breakdown of sectoral data by subsectors and provincial data by districts). This study covers the years 1980–2005—from the pre-conflict period to the ceasefire—which offers the opportunity to examine the changing nature of the regional economy over time.³ This monograph also aims to identify the broad causes of the dramatic decline in socioeconomic development of the conflict region and to explore factors inhibiting revival of the regional economy during the ceasefire.

The monograph is limited by the poor quality of data from the mid-1980s until 2001, especially in Northern Province. Available statistical

data pertaining to Northern and Eastern Provinces for that time period are estimates based on past trends and therefore may not give a wholly accurate picture of the region. Even the data since 2002 is not entirely satisfactory. Rebel-held territories and certain regions controlled by the government have been inaccessible to people undertaking the Population Census of 2001, the Department of Census and Statistics' Household Income and Expenditure Survey (HIES) of 2002–03, and the Central Bank's Consumer Finances and Socioeconomic Survey (CFS) of 2003–04 (Department of Census and Statistics 2004a; Central Bank of Sri Lanka 2005a).⁴ Although the quantitative data may not be totally reliable, it contains enough information to reveal clear trends in the economy.

The monograph argues that despite the higher growth rate during the ceasefire period in Northern and Eastern Provinces than in other provinces (including the economically dominant and most prosperous Western Province), very little positive change has occurred in the structure, nature, and extent (measured in terms of new products) of the economy of the conflict region. The “bubble and burst” nature of high growth experienced during the ceasefire has come under increasing stress since the undeclared resumption of civil war in December 2005.

Between 1990 and 2001, the economy of northeast Sri Lanka experienced a debilitating economic embargo imposed by successive national governments. Although the United National Front (UNF) coalition government lifted the economic embargo in January 2002, the region experienced economic repression due to direct and indirect controls—both in government-held and rebel-held territories—by the LTTE. Thus, economic repression by the rebel group replaced the erstwhile economic embargo put in place by the central government.

Physical Characteristics of the Conflict Region

Northern and Eastern Provinces comprise an area of 18,640 square kilometers (including inland waterways), or 28 percent of the total area of Sri Lanka. The provinces account for 14 percent (or 2.64 million people) of the country's total population of 19.44 million. Eastern Province has a population of 1.54 million people and Northern Province a population of 1.10 million (see table 1).

In Northern and Eastern Provinces, 44 percent of the total land area and 20 percent of the total population is under LTTE control. Rebel control is not spread evenly between the two provinces: 62 percent of the land

*during the ceasefire
period...little positive
change has occurred*

area and 34 percent of the population of Northern Province is controlled by rebels, but only 28 percent of the area and 10 percent of the population are under rebel control in Eastern Province (see table 1).⁵ It is important to note that the areas under rebel control are largely dense jungle, with isolat-

Table 1. Area and population of northeast region by district, 2004

	Area (square km) including inland water			Population in 2004		
	Total	Under rebel control	% under rebel control	Total	Under rebel control	% under rebel control
Sri Lanka	65,610	8,154	12	19,443,000	538,000	3
Northeast region	18,640	8,154	44	2,643,000	538,000	20
Eastern Province	9,793	2,700	28	1,540,000	160,000	10
Ampara ^a	4,431	1,000	23	613,000	30,000	5
Batticaloa ^b	2,633	1,000	38	544,000	100,000	18
Trincomalee ^c	2,729	700	26	383,000	30,000	8
Northern Province	8,846	5,454	62	1,103,000	378,000	34
Jaffna ^d	1,023	100	10	596,000	50,000	8
Kilinochchi ^e	1,237	1,237	100	143,000	143,000	100
Mannar ^f	2,002	1,000	50	97,000	30,000	31
Mullaitivu ^g	2,617	2,617	100	125,000	125,000	100
Vavuniya ^h	1,967	500	25	142,000	30,000	21

Sources: North East Provincial Council 2006: 1; Central Bank of Sri Lanka 2006.

Notes: Northern Province district figures are estimates from past trends: a census has not been possible since 1981. All figures are rounded up. Mullaitivu District population as given in the Central Bank report is 144,000, which would be an overestimation because it cannot be higher than the populations of Vavuniya or Kilinochchi Districts.

^a In Ampara District, Tamils comprise 19% of the total district population (Muslims–42% and Sinhalese–39%).

^b In Batticaloa District, Tamils comprise 74% of the total district population (Muslims–24% and Sinhalese/Burghers–2%).

^c In Trincomalee District, Tamils comprise 32% of the total district population (Muslims–36% and Sinhalese–32%).

^d In Jaffna District, Tamils comprise 99% of the total district population. This is because Muslims in the district were forcibly evicted by the LTTE in 1990. Prior to that year, 88% of the district population was Tamil, 10% Muslim, and 2% Sinhalese.

^e In Kilinochchi District, Tamils comprise almost 100% of the total district population.

^f In Mannar District, Tamils comprise 85% of the total district population (Muslims–12% and Sinhalese–3%). This is because Muslims in the district were forcibly evicted by the LTTE in 1990. Prior to that year, only 70% of the district population was Tamil (Muslims–25% and Sinhalese–5%). However, a majority of Tamils in the district are Christians by religion. Mannar is the only Christian majority district in Sri Lanka.

^g In Mullaitivu District, Tamils comprise more than 95% of the total district population.

^h In Vavuniya District, Tamils comprise 75% of the total district population. (Muslims–7% and Sinhalese–18%).

ed agrarian and coastal fishing hamlets, so the bulk of these areas have little agricultural or commercial value. Many so-called rebel-held territories are uninhabited.⁶

The Regional Economy

The compilation of data on provincial gross domestic product commenced only in the 1990s at the National Planning Department of the Ministry of Finance and Planning, and was originally undertaken retrospectively for the period 1990–96. In the early part of the twenty-first century, the Central Bank began compiling annual PGDP retroactively from 1996 onward. However, data is gathered in an indirect way by breaking down national GDP by province. These statistics are inherently unreliable. Methodological problems hindering compilation of PGDP include: (1) very little intraprovincial data is available; (2) data on interprovincial trade, services, and transactions is also limited; (3) provincial price indices are nonexistent, making the estimation of real PGDP impossible; and (4) a time lag of one year exists between the availability of the national data and the provincial breakdown (Muthaliph 2005: 11–12). Nevertheless, although precise figures are not available, broad trends can be discerned that allow comparison of the economy of northeast Sri Lanka with other provincial economies and the national economy.

Regional Variations in the Economy

Huge regional economic disparities exist in Sri Lanka. The nine provinces in Sri Lanka⁷ can be divided into four broad categories related to their contributions to the national economy (high, medium, low, and very low). The only province in the high category is Western Province, which accounts for approximately 50 percent of the national GDP. Three provinces are in the medium category, contributing between 8 and 12 percent each: Central Province, Northwestern Province, and Southern Province. Another three provinces—Eastern, Sabaragamuwa, and Uva—contribute between 4 and 8 percent each and therefore are in the low category. Finally, two provinces contribute less than 4 percent each to the national GDP—North Central Province and the adjoining Northern Province—and therefore fall into the very low category (see table 2).

*Huge regional economic
disparities exist*

In sum, out of the nine provinces, five are low or very low contributors to the national economy. In other words, just four provinces contribute 75–80 percent of the national GDP, and the other five contribute less than 25 percent (see table 2). In addition, contributions of certain

provinces have changed over time, while those of other provinces have remained essentially constant. In recent years, the contribution of Western Province to the national economy was greater than that of all the other eight provinces put together.

The Eastern Province's contribution to the national GDP averaged around 5 percent from 1990 to 2005 but rose above 5 percent in the cease-fire years of 2003 and 2004. Northern Province's share was more than 4 percent of national GDP in 1990 but has progressively dropped to less than 3 percent since 1996. The lowest share by Northern Province was 2

Table 2. Gross domestic product by province, 1990–2005, percent (figures in parenthesis indicate billion Lankan rupees)^a

Province	1990	1991	1993	1995	1997	1999	2001	2003	2005
Central	12.1 (36)	12.3 (38)	11.8 (42)	11.7 (46)	10.5 (84)	9.2 (91)	9.4 (116)	9.8 (138)	8.5 (179)
Eastern	4.2 (13)	4.5 (14)	4.7 (17)	4.6 (18)	5.0 (40)	5.0 (50)	5.0 (62)	5.5 (86)	4.9 (102)
North Central	4.8 (15)	6.1 (19)	6.2 (22)	6.3 (25)	4.0 (32)	4.1 (41)	3.7 (46)	3.9 (62)	4.3 (90)
Northern	4.4 (13)	3.8 (12)	3.2 (11)	3.1 (12)	2.8 (22)	2.5 (25)	2.4 (29)	2.7 (42)	3.1 (65)
North Western	11.1 (33)	9.9 (31)	9.6 (34)	9.6 (38)	12.1 (97)	10.4 (103)	10.7 (133)	9.5 (148)	9.0 (188)
Sabaragamuwa	8.1 (24)	7.8 (24)	7.7 (27)	7.7 (30)	7.6 (61)	6.4 (64)	6.4 (79)	6.1 (96)	6.4 (135)
Southern	9.5 (28)	9.8 (31)	9.7 (34)	9.5 (37)	8.8 (71)	9.6 (95)	9.7 (121)	9.3 (145)	9.0 (188)
Uva	8.1 (17)	7.8 (17)	7.7 (20)	7.7 (21)	5.0 (40)	4.1 (41)	4.6 (57)	4.4 (69)	4.5 (94)
Western	40.2 (121)	40.4 (127)	41.5 (146)	42.3 (167)	44.3 (356)	48.7 (485)	48.3 (601)	49.7 (777)	50.4 (1058)
Sri Lanka	100.0 (300)	100.0 (313)	100.0 (353)	100.0 (395)	100.0 (804)	100.0 (995)	100.0 (1246)	100.0 (1563)	100.0 (2098)

Sources: Author's calculations based on the following:

1990–95, Department of National Planning, Colombo, cited in North East Provincial Council 2003: 284.

1996–99, Central Bank of Sri Lanka 2004.

2000–05, Central Bank of Sri Lanka 2007: 32.

Notes: ^a Numbers in parenthesis are rounded to nearest full billion Lankan rupees.

^b 1990–95 figures are in constant prices (1990), and 1996–2005 figures are in current prices.

^c Figures for 2005 are provisional.

percent of national GDP in 2000, but since then it has increased during the ceasefire period to reach 3 percent in 2005 (see table 2).

These changes in the share of national GDP by Northern and Eastern Provinces have occurred at a time when GDP in all but two of the seven other provinces has declined as a percentage of the national economy. For example, Central Province's contribution to the national GDP declined over time from 12 percent in 1990 (the earliest statistics available) to 8.5 percent in 2005. North Central Province, which contributed about 6 percent on average from 1990 to 1995, has seen its contribution drop to 4 percent or less from 1997 to 2005. Uva Province's share of national GDP fell dramatically—by almost half during the period under consideration—from 8 percent in 1990 to 4.5 percent in 2005. Outside of Northern and Eastern Provinces, only Southern Province, with a steady contribution to national GDP of between 9 and 10 percent, and Western Province, where the share in the national economy has progressively increased from 40 percent in 1990 to over 50 percent in 2005 (see table 2), have *not* seen their share of the national GDP decline. In fact, Western Province's dominant position in the Sri Lankan economy has grown considerably more powerful since the late 1990s.

In 1990, Eastern Province was the lowest contributor to national GDP due to the renewed outbreak of the Eelam War. In 1991 Northern Province replaced Eastern Province as the province with the lowest GDP, and it remained the smallest provincial economy through 2005 (the last year statistics are available). Meanwhile, since 1995 Eastern Province has risen above North Central Province and Uva Province in terms of provincial GDP (see table 2). Nevertheless, it is unambiguous that the average of the GDPs of Northern and Eastern Provinces account for the lowest share in the national GDP.

Notably, the tsunami of December 26, 2004, has only marginally affected the contributions of the coastal provinces to the national GDP. For example, the contribution of Eastern Province dropped only marginally from 5.4 percent in 2004 to 4.9 percent in 2005. Southern Province's contribution dropped negligibly to 9.0 percent in 2005 from 9.3 percent in 2004. Ironically, Northern Province's contribution increased negligibly to 3.1 percent in 2005 from 2.9 percent in 2004. Hence, the impact of the tsunami not only did not affect national growth, it also did not significantly change the shares of the affected provinces in the national GDP. This stability in provincial GDP occurred in spite of the fact that the fishing sector con-

***Northern Province...
remain[s] the smallest
provincial economy***

tributed 12 percent to the PGDPs of both Eastern and Northern Provinces. It appears that rehabilitation and reconstruction activities have more than offset the losses incurred in the fishing sector in these two provinces.

Sectoral Composition of Provincial Economies

The structure of the regional economy (especially in Northern Province) is also different from that of other provinces and the national economy. Over the past three decades, the Sri Lankan economy has undergone structural transformation from a predominantly agrarian and service economy to a predominantly service economy.⁸ In monetary terms, agriculture's share in the national GDP almost halved from around 30 percent in the late-1970s to just 18 percent in 2005. The share of the industrial sector in the overall economy essentially remained at a constant 25 to 30 percent during the past quarter century, while the share of the service sector increased from about 43 percent in the late-1970s to 55 percent in 2005 (Central Bank of Sri Lanka 2006).

The service sector dominates the economies of Sri Lanka's most prosperous province, Western Province, and least prosperous provinces, Northern and North Central. However, a vast difference exists in the composition of the service sector in these three provinces. In Western Province, the service sector is dominated by dynamic private enterprises in wholesale and retail trade, communications and transportation, and finance. In Northern Province, public administration and defense dominate the service sector; and the wholesale and retail trade and communications and transportation subsectors are crucial in North Central Province.

In Eastern Province, while the shares of agriculture and industry increased marginally between 2001 and 2005, the share of the service sector declined considerably in 2003 but recovered in 2005 due to tsunami rehabilitation and reconstruction work. The share of the agriculture sector in PGDP increased during the early years of the ceasefire (from 35 percent in 2001 to about 37 percent in 2002 and 2003) but declined considerably to 33 percent in 2004 and 28 percent in 2005. The industrial sector experienced a similar trend, increasing from 26 percent in 2001 to almost 30 percent in 2003, and then declining to 28 percent in 2004 and 25 percent in 2005. The share of the service sector in Eastern Province dropped significantly from 40 percent in 2001 to 34 percent in 2003 and then increased to 39 percent in 2004 and 47 percent in 2005 (see table 3). These economic trends coincided with the breakaway of the LTTE's eastern command in March 2004, the deterioration of the security situation in Eastern Province due to internecine warfare between the LTTE and its breakaway Karuna faction, and the aftermath in 2005 of the December 2004 tsunami.

Table 3. Sectoral composition of gross domestic product by province, 2001–05, percent of total provincial GDP

Province	Agriculture ^a					Industry ^b					Services ^c				
	2001	2002	2003	2004	2005 ^d	2001	2002	2003	2004	2005 ^d	2001	2002	2003	2004	2005 ^d
Central	34.9	36.2	33.1	33.0	34.0	18.1	16.2	16.4	17.0	19.2	47.0	47.5	50.4	50.0	46.8
Eastern	34.8	37.5	36.4	33.3	27.5	25.7	22.7	29.8	28.1	25.2	39.5	39.8	33.8	38.5	47.3
North Central	45.3	44.5	44.8	42.8	44.3	9.7	7.9	9.1	8.2	12.1	45.0	47.6	46.1	49.0	43.6
Northern	21.0	26.5	28.4	28.0	24.5	7.0	6.5	6.9	6.8	7.7	72.0	67.1	64.7	65.2	67.9
North Western	28.4	28.5	25.9	22.9	22.9	32.9	32.3	30.5	30.5	30.5	38.7	39.2	43.7	46.6	46.6
Sabaragamuwa	28.5	30.3	30.4	27.6	29.1	27.9	29.0	27.7	30.2	29.0	43.6	40.6	41.9	42.2	41.9
Southern	34.4	39.2	35.1	35.9	31.1	17.6	17.1	23.4	19.9	22.2	47.9	43.7	41.5	44.2	46.7
Uva	51.4	45.5	53.4	52.9	48.6	9.4	13.9	9.5	9.3	14.0	39.2	40.6	37.0	37.8	37.4
Western	4.8	4.4	3.3	3.0	2.8	32.9	32.5	31.2	32.3	32.3	62.3	63.2	65.5	64.7	64.9
Sri Lanka	20.1	20.5	19.0	17.8	17.2	26.8	26.3	26.4	26.8	27.1	53.1	53.2	54.6	55.4	55.7

Source: Author's calculations based on Central Bank of Sri Lanka 2007: 32.

Notes: ^a Agriculture sector includes food and cash crops, forestry, livestock, and fishing.

^b Industrial sector includes manufacturing, mining and quarrying, construction, and utilities (electricity and water).

^c Service sector includes wholesale and retail trade (domestic and foreign), transport, storage and communication (mail and telecommunications), financial services, real estate and business services, public administration, defense and other government services, and private social, community and personal services.

^d Figures for 2005 are provisional.

In Northern Province, the share of agriculture initially increased (from 21 percent in 2001 to 28 percent in 2003 and 2004) and then dropped to 24.5 percent in 2005. The contribution of industry in the regional economy remained constant at around 7 percent during the period under consideration. On the other hand, the share of services dropped consistently during the first three years of the ceasefire, from 72 percent in 2001 to 65 percent in 2003 and 2004, but increased to 68 percent in 2005 (see table 3). It may be useful to note that at the national level in 2005, the service sector contributed about 56 percent, the industrial sector about 27 percent, and the agriculture sector only 17 percent of total GDP.

Most notably, when compared to all other provinces, in Northern Province the share of the industrial sector in the PGDP was lowest and that of the service sector was highest. Conversely, as a percentage of provincial GDP, industry in Eastern Province in 2005 was fourth largest in the country at 25.2 percent.

Breakdown of Sectoral Contributions

Structural differences in the provincial economies are further highlighted by the breakdown of sectoral data from the 2003 provincial GDP. In the agriculture sector, the lowest contributor to farming was Western Province (2.5 percent), followed by Northern Province (16 percent), Northwestern Province (21 percent), and the Eastern Province (26 percent). On the other hand, although the fisheries subsector contributes only 2 percent to national GDP, its contribution to PGDP was highest in Eastern and Northern Provinces (both at 12 percent).

Surprisingly, in terms of share of the province's GDP, manufacturing in Eastern Province was the third highest in the country at 18.4 percent, behind only North Western Province at 24.7 percent and Western Province at 19.5 percent.

Trincomalee District was a major contributor to manufacturing output in Eastern Province. At the same time, the contribution of the construction subsector was lowest in Northern and Eastern Provinces (1.7 and 1.9 percent, respectively). The structural differences between Northern and Eastern Provinces, on the one hand, and the other seven provinces on the

other are mainly a result of the conflict in the northeast.

In the service sector, the economies of Eastern and Northern Provinces experienced lower contributions from the transportation, storage, and communications subsector (just below 9 percent in each province); wholesale and retail trade (9 and 10 percent, respectively); and the banking,

*structural differences...
are mainly a result of
the conflict*

insurance and real estate subsector (1.3 and 1.0 percent, respectively) than in other provinces. On the other hand, these two provinces experienced very high contributions from public administration and defense (38 percent in Northern Province and 11 percent in Eastern Province). Nationally, the public administration and defense subsector contributes only 5 percent of GDP. Thus, the single most striking feature of the breakdown of sectoral data is that public administration and defense is the single highest contributor to PGDP in Northern Province. At 38 percent of PGDP, this subsector in Northern Province is larger than the agricultural and industrial sectors combined (which together account for 35 percent of provincial GDP).

In Eastern Province, the contribution to the economy from public administration and defense is almost equivalent to that of the fishing subsector. Notably, this domination of the public sector occurred during a ceasefire year, which means it could have been even larger during periods of civil war (see O'Sullivan 2001: 204).

These findings are significant. In Sri Lanka, despite the rapid rise of the defense sector and an overall increase in public sector personnel, the role of the public sector in the national economy has been diminishing since economic liberalization began in 1977. The situation in the conflict-affected northeast region has run counter to these trends, particularly in Northern Province.

Several reasons could account for the large size of the public administration and defense subsector in these provinces.⁹ First, the public sector, particularly defense, naturally dominates the economy of a conflict region in official statistics because informal economies thrive and therefore are unaccounted for in government measurements of the economy (see Sarvanathan 2006b). Second, because of the debilitating economic embargo imposed by the state and illegal taxes exacted by the rebels, the warring parties squeezed the private sector. This in turn is likely to diminish the role of the private sector in the conflict region.¹⁰ Third, public administration in Northern Province (including in LTTE-controlled areas) was largely unhindered by the warring parties. Therefore, relief and redevelopment functions of the public sector increased the share of public administration in the PGDP. Finally, even when public administration was hampered by the ongoing conflict, the government was paying the salaries and pensions of its employees, thereby contributing to the provincial economy (see O'Sullivan 2001).

Results of a recent survey undertaken in all five districts of Northern Province corroborate this overdependence on the public sector. According to the survey, teenage children ages 14–18 in the North indicated a pref-

erence for public sector employment (Sarvananthan 2006a: 81–85). Hence, the dominance of the public sector in the North is expected to have a long-lasting effect.

Employment Concentration by Sector

Employment in various sectors of the economy also has undergone change over time. Underemployment has been severe in the agriculture sector throughout the postindependence period. As a corollary, labor productivity in agriculture has been very low. In 1985–86 the agriculture sector accommodated 49 percent of the employed population in the country. This figure had dropped to 40 percent in 1995–96 and to 31 percent by 2004. In comparison, the agriculture sector's contribution to GDP was only 28 percent in 1985, 23 percent in 1995, and 18 percent in 2004. Conversely, the industrial sector provided jobs for 18 percent of the employed population in 1985–86, 20 percent in 1995–96, and 25 percent in 2004. Yet contributions to national GDP by the industrial sector remained steady at just over 26 percent in 1985, 1995, and 2004. Over this same period, the service sector accommodated 33 percent of the employed population of Sri Lanka in 1985–86 while contributing 46 percent to GDP in 1985, 40 percent of the employed population in 1995–96 while contributing 51 percent to GDP in 1995, and 45 percent of the employed population while contributing 56 percent to GDP in 2004.

These statistics indicate that although labor productivity in the agriculture sector improved over time between the mid-1980s and mid-2000s, labor productivity in the industrial sector declined. We can therefore conclude that while underemployment in the agriculture sector has been declining over time, underemployment in the industrial sector is on the rise. Additionally, the service sector has had the highest labor productivity among the three sectors.

Statistics from Eastern Province show somewhat different trends in labor productivity, with underemployment and low productivity in the agriculture and service sectors but relatively high productivity in the industrial sector. In 2004, while the agriculture sector contributed 33 percent to provincial GDP, it accommodated 38 percent of the employed population. Similarly in that year, 46 percent of the employed population worked in the service sector, which contributed only 39 percent of PGDP. On the positive side in 2004, with just 17 percent of the employed population, the industrial sector contributed 28 percent to PGDP (see table 3).

Employment patterns also can be useful in determining economic changes due to civil war and ceasefire. In Eastern Province, the share of the employed population in the agriculture sector declined from 52 percent in

1985–86 and 1995–96 to 38 percent in 2004, while the share of the employed population in industry almost halved between 1985–86 and 1995–96—from 15 to 8 percent—and then increased to almost 17 percent in 2004. The percentage of the population employed in the service sector consistently increased over this period, from 33 percent in 1985–86, to 39 percent in 1995–96, and to 46 percent in 2004.

Employment trends in Northern Province parallel those in Eastern Province quite closely. In Northern Province, the share of the employed population in agriculture remained constant (55–56 percent) between 1985–86 and 1995–96, but had declined to 38 percent by 2004. By contrast, the percentage of those employed in the industrial sector dropped to 7 percent in 1995–96 from 13 percent in 1985–86, and then increased to 18 percent in 2004, primarily because of the rise in the construction industry. The share of the employed population in the service sector consistently increased over this time, from 32 percent in 1985–86, to 37 percent in 1995–96, and to 45 percent in 2004.

*Employment trends
in Northern Province
parallel those in
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Statistics from Northern Province indicate severe underemployment and low labor productivity in the agricultural and industrial sectors but high productivity in the service sector (whereas in Eastern Province the most productive sector was, by far, industry). In Northern Province in 2004, 38 percent of the employed population worked in the agriculture sector, yet agriculture accounted for only 28 percent of PGDP. Similarly, although the industrial sector accommodated 18 percent of the employed population in 2004, it accounted for only 7 percent of PGDP. By contrast, while contributing 65 percent of PGDP, the service sector in 2004 employed only 45 percent of the employed population in Northern Province (see table 3). The foregoing data and analyses reveal that the economies of Northern and Eastern Provinces could be predominantly agricultural in terms of the share of employed population but not in terms of monetary value.

High Growth despite Fundamental Weaknesses

A recent study by Seneka Abeyratne and Rajith Lakshman (2005) revealed that the Northern, Eastern, and North Central Provinces had the highest provincial growth rates during the early ceasefire period (i.e., 2002 and 2003) compared to the years prior to the ceasefire (i.e., 1997–2001). Eastern Province recorded an annual average growth of almost 5 percent during 1997–2001, which doubled to 10 percent in 2002 and 2003.

Likewise, Northern Province recorded annual average growth of more than 3 percent during 1997–2001, which increased fourfold to 13 percent in 2002 and 2003. The greatest change in annual growth was experienced by North Central Province, which borders Northern and Eastern Provinces and went from an annual average growth of -0.2 percent (during 1997–2001) to 8 percent (in 2002 and 2003). Despite the civil war, the northern and eastern economies did not experience negative growth due to

relief and rehabilitation activities, the flow of remittances from people who had fled the country, and other factors.

fundamental structural weaknesses caused by the conflict [remain]

In spite of the enormous rise in economic growth during the ceasefire period in Northern and Eastern Provinces, fundamental structural weaknesses caused by the conflict in these two provinces have not changed much (if at all) during the ceasefire period. Further evidence of these fundamental structural weaknesses and

institutionalized impediments to progress in the regional economies will be highlighted in the following sections.

Economic Desolation

Northeast Sri Lanka has been a significant producer of food and cash crops, livestock, and fish since independence in 1948. Because production was generally far greater than the requirements of their populations, Northern and Eastern Provinces became net exporters of many agricultural products to rest of the country. Thus, a vibrant commercial agriculture sector in the region developed during the pre-conflict period. However, due to extensive mining of agricultural lands; restrictions on fertilizer, fuel, and pesticide supplies; restrictions on fishing; transportation bottlenecks; and stringent security measures during the war, the previously successful commercial mode of agricultural production transformed into a subsistence or survival mode of production. A comparison of agricultural production, the number of industries, employment in specific industries, and economic infrastructure over time and across provinces reveal the extent of economic decline in absolute and relative terms.

Agriculture

Northern and Eastern Provinces lie in Sri Lanka's dry zone. The main agricultural crops in this conflict-affected region during the past quarter century (and previously) have been rice, onions, green chili, potatoes, and tobacco. Although rice has been the major crop in Eastern Province, onions, green chili, potatoes, and tobacco have been the major crops in

Northern Province. Absolute and relative declines in the production of these products have been striking.

Rice

Before the civil war, rice production in the northeast accounted for almost one-third of the national rice output, yet only 15 percent of the country's total population live in these two provinces. Thus, Northern and Eastern Provinces were surplus producers of rice. In 1980, the two provinces produced nearly one-third of the total rice crop in the country (Eastern Province produced almost 21 percent and Northern Province produced almost 12 percent of the national output). However, in 1990 and 2000, the two provinces accounted for just 24 percent of national rice output. During the ceasefire, rice production increased and contributed slightly less than 30 percent of national output during 2001–03 and in 2005. In 2004, Northern and Eastern Provinces accounted for a record 36 percent of national production. Hence, except in 2004, rice production in Northern and Eastern Provinces during the ceasefire period has not returned to 1980 levels in terms of the share of national output.

Rice production was impacted worse in Northern Province than in Eastern Province. Eastern Province's share of national rice output dropped to 19 percent in 1990 from 21 percent in 1980, but reached 21 percent again in 2000. Eastern Province then increased its share in national production to 27 percent in 2001 and 30 percent in 2004, but dropped back to 21 percent in 2005. Although rice production in Eastern Province in 2005 dropped dramatically in absolute terms (marginally below the 1980 production level), it did so nationally as well because of the severe drought and the impact of the tsunami. Therefore, in relative terms, rice production in Eastern Province in 2005 was almost the same as in 1980 and 2000. Ampara District is the major rice producer in Eastern Province, accounting for about two-thirds of the provincial total.

Northern Province experienced a dramatic drop in rice production during the civil war but has recovered significantly during the ceasefire, although it still has not reached pre-conflict levels. In 1980, rice production in Northern Province accounted for 12 percent of national production but declined to just 2 percent in 2001. However, since then it has consistently increased its share of national output to reach 8 percent in 2005. Yet the share of Northern Province rice in national output still has

Rice production was impacted worse in Northern Province than in Eastern Province

been one-third lower than it was prior to the outbreak of the civil war in 1983. Although Kilinochchi and Mannar Districts were major rice-producing districts in Northern Province in pre-conflict times, recently only Kilinochchi has been a major producer.

Onions

Northern and Eastern Provinces were the largest producers of red onions in 1980 and 1990, together accounting for almost two-thirds of national output. Northern Province alone accounted for 56 percent of national production in 1980 and 1990. Combined production dropped to 57 percent of the national total in 2000, to less than 33 percent in 2001–03, and to just 23 percent in 2005. Notably, onion production in the northeast has declined in absolute terms during the ceasefire, although production in 2005 (around 25,500 metric tons) surpassed that in 2000 (over 24,000 metric tons), and has not returned in the ceasefire period to the levels of 1980 (almost 35,000 metric tons) or 1990 (almost 37,000 metric tons).

Traditionally, Northern Province has been the major producer of onions in the country. In 1980 Northern Province produced just over 31,000 metric tons of onions, which marginally increased to somewhat more than 32,000 metric tons in 1990 and steadily dropped thereafter until 2004. In 2001, only 15,731 metric tons (or half the 1980 and 1990 totals) of onions were produced in the province. Production increased marginally during 2002–04 and rose to 22,484 metric tons in 2005. In terms of the share of national output, onion production in Northern Province dropped from 56 percent in 1980 and 1990 to approximately 20 percent in 2004 and 2005. Jaffna District accounted for the bulk of onion production in the province, although in 2005 the district accounted for only about 50 percent of total provincial production.

Onion production in Eastern Province steadily increased—from 3,700 metric tons in 1980 to 6,800 metric tons in 2000, but declined marginally during 2001–04 and dropped significantly in 2005 to just over 3,000 metric tons due to the impact of the tsunami and drought. As a share of national output, Eastern Province accounted for around 7 percent of the national total in 1980 and 1990, and had increased its share to 16 percent by 2000. Since then, onion production in the province has decreased to around 8 percent of total production during 2001–03 and then dramatically dropped to almost 3 percent in 2005.

Green Chili

Green chili is another major agricultural product in the northeast. Before the civil war, Northern and Eastern Provinces accounted for one-quarter of the total output of chilies in the country. In absolute terms, green chili pro-

duction in the northeast did not change between 1980 and 1990, measuring about 13,000 metric tons in both years. Since 1990, green chili production in the two provinces has dropped dramatically to about 4,300 metric tons in 2000, and then increased to about 6,500 metric tons between 2001 and 2005. However, as a share of national output, chili production in the northeastern provinces dropped from 25 percent in 1980 to 13 percent in 1990, and had declined to 8 percent in 2000. Since 2001, Northern and Eastern Provinces together increased their share of total green chili production to 13–14 percent in 2001 and 2002, 14 percent in 2003, and 15 percent in 2004, but dropped to 11 percent in 2005.

Tobacco

Tobacco is another major cash crop in Sri Lanka's northeast. Produced primarily in Northern Province, tobacco is the only crop to exceed pre-conflict output levels during the ceasefire period. Nationally, however, tobacco production has steadily declined over time, from 14,000 metric tons in 1980 to between 3,800 and 4,500 metric tons annually from 2002 to 2005. Therefore, the share of production in Northern and Eastern Provinces in the national total has increased enormously, from 5 percent in 1980, to 10 percent in 2000, and up to 27 percent in 2005 (see table 4).

***in Northern Province,
tobacco is the only crop to
exceed pre-conflict output***

Tobacco production in Northern Province increased from 750 metric tons in 1980 to just over 1,000 metric tons in 1990, but had declined to less than 500 metric tons by 2000. Since then, however, production has increased steadily to over 1,000 metric tons in 2005. Almost all production in the northeast region in 2004 and 2005 occurred in Northern Province. Tobacco production in the province has been centered almost entirely in Jaffna District, with the exception of 2005, when Vavuniya District produced one-third of the total output of Northern Province.

Livestock

The northeast region has had a large livestock sector since independence in 1948. Cattle, buffalo, goats, and sheep are the major livestock animals in the province. Buffalo are mainly found in Eastern Province and sheep mainly in Northern Province, and cows and goats are found throughout the region. Rearing cattle for meat production is not very common. In Northern Province, the animal population has declined over time, due primarily to the large forced migration during the civil war. It was almost

Table 4. Tobacco production, 1980–2005

	Production (metric tons)										Share of National Output (percent)									
	1980	1990	2000	2001	2002	2003	2004	2005	1980	1990	2000	2001	2002	2003	2004	2005				
Sri Lanka	14,410	10,336	5,403	4,514	3,832	3,810	4,389	4,204	100	100	100	100	100	100	100	100				
Eastern Province	33	46	123	97	73	134	41	23	0.2	0.4	2.3	2.2	1.9	3.5	0.9	0.6				
Ampara	16	7	83	86	58	111	30	12	0.1	0.1	1.5	1.9	1.5	2.9	0.7	0.3				
Batticaloa	3	0	12	8	9	6	6	2	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1				
Trincomalee ^a	18	39	28	3	6	17	5	9	0.1	0.3	0.5	0.1	0.2	0.5	0.1	0.2				
Northern Province	754	1,096	433	543	530	718	703	1,147	5.2	10.6	8.0	12.0	13.8	18.9	16.0	27.3				
Jaffna	641	1,096	383	483	478	584	643	736	4.4	10.6	7.1	10.7	12.5	15.3	14.7	17.5				
Kilinochchi ^b	0	0	25	25	25	21	0	0	0.1	0.0	0.5	0.6	0.7	0.6	0.0	0.0				
Mannar	13	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Mullaitivu	0	0	0	0	0	50	30	26	0.0	0.0	0.0	0.0	0.0	1.3	0.7	0.6				
Vavuniya	47	0	25	35	27	63	30	385	0.3	0.0	0.5	0.8	0.7	1.7	0.7	9.2				

Source: Author's calculations based on Department of Census and Statistics 2006.

Notes: ^a Trincomalee District data for 1990 and Kilinochchi and Mullaitivu District data for 2000–02 are estimates.

^b In 1980 Kilinochchi District was part of Jaffna District.

impossible for those fleeing the violence to bring their livestock with them. Mining of grazing lands for cows and goats, particularly in the Vanni region just south of Jaffna District, has been another significant obstacle to animal husbandry.¹¹ However, the cattle population was not affected in Eastern Province.

As an indication of the drop in animal husbandry, the total number of goats in the north accounted for 33 percent of the national total in 1980. This declined to 26 percent in 1990 and 15 percent in 2000. Similarly, the total number of sheep in Northern Province in 1980 accounted for 72 percent of the national total, which declined to 65 percent in 1990 and 61 percent in 2000 (Sarvananthan 2004: 62). However, despite the significant dislocation of livestock, milk production in the province in fact increased between 1980 and 2005 in absolute terms. In terms of its share in the national output, it remained at roughly the same level.

Milk and Eggs

In 1980, the northeast region produced 25 million liters of milk, which increased to 31 million liters in 1990, 38–39 million liters annually between 2000 and 2003, and to 40–41 million liters during 2004 and 2005. However, the greatest increase has been in Eastern Province, where milk production increased by 128 percent, from 9.4 million liters in 1980 to 21.4 million liters in 2005. Jaffna District in Northern Province and Batticaloa District in Eastern Province were the largest producers of milk in the region.

As a proportion of total milk production in the country, the two provinces from 1980 to 2005 accounted for approximately 19–21 percent, which was considerably higher than the region's population share. The steady milk production in the conflict region (particularly in the east) was due to high demand for raw milk by producers of value-added dairy products such as dried milk, condensed milk, ice cream, and so forth.

The northeast region also has a considerable poultry subsector. Egg output in the two provinces increased in absolute terms between 1980 and 2005. However, as a proportion of national production, it declined between 1990 and 2002. The region produced 72 million eggs in 1980, 77 million in 1990, 79 million in 2000, 90–100 million in 2001–04, and over 100 million in 2005. Although Northern Province produced a higher number of eggs in 1980, 1990, and 2005, the output of the East was higher from 2000 to 2004.

In 1980, the two provinces contributed 13 percent of the total egg output in the country. This number declined to 9 percent in 1990 and 2000, but increased to 10 percent in 2001 and 2002, to 11 percent in 2003 and 2004, and back up to 13 percent in 2005. Milk and egg pro-

duction in the conflict region were not affected as much as other food or cash crops because the bulk of it is home-based activity.

Fisheries

The coastal areas of Northern and Eastern Provinces are rich in marine resources. Before the civil war, the two provinces accounted for two-thirds of the total fish catch in the country, with Northern Province being the dominant contributor. However, due to severe security restrictions, which led to a ban on fishing at night and limits on the distance boats could travel, fisheries was the subsector most affected in the conflict region. The fish catch dropped dramatically during the civil war in Northern Province, where the industry had been a major employer, but generally remained steady in Eastern Province.

In 1980, Northern and Eastern Provinces contributed 64 percent of the total fish catch in the country (Northern—49 percent; Eastern—15 percent), which declined marginally to 60 percent in 1990 (Northern—43 percent; Eastern—17 percent). However, the region's contribution to total national production dropped dramatically to just 21.4 percent in 2000 (Northern—10.8 percent; Eastern—9.6 percent). Since then, the catch picked up steadily to 25 percent of the national total in 2001, 40 percent in 2004 (with Northern and Eastern Provinces at 20 percent each), and 34 percent in 2005 (Northern—16 percent; Eastern—18 percent; see table 5). The removal of security restrictions in most parts of the north during the ceasefire has been an enormous help to the fisheries industry, although in 2005 the catch declined once again due to the tsunami.

Northern Province's dramatic and steady decline in fish catch during the civil war led to a drop from nearly 92,000 metric tons in 1980 to 32,000 metric tons by 2000. From the beginning of the ceasefire, the catch in Northern Province started to rebound, bringing in 44,000 metric tons in 2001 and up to 57,000 metric tons in 2004. Unfortunately, the catch in the province more than halved to just 24,000 metric tons in 2005 due to the tsunami. Despite the rise in fish catch in Northern Province since the start of the ceasefire, it still has not reached the level of 1980 or 1990.

The fishing industry in Eastern Province has had a very different experience since 1980. The catch in the province has been on the rise over this time, with the exception of 2000, 2001, and of course 2005, due to the migration of experienced employees in the industry from Mannar and Mullaitivu Districts in Northern Province to Trincomalee District in Eastern Province. The fish catch in the province increased to 31,000 metric tons in 1990 from 28,000 metric tons in 1980, but declined marginally in 2000 and 2001 back to approximately 28,000 metric tons. However,

Table 5. Fish catch, 1980–2005

	Production (metric tons)										Share of National Output (percent)									
	1980	1990	2000	2001	2002	2003	2004	2005	1980	1990	2000	2001	2002	2003	2004	2005				
Sri Lanka	187,678	183,990	296,380	284,760	302,890	284,960	286,370	153,180	100	100	100	100	100	100	100	100				
Eastern Province	28,018	30,670	28,400	27,990	36,200	44,270	58,390	27,950	14.9	16.7	9.6	9.8	12.0	15.5	20.4	18.2				
Ampara	11,206	12,700	12,900	10,500	12,800	12,600	21,210	9,810	6.0	6.9	4.4	3.7	4.2	4.4	7.4	6.4				
Batticaloa	3,979	4,460	5,920	8,360	9,860	16,640	18,950	10,110	2.1	2.4	2.0	2.9	3.3	5.8	6.6	6.6				
Trincomalee	12,834	13,510	9,580	9,130	13,540	15,030	18,230	8,030	6.8	7.3	3.2	3.2	4.5	5.3	6.4	5.2				
Northern Province	91,616	78,930	31,880	43,937	41,617	51,690	56,550	24,280	48.8	42.9	10.8	15.4	13.7	18.1	19.7	15.9				
Jaffna	54,253	39,740	14,450	18,070	20,480	28,550	33,980	13,370	28.9	21.6	4.9	6.3	6.8	10.0	11.9	8.7				
Kilinochchi	12,050	11,550	5,050	4,400	3,750	2,760	3,130	1,460	6.4	6.3	1.7	1.5	1.2	1.0	1.1	1.0				
Mannar	11,604	19,040	7,410	16,398	12,273	16,630	17,060	8,380	6.2	10.3	2.5	5.8	4.1	5.8	6.0	5.5				
Mullaitivu	10,545	6,960	2,290	3,948	3,213	2,250	2,200	780	5.6	3.8	0.8	1.4	1.1	0.8	0.8	0.5				
Vavuniya	3,164	1,640	2,680	1,120	1,900	1,500	180	290	1.7	0.9	0.9	0.4	0.6	0.5	0.1	0.2				

Source: Author's calculations based on Department of Census and Statistics 2006.

it increased to 58,000 metric tons in 2004 (for the first time overtaking Northern Province). Due to the tsunami, the catch in Eastern Province dropped to 28,000 metric tons in 2005, although it was still higher than in Northern Province (see table 5). Despite the tsunami, the catch in Eastern Province in 2005 was nearly the same as it had been in 1980.

Manufacturing Industries

Along with North Central and Uva Provinces, the northeast region has been one of the least industrialized provinces in the country since independence. Prior to the civil war, only a handful of large manufacturing industries operated in the northeast: a paper factory in Valaichchenai (Batticaloa District, Eastern Province), a chemical factory in Paranthan (Kilinochchi district, Northern Province), and a cement factory in Kankesanthurai (Jaffna District, Northern Province). In the early 1980s, over 100,000 metric tons of paper, 1,700 metric tons of sodium hydroxide, 1,200 metric tons of chlorine, 1,000 metric tons of hydrochloric acid, and 500,000 metric tons of cement were produced in these state-owned manufacturing enterprises (Sarvananthan 2004: 65). At present, however, no production is occurring at any of these three enterprises. The chemical and cement factories in the north were destroyed during the civil war, and the state-owned paper factory in Valaichchenai has not produced anything for several years.

Nevertheless, during the past three decades of economic liberalization, some foreign investment has occurred in industries in Eastern Province, particularly in Trincomalee District. As of 2005, Ampara and Batticaloa Districts each had a garment factory, and two garment factories, two cement factories, and one wheat-processing plant were operating in Trincomalee District. All of these projects were established prior to the ceasefire under the Board of Investment, an entity of the Government of Sri Lanka established to promote and facilitate foreign investment. Since the beginning of the ceasefire, only one new Board of Investment project—a diesel power-generation plant established on the Jaffna Peninsula to provide electricity to the peninsula—has been established in the northeast.

*Many...enterprises were
destroyed or deserted
during the civil war*

Although only a handful of large enterprises have existed in the northeast, thousands of micro, small, and medium-sized enterprises were in operation throughout the region.¹² Many of these enterprises were destroyed or deserted during the civil war. Comparatively, Eastern Province has been more industrialized

than the north. The last Census of Industries in Sri Lanka incorporating

Northern and Eastern Provinces was undertaken in 1983. In 2003, the Department of Census and Statistics undertook a listing operation as a precursor to the Census of Industries, which was to include the northeast after a gap of twenty years. However, due to a lack of cooperation by company managers throughout the country (including in the northeast), the latest Census of Industries is not yet completed. Nevertheless, the listing operation provides some useful basic data.

The available data shows that the total number of enterprises both in Northern and Eastern Provinces increased between 1983 and 2003. In 1983, there were 9,671 manufacturing enterprises in the two provinces. By 2003, the number of enterprises had increased by 26 percent to 12,227. Eastern Province experienced a greater increase in the number of enterprises than Northern Province. Thus, although the total number of enterprises in Eastern Province increased by almost 30 percent to 7,400 in 2003 from slightly more than 5,700 in 1983, in Northern Province it increased by 22 percent, from a little less than 4,000 in 1983 to slightly more than 4,800 in 2003 (see table 6). Over 80 percent of enterprises in the northeast in 1983 employed fewer than five employees, and over 95 percent in 2003 employed less than ten employees. Altogether, 563 enterprises in Northern and Eastern Provinces employed more than ten employees in 2003 (332 in the east and 231 in the north) (see table 6) (Department of Census and Statistics 1985: 2004c).

Although in absolute terms the number of enterprises in the northeast increased between 1983 and 2003, it has declined marginally as a proportion of the total number in the country. In 1983, enterprises in Northern and Eastern Provinces accounted for 9.5 percent of the country's total (Northern—3.9 percent; Eastern—5.6 percent), but in 2003 the region had 9.3 percent of the total number of Sri Lanka's enterprises. (The Eastern share remained at 5.6 percent, but the Northern share declined marginally to 3.7 percent) (see table 6). Ampara and Batticaloa Districts have the largest number of enterprises in Eastern Province, and Jaffna District has the largest number in the north.

Although the total number of enterprises in both Northern and Eastern Provinces has increased from 1983 to 2003, the total number of employees in industry (including manufacturing, mining, construction, and utilities) has declined during the same period. However, nationally the total number of employees in industry increased by a staggering 65 percent during this period, from just over 627,000 in 1983 to more than one million in 2003. In contrast, in Eastern Province, total industrial employment declined marginally from 28,400 in 1983 to 27,700 in 2003, denoting a negative change of almost 3 percent. In Northern Province, industrial employment dropped

		Table 6. Number of enterprises by province and district, 1983 and 2003											
		1983						2003					
		Enterprises, less than 5 employees		Enterprises, 5 or more employees		Total		Enterprises, less than 10 employees		Enterprises, 10 or more employees		Total	
No	%	No	%	No	%	No	%	No	%	No	%		
Sri Lanka	86,554	100.0	16,051	100.0	102,605	100.0	121,426	100.0	9,961	100.0	131,387	100.0	
Eastern Province	5,011	5.8	709	4.4	5,720	5.6	7,067	5.8	332	3.3	7,399	5.6	
Ampara	1,681	1.9	368	2.3	2,049	2.0	3,682	3.0	174	1.7	3,856	2.9	
Batticaloa	2,485	2.9	248	1.5	2,733	2.7	1,898	1.6	120	1.2	2,018	1.5	
Trincomalee	845	1.0	93	0.6	938	0.9	1,487	1.2	38	0.4	1,525	1.2	
Northern Province	3,146	3.6	805	5.0	3,951	3.9	4,597	3.8	231	2.3	4,828	3.7	
Jaffna	2,433	2.8	688	4.3	3,121	3.1	2,684	2.2	113	1.1	2,797	2.1	
Kilinochchi							441	0.4	25	0.2	466	0.4	
Mannar	516	0.6	47	0.3	563	0.5	413	0.3	20	0.2	433	0.3	
Mullaitivu	68	0.1	23	0.1	91	0.1	492	0.4	36	0.4	528	0.4	
Vavuniya	129	0.1	47	0.3	176	0.2	567	0.5	37	0.4	604	0.5	

Sources: Author's calculations based on: Department of Census and Statistics 1985: A9, A11; Department of Census and Statistics 2004c, listing operation.

Note: In 1983 Kilinochchi District was part of Jaffna District.

by 22 percent to slightly more than 17,000 in 2003 from nearly 22,000 in 1983 (see table 7). In 1983 as well as 2003, Ampara and Batticaloa Districts had the largest number of industrial employees in Eastern Province, and Jaffna District had the largest number in Northern Province.

The share of the northeast region's industrial employment in Sri Lanka's total declined more dramatically between 1983 and 2003—from 8 percent of total industrial workers in the country in 1983 to just 4.4 percent in 2003. This dramatic decline was most pronounced in Ampara, Batticaloa, and Jaffna Districts (see table 7).

Countrywide, the 65 percent increase in industrial employment from 1983 to 2003 accompanied only a 28 percent increase in the total number of enterprises over that same period. This could be an indication that most new enterprises were medium-sized or large. On the contrary, while the total number of enterprises in the northeast region increased by 26 percent from 1983 to 2003, employment in industry decreased by 11 percent, likely indicating that most new enterprises were very small.

Economic Infrastructure

Economic infrastructure, including water, electricity, roads, and telecommunications, is essential for economic growth and poverty alleviation. The Poverty Reduction Strategy Paper of Sri Lanka identified lack of economic infrastructure in isolated parts of the country as one of the fundamental causes of regional inequities and higher poverty levels in those areas (particularly in the plantation/estate sector) (Government of Sri Lanka 2001).¹³ Lack of safe drinking water negatively affects the health of the population and thereby labor productivity. Lack of electricity negatively affects productivity in all sectors; lack of roads limits market access to agricultural and industrial products and negatively affects trade and labor mobility; and poor telecommunications infrastructure limits quick access to labor and commodity market information.

According to the Consumer Finances and Socioeconomic Survey of 2003–04, nearly 94 percent of households in the country had access to safe drinking water. Sabaragamuwa Province (84 percent) and Uva Province (87 percent) had the lowest percentage of households with access. The Northern Province (91 percent) and Eastern Province (92 percent) have a greater percentage of households with safe drinking water than Uva and Sabaragamuwa Provinces but lower than the country as a whole (see table 8). However, it is important to note that the CFS in Northern Province did not cover Kilinochchi, Mannar, and Mullaitivu Districts, which are the most impoverished districts in that province. Data on safe drinking water for Northern Province would therefore be an overestimation. Unfortunately, no comparable data is available for the period prior to the civil war.

	Table 7. Employment in industry by province and district, 1983 and 2003, number of employees											
	1983						2003					
	In enterprises, less than 5 employees		In enterprises, 5 or more employees		Total		In enterprises, less than 10 employees		In enterprises, 10 or more employees		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Sri Lanka	181,252	100.0	445,915	100.0	627,167	100.0	285,623	100.0	747,828	100.0	1,033,451	100.0
Eastern Province	10,876	6.0	17,541	3.9	28,417	4.5	16,645	5.8	11,047	1.5	27,692	2.7
Ampara	3,830	2.1	9,635	2.2	13,465	2.1	8,627	3.0	5,297	0.7	13,924	1.3
Batticaloa	5,154	2.8	5,197	1.2	10,351	1.7	4,764	1.7	2,752	0.4	7,516	0.7
Trincomalee	1,892	1.0	2,709	0.6	4,601	0.7	3,254	1.1	2,998	0.4	6,252	0.6
Northern Province	7,753	4.3	14,241	3.2	21,994	3.5	12,077	4.2	5,099	0.7	17,176	1.7
Jaffna	5,922	3.3	12,631	2.8	18,553	3.0	6,933	2.4	2,224	0.3	9,157	0.9
Kilinochchi	1,331	0.7	498	0.1	1,829	0.3	1,188	0.4	732	0.1	1,920	0.2
Mannar	173	0.1	369	0.1	542	0.1	1,456	0.5	630	0.1	2,086	0.2
Vavuniya	327	0.2	743	0.2	1,070	0.2	1,417	0.5	1,177	0.2	2,594	0.3

Sources: Department of Census and Statistics 1985: A9, A10. Department of Census and Statistics 2004c.

Note: In 1983 Kilinochchi District was part of Jaffna District.

In 1983, only 273,000 households in Sri Lanka had electricity, which increased more than eight-fold to 2.2 million by 2005. In Eastern Province, households with electricity increased from less than 16,000 in 1983 to over 140,000 in 2005 (an almost nine-fold increase). In Northern Province, households with electricity increased from over 13,000 in 1983 to about 95,000 in 2005 (a more than seven-fold increase; see table 8). This data is from the Ceylon Electricity Board (indicating the supply side) and includes only the official electrical connections. However, anecdotal evidence suggests that there are huge numbers of unofficial or illegal power connections throughout the country. These unofficial power connections are greater in number in the conflict region, especially in LTTE-controlled areas. In fact, according to the Consumer Finances and Socioeconomic Survey (which covers the demand side), almost 66 percent of households in Eastern Province had electricity (CFS 2003–04: 85). CFS data for Northern Province is not reliable, because it did not cover vast areas of the province that are totally without electricity.

Northern and Eastern Provinces had the lowest shares of households with electricity in the country, both in 1983 and 2005.¹⁴ In 1983, only about 5 percent of the total households with electricity in the country were in Northern Province and only about 6 percent were in Eastern Province. Similarly, in 2005 only about 4 percent and 6 percent of households with power supply were in Northern and Eastern Provinces, respectively. While the Eastern share increased in 2005 by 0.6 percent compared to 1983, the Northern share decreased by 0.6 percent in that same period (see table 8). It is important to note that 6 percent of Sri Lanka's population lives in Northern Province and 8 percent lives in Eastern Province. Therefore, the share of households with electricity in the northeast region (10.7 percent) was lower than its population share (14 percent).

Road density (length of roads per square kilometer) in Sri Lanka has marginally improved between 1982 and 2005, from 0.37 km of road per square km of area to 0.44 km of road per square km (see table 8). Here, only class A, B, C, and D roads (i.e., paved roads) are taken into consideration. A and B class roads come under the authority of the Road Development Authority of the central government, and C and D class roads are the responsibility of the respective provincial councils. Unpaved roads come under the respective local governments. In 1982, North

***In Eastern Province,
households with electricity
increased...almost nine-fold***

Table 8. Extent of economic infrastructure available by province, 1983 and 2005									
Province	Road density (km / km ²)		Land phones per 100 persons		Households with electricity ^b		Households with safe drinking water		
	1982	2005	1983	2005	1983	2005	1983	2005	
Central	0.65	0.70	N.A. ^c	4.5	33,558 (12.3)	187,774 (8.5)	N.A	91.9	
Eastern	0.22	0.28	N.A	2.9	15,746 (5.8)	140,419 (6.4)	N.A	92.0	
North Central	0.21	0.34	N.A	3.3	51,203 (18.8)	180,515 (8.2)	N.A	98.0	
Northern	0.26	0.29	N.A	1.8	13,364 (4.9)	95,042 (4.3)	N.A	90.8	
North Western	0.40	0.46	N.A	3.6	70,746 (25.9)	402,954 (18.3)	N.A	96.8	
Sabaragamuwa	0.44	0.48	N.A	3.4	Included with adjoining province	290,400 (13.2)	N.A	84.1	
Southern	0.49	0.58	N.A	4.7	23,408 (8.6)	421,094 (19.1)	N.A	93.5	
Uva	0.27	0.31	N.A	3.2	Included with adjoining province	Included with adjoining province	N.A	87.2	
Western	0.89	1.00	N.A	13.1	65,017 (23.8)	488,853 (22.1)	N.A	97.5	
Sri Lanka	0.37	0.44	N.A	6.7	273,042 (100.0)	2,207,051 (100.0)	N.A	93.5	

Sources: Ceylon Electricity Board (CEB); Telecommunications Regulatory Commission (TRC); Road Development Authority (RDA); and Central Bank of Sri Lanka 2005a, part 1, 84.

Notes: ^a Road density is worked out from A, B, C, and D-class roads only.
^b CEB provinces are not exactly the same as the administrative provinces of the country.
^c N.A = not available.

Central Province (0.21 km of road per square km) and Eastern Province (0.22 km of road per square km) had the lowest road density in the country, followed by Northern Province (0.26 km of road per square km) and Uva Province (0.27 km of road per square km). However, in 2005, Eastern Province (0.28 km of road per square km of area) and Northern Province (0.29 km of road per square km) had the lowest road density in the country, followed by Uva and North Central Provinces (see table 8). Low road density in the northeast region reduces labor and commodity mobility and market access, especially in comparison to regions with more developed transportation infrastructure.

In 2005 in Sri Lanka as a whole there were almost 7 land-line phones per 100 persons. Northern Province has the lowest telephone density in the country, with just 2 phones per 100 persons, followed by Eastern Province with just under 3 phones per 100 persons. These were followed by Uva (3.2), North Central (3.3), and Sabaragamuwa (3.4) Provinces (see table 8). Unfortunately, comparable data for the pre-civil war period is unavailable. Nevertheless, including cellular phones, telephone density in the country in 2005 was about 18 per 100 people. Telephones per capita in Northern Province, including cellular phones, would be much higher than the above figure, because cellular phone use in that province in particular is far greater than fixed-line phone use.

The Impact of Civil War on the Economies of Northern and Eastern Provinces

Northern and Eastern Provinces experienced a steady decline in the output of major agricultural products during the civil war. Although agricultural production partially recovered during the four years of ceasefire (2002–05), most products have not recovered to their pre-conflict (1980) levels of output in absolute volume or in their share of the national output. The inability to return to pre-civil war levels of agricultural production in various sectors may be due to multiple factors: it could be that conflict-era impediments to cultivation of crops or fishing may not have been entirely removed (as examined further below). It is also possible that workers consciously chose not to go back to their old jobs in farming or fishing as a result of changing attitudes and preferences of the younger generation. This situation could be also due to the growing dependence on the state for jobs and handouts during the long, drawn-out civil war. The slow rebound in output may also be a negative outcome of the growing remittance economy, in which workers, particularly in Northern Province, have moved overseas and are now sending money back home (as discussed in detail below).

Agricultural occupations (including livestock and fishing) are family and caste-based and passed on from generation to generation, but because farmlands have been left fallow due to mining, and fishing has been abandoned because of security restrictions and displacement, younger people may not have any experience in their traditional family occupations.¹⁵ Therefore, they are more inclined to switch to newer occupations than pursue their traditional family occupations. This changing attitude of the younger generation is also reflected in the field experiences of international and national nongovernmental organizations (NGOs) working in the northeast region (Hettige and Mayer 2002; Sarvananthan 2006a). In the industrial sector, while the number of enterprises increased between 1983 and 2005, employment in that sector has dropped dramatically in the conflict region.

Social Marginalization

Sri Lanka has one of the highest human and social development indicators in the developing world (see, for example, Human Development Report of the United Nations Development Programme (UNDP): various years). Although at the national level Sri Lanka's human development and social indicators look impressive, certain regions within the country lag far behind the national average for many indicators. Naturally, the provinces that are lagging in human development and social indicators are the ones with poor economic development as well (see also UNDP 1998).

This section demonstrates the social marginalization and deprivation of the northeast region compared to the rest of the country. This assessment utilizes selected health indicators of the population and educational attainment indicators of the student population both within the two provinces as well as across provinces. Unfortunately, data is not available for the pre-conflict and ceasefire periods in order to observe the changes over time.

Health

The health of the population determines people's physical ability to engage in productive activity. Moreover, a person's health could be a cause as well as an effect of economic well-being, so it can also determine the social status of a person or a household. In this section I examine the infant mortality rate (i.e., the number of babies that die before the age of five per thousand live births), the maternal mortality rate (i.e., the number of mothers who die in childbirth per thousand live births), low birth weight, underweight babies (0–5 years), home births, and safe sanitation facilities as indicators of human and social development.

The infant mortality rate in Sri Lanka as a whole was 11 per 1,000 live births in 2003 (latest year available), but was almost 15 in the northeast

region in 2000 (latest year available). There were variations within the region itself; while in Ampara (10), Trincomalee (5), and Vavuniya (9) Districts the infant mortality rates were lower than the provincial and national averages, in Batticaloa (16), Jaffna (22), Kilinochchi (28), Mannar (22), and Mullaitivu (20) Districts the rates were considerably higher (see table 9).

The national maternal mortality rate was 14 in 2002 (latest year available). However, in Northern and Eastern Provinces it was very high, at 81 in 2000 (latest year available). Again, districts varied within the region; in Ampara (24), Trincomalee (57), Jaffna (62), and Vavuniya (76) Districts it was lower than the regional average, but higher in Batticaloa (117), Kilinochchi (158), Mannar (97), and Mullaitivu (127) Districts (see table 9).

While 17 percent of babies were born underweight in the country as a whole in 2001 (latest year available), 26 percent of babies born that same year in the northeast region were underweight. Trincomalee (31 percent), Jaffna (31 percent), and Vavuniya (39 percent) Districts had a higher percentage of underweight newborns than the provincial average, while other districts had a lower percentage than the provincial average (see table 9).

The percentage of children under 5 years of age who were underweight nationally was 29 percent in 2001, but was 46% in Northern and Eastern Provinces in the same year. Within the region, Batticaloa (53 percent) and Vavuniya (51 percent) Districts had a higher percentage than the regional average (see table 9).

In the modern world, home births are a rarity, and nationally only 4 percent of births took place at home in 2001. However, in the conflict-affected Northern and Eastern Provinces, more than 19 percent of births took place at home in 2001. Further, in Batticaloa (31 percent) and Mannar (39 percent) Districts, home births were almost double that of the regional average, and eight and ten times (respectively) higher than the national average (see table 9).

Finally, 73 percent of households in the country had access to safe sanitation facilities in 2001, whereas in the northeast region only 48 percent of the households had such access. In Batticaloa (28 percent) and Trincomalee (26 percent) Districts, significantly fewer households had access to safe sanitation, but in Jaffna (79 percent), Mannar (71 percent),

The national maternal mortality rate was 14 in 2002...[but in 2000 was] 81 in the conflict region

Table 9. Selected health indicators, 2000/2001							
	Infant mortality rate, 2000 (per 1,000 births)	Maternal mortality ratio, 2000 (per 1,000 births)	Low birth weight 2001 (percent)	Underweight, 0-5 years, 2001 (percent)	Home births, 2001 (percent)	Safe sanitation 2001 (percent)	
Sri Lanka	11.2 (2003)	14 (2002)	16.7	29.4	4.0	72.6	
Northern and Eastern Provinces	14.7	81	25.7	46.2	19.4	48.2	
Ampara	10.3	24	22.7	44.1	19.8	52.7	
Batticaloa	15.8	117	24.3	53.2	31.4	28.4	
Trincomalee	4.6	57	30.5	44.7	13.6	25.6	
Jaffna	22.3	62	30.5	43.1	4.4	79.0	
Kilinochchi	27.8	158	N.A	N.A	N.A	N.A	
Mannar	22.3	97	12.7	38.3	39.4	70.9	
Mullaitivu	20.3	123	N.A	N.A	N.A	N.A	
Vavuniya	8.8	76	38.8	50.6	2.3	71.0	

Source: World Health Organization 2002: 13-14.

and Vavuniya (71 percent) districts, a significantly higher share of households than the provincial average had access to safe sanitation (see table 9), and in Jaffna a higher percentage of households had access to safe sanitation than the national average.

Education

Education is important not only for economic well being, but also for social mobility. A person's level of education also determines his or her ability to engage in productive activity and contribute to cultural and social emancipation. Indicators of primary educational achievement (mastery in the mother tongue, mathematics, and English) and secondary school examination scores highlight differences between the provinces in Sri Lanka. Unfortunately, data for the pre-civil war period is unavailable, so comparison across time is not possible.

According to an assessment of fourth grade cognitive achievement conducted in 2003, nationally only 37 percent of primary school children achieved mastery in their mother tongue. In Northern and Eastern Provinces, only 23 percent—the lowest in the country—had achieved mastery in their mother tongue. Central and Uva Provinces occupied the second lowest position, with 34 percent of primary school children mastering their mother tongue (see table 10). Central and Uva provinces had a lower share than the national average because of a lack of educational facilities on plantations. The gap between the northeast region and other provinces is very high.

Similarly, the share of primary school children achieving mastery in mathematics was 38 percent nationally. Once again, the northeast region was the worst performer among the provinces at just 25 percent. Central Province and Uva Province occupied the second and third lowest places with 33 percent and 35 percent respectively (see table 10). Only 10 percent of primary school children nationwide achieved mastery in the English Language in 2003, with the northeast region again having the lowest share at just 5 percent. The tests also showed that only 8 percent of children in Central, North Central, and Uva Provinces had mastered English (see table 10).

The foregoing three indicators of primary educational attainment reveal that Northern and Eastern Provinces lag far behind all other provinces in the country. Surprisingly, in higher secondary school (G.C.E. A/L) performance, the northeast fared much better than other provinces. Gender breakdown, however, is unfortunately unavailable. In 1998, nationwide 33 percent of students who appeared for the lower secondary school public examination (G.C.E. O/L) passed it. Although the pass rate

Table 10. Primary educational attainment by province, 2003

Province	Percent of primary school children achieving mastery in mother tongue	Percent of primary school children achieving mastery in mathematics	Percent of primary school children achieving mastery in English language
Central Province	34	33	8
North Central Province	36	41	8
North East Province	23	25	5
North Western Province	42	43	9
Sabaragamuwa Province	40	43	10
Southern Province	43	44	13
Uva Province	34	35	8
Western Province	51	52	20
Sri Lanka	37	38	10

Source: National Assessment of Grade 4 Cognitive Achievement, National Education Research and Evaluation Centre, University of Colombo, cited in World Bank 2005: 25.

in Northern Province (33 percent) was the same as the national pass rate, in Eastern Province it was marginally lower at 32 percent. However, the pass rates in Ampara District (27 percent) in Eastern Province and Kilinochchi (29 percent) and Mullaitivu (28 percent) Districts in Northern Province were lower than their respective provincial averages. The latter two districts are totally under LTTE control.

In 2002, the pass rate on the lower secondary school public examination had increased to 37 percent in the country as a whole. North Central and Uva Provinces had the lowest share of students passing the examination, with a 31 percent pass rate, and the second lowest share of 32 percent was in Central Province and the northeast region. By 2004, the national pass rate on the lower secondary school public examination had increased to 45 percent, but only 40 percent passed in Eastern Province and 36 percent in Northern Province. Again Kilinochchi and Mullaitivu Districts were well below the provincial average.

Although the pass rate on the lower secondary school public examination at the national level has improved considerably since the ceasefire came into effect (i.e., 2002 and 2004) compared to the conflict period (i.e., 1998), in Northern and Eastern Provinces taken together the pass rate remained the same in 2002 as in 1998, but improved considerably in 2004. Nevertheless, test scores in the northeast in 2004 did not improve at the same rate as the improvement nationally. Moreover, the gap between

the national pass rate and the pass rate in Northern and Eastern Provinces has been widening during the ceasefire period (2002 and 2004).

However, at the higher secondary level (the G.C.E. A/L examination), Northern and Eastern Provinces have exceeded the national average in all four years under consideration, 1987, 1998, 2002, and 2004. In 1987, nationwide 51 percent of students who appeared for the G.C.E. A/L examination passed. Among the provinces, the northeast achieved the highest pass rate with 59 percent of students passing the exam. In 1998, 50 percent of students in Eastern Province passed the G.C.E. A/L exam (the same as the national average), but in Northern Province 61 percent passed. In 2002, 56 percent of students passed the G.C.E. A/L nationwide, with the northeast region and North Western Province achieving the highest pass rate of 58 percent. In 2004, with the national pass rate at 55 percent, 58 percent of students in Eastern Province and 64 percent of students in Northern Province were successful on the exam.

The data on test scores demonstrates that the northeast region has been lagging behind the other provinces at the primary and lower secondary levels, but has been ahead of all other provinces at the higher secondary education level. This may be because a greater proportion of students drop out at primary and lower secondary levels in the northeast than elsewhere. Therefore, with fewer students staying in school, a greater proportion of students sitting for the G.C.E. A/L were able to pass.

Lack of Resources Impedes Development

Although we do not have data for the health indicators during the ceasefire period, we can assume that not much would have changed, because it takes a long time to improve the nutritional and health standards of populations. However, infant and maternal mortality rates and home births may have been reduced during the ceasefire because of access to better health services located in government-controlled areas of the northeast for people living in LTTE-controlled areas. Additionally, sanitation facilities may also have improved in very remote areas during the ceasefire.

Educational standards would also take a long time to improve, and the four-year-old ceasefire is insufficient to make any considerable impact. Although the achievements in primary education were evaluated in a ceasefire year (2003), we do not have comparable data for the civil war or prewar periods. Although the pass rate on the G.C.E. O/L examination in Northern and Eastern Provinces did not change in the first year of the ceasefire (2002) in comparison to the conflict period (1998), despite a rise at the national level, the pass rate in 2004 did show considerable improvement, as did the scores at the national level. In spite of the rise in the pass

rate in 2004 in the conflict region, the gap between the national pass rate and that in the northeast has widened. The pass rate at the higher secondary level in the northeast region has definitely shown considerable improvement during the ceasefire. A larger percentage of students in the region passed the higher secondary exam in 2004 than even in the early civil war year of 1987.

During the civil war, several schools and hospitals/primary health centers were damaged or forced to move due to fighting. Moreover, schools and hospitals experienced a shortage of equipment, including books, laboratory equipment, hospital equipment, medicines, and so forth. In addition,

the region experienced an acute shortage of teaching and healthcare professionals. Although the physical infrastructure of the social sector (hospitals, schools, etc.) in the conflict-affected region has been partially rehabilitated or reconstructed (including in LTTE-controlled areas) during the ceasefire, a severe shortage of health and education professionals has continued to plague the

*a severe shortage of health
and education professionals
...plague[s] the region*

region during the ceasefire. Hence, as examined below, the health and educational standards could not be improved to any considerable extent during the four-year ceasefire due to a lack of human resources and capital.

Poverty, Inequality, and Vulnerability

A two-way relationship exists between conflict and poverty (Ganepola and Thalayasingam 2004). Thus, poverty can be a cause and an effect of conflict. Poverty can provide the “objective conditions”¹⁶ for conflict, and conflict can lead to poverty, and in extreme cases to starvation. Extremists can exploit the marginalization and poverty of certain groups for political and military purposes.

Until the late-twentieth century, governments, nongovernmental organizations, and bilateral and multilateral donor agencies had been concentrating primarily on addressing the effects and consequences of conflict. However, since the mid-1990s various stakeholders have been focusing equally on causes of conflict, including poverty. Thus, conflict prevention has become a priority of the international community. In this respect, addressing the scourge of poverty became a cornerstone of development policy for governments and international organizations alike.

Poverty in the Conflict Region

No consumer price indices (either provincially or by district) or poverty lines exist for the conflict-affected region in Sri Lanka. Therefore, no data is available on the income or consumption poverty level in Northern and Eastern Provinces. Since no absolute income poverty data exists for the northeast, relative income data from the latest Consumer Finances and Socioeconomic Survey and Household Income and Expenditure Survey will be used to assess the relative income and consumption poverty of the region vis-à-vis other provinces.

Household survey data of the conflict-affected region has an inherent weakness because it covers only households and not families living in refugee camps, who are the most deprived. For example, although the latest CFS and HIES were undertaken in Jaffna District, they did not cover internally displaced households. Therefore, the income and expenditure data of the CFS and HIES for Jaffna would be an overestimation. Second, neither the CFS nor HIES covered the LTTE-held territories in the Vanni, which according to anecdotes is the most deprived in Northern Province. Hence, the income and expenditure data of both the CFS and HIES for the province would be overestimations. Further, the CFS covered only Jaffna and Vavuniya Districts in Northern Province, which are the most prosperous districts in the province. Hence, income and expenditure data of the CFS for the north would be even more of an overestimation than the HIES data.

In terms of per capita income derived from provincial GDP compiled by the Central Bank, Northern Province had the lowest per capita income in 2003, followed by Sabaragamuwa, Eastern, and Uva Provinces. Specifically, in 2003 Northern Province had a per capita income of LKR3,207 (Lankan Rupees) per month; the per capita income of Sabaragamuwa Province was LKR4,301 per month; Eastern Province's per capita income was LKR4,712 per month; and in Uva Province the per capita income was at LKR4,714 per month. Moreover, the per capita income of Northern Province was less than half the national per capita income, which in 2003 was LKR6,764 per month. In Eastern Province, per capita income was 30 percent less than the national per capita income. However, due to the methodological problems mentioned above, per capita income derived from the PGDP is not a very reliable indicator.

Another measure of per capita income is the Consumer Finances and Socioeconomic Survey undertaken by the Central Bank. According to this data, Uva Province had the lowest per capita income of LKR2,570 per month in 2003, followed by the Sabaragamuwa Province at LKR2,894

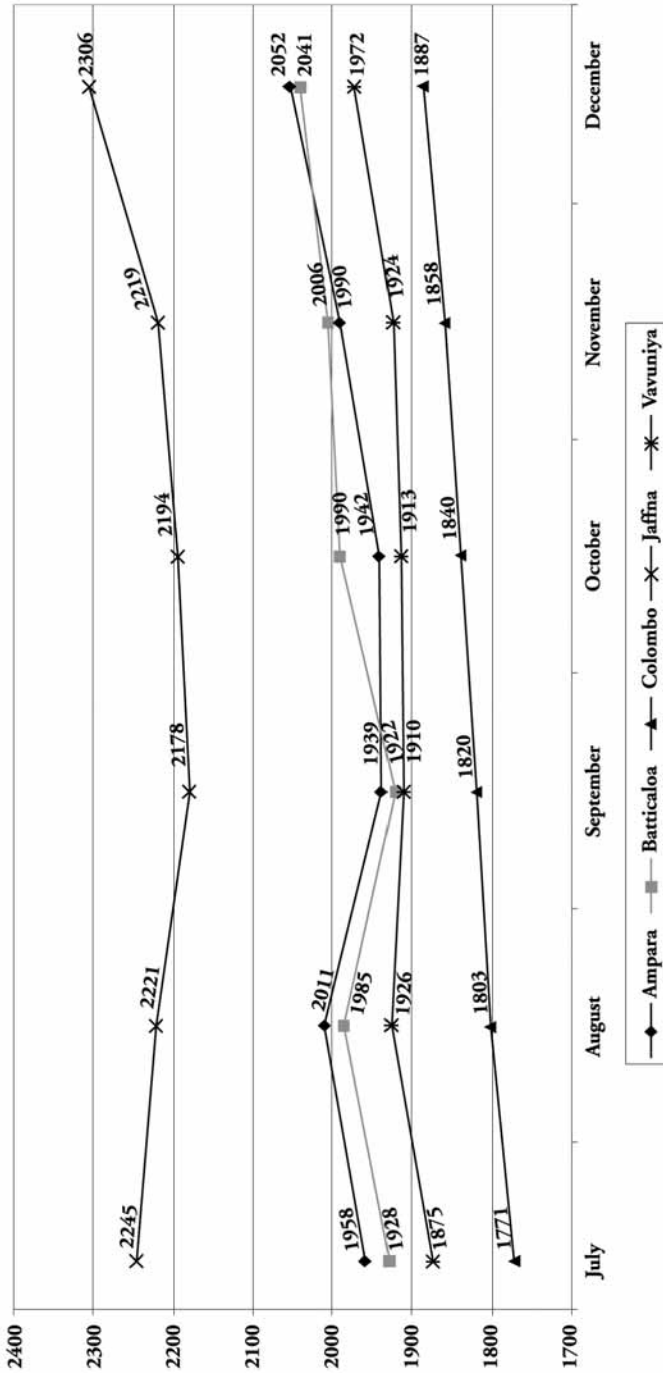
per month and Eastern Province at LKR2,905 per month. In fact, according to the CFS, Northern Province had only the fifth lowest per capita income of LKR3,208 per month. The survey found per capita income in Eastern Province to be 27 percent less and in Northern Province 19 percent less than the national per capita income.

Income data of the CFS for Northern Province is an overestimation, because it covered only the relatively prosperous districts of Jaffna and Vavuniya. Moreover, rupee to rupee comparison of the north with the rest of the country is not appropriate because of arbitrary and illegitimate taxation of goods and services by the LTTE. Because of LTTE taxation, the prices of commodities in Northern Province, particularly beyond Vavuniya, are significantly higher than in other parts of the country. Therefore, the purchasing power of the rupee is much less in the province than in other parts of the country. In other words, the same basket of goods in the north, particularly on the Jaffna Peninsula and in the Vanni region, would cost significantly more than in the adjoining districts or other parts of the country (see figure 1).¹⁷ Hence, the real per capita income (as opposed to the nominal per capita income mentioned above) in Northern Province—and to some extent in Eastern Province—would be even lower.

A more reliable measure of per capita income is the Household Income and Expenditure Survey undertaken by the Census Department in 2002–03. According to this Census Department data, Eastern Province had the lowest per capita income in the country of LKR1,777 per month, followed by Northern Province with LKR1,852 per month. Sabaragamuwa had the third lowest per capita income of LKR2,036 per month. Furthermore, the per capita incomes of Eastern and Northern Provinces were, respectively, 42 percent and 40 percent less than the per capita income of the country as a whole.

The balance of evidence suggests that Northern and Eastern Provinces have the lowest per capita income as compared to other provinces. Additionally, just over 22 percent of Tamil households outside the northeast were deemed poor using the national poverty line; and more than 21 percent of Muslim households and slightly less than 21 percent of households of the Hill Country Tamil community living outside the northeast region were considered poor. On the other hand, only 19 percent of households among the majority Sinhala community were deemed poor. If this poverty data by ethnic group is extended to the northeast region, it is possible to infer that a higher proportion of households in Northern and Eastern Provinces are poor, because the Tamils and Muslims account for roughly 85 percent of the total population in the province.

Figure 1. Comparative cost of a basket of goods, July–December 2005



Source: Price Monitor of the Point Pedro Institute of Development, Point Pedro, Sri Lanka.

Note: Basket of goods includes rice (1 kg), wheat flour (1 kg), Mysore dhal (1 kg), sugar (1 kg), milk powder (lakspray 450 g), bread (450 g), LP gas (12.5 kg), kerosene/paraffin (1 liter), diesel (1 liter), petrol (1 liter), cement (standard bag).

***poverty in the northeast
is considerably higher
than in other provinces***

Indicators derived from the CFS can also be used to infer that poverty in the northeast is considerably higher than in other provinces. First, borrowing as a proportion of total household income was highest in Eastern Province, followed by Northern Province. Almost 44 percent of total household income in Eastern Province and 39 percent in Northern Province came from borrowed money. This is nearly double the 22 percent share of borrowing as a proportion of total household income in the country as a whole. Second, the proportion of households borrowing money was highest in Eastern Province (65 percent), followed by Uva Province (61 percent) and Northern Province (58 percent). Third, the monthly average value

of commodity loans per household¹⁸ was again highest in the Eastern Province, followed by Northern Province. In Eastern Province, the monthly average value of commodity loans per household was LKR1,054, and in Northern Province it was LKR981 (see table 11).

Fourth, households in Northern Province receive the highest transfer income—including remittances from within the country as well as abroad and welfare payments¹⁹ from the government—as a proportion of total household income of any province in the country, followed by households in Eastern Province. Of the total household income in Northern Province, 37 percent was transfer income, and in Eastern Province the figure was 24 percent. Transfer income as a proportion of total household income in the north was more than double that in the country as a whole (see table 11). However, most of the transfer income was in the form of remittances, and welfare payments account for only a small proportion: people who depend heavily on the latter were not covered by the survey because they live in refugee camps. If we account for families living in camps, the dependence on welfare payments is suggestive of poverty.

Inequality

Income inequality is measured by the Gini ratio.²⁰ According to the CFS 2003–04, Eastern Province, with a Gini ratio of 0.51, had the greatest income inequality, followed by North Central (0.47), Northern (0.44), and Western (0.44) Provinces. The Gini ratio in the country had negligibly increased from 0.45 in 1981–82 to 0.46 in 2003–04. However, Gini ratios by province are unavailable for the prewar period: 2003–04 was the first time the CFS figured provincial Gini ratios. Therefore, we are unable

Table 11. Indicators for relative deprivation by province, 2003

Province	Borrowing as a percentage of total household income	Percentage of households with borrowing	Monthly average commodity loans ^a per household (LKR)	Transfer income as a share of total household income (percent)
Central Province	18.4	50.4	793	16.8
Eastern Province	43.6	65.3	1,054	24.1
North Central Province	14.2	49.5	650	15.2
Northern Province^b	39.0	58.1	981	37.0
North Western Province	22.3	47.4	615	20.1
Sabaragamuwa Province	14.7	48.9	833	14.1
Southern Province	31.3	49.4	694	18.4
Uva Province	21.3	61.3	785	14.3
Western Province	19.1	40.8	620	15.7
Sri Lanka	22.1	49.1	729	17.5

Source: Author's calculations based on Central Bank of Sri Lanka 2005a: part 1, 111, 169, 178.

Notes: ^a In Sri Lanka, particularly outside of Colombo, many people purchase essential commodities at nearby shops on credit and pay it off at the end of each month or periodically. This is known as a non-interest bearing commodity loan.

^b Northern Province excludes Kilinochchi, Mannar, and Mullaitivu districts.

to assess the changes (if any) in the Gini ratio in the pre-conflict, conflict, and ceasefire periods.

In addition to income inequality, inequalities in employment opportunities, infrastructure, health, and educational facilities may exist in the conflict region vis-à-vis other provinces. Further, inequalities in terms of economic, political, and social freedom between the northeast and the rest of the country may also exist. Sri Lankans may also experience intraprovincial inequalities in terms of ethnicity, gender, religion, caste, subregional origin, and so forth. Although the foregoing inequalities impinge on economic and social well being, they are beyond the scope of the present study.

Economic Vulnerability

Sri Lanka is administratively divided into 25 Districts and 323 Divisional Secretariat (DS) areas. In 2003, the Vulnerability Analysis and Mapping Unit of the World Food Programme undertook an island-wide vulnerability study pertaining to food security. The objective was to classify each DS area according to its vulnerability by a rapid analysis of secondary data on “availability,” “access to,” and “utilization” of food. Statistical models and spatial tools of Geographic Information Science were used to estimate food insecurity where data was unavailable. Twenty-five variables were identified for the classification of DS areas, and a synthesized variable (that was capable of explaining 70 percent of the original variables) was constructed using multivariate statistical tools.²¹ All the variables used in the analysis were positively correlated with the synthesized variable.

The DS areas belonging to the first quartile group of the synthesized variable were classified as the most vulnerable, and those corresponding to the second quartile group were classified as less vulnerable. The rest of the DS areas were classified as least or not vulnerable. Thus, three categories of vulnerability were defined, namely “most vulnerable,” “less vulnerable,” and “least/not vulnerable.” Accordingly, 94 DS areas (i.e., 29 percent of the total number of DS areas) were most vulnerable, 82 (or 25 percent) were less vulnerable, and 148 (or 46 percent) were least/not vulnerable in the country. Out of the most vulnerable DS areas, 43 (or 46 percent) were in the northeast region and the dry zone. All but 5 DS areas of Northern Province were most vulnerable to food insecurity. Although the North Central Province (Anuradhapura and Polannaruwa Districts) falls into the dry zone, only a few DS areas there were most vulnerable (World Food Programme 2003). Hence, this food security analysis is another indicator of the poorest nature of Northern and Eastern Provinces compared to the other provinces in the country (see also Centre for Information Resources Management 2004).

Building Peace and Alleviating Poverty

Poverty in Sri Lanka is primarily income and consumption poverty. However, human development indices are negative in certain parts of the country, particularly in the conflict-affected northeast region. Although international experience reveals that combating poverty has a very high potential to prevent conflict, a growing body of literature points to its limited contribution to conflict resolution or to the establishment of a durable peace (see, e.g., Looney 2003; Rubin 2006; Wimmer and Schetter 2003; World Bank 2007: chap. 7). These limitations are primarily due to destruction of institutional and governance structures in conflict-torn societies, regions, and countries. Hence, there is a growing focus on building socio-economic and political infrastructures based on markets, rule of law, justice and equality, freedom, and improvements in governance (in general) in societies in transition from war to peace. In the case of ethnic conflicts, such as in Sri Lanka, reconstruction of democratic, pluralistic, and rule-of-law infrastructure within the victimized minority community is *sine qua non* for fostering reconciliation with the majority community and the state. Moreover, reconstruction of these governance infrastructures in a conflict-affected region is a prerequisite for durable peace and poverty alleviation.²²

Although Sri Lanka has not experienced state collapse, the conflict-affected region is devoid of a “monopoly of power,” which is a prerequisite for sustainable economic development and poverty alleviation. In both the government-held and rebel-held territories of Northern and Eastern Provinces, what can be called a “duopoly of power” exists. In other words, dual authorities—the Government of Sri Lanka and the LTTE—rule in both the rebel-held and government-held areas. The rebel-held areas of the northeast lack rule of law and democratic accountability, while the government-held areas of the northeast experience little enforcement of the rule of law or the practice of democratic governance, in spite of the presence of socioeconomic, legal, and administrative infrastructures. This duopoly of power does not augur well for economic development in general, and poverty alleviation in particular, in these areas.

*This duopoly of power
does not augur well for
economic development*

From Embargo to Repression

As noted above, the sectors that experienced severe economic decline in Sri Lanka’s northeast provinces—especially in Northern Province—were only

partially revived during the ceasefire of 2002–05. This section analyzes the primary causes for the economic decline and stagnation during the periods of conflict and ceasefire using primary qualitative data derived from field-work in Northern and Eastern Provinces during the past five years.

Economic Embargo by the Government

In 1990, after the LTTE gained control of the Jaffna Peninsula and almost the entire Northern Province, the government imposed an economic embargo on Northern Province, including the Jaffna Peninsula, where almost one million people lived at that time. This was the beginning of the disintegration of the Northern economy. The economic embargo included not only military and related items, which were totally prohibited, but also

many civilian consumer goods, on which quantitative restrictions were placed. For example, while there was a total ban on AA sized batteries (which could be used for activating land mines, for example), other items such as diesel fuel, petrol, fertilizer, pesticides, medical products, biscuits, soft drinks, bicycles and parts, and so forth had quantitative restrictions

*In 1990...the government
imposed an economic embargo
on Northern Province*

(see also O’Sullivan 2001: 201). Although the quantitative limitations on some of the items in the restricted list could have been rational from the point of view of state security, limitations on others were irrational. The quantitative restrictions on surgical and medical products (like pain killers and panadol), bicycles and parts, biscuits, and soft drinks were not only irrational, but were against humanitarian norms.

In spite of this debilitating economic embargo, the government supplied rations of all essential commodities like rice, wheat flour, Mysore dhal, sugar, cooking oil, milk powder, kerosene/paraffin, and so forth to the civilian populations of the Jaffna Peninsula and of the LTTE-controlled Vanni region, despite the fact that the LTTE siphoned off a considerable part of the supplies meant for the civilian population (see O’Sullivan 2001: 205–6). Although the only highway connecting the Jaffna Peninsula to the mainland was closed for civilian use (from 1990 to April 2002), goods to the peninsula were shipped from Trincomalee harbor to Kankesanthurai and Point Pedro harbors.

This economic embargo was in force from 1990 to 1996 on the Jaffna Peninsula and until January 2002 in the Vanni, when it was unilaterally lifted by the government prior to the signing of the Ceasefire Agreement

with the LTTE. Adding to the economic problems was that there was no electricity to the Jaffna Peninsula and the mainland Vanni region from 1990 until 2002. The protracted economic embargo and lack of power, along with the nighttime and distance restrictions on fishing, broke the economic backbone and social stamina of Northern society. These challenges not only negatively affected the local economy and the livelihoods of the population, but also severely impacted the nutritional and health condition of the people in Jaffna and the Vanni (Medical Institute Of Tamils and Tamil Information Centre 1994; O'Sullivan 2001: 202).

The economic embargo also led the LTTE to take indirect control of the administrative, economic, and social affairs of Jaffna and the Vanni by interfering in government administration. The LTTE set up parallel administrative, law and order, economic, and health institutions in areas under its control: namely, the Tamil Eelam Administrative Service, Tamil Eelam Economic Development Organization, Tamil Eelam Police, Tamil Eelam Judicial Service, Tamil Eelam Health Service, and Tamil Eelam Educational Service. The civilian population and businesses in the north were taxed in order to finance the parallel institutions of the LTTE. However, these parallel institutions did very little tangible work for the people. Little was done with the financial, human, and material resources siphoned off from the corresponding government institutions because the LTTE did not have the capacity to do the work of government, since the bulk of its members are school drop-outs and quasi-literate.

Parallel institutions of the LTTE directly intervened in the workings of corresponding government institutions for the rebel group's military, political, and economic advantage. Furthermore, the LTTE was involved in a couple of grandiose projects in Jaffna District to show off its achievements and visions. One such project was the underground hospital built in Neerveli (near the City of Jaffna) in the early-1990s for the exclusive use of its senior members, which was reported to cost LKR50 million (approximately U.S.\$1 million). When government security forces wrested control of Jaffna from the LTTE in 1995, this underground hospital was discovered and destroyed. This is a classic example of how the LTTE used tax revenue from ordinary people for personal consumption of its leadership instead of providing goods and services to the general public.²³ This is typical behavior of autocratic regimes (both de jure and de facto) around the world.

*The LTTE set up
parallel...institutions in
areas under its control*

Additionally, the LTTE was directly and indirectly (through Indian fisherpeople) involved in smuggling consumer goods from India that were in short supply. The LTTE also set up its own wholesale and retail businesses in areas under its control and was involved in small-scale manufacturing of certain nonessential food items such as soft drinks, candy, ice cream, and alcohol that were unavailable or in very limited supply. In these ways, in addition to being a military organization, the LTTE was institutionalized as a de-facto political-administrative outfit.

When it controlled the peninsula between 1990 and 1995, the LTTE also started taxing the population regularly, particularly businesses. In the run up to major military operations against state security forces, the LTTE would ask all households on the peninsula to make donations in kind, for example one or one-half a sovereign of gold²⁴ per household. In addition, they resorted to kidnapping upper middle-class persons and demanded ransom payments from the families. Furthermore, government employees were forced to contribute a portion of their monthly salaries to the war chest of the LTTE. This was the first time the LTTE institutionalized tax collection with an elaborate and systematic mechanism.

However, when government security forces regained control of the Jaffna Peninsula in late-1995, the LTTE's domestic resource mobilization was severely damaged. Despite the LTTE being driven out of the Jaffna Peninsula and into the jungles of Vanni in late-1995, its tax collection from businesses on the peninsula continued on a very reduced scale, albeit clandestinely, until the Ceasefire Agreement was signed in early 2002. Taxation of households and businesses in the Vanni did not bring much revenue to the LTTE, because people living there were very impoverished and could hardly make a living, let alone pay taxes. Therefore, the main source of domestic resources for the LTTE in the Vanni during 1995–2001 was pilferage of relief goods sent by the government and various donor agencies (including the International Committee of the Red Cross, the United Nations High Commissioner for Refugees, and the World Food Programme) to the civilian population and selling them at inflated prices on the black market.

The economic embargo and LTTE taxation were in effect in Eastern Province as well but on a very small scale, because the group's control in the east was restricted to remote jungle areas and did not include any urban area. Moreover, the number of people living in LTTE-controlled areas in the east was very low (see table 1), so the potential for taxation was minimal. Nevertheless, the eastern Tigers adopted other measures of appropriation to fill their war chest. In Ampara and Batticaloa Districts (the "bread basket" of the east), the LTTE forcibly took over fertile agri-

cultural lands belonging to the Muslim community in areas under its control, had its supporters cultivate rice and other crops on its behalf, and received the profits.

LTTE efforts to take control of large areas of Northern Province, including the Jaffna Peninsula and Mannar Island, in 1990 was marked by the expulsion of the Muslim community from all five districts of Northern Province. At that time, Muslims accounted for about 25 percent of the total district population in Mannar and about 5 percent in Jaffna. The LTTE ordered the Muslim community to vacate their homes within twenty-four hours. Furthermore, Muslims were not allowed to take their household items along with them. Thus, they were forced to leave their historical habitats with only their clothes. Once the Muslims had vacated their homes, LTTE cadres looted them and sold the consumer items and furniture on the open market. The Muslim community not only had contributed greatly to the thrift, entrepreneurship, and industriousness of the Northern population, but immensely contributed to Tamil literature and culture as well.

It was practically not possible to expel the Muslim community from Eastern Province, because Muslims comprised around 40 percent of the population of Ampara District, around 25 percent in Batticaloa District, and about 35 percent in Trincomalee District. Using an alternative approach in the east, the LTTE killed hundreds of Muslim worshippers in two mosques in Ampara District in the early 1990s to instill fear and subjugate them to their “cause.”

The Sri Lankan political leadership is well known for making monumental historic mistakes towards the country’s minority communities. The first government action to stifle the private sector in the Sri Lankan economy in the immediate postindependence period was the disenfranchisement of the minority hill-country Tamil community. At the time of independence in 1948, the Sri Lankan economy was dominated by the private sector, and most hill-country Tamils were employed in the private sector at that time. In the late nineteenth century, when the British colonial rulers imported Indians from Tamil Nadu state to work in the coffee, tea, and rubber plantations, a vibrant entrepreneurial class accompanied these laborers. Among them were the Nattukottai Chettiars, who were well-known financiers in South and Southeast Asia, spanning from India to Burma, Malaya, and Ceylon (see Rudner 1994).

The LTTE ordered the Muslim community to vacate their homes

At the time of independence, Chettiars worked entirely in the private sector as the dominant merchant bankers in Sri Lanka (Weerasooria 1973). In addition to the financial sector, this hill-country Tamil community (officially referred to as “Indian Tamils” by the Sri Lankan state, even in the twenty-first century) was the dominant ethnic group in wholesale and retail trade in Colombo and the suburbs, in the commission agency, and in international trade (Moore 1998). In order to reduce the number of Tamil members in Parliament, large numbers of Indian laborers on the plantations were disenfranchised immediately after independence by the new government. This disenfranchisement served as the death knell of the Sri Lankan economy. Massive capital flight from Sri Lanka ensued, due to the fleeing of these merchant bankers as a result of the disenfranchisement and attempts to nationalize the banking sector. A vibrant Sri Lankan economy dominated by the private sector at the time of independence became a dependent state capitalist economy in 1948 (see Ponnambalam 1981).

During the past quarter century of civil war, the LTTE in the northeast has made a monumental mistake similar to that of the first postindependence Sri Lankan government. The expulsion of the Muslim entrepreneurial community from the north by the LTTE was analogous to the disenfranchisement of the hill-country Tamil community by the Sri Lankan state in 1948. The first Government of Ceylon after independence derogatorily branded the hill-country Tamils as *kallath thoni* (illegal boat people), and the LTTE derogatorily branded the Muslims in the northeast as *thoppi peratikal* (“hat reversers,” meaning they are not loyal to the Tamil “cause”). The atrocities of successive Sri Lankan governments against the Tamil minority (both in the hill country and in the northeast) in the past sixty years of independence have been imitated by the LTTE against the Muslim minority community in the northeast in the last quarter century of civil war.

All of these factors broke the back of the economy of the northeast. However, the single most important cause behind the destruction of the economy in the conflict region was the economic embargo imposed by successive governments since 1990. The embargo negatively affected the economy directly—by disrupting wholesale and retail supplies—and indirectly—by allowing the LTTE to take control of the livelihoods of the people.

Economic Repression by the LTTE

As mentioned, the economic embargo imposed by successive governments on Northern and Eastern Provinces was unilaterally lifted on January 15, 2002. On February 22, 2002, the government and the LTTE signed a

Ceasefire Agreement²⁵ for an indefinite ceasefire. With the lifting of the economic embargo and the establishment of a ceasefire, the economy of the northeast was poised to take off. However, the northeast economy confronted additional challenges on the road to full recovery during the ceasefire. A fundamental problem was the nonimplementation of all of the clauses of the CFA.

Contradicting the CFA, the LTTE widened its tax collection efforts on the Jaffna Peninsula—taxing in a much more systematic way than they had been between 1990 and 1995. This was greatly facilitated by the reopening of the A9 highway in April 2002 after it had been closed for nearly twelve years. Under the terms of the CFA, LTTE cadres were allowed free access to government-controlled areas of the northeast. In order to facilitate the LTTE's political work in Northern and Eastern Provinces and enter into formal peace talks, the ban on the LTTE that had been in force since early 1998 was lifted in mid-2002. The free access for LTTE cadres to do political work in government-controlled areas was *carte blanche* to take effective control of the political-administrative mechanisms of the province. The two most important acts of “political work” that the LTTE has undertaken in government-controlled areas during the past five years of ceasefire have been the killing of political opponents and extortion in the name of taxes. These two activities were explicitly prohibited under the terms of the CFA.

The LTTE started systematically levying tolls on passenger vehicles utilizing the A9 to and from Jaffna; and all commercial goods and personal items entering LTTE-controlled areas in the northeast and government-controlled Jaffna Peninsula were subjected to “customs duties” at the access points in Puliyanukulam (beyond Omanthai in the Vavuniya District) and Uyilankulam (Mannar District) in the north, and all entry/exit points in the east. The “customs duties” ranged from 10 to 25 percent, but the bulk of the goods were levied at the upper end of the range. Moreover, these rates have been changing from time to time. Over 55 percent of the population of Northern Province live on the Jaffna Peninsula, and they are relatively prosperous compared to the rest of the Northern population. Therefore, the taxing of commercial goods and passenger traffic traveling the A9 highway was a gold mine for the LTTE. According to the author's estimation, daily tax collection on the A9 was a minimum of LKR10 million (U.S.\$100,000 per day) (see also Sarvananthan 2003).

*the LTTE widened its
tax collection efforts on
the Jaffna Peninsula*

The LTTE also taxed all passenger and cargo vehicles plying in and through LTTE-controlled areas. Drivers have to buy a route pass, making an annual lump sum payment or a fixed sum payment every time a vehicle passes by. All real estate transactions (land and property sales) in LTTE-controlled areas are subject to a property tax. Furthermore, most public servants working in Northern and Eastern Provinces (in both the LTTE- and government-controlled areas) have to pay 8 percent of their salaries as income tax, whereas in the rest of Sri Lanka all public servants are exempted from income tax. School principals, for example, are required by the LTTE to deduct 8 percent of the salaries of teachers and turn it over to the LTTE.

Moreover, businesses are taxed a percentage of their sales, in addition to the tax levied on goods imported from abroad or from other parts of the country. The amount of the taxes varies depending on the type of trade and the area of business. Service providers are also taxed a percentage of their sales, and these taxes vary depending on the type of service and the area of operation. Double or multiple taxation is also quite common. Another disturbing trend during the ceasefire has been the establishment by different divisions of the LTTE of their own tax collection mechanisms. For instance, although the finance division of the LTTE has been responsible for overall tax collection, the group's administrative, political, police, forest protection, and naval divisions have set up their own tax collection mechanisms and personnel. This overlapping institutional mechanism of taxation often leads to multiple taxation for the same good or service.

Needless to say, this arbitrary and illegal taxation by the LTTE has been highly unpopular with the Tamil and Muslim masses in the north-

east and has further distanced the Muslim population from the Tamil cause. Open confrontations have erupted between Muslim farmers, fisherpeople, small producers, and traders and the LTTE in Eastern Province because of this illegitimate taxation during the ceasefire. Taxation by guerilla armies around the world is quite common, albeit

LTTE taxes [tolerated during the civil war]...have [been] resented...during the ceasefire

highly unpopular. Most modern day guerilla movements do not depend on popular support for their survival; rather, they depend on the power of the gun. Although people under subjugation in wartime may tolerate tax-

ation by a nonstate armed group, they would certainly resent such taxation during a time of peace. Thus, although people in the northeast tolerated LTTE taxes during the civil war, they openly have resented them during the ceasefire. However, people do not speak out in public against the taxes due to fears of LTTE reprisal. The LTTE also monopolizes wholesale trade of many commodities (such as wheat flour, fuel, cement, etc.) in areas it controls in the Vanni, the Jaffna Peninsula, and Eastern Province. Differences in retail prices between Jaffna District and other districts of the northeast, on the one hand, and Colombo on the other are primarily due to the LTTE taxation (see figure 1).

Most liberation struggles in Africa, Asia, and Latin America from the end of World War II until about 1980 were class-based and fought on behalf of oppressed classes of peasants and workers. Therefore, taxation by guerilla armies during liberation struggles was only on the upper middle class or the wealthy. On the issue of guerilla taxation, Ernesto Che Guevara, the icon of guerillas worldwide, says in his classic, *Guerilla Warfare*:

If conditions continue to improve, taxes can be established; these should be as light as possible, above all for the small producer. It is important to pay attention to every detail of relations between the peasant class and the guerilla army, which is an emanation of that class. Taxes may be collected in money in some cases, or in the form of a part of the harvest, which will serve to increase the food supplies to the guerillas (Guevara 1985: 122).

Since 1980, however, most internal conflicts have been ethnonationalist and separatist struggles spearheaded by middle and upper-middle-class leaders who have no class consciousness,²⁶ so taxation by guerilla movements in the late twentieth and early twenty-first centuries has been indiscriminate and arbitrary. Furthermore, earlier guerilla movements were, by and large, financially and materially supported by one of the two protagonists of the Cold War—the Soviet Union or the United States—or by regional powers such as South Africa (UNITA in Angola and RENAMO in Mozambique), China (the Khmer Rouge in Kampuchea), India (Bengali nationalists in East Pakistan), and Cuba (Sandinistas in Nicaragua). However, post-Cold War guerilla movements are by and large self-financed through illegal taxation of the population, plunder of natural and mineral resources (e.g., diamonds in Angola and Sierra Leone, timber in Liberia and Myanmar), narcotics trafficking (in

Afghanistan and Colombia), and remittances from diasporas (in El Salvador, Nicaragua, and Sri Lanka) (see Byman and Chalk 2001; La 2004; Mackenzie Institute 2000).

A critique of the LTTE's taxation regime at the University of Jaffna on January 25, 2003 (Sarvananthan 2003b) was challenged when a few senior cadres of the LTTE political wing visited the Jaffna Peninsula in April 2003 to explain their position on taxation to the business community and the general public. In the words of Veluppillai Balakumaran, a "special political advisor" to the LTTE leader:

Once we get an interim administration or once our movement becomes financially profitable we can completely stop taxing. Until then, in order to maintain the military balance, maintain the cadres who have become disabled due to war, and to build the livelihoods of families of the martyrs who have sacrificed their life for you all, finance is important. It is because of these we are collecting taxes. The cost of our needs is unaccountable. Our people should clearly understand this; should understand why the Tigers are subjecting them to taxation.²⁷

The statement that "The cost of our [LTTE's] needs is unaccountable" demonstrates the callous disregard for accountability to the very people on whose behalf the LTTE is supposedly waging a war against the state. His words "once our movement becomes financially profitable" are intriguing and make this author infer that the LTTE has developed into a self-seeking business enterprise (of a mafia type) rather than a liberation organization. Although the politically astute and formerly left-leaning Veluppillai Balakumaran put a political spin on the issue, some others were more forthright in their justification of LTTE taxes. One representative did not mince words in a speech given at the Jaffna Chamber of Commerce in the last week of April 2003: "Taxation by the Liberation Tigers of Tamil Eelam should not be viewed as a political matter; nor should it be looked at from an economic angle; this should be viewed from a military angle. Jaffna people should be politically aware."²⁸ This militaristic mindset of the present day guerilla movements distinguishes them from the idealistic and progressive guerilla movements of previous decades. It is this militarization of every aspect of human life (including taxes) that makes the LTTE a terrorist movement rather than a liberation movement.

The proclamation of High Security Zones (HSZ) by the security forces, particularly on the Jaffna Peninsula, has been another impediment to economic recovery in the north. Almost one-fifth of the total land area of the peninsula has been proclaimed an HSZ, and civilians have been

forcibly evicted from those areas. The bulk of the HSZs are in the Valikamam North area of the peninsula, which has some of the most fertile agricultural lands.²⁹ Moreover, the coastal area along the HSZ in Valikamam North is rich in marine resources such as fish, crab, prawns, and lobster. An area consisting of prime commercial land and buildings in the heart of the City of Jaffna is also proclaimed an HSZ, which hinders business development.³⁰

The opening of the A9 highway during daytime only (i.e., 7:00AM to 5:00PM) also has put a damper on economic revival. Since commercial goods are unloaded, checked, and reloaded at four separate security checkpoints (twice in Vavuniya District and twice in Jaffna District), the transport of goods to the peninsula takes a very long time. In each of these entry/exit points, vehicles and goods are thoroughly checked by both the Sri Lankan Army and the LTTE. Because of the time involved at the checkpoints, perishable goods like vegetables, fruits, and fish rot, causing losses to the producers and distributors. Furthermore, because of the multiple security checkpoints and closure of the A9 highway at night, transportation of goods from Colombo to Jaffna (or vice versa) takes almost three days. All these impediments increase the transaction costs for businesses.

The LTTE has deliberately prevented restoration of normalcy to the economy and people of the northeast in other instances as well. Once example is the prevention of the establishment of a branch of the Colombo Stock Exchange (CSE) in Jaffna. Historically, the people of Jaffna are well known for their thriftiness. The CSE wanted to promote investment in the stock market among the Jaffna people, so it attempted to establish a branch on the peninsula in 2004. The exchange had rented and furnished a building and trained a few staff at their head office in Colombo. To date the CSE has not been able to open the branch due to LTTE resistance or terms and conditions (the exact reason is unclear). In addition, throughout the ceasefire period, the LTTE often organized strikes and lockouts (*hartals*) in government-controlled areas of the northeast on a variety of pretexts. Most of these *hartals* were violent, particularly on the Jaffna Peninsula. The *hartals*, often called for trivial reasons, greatly affected businesses, farmers, fisherpeople, public administration, and day-to-day life of civilians. It is also important to note that very few *hartals* have taken place in LTTE-controlled areas during the ceasefire.

High Security Zones...[have] been another impediment to economic recovery

Table 12. Provincial finances, 2004

Province	Share of population, 2004 percent and total population	Share of provincial public sector employees, 2002 percent and total employees	Central government grants to provincial councils, 2004 percent and total rupees	Share of total revenue earned by all provinces, 2004 percent and total rupees
Central Province	12.9 (2,506,000)	12.9 (39,762)	14.4 (5,764,000)	7.9 (1,073,000)
North Central Province	5.9 (1,145,000)	7.8 (24,143)	9.1 (3,514,000)	2.6 (356,000)
North East Province	13.7 (2,662,000)	15.8 (48,643)	16.6 (6,403,000)	1.0 (141,000)
North Western Province	11.4 (2,214,000)	12.0 (36,949)	14.3 (5,533,000)	7.2 (977,000)
Sabaragamuwa Province	9.4 (1,840,000)	8.8 (27,044)	10.7 (4,140,000)	4.6 (623,000)
Southern Province	12.1 (2,346,000)	13.5 (41,628)	13.7 (5,286,000)	7.6 (1,028,000)
Uva Province	6.3 (1,223,000)	7.3 (22,523)	9.3 (3,596,000)	2.3 (317,000)
Western Province	28.4 (5,526,000)	21.9 (67,548)	11.0 (4,236,000)	66.8 (9,079,000)
Sri Lanka	100.0 (19,462,000)	100.0 (308,240)	100.0 (38,472,000)	100.0 (13,594,000)

Sources: Waidyasekera 2005: 7, 30-31; Department of Census and Statistics, Census of Public Sector and Semi-Government Sector Employment 2002.

There is a widely held perception, particularly among members of the international media, that the Government of Sri Lanka is deliberately neglecting the development of Northern and Eastern Provinces. As indicated in tables 12 and 13, this view is unfounded. Although only 14 percent of the total population of Sri Lanka lives in the northeast region, 16 percent of the provincial public service employees in the country work in the North East Provincial Council (NEPC).³¹ Furthermore, although the combined population of Northern and Eastern Provinces is second highest among the provinces (next to Western Province), the NEPC received the highest share of central government grants to all provincial councils in 2004, and nearly 17 percent of the total. In contrast, the NEPC collects only 1 percent of the total revenue (the lowest) of all the provincial councils in the country (see table 12).

Furthermore, the Government of Sri Lanka and international donors together spent nearly U.S.\$750 million in the northeast from the beginning of the ceasefire in mid-2002 through mid-2006 on economic and social infrastructure and relief and public assistance. Economic infrastructure accounted for U.S.\$476 million, or 64 percent of the total, relief and livelihood assistance accounted for U.S.\$147 million, or 20 percent of the total, and social infrastructure accounted for U.S.\$116 million, or 16 percent of the total (see table 13). The total spent in the northeast is more than 21 percent of the total of U.S.\$3.5 billion dollars spent throughout the country during the same time period. Moreover, numerous projects worth over U.S.\$2 billion dollars are ongoing. In addition to these projects funded by national and multilateral organizations in partnership with the Government of Sri Lanka, numerous projects have been implemented by international NGOs funded from their own resources or by national and multilateral organizations.

More than half of these expenditures are financed through loans from national and multilateral organizations and need to be repaid by the Government of Sri Lanka with accrued interest. Moreover, for all projects undertaken through foreign loans, the government has to commit matching funds equal to about 20 percent of the total project cost. It is also quite well known that the LTTE siphons off 10–30 percent of the donor funded projects (either in cash or in kind) (see, for example, Sarvananthan 2005). Not surprisingly, in spite of a huge infusion of donor and government funds during the ceasefire period, the economy of the northeast did not recover fully.

Many nonmarket institutional factors have contributed to the nonrealization of the full potential of the northeast economy during the ceasefire. General political-military insecurity and uncertainty due to the unceasing and blatant violation of the Ceasefire Agreement by the LTTE

(and to a lesser extent by the state security forces), illegal and arbitrary taxation, and other deliberate attempts to stall economic recovery (e.g., prevention of the return of internally displaced persons to their place of origin, particularly from the refugee camps, hindering the return of the entrepreneurial Muslim population to the north, objecting to the withdrawal of the Sri Lankan Army from the heart of Jaffna City to the outskirts, and obstructing the establishment of a branch of the CSE in Jaffna) have been the primary factors inhibiting economic recovery and resurgence to the region's full potential during the ceasefire.

Table 13. Government and donor expenditures in the northeast region, 2002 to 2006

Sector/Subsector	Amount (U.S. Million)
a. Economic Infrastructure	475.60
Road and Bridges	386.74
Water Supply & Sanitation	21.00
Irrigation	16.35
Housing	15.82
Fisheries	15.00
Electricity	6.92
Telecommunications	6.00
Ports	4.60
Agriculture	1.33
Institutional & Community Development	1.24
Livestock	0.60
b. Social Infrastructure	115.77
Healthcare	60.20
Schools	37.21
Skills Development, Vocational, & Technical Education	10.44
Universities	7.92
c. Livelihood Assistance	147.35
Relief and Livelihood Assistance	147.35
TOTAL (a)+(b)+(c)	738.72
<i>Source:</i> Secretariat for Coordinating the Peace Process (SCOPP), Colombo, 2006. www.peaceinsrilanka.org/peace2005/Insidepage/SCOPPDaily_Report/SCOPP_report140706.asp .	

Remittances and Investment

The economy of Northern Province, particularly the economy of Jaffna Peninsula, historically has been a remittance economy. A large proportion of the Northern population worked in the public sector in other parts of the country or set up businesses outside the province. However, they left their families behind in Jaffna because educational standards at schools in Northern Province were far superior to most other parts of the country (including Colombo). The heads of families (usually men) would travel to Jaffna to be with their families during weekends or monthly. Even prior to the civil war, many families received remittances from family members working outside the province. During the civil war as well, the Northern economy was largely dependent on remittances; not only from other parts of the country but from abroad. In addition, 38 percent of the Northern and 12 percent of the Eastern provincial economies accrues from public administration and defense. Moreover, transfer income (the bulk of which is remittances) accounted for 37 percent of household income in the north and 24 percent in the east.

Due to the civil war, over half a million people from Northern Province have fled to other parts of the country and abroad since the mid-1980s, a process that continues (albeit at a reduced scale) even during the present ceasefire. Indeed, the major source of remittances since the mid-1980s has been from abroad. This qualitative and quantitative change in remittances has had a profound impact on the economy of Northern Province. Pre-conflict remittances contributed immensely to the local economy by way of increasing demand for local produce, which in turn spurred productive activities, particularly in the agriculture sector and agro industries. In contrast, during the civil war and ceasefire, remittances have largely fuelled consumption of imported items, primarily from abroad and to a limited extent from the rest of the country. Thus, the remittance economy of the north in the past twenty years has failed to stimulate demand for local agricultural goods. Even during the ceasefire period, the remittance economy has not significantly stimulated the local agricultural and industrial sectors, both in the north and the east.

The Tamil diaspora living in Europe and North America has significantly increased portfolio and direct investment since the beginning of the ceasefire in the city of Colombo and the suburbs. Notable investors from

*[the] change in remittance
[type] has had a profound
impact on the economy of
Northern Province*

the Tamil diaspora during the ceasefire have been Raj Rajaratnam from the United States, who has acquired billions in shares of blue chip companies such as the John Keels Holdings Ltd, and Phelix Selvadorai from the United Kingdom, who has built a timeshare apartment-style hotel along the marine drive of the city. The former originally hails from Jaffna and the latter from Vavuniya. Numerous other investments have been made by the Tamil diaspora in and around Colombo, primarily in real estate such as apartment complexes in the predominantly Tamil neighborhoods in the northern and western parts of the city. Even the LTTE—in addition to its investments in enterprises throughout the northeast (including in government-controlled areas)—has set up communication centers, Internet cafes, video/DVD rental shops, travel agencies, shipping agencies, hairdressing salons, grocery shops, restaurants, and wholesale trading centers in Colombo and the suburbs.

Moreover, the Tamil diaspora has set up mini supermarkets, information technology centers, and trading houses in Colombo. In Northern and Eastern Provinces as well, some Tamils from the diaspora have made small-

scale investments. In Jaffna, for example, a Swiss Tamil has set up a small mineral water bottling plant in Nallur, and a British Tamil has built a hotel in the city center. In Vavuniya, another Swiss Tamil has built a three-star hotel. In Trincomalee,

*Investment in the northeast by the
Tamil diaspora...[is] miniscule*

a couple of Tamils from Europe have invested in small tourist resorts along the coast. Most investors from the diaspora are supporters of the LTTE.

Investment in the northeast by the Tamil diaspora—during the conflict period and the ceasefire—are miniscule compared to their investments in and around the city of Colombo in terms of volume and value. It appears that the primary cause for the lukewarm interest in investment in the Tamil homeland by the diaspora during the ceasefire has been the continued militaristic behavior of the LTTE even after hostilities ceased.

Conclusion

Despite the higher rate of economic growth during the ceasefire, almost no change has occurred in the structure of the regional economy of Sri Lanka's Northern and Eastern Provinces. This high rate of growth during the ceasefire was expected because of the very low base of the economy during the civil war. The greatest increase in provincial economic growth during the ceasefire period (8 percent) in comparison to the period of civil war (-0.2

percent) was in the adjacent North Central Province (Abeyratne and Lakshman 2005).³² The northeast simply has not been able to attain its full economic potential during the ceasefire period.

In spite of the indefinite ceasefire, an exodus of human and financial capital from Jaffna (the most prosperous district in the northeast) to Colombo and the suburbs has continued during the past five years (see Sarvananthan 2003; World Bank 2007: 126). This has been precisely due to the unceasing violence against individuals, economic repression through taxes, monopolization of trade, frequent *hartals*, and the general political-economic uncertainty. The LTTE has never articulated any clear economic or development policy framework, because for them development is possible only after the liberation of the “homeland.” Nevertheless, the LTTE proactively encouraged bilateral and multilateral donor agencies, international NGOs, and the Government of Sri Lanka to undertake reconstruction work in Northern and Eastern Provinces (especially in areas under its control) in the aftermath of the Ceasefire Agreement and the tsunami. Their goal was to siphon off resources in cash and in kind, not to improve the lives of the war-affected or tsunami-affected populations.

The fragility of the “bubble and burst” growth in the northeast during the ceasefire has been witnessed since January 2006 due to the upsurge in violence both in the conflict region and in and around Colombo. Internal displacement, severe restrictions on fishing in the north and the Trincomalee District in the east, numerous roadblocks and security checkpoints along the roads connecting the northeast with the rest of the country, and so forth since April 2006 resemble the civil war period. Already about 15,000 Tamils have crossed the Palk Strait to India in fishing boats.

In the long run, the northeast economy should transform from a public-sector-dependent economy to a vibrant, private-sector-led, knowledge-based economy. The economy in Northern and Eastern Provinces is slowly but surely changing from predominantly an agrarian economy to a service economy in terms of value and employment. Newer generations of traditional farming and fishing families are shunning their hereditary occupations and taking advantage of new employment opportunities in the construction industry and the service sector, including overseas employment. However, there appears to be no single strategy for the entire conflict region.

*the northeast economy
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knowledge-based economy*

There is nothing inherently wrong with the preponderance of the service sector, especially in the Northern economy. What is troubling is the nature of that service economy. Historically, the Northern economy has been a remittance economy; however, the past twenty years as a (primarily) foreign remittance economy is quantitatively much bigger than the traditional remittance economy. Traditionally, the Northern economy had been endowed with higher human capital than physical or financial capital. Displacement of hundreds of thousands of Tamils abroad (especially to Europe and North America) from the northeast during the civil war was certainly a drain on the regional economy. Nevertheless, the accumulated human and financial capital abroad of those displaced people could be converted into assets in a future knowledge-based economy of the northeast.

Agriculture is a declining sector throughout the country, and the northeast will be vulnerable to that trend in the long run. Northern Province has always been a weaker twin of Eastern Province in certain subsectors of agriculture (like rice) and industry. Furthermore, Eastern Province is endowed with greater natural resources than Northern Province. Under these circumstances, the Northern economy could be primarily knowledge-based, and the economy of the east could be primarily industrial. With one of the world's finest natural harbors in Trincomalee, the logistics required for an industrial economy is greater in the east. The economy of Eastern Province could be much more diversified than the Northern Province economy because the former has potential for tourism as well.

The Northern economy should aim to become a knowledge-based economy by manufacturing knowledge products and servicing the rapidly growing global business-process outsourcing market. Due to its historic comparative advantage in human capital and the newer human capital accumulated in the Tamil diaspora communities abroad, Northern Province is better poised for the development of a knowledge-based economy in the conflict region because over 75 percent of Tamils who fled Sri Lanka to Western countries are from the north, particularly from the Jaffna Peninsula.

The latest HIES reveals that in recent times the highest migration to the Colombo metropolitan area has been from Jaffna District. Almost 30 percent of recent migrants to Colombo City were from Jaffna (cited in World Bank 2007: 126). If Colombo's suburbs are included, the number would be even greater. Moreover, most of these internal migrants from Jaffna possess financial or human capital. If Northern Province can attract back a considerable portion of these internal and external migrants, it has the potential to become an economic powerhouse in the country.

However, in order to attract human capital from other parts of the country and from the diaspora, the political and economic situation in the

north and east needs to transform from the current militarized situation to a democratic and pluralistic atmosphere. The flight of the vice chancellor of the University of Jaffna to America in April 2006 due to death threats from the LTTE does not augur well for the envisaged knowledge-based economy of the future.³³ Therefore, the medium and long-term challenge for the economy of the conflict region is the transformation of the militarized political environment into a robust and peaceful democratic and pluralistic political economic environment.

transformation...into a robust and peaceful and pluralistic political economic environment [is the challenge]

Endnotes

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1. At the time of the ceasefire agreement in February 2002, about 65,000 people had died. However, during the ceasefire as well as after the resumption of the civil war in December 2005, over 5,000 people have died through early-2007.
2. However, nearly 400,000 internally displaced people returned to their places of origin and thousands of houses were rebuilt during the four years of the ceasefire. Unfortunately, since early 2006, internal displacement has been taking place again, particularly in Trincomalee and Batticaloa Districts of Eastern Province and Mannar and Jaffna Districts of Northern Province. The UNHCR reports that so far over 200,000 people have been displaced.
3. The ceasefire has been in reality a pause-in-conflict rather than a post-conflict period.
4. A population census is undertaken every ten years in Sri Lanka. However, in 1991 the census was not undertaken (throughout the country), supposedly due to the prevailing security situation in the country at that time. Therefore, the 2001 census was taken after a gap of twenty years. The CFS and HIES are the two most important surveys undertaken by the Central Bank of Sri Lanka and Department of Census and Statistics, respectively, every five years. However, the agencies have not been able to take these surveys in Northern Province and Eastern Province since 1986–87 and 1985–86, respectively.

5. This data is valid only until mid-2006. Since then, with the eruption of full-scale hostilities between the security forces and the LTTE in July 2006, almost the entire territory under the rebels in Eastern Province had been restored to government control by mid-2007.
6. Considerable misinformation has been published about the extent of areas under rebel control, even in academic writings. The most contentious was by Kristian Stokke (2006), which was refuted in Sarvananthan 2007.
7. The nine provinces are Central, Eastern, North Central, Northern, North Western, Sabaragamuwa, Southern, Uva, and Western.
8. The agriculture sector includes food and cash crops, forestry, livestock, and fishing. The industrial sector includes manufacturing, mining and quarrying, construction, and utilities (electricity and water). The service sector includes wholesale and retail trade (domestic and foreign); transport, storage, and communication (mail and telecommunications); financial services, real estate, and business services; public administration, defense, and other government services; and private, social, community, and personal services.
9. Unfortunately, the Central Bank does not break down this subsector into public administration and defense.
10. In this respect, the north was different from the south at the time of the People's Liberation Front (Janatha Vimukthi Peramuna, or JVP) insurrection during the late-1980s. Since the JVP targeted primarily the state during its rebellion, the private sector functioned relatively unhindered and therefore the overall economy was less affected. On the other hand, both the state (through economic embargo) and the LTTE (through illegal taxation) hindered the private sector in the North during the LTTE insurrection.
11. Vanni is the mainland region of Northern Province encompassing four districts: Kilinochchi, Mannar, Mullaitivu, and Vavuniya. In other words, Vanni consists of Northern Province minus the Jaffna Peninsula.
12. According to the latest official definition, industries that have less than LKR1 million in investment (other than land and buildings) are categorized as micro industries; industries with investment between LKR1 million and 50 million (other than land and buildings) are categorized as small industries; industries with investment between LKR50 million and 100 million (other than land and buildings) are categorized as medium-sized industries; industries with investment over LKR100 million (other than land and buildings) are categorized as large industries.
13. For poverty analysis in Sri Lanka, three geographic areas are identified: rural, urban, and estate sector (i.e., tea and rubber plantations in the hill country).
14. Note that the provinces as defined by the Ceylon Electricity Board are not exactly the same as the administrative provinces of the country.
15. During extensive fieldwork by the author in the past four years, it has become apparent that younger generations of many farming and fishing communities do not want to do the same jobs as their parents.
16. In Ernesto Che Guevara's terminology.
17. This graph is based on the prices during July–December 2005. Since January 2006, prices in the Northeast, particularly in Jaffna, have risen significantly.

18. In Sri Lanka, particularly outside of Colombo, many people purchase essential commodities at nearby shops on credit and pay it off at the end of each month or periodically. This is a non-interest bearing commodity loan.
19. Welfare payments include cash payments to internally displaced persons and payments made to the poor under the Samurdhi poverty alleviation program.
20. A Gini ratio of 0 means perfectly equal income, and a Gini ratio of 1 means perfectly unequal income.
21. Variables used in the analysis reflecting availability, access, and utilization of food were: (a) variables on food availability—percentage of area under rice cultivation, percentage of area with moisture availability of 0.68 or less, percentage of area with slope of 8 percent or less, average yield of rice per farmer from minor tanks, percentage of rice cultivation area under major irrigation schemes; (b) variables on access to food—average per capita income per household, average per capita consumption expenditure per person, average per capita expenditure per person on nonfood items, percentage of housing units with better floor materials, percentage of housing units with better toilet facilities, average distance to nearest major water tank, average distance to nearest major river, average distance to nearest major river with irrigation system, average distance to nearest Type A or Type B roads, index on access to power supply, whether land mines have been laid in the DS area; (c) Variables on infrastructure facilities—percentage of national schools, percentage of type 1 AB or type 1C provincial schools, percentage of schools with power supply, percentage of schools with safe drinking water, percentage of schools with telephones, percentage of professionally qualified teachers, percentage of graduate teachers; (d) Variables on food utilization—infant deaths per 1,000 live births, deaths before the age of five per 1,000 live births, percentage of children attending preschools, percentage of children failing their classes, percentage of children quitting school, percentage of school enrollment.
22. What Morrissey and Gaffikin (2001) call “Democratizing for Development” in the case of Northern Ireland.
23. Several similar grandiose buildings were built by the LTTE in Kilinochchi during the ceasefire as well. These include court complex, the Planning and Development Secretariat, LTTE political headquarters, a hospital for exclusive use of LTTE cadres, etc. The LTTE portrays these as state institutions of an emerging State of Tamil Eelam (see Stokke 2006; Sarvananthan 2005, 2007).
24. 1 sovereign = 8 grams.
25. See www.peaceinsrilanka.org/peace2005/Insidepage/Agreements/agceasefire.asp.
26. This applies to both the LTTE and the JVP in Sri Lanka. Senior leaders of both organizations are from middle class family backgrounds. LTTE leader Veluppillai Pirabakaran’s father was in the public service of Sri Lanka as a district land officer at the time of his retirement in the late-1970s, although he was born into a fishing family. Most senior and original members of the LTTE were also of middle class background. Similarly, the founder of the JVP, Rohana Wijeweera, was a medical school dropout from Patrice Lumumba University in Moscow in the late-1960s. Other senior members of the JVP were, by and large, educated but unemployed youth. Because of this middle-class leadership, neither the LTTE nor the JVP have been able to mobilize the impoverished masses for their respective “causes.” When guerilla groups cannot gain popular support among the masses they resort to “terrorism” to achieve

their goals, like the JVP and the LTTE (in 1971 and 1987–89). Because of a lack of mass support, terrorism did not help the two groups achieve their aims.

Moreover, the heartland of Tamil nationalism was in Jaffna, which was relatively prosperous compared to the Vanni region in Northern Province or to Eastern Province. Similarly, the heartland of JVP radicalism was Southern Province, which was relatively better off than North Central and Uva Provinces. The fact that senior cadres of both organizations were from relatively well-off regions again reveals that the discontent of the middle class is what caused the rebellions in the north and south, not uprisings of the impoverished peasantry or the working class. This middle class base explains the lack of mass support for the LTTE and the JVP.

27. Reported in the *Virakesari* (the premier Tamil daily), April 25, 2003: 7.
28. Reported in the *Virakesari*, April 28, 2003: 7.
29. It should be noted that the LTTE has also established HSZs in the Vanni region as well. However, they are in isolated thick jungle areas where hardly any civilians live.
30. The security forces were prepared to vacate that area and move to the outskirts of the city in 2003. But the LTTE objected to shifting the security forces to the outskirts of the city and instead wanted them to pull out from the suburbs as well. The government turned down this demand. This is an example of LTTE intransigence that has hindered economic revival.
31. Northern and Eastern Provinces were merged temporarily in August 1987 in accordance with the Indo-Lanak Peace Accord. Six months after this temporary merger, a referendum was to have taken place in Eastern Province to make the merger permanent. The referendum never took place because the LTTE and the India Peace Keeping Force started fighting each other in October 1987. However, elections for the merged North East Provincial Council (NEPC) took place in 1988. The elected government of the NEPC was dismissed by the new Sri Lankan president in 1989. Until December 2006, the NEPC has been operating without an elected government, with the chief secretary (a bureaucrat and not a politician) appointed by the central government.
32. For an account of the economic dividend of the ceasefire period to the national economy of Sri Lanka see Kelegama 2005.
33. <http://web.amnesty.org/library/Index/ENGASA370102006>

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Internal Conflicts and State-Building Challenges in Asia

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Rationale

Internal Conflicts and State-Building Challenges in Asia is part of a larger East-West Center project on state building and governance in Asia that investigates political legitimacy of governments, the relationship of the military to the state, the development of political and civil societies and their roles in democratic development, the role of military force in state formation, and the dynamics and management of internal conflicts arising from nation- and state-building processes. An earlier project investigating internal conflicts arising from nation- and state-building processes focused on conflicts arising from the political consciousness of minority communities in China (Tibet and Xinjiang), Indonesia (Aceh and Papua), and southern Philippines (the Moro Muslims). Funded by the Carnegie Corporation of New York, that highly successful project was completed in March 2005. The present project, which began in July 2005, investigates the causes and consequences of internal conflicts arising from state- and nation-building processes in Burma/Myanmar, southern Thailand, Nepal, northeast India, and Sri Lanka, and explores strategies and solutions for their peaceful management and eventual settlement.

Internal conflicts have been a prominent feature of the Asian political landscape since 1945. Asia has witnessed numerous civil wars, armed insurgencies, coups d'état, regional rebellions, and revolutions. Many have been protracted; several have far-reaching domestic and international consequences. The civil war in Pakistan led to the break up of that country in 1971; separatist struggles challenge the political and territorial integrity of China, India, Indonesia, Burma, the Philippines, Thailand, and Sri Lanka; political uprisings in Thailand (1973 and 1991), the Philippines (1986), South Korea (1986), Taiwan (1991) Bangladesh (1991), and Indonesia (1998) resulted in dramatic political change in those countries. Although the political uprisings in Burma (1988) and China (1989) were suppressed, the political systems in those countries, as well as in Vietnam, continue to confront problems of legitimacy that could become acute; and

radical Islam poses serious challenges to stability in Pakistan, Bangladesh, and Indonesia. The Thai military ousted the democratically-elected government of Thaksin Shinawatra in 2006. In all, millions of people have been killed in the internal conflicts, and tens of millions have been displaced. Moreover, the involvement of external powers in a competitive manner (especially during the Cold War) in several of these conflicts had negative consequences for domestic and regional security.

Internal conflicts in Asia can be traced to contestations over political legitimacy (the title to rule), national identity, state building, and distributive justice—that are often interconnected. With the bankruptcy of the socialist model and transitions to democracy in several countries, the number of internal conflicts over political legitimacy has declined in Asia. However, the legitimacy of certain governments continues to be contested from time to time, and the remaining communist and authoritarian systems are likely to confront challenges to their legitimacy in due course. Internal conflicts also arise from the process of constructing modern nation-states, and the unequal distribution of material and status benefits. Although many Asian states have made considerable progress in constructing national communities and viable states, several countries, including some major ones, still confront serious problems that have degenerated into violent conflict. By affecting the political and territorial integrity of the state as well as the physical, cultural, economic, and political security of individuals and groups, these conflicts have great potential to affect domestic and international stability.

Purpose

Internal Conflicts and State-Building Challenges in Asia examines internal conflicts arising from the political consciousness of minority communities in Burma/Myanmar, southern Thailand, northeast India, Nepal, and Sri Lanka. Except for Nepal, these states are not in danger of collapse. However, they do face serious challenges at the regional and local levels which, if not addressed, can negatively affect the vitality of the national state in these countries. Specifically, the project has a threefold purpose: (1) to develop an in-depth understanding of the domestic, transnational, and international dynamics of internal conflicts in these countries in the context of nation- and state-building strategies; (2) to examine how such conflicts have affected the vitality of the state; and (3) to explore strategies and solutions for the peaceful management and eventual settlement of these conflicts.

Design

A study group has been organized for each of the five conflicts investigated in the study. With a principal researcher for each, the study groups comprise practitioners and scholars from the respective Asian countries, including the region or province that is the focus of the conflict, as well as from Australia, Britain, Belgium, Sweden, and the United States. The participants list that follows shows the composition of the study groups.

All five study groups met jointly for the first time in Washington, D.C., on October 30–November 3, 2005. Over a period of five days, participants engaged in intensive discussion of a wide range of issues pertaining to the conflicts investigated in the project. In addition to identifying key issues for research and publication, the meeting facilitated the development of cross-country perspectives and interaction among scholars who had not previously worked together. Based on discussion at the meeting, twenty-five policy papers were commissioned.

The study groups met separately in the summer of 2006 for the second set of meetings, which were organized in collaboration with respected policy-oriented think tanks in each host country. The Burma and southern Thailand study group meetings were held in Bangkok, July 10–11 and July 12–13, respectively. These meetings were cosponsored by The Institute of Security and International Studies, Chulalongkorn University. The Nepal study group was held in Kathmandu, Nepal, July 17–19, and was cosponsored by the Social Science Baha. The northeast India study group met in New Delhi, India, August 9–10. This meeting was cosponsored by the Centre for Policy Research. The Sri Lanka meeting was held in Colombo, Sri Lanka, August 14–16, and cosponsored by the Centre for Policy Alternatives. In each of these meetings, scholars and practitioners reviewed and critiqued papers produced for the meetings and made suggestions for revision.

Publications

This project will result in twenty to twenty-five policy papers providing a detailed examination of particular aspects of each conflict. Subject to satisfactory peer review, these 18,000- to 24,000-word essays will be published in the East-West Center Washington *Policy Studies* series, and will be circulated widely to key personnel and institutions in the policy and intellectual communities and the media in the respective Asian countries, the United States, and other relevant countries. Some studies will be published in the East-West Center Washington *Working Papers* series.

Public Forums

To engage the informed public and to disseminate the findings of the project to a wide audience, public forums have been organized in conjunction with study group meetings.

Five public forums were organized in Washington, D.C., in conjunction with the first study group meeting. The first forum, cosponsored by The Johns Hopkins University's School of Advanced International Studies, discussed the conflict in southern Thailand. The second, cosponsored by The Sigur Center for Asian Studies of The George Washington University, discussed the conflict in Burma. The conflicts in Nepal were the focus of the third forum, which was cosponsored by the Asia Program at The Woodrow Wilson International Center for Scholars. The fourth public meeting, cosponsored by the Foreign Policy Studies program at The Brookings Institution, discussed the conflicts in northeast India. The fifth forum, cosponsored by the South Asia Program of the Center for Strategic and International Studies, focused on the conflict in Sri Lanka.

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The Carnegie Corporation of New York is once again providing generous funding support for the project.

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Background of Sri Lanka's Conflicts

Sri Lanka gained independence in 1948, after almost 450 years of colonial rule under the Portuguese, Dutch, and British. This history—and the country's proximity to India—helped produce a polyethnic, multireligious population consisting of Buddhists (69%), Hindus (15%), Muslims (8%), and Christians (8%). Britain's colonial policies and practices helped create fissures, especially between the majority Sinhala and the minority Tamils. Post-independence Sinhalese elites made use of this division both to pursue anti-Tamil policies that benefited their community and to build a Sinhalese Buddhist nation-state that marginalized minorities. Tamil elites, in the main, initially demanded a federal solution whereby the predominantly Tamil northeast, considered part of the Tamil homeland, could enjoy autonomy from the Sinhalese-dominated south. When such demands were disregarded, the moderate Tamil elites lost out to extremist youth, who by the early 1970s began clamoring for a separate state.

The state's discriminatory policies led to anti-Tamil riots in 1956, followed by deadlier riots in 1958, 1978, 1981, and 1983. The 1983 riot was especially gruesome and caused thousands of Tamils to flee to India and Western countries as refugees, producing a vibrant Sri Lankan Tamil diaspora. This diaspora plays a major role in financing the Tamil separatist struggle now waged by the Liberation Tigers of Tamil Eelam (LTTE). By eliminating other Tamil guerrilla organizations, the LTTE claims to be the Tamils' sole representative. The LTTE's practices of forcibly recruiting child soldiers and resorting to suicide bombings have caused a number of states and political entities—including India, the United States, Canada, Australia, and the European Union—to proscribe it as a terrorist organization.

The civil war between the Sri Lankan government and the LTTE has killed more than 70,000 people. Most agree that a political solution to the conflict is necessary, yet the two main protagonists have cast aside four attempts to reach a peace agreement. The most recent peace process began in February 2002, when the United National Front coalition government, headed by Ranil Wickremesinghe, signed a Memorandum of Understanding with the LTTE. War was avoided until June 2006, when the LTTE's intransigence and the newly elected government's uncompromising policies led to renewed conflict. Overall, the peace processes have failed mainly due to the conflicting parties' unwillingness to reconcile the LTTE's maximalist demands and various Sri Lankan governments' minimalist

responses. Intransigent positions have also made it impossible to collaborate constructively in the wake of the devastating December 2004 tsunami.

Many argue that the LTTE has never jettisoned the quest to create a separate state and has simply used the peace processes to rearm and regroup. The LTTE says that it could agree to a federal arrangement, yet its proposals for conflict resolution are more confederal than federal in nature. It is also clear that successive Sri Lankan governments have been unable to craft a political arrangement that would allow the island's Tamils to live with dignity and self-respect. Most Sinhalese oppose federalism. They fear it would eventually lead to the country's dismemberment. In addition, radical Sinhalese and Buddhist nationalists insist that Sri Lanka be maintained as a unitary state. These radicals have adopted hostile attitudes and policies toward parliamentarians, civil society activists, diplomats, clergy, and NGOs advocating devolution or federalism as a solution to the civil war.

The LTTE, which controls large areas of territory in the Northern and Eastern provinces, suffered a split in March 2004 when its eastern commander broke away and began collaborating with elements in the military. This has weakened the LTTE, and the group has since lost strategic territory in the Eastern Province. The large Muslim population in the Eastern Province also undermines the LTTE's goal of creating a separate state for the island's Tamils. The Muslim dimension introduces a new element, further complicating the peace process and a future settlement.

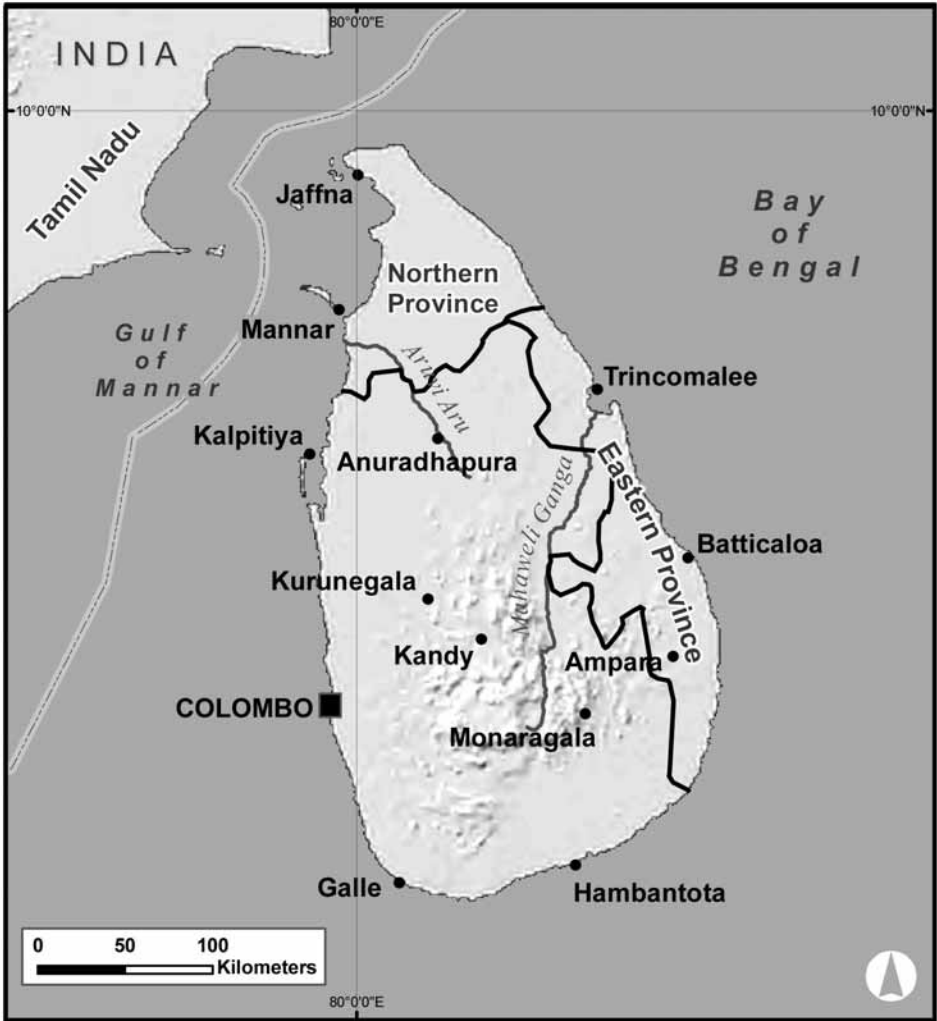
In November 2005, Mahinda Rajapakse was elected president with the support of Sinhalese nationalists who demand a military solution to the ethnic conflict. Although Rajapakse has yet to follow through on all the pro-nationalist promises he made in his election manifesto, his administration and the military have been emboldened by the recent war gains in the Eastern Province. The Rajapakse government has consequently adopted a military strategy of massive retaliation against the LTTE at the expense of a political strategy that promotes conflict resolution. This has contributed to gross human rights abuses and increased the misery of the Tamils, especially those living in LTTE-controlled areas.

The LTTE's rise has also complicated India-Sri Lanka relations. India supported the Tamil rebels in the early 1980s, when Sri Lanka disregarded India's regional preferences and sought to draw close to the United States and other Western interests. This led to the Indo-Lanka Peace Accord of 1987 and the Indian Peace Keeping Force (IPKF) stationed in

the northeast. For various reasons, the IPKF and LTTE ended up fighting each other in what became India's longest war. India proscribed the LTTE in 1992 because the group had assassinated former Indian Prime Minister Rajiv Gandhi the previous year. But having done so, India is now unable to play a direct role in conflict resolution. Complicating matters further for India are Tamil Nadu's more than 60 million Tamils, who sympathize with their beleaguered cousins across the Palk Strait.

Sri Lanka has paid a massive price for civil war. At the time of independence, Sri Lanka's high literacy rate, experience with universal franchise, and relatively high socio-economic indices led many to predict that it was the most likely of the newly independent states to become a peaceful, liberal democracy. Ethnically divisive policies and subsequent civil war have undermined that promise, although this island the size of West Virginia still has vast potential, provided peace can be achieved between its two principal ethnic communities.

Map of Sri Lanka



- Capital Cities
- Cities and Towns
- ⚡ Provincial Boundaries
- ⚡ Exclusive Economic Zone

Note: Map boundaries and locations are approximate. Geographic features and their names do not imply official endorsement or recognition by the UN.

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About this Issue

This monograph examines the nature, extent, and causes of economic and social decline in Sri Lanka's Northern and Eastern Provinces—a region that has endured civil war between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE) for the past quarter century. Based on analysis of primary source data, the study examines the economies of Northern and Eastern Provinces by district and sector; reveals the extent of the economic devastation, social marginalization, and poverty of the conflict region; and explores the challenges of reviving the economy during the recent ceasefire period.

The monograph shows that the single most important cause of the economic and social decline in Northern and Eastern Provinces was the economic embargo imposed by the Sri Lankan government between 1990 and 2001. Following the Ceasefire Agreement signed in February 2002, economic repression by the LTTE, including illegal tolls on vehicle traffic, customs duties, and sales taxes—along with the earlier expulsion of the entrepreneurial Muslim community—seriously impeded economic recovery before renewed hostilities broke out in December 2005 and the formal end of the ceasefire in January 2008.

Due to national and global economic changes since the beginning of the civil war, the study argues against a return to the economic conditions and structure of the pre-war period. Rather, Northern Province has the opportunity to take advantage of the human capital and strong Tamil diaspora to play a significant role in the global knowledge-based economy, and Eastern Province is well-positioned to become a highly productive industrial region with a significant tourism industry.

About the Author

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