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Comments on “Victory in War and Defeat in Peace: Politics and Economics of Post-Conflict Sri Lanka” by Prema-Chandra Athukorala and Sisira Jayasuriya

This is a very well written and interesting paper. It is highly informative and I would recommend it to anyone who wants to understand Sri Lanka’s modern political and economic history. The paper gives a slightly sad aftertaste considering the many opportunities that have been missed and a potential that was never fulfilled.

Having said that, the presented description might be overly gloomy and there is perhaps not enough recognition of the achievements that have taken place in the last years. I think one has to put Sri Lanka’s current situation in perspective. The development in the last few years is far superior to what Sri Lanka has experienced in a very long time. As an example, economic growth averaged around 6.5 percent in the last ten years and around 7.5 percent in the last five years. These figures can be compared to the negligible growth rate that for such a long time used to be the case. As stated by the authors, economic growth in the last five years has been highest the in the post-independent time. The high economic growth is crucial for the future development. My reading of Sri Lanka’s economic history is that poor economic growth has often led to political turmoil, which ruined the achievements in sectors such as education and health.

Also other indicators show a positive development: the poverty rate has according to World Bank figures gone down from around 30 percent in the mid 1990’s to 6.7 percent in 2013. Moreover, poverty declined according to the authors in all provinces, which is important because it presumably means that all ethnic groups have seen improved living standards. Finally, enrolment in primary schools has increased to almost 100 percent.

Again, the above figures show different aspects of a positive development. However, there is a discussion in the paper on how much one can trust official statistics from Sri Lanka. There have been several cases where statistics have been manipulated but it is, in my view, unlikely that it will change the overall picture of a positive recent economic development.

The authors make an argument that growth is not sustainable because it is based on construction and because it is fuelled by a budget deficit. I am not convinced. The budget

deficit is according to the figures in Table 2 in the paper actually declining: from a peak of almost 10 percent of GDP in 2009, to 8 percent in 2010, 7 percent in 2011, 6.5 percent in 2012, and 5.9 percent in 2013. Hence, the deficits are declining. Moreover, the public debt is also declining and the foreign debt is a manageable 34 percent of GDP.

A more interesting question is if we really would like to see a balanced budget in a country that has come out of a 25 years of civil war? The reconstruction needs are overwhelming. It would in my mind, not make any sense to aim for a balanced budget in this situation even if public policies are less efficient than what would have hoped. It is certainly true that some of the public expenditures has been wasted, especially the large infrastructure projects in the home region of the former president (aiming at making it a business hub). But other investments have been important, like reconstruction of roads and bridges, access to electricity, availability of health clinics, and schools for children.

The strong contribution of construction to GDP growth is also quite natural and what we would expect considering the needed investments mentioned above. Moreover, it is quite possible that many of the infrastructure projects will have a positive effect on for instance manufacturing production and thereby on economic growth.

The recent change of government took many observers by surprise. Sri Lanka managed to vote out a regime that was becoming increasingly authoritarian. The former president gathered more and more power to himself and was in the same time building up large personal wealth through corruption and through strong ties with the business community. One sign of the concentration of power is that the president and his two brothers controlled the most important ministries and thereby around 75 percent of the national budget.

However, the core of the complex situation in Sri Lanka is that this corrupt regime was also the one ending the war and the one in charge during the highest growth period in Sri Lanka's history. It means that the new government needs to be very careful and very smart. The old regime will come back in office and maybe change the political situation for the worse and for a very long time to come, if the new government makes a major political mistake, or if economic growth plummets.

The new regime therefore needs to be cautious and conservative and avoid large policy reforms that have negative short term effects on parts of the population. This does of course not mean that they should sit back and do nothing. One prioritized area should be rural development since many poor live in the rural areas. A renewed effort to promote agriculture-based livelihoods and improve access to markets is needed.

Moreover, investment needs to increase from the present level of around 29 percent of GDP. It would be particularly good if parts of the investments would come as Foreign Direct Investment, considering the positive effects foreign technologies and networks typically have on host countries. Unfortunately, there are reports of recent problems for foreign firms in Sri Lanka, for instance in issues related to land rights.

The problem is challenging since there could be opposition from both within the majority group and from the minority groups. There is a need for political changes to win the latter groups' support: maybe more institutionalized rights to the minorities, or maybe a more federal system. The previous government did not do anything to include the minority groups. On the contrary, radical Buddhist groups, where the former president's brother was involved, were occasionally attacking Muslim groups. The Tamils have also been excluded from the political process. Maybe this explains the sudden and rapid growth of the Tamil National Alliance. Without political inclusion of minorities, there will be future problems. But again, political reforms targeting the minorities are difficult since such changes might be used to fuel anger within the majority group.

So let me sum up by saying the obvious: the situation is delicate. It is delicate partly because the last decade has been an economic success but in the same time seen increased tendencies of authoritarianism. There has recently been an unexpected and positive turn of the political situation for the better. But for this positive development to remain, the new government must keep the high economic growth and make this growth sustainable by reforms but without stirring political protests. It is a task that will require outmost political and economic skills.