

# The Sri Lankan Economy

## Recent Performance and Future Prospects

Howard Nicholas

The Sri Lankan economy appeared to bounce back in 1990 after several depressing years during which it haemorrhaged badly. Output, as measured by the Gross Domestic Product (GDP), grew at a massive 6.3%, almost three times the average annual rate of growth in the preceding 1987-89 period. Unemployment fell correspondingly from around 20% of the total labour force during the latter period to around 16% of the total labour force in 1990. Corporate profits rose by some 40% - 50% to around 30% of capital employed in 1990. Private sector investment, as a percentage of GDP, rose by 15% and domestic savings by 21%. The deficit on the current account of the balance of payments fell by 33% and the budget deficit was greatly curtailed - falling by around 10% in relation to the previous year. It is also arguable that the long-term deterioration in the condition of the poor was somewhat arrested as a result of the implementation by government of two consumption oriented welfare programmes - the Janasaviya and school mid-day meals programmes - and an improved targeting of the existing food stamps scheme. The only economic blip was inflation, which rose from 11.6% in 1989 to 21.5% in 1990.

The outlook for the current year is suggestive of a continuation of the economy's recovery rather than a shift to a higher gear. Growth in output is expected to be in the order of 4.5% to 5%, in spite of a drop in corporate profits (to around 20%). Labour force estimates should show a continuing improvement in the unemployment rate - the rate possibly falling to around 15%. Inflation should settle in the 10% to 12% range. The current account of the balance of payments and the budget deficit (as percentages of GDP) are both expected to deteriorate; the current account out turn is likely to be around 6.5% of GDP, and the budget deficit around 11% of GDP. Lastly, the exchange rate should break the Rs43/1US\$ mark by the end of the year, restoring somewhat the international parity of the currency<sup>1</sup>.

### Key Macroeconomic Indicators

ITEM	1989	1990	1991E
Growth Rate	2.3%	6.3%	4.5% - 5%
Investment/GDP	21.6%	22.6%	23%
Unemployment	20%	16.2%	15%
Inflation Rate	11.6%	21.3%	10% - 12%
Current Account Deficit/GDP	-4.4%	-3.0%	-4.0%
Gross External Reserves <sup>1/</sup>	2.5mths	3.0mths	2.9mths
Debt Service Ratio <sup>2/</sup>	20.8%	14.2%	15.0%
Exchange Rate (Rs/US\$)	40.00	40.24	43
Budget Deficit/GDP	11.2%	9.9%	11.0%

- 1/ Gross External Reserves in months of imports of goods and services  
2/ Debt service payments as a percentage of receipts from goods, services and private transfers  
Source: Central Bank of Sri Lanka, various Annual Economic Reports  
Ministry of Policy Planning and Plan Implementation, various Public Investment Programmes

1. The international parity of a currency is defined as its relative international purchasing power.

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## ECONOMY .....

This review of the recent economic performance of the Sri Lankan economy will attempt to give some meaning to these numbers by providing an insight into its inner workings. In doing so one of the intentions is to contribute to the ongoing debate concerning the potential of the current development path on which the economy is set.

The expectation in the government, business circles, and the foreign donor community is that the recent turnaround in the country's economic fortunes marks the beginning of a period of renewed growth, one which should see the Sri Lankan economy propelled within the next decade or so to the heights currently enjoyed by the so-called South East Asian miracles. A central issue which needs to be addressed in this context is the conditions necessary for Sri Lanka to achieve a Newly Industrialized Country (NIC) status within the next decade, and the likelihood of these conditions being met. The possible consequences of the recent and expected economic developments for the majority of Sri Lankan people in terms of their economic well-being are closely related to this issue.

A comprehensive review of the economy requires the examination of a number of key themes.

- i. International Context. A fundamental contention of the following review is that the world market is having a progressively greater impact on the Sri Lankan economy with the increasing outward orientation of the latter. This is evident in virtually all facets of the economy's performance. Hence an assessment of the current and likely future developments in the world economy are indispensable to an understanding of the current developments and future prospects for the Sri Lankan economy.
- ii. Policy Context. Also crucial for gauging the potentialities of the Sri Lankan economy is an assessment of the development strategy and general economic policy stance adopted by the government. Of concern here, in view of Foreign Donor support for the current development strategy pursued by the Sri Lankan government and the recent Extended Structural Adjustment Facility arrangement entered into by the government with the International Monetary Fund (IMF) and World Bank, is the influence of external bodies on the direction of domestic policy. Of related concern is the feasibility and likely consequences of an alternative development strategy.
- iii. Economic Growth. Having set the backdrop, the review of economic performance will begin with a look at the prospects for growth in output. It will be argued that growth is - as can be expected - driven by investment, but that investment has varied with the availability of foreign savings. The implication is that the objective of achieving the status of a NIC within the next decade will only be realized if an adequate level of foreign savings, primarily in the form of foreign direct private investment, is forthcoming. A second contention of the growth study will be that a major impediment to a faster

rate of growth in the recent past has been the deterioration in the terms of trade - the price of Sri Lankan exports in relation to the price of imports. A crude back-of-the-envelope calculation suggests that Gross Domestic Product would have been approximately 50% greater than it is at present if the terms of trade had remained constant since the beginning of the 1960s. The latter is not so much an argument for an alternative, more closed, economic strategy. Rather it is to illustrate the importance of external factors in the movement of the domestic economy at the level of production.

- iv. Inflation. Fluctuations in the rate of inflation in the recent past have been explained by some economists primarily as the result of monetary impulses. An alternative reading of the inflationary process should point to the fact that the domestic price level is primarily influenced by world market forces, and that the influence of the latter on the former is, as one would expect, becoming ever stronger with the increasing extraversion of the economy.
- v. External Balance. The question of external balance requires careful analysis in order to dispel some existing myths. As in the case of inflation, the prime mover of the current account balance is external factors, the terms of trade, and not, as traditionally argued, domestic expansionary policies.
- vi. Employment. Given the paucity and inconsistency of available data on employment and unemployment, the study will seek first and foremost to establish the general trend in, and pattern of, employment and unemployment over the last two decades. Using this as a basis, an attempt will then be made to relate the trends and patterns of employment and unemployment to other developments in the economy. It will be argued that trends and patterns of employment and unemployment broadly correspond to the growth and structural transformation of the economy.
- vii. Poverty/Welfare issues. The study will begin by attempting to establish recent trends and patterns in poverty and welfare. Consideration will be given to the impact which recent economic developments and policy changes have had on the poor. It will be argued that contra accepted wisdom there is little evidence in the Sri Lankan context of an in-built "trickle down" effect of market-based growth. In fact, it will be shown that the evidence is one of a deterioration in poverty, income distribution and welfare. Having made this point, the study will then proceed to argue that the post 1977 deterioration in the condition of the poor cannot simply be ascribed to the policy changes which took place in 1977. This deterioration is, on the contrary, the result of processes which began much earlier, although they were no doubt intensified by latter policies.

*To be continued in the next issue*

## REPORTING EXCESSES..... OR EXCESSIVE REPORTING?

*In December 1990, the Press Council of India appointed a three member committee to inquire into media allegations of Army atrocities in Jammu and Kashmir. This was in response to an invitation by the Army to conduct an "impartial review" of the accusations made against it.*

*The Committee came to the conclusion that the newspaper reports which claimed Army outrages were baseless. Its final Report was extensively publicised on national television and in newspapers which exonerated the Army of human rights excesses and blamed the journalists of fabrication. The Report said that human rights organisations should be "more investigative and check all sides more carefully before they come to firm conclusions which they proceed to publicise."*

*But it is the credibility of the Report which is now at stake. The Committee is being accused of partiality and criticised for having used unacceptable methodology in conducting its inquiries.*

*The Press Council, when it accepted the assignment the army offered it, reviewed only the media reports which the army was concerned about. Allegations of human rights violations by paramilitary groups were disregarded. The question is now being asked: "Is it because the paramilitary forces did not solicit the Press Council to do so?"*

Excerpts:

### Press Council Report on the Army in Kashmir

by Rita Manchanda,  
*Economic and Political Weekly*, 17 August 1991

The army has affected a virtual coup in the latest Press Council Report 'Crisis and Credibility' on Kashmir. They have got the country's ace liberal B.G. Verghese to give a clean chit to the army and in passing, to the paramilitary forces in the valley. Editorial writers have hailed it for exposing as a 'massive hoax' reports of army excesses and atrocities in the valley. The Bharatiya Janata Party has demanded an apology from the doyen of the civil libertarians, Justice V.M. Tarkunde for supporting anti-national elements in maligning the security forces in Kashmir.

Human Rights groups are supposedly in the dock. And the adjudicator in this curious trial of human rights groups vs the army is B.G. Verghese. On the invitation of the army, a three member committee was appointed by the Press Council to look into reports of army excesses. One member, the elderly journalist, Akhtar Das was unable to travel to the valley and is not a signatory of the report. K. Vikram Rao is cited as co-author of the report but as he is better known for his trade union proclivities rather than his journalistic activities, it is evident that the report rests on the credentials of Verghese.

Most human rights groups would have described him as a sympathiser if not an activist. And Verghese now admonishes these groups for being duped by "the say so of alleged victims and propagandists" masterminded by Pakistan. But as a far from demoralised V.M. Tarkunde retorted, "is the report not only based on the say so of the army? Is it not equally onesided?" The report spans the period March 1990 to May 1991 and examines some half a dozen incidents of reported excesses. Verghese acknowledged that in the selection of these incidents he was influenced by the news clippings sent to the committee last winter. In addition, the committee included the alleged Kunan-Poshpara gang rape and the killings of infiltrators at Dudhi as they were seen as the most heinous examples of army excesses. Moreover, these had been given the maximum publicity, Verghese explained. Both were found to be without foundation.

Human rights groups are, however, a little sceptical about the choice of incidents of reported excesses. Why does Verghese or rather the army show no interest in such alleged incidents of army excesses as in Panzgam in Pulwana district on June 9, 1990 or the rape and molestation of women in Kupwara during a search and cordon operation on June 11 or the Tregham incident on June 10, asks Dinesh Mohan of the Committee for Initiatives on Kashmir. These have been well documented in the all women's committee report 'Kashmir Imprisoned' published by the CIK.

As for the killings of the 73 'militants' at Dudhi near the line of control last May, reports in the press have alleged that the youths have been massacred in a mass 'encounter' or that these infiltrators have been killed when they could have been arrested. Suspicion was further fuelled by the fact that the bodies were not brought back to the valley. In an effort to defuse tension the high court asked the administration to publish their photographs in the local press. Modifying the order, the Supreme Court ordered that the photographs be displayed at offices of the district magistrate and police stations in the valley for inspection by relatives and friends from June 10 to 18.

Verghese unhesitatingly concludes, on the basis of what the authorities disclose to him, that the allegations were unfounded. Would he have been so certain if he knew that the advertisement alerting people about the photographs appeared in the popular Urdu daily *Al safa* only on June 14? Moreover, according to a letter sent to the TOI (which was not published) and human rights groups by two residents of Srinagar, the majority of the names of the dead listed indicated that they were from the Doda-Kishtwar area of the Jammu division, a day's journey from Srinagar where



## EXCESSES .....

the photographs were displayed. While night curfew is continuous, on June 12 there was day curfew and on June 13 and 14 the civil curfew of the militants, June 14 - 15 strike by the state employees and June 16 was a Sunday. On June 18 the photographs were withdrawn. The people of Doda-Kishtwar therefore, never had a chance to identify the photographs.

In the Kunan-Poshpara incident 23 to 100 women were reported to have been raped by the army during a search and cordon operation last February. The Verghese committee, however, found the charge of rape 'completely untrue'. Why? Because of the delay in reporting the incident; the villagers having signed the NOC (No Objection Certificate) after the raid; the fluctuating number of rape victims; the inconsistencies in the testimonies of some of the villagers interviewed by the committee and finally, "would troops on a hazardous search and cordon operation in a village known to be harbouring militants nonchalantly spend the night carousing and raping?"

It is quite possible that the Kunan-Poshpara rape incident was concocted and the "women tutored and coerced into making statements derogatory to their own honour and dignity." But the Verghese Committee might have lent its own investigation more weight had it displayed less of an overt bias towards the army version.

Verghese chooses to dismiss the evidence of the JK police constable who accompanied the army party and that of the block medical officer who examined 32 women. He found injuries like abrasion on the chest and abdomen which however were attributed to the village folk hugging 'kangris'. Did the men have similar abrasions? Verghese says he never thought to inquire. The medical report says that in the case of the three unmarried girls their hymen was torn. But Verghese in a statement reminiscent of standard police style defence states, "it could be the result of natural factors, injuries or premarital sex."

In the report, Verghese refers to a group of four to five young girls who were pointed out to a visiting committee as victims of rape. "They stood in full gaze of some young men idling nearby. They seemed quite unashamed to be lined up in public," Verghese stressed as if it clinched the lie of rape. They were very young girls, victims of an incident that took place more than three months before. Does Verghese want to suggest that they, the victims, should not come out in public?

A "massive hoax" orchestrated by the militant groups and their mentors abroad is how the Committee described the Kunan-Poshpara rape. "It is part of the sustained strategy by Pakistan to get the Kashmir issue inscribed on the international agenda when it has failed to do so on a politico-legal basis. Otherwise, why should the Srinagar-based newspaper, *Al safa* in its May issue reprint an English report filed much earlier by UPI correspondent Ghulam Nabi Khayal along with a human rights group report also in English about an incident that took place in February?" Verghese said waving the copy of *Al safa*. What the

authorities forgot to tell Verghese was that *Al safa* regularly carries English language articles and editorials once a week.

It is no one's argument that there is not a propaganda war afoot in which human rights violations prominently figure. And clearly for Verghese the driving force behind his determination to counter reports of human rights excesses is the "human rights conditionalities" the USA seeks to impose on India. "As a result of these reports the US Congress now dares to suggest that training in human rights must be made a part of the advanced training programme for visiting Indian defence personnel. At a recent seminar on Kashmir in Washington one English participant spoke of Kashmir being a colony of India," he said in an outraged tone.

There is no denying that separating fact from propaganda in the valley is a daunting task for any journalist or human rights groups as was highlighted last month when militants of the Muslim Janbaz Force holding the two Swedish hostages staged an elaborate drama complete with photographs of one Swede wounded in the leg by the security forces.

As the Srinagar based correspondent Ghulam Nabi Khayal readily admitted, "there are only two ways in which you can go to the affected area, either the militants take you or the security forces." And reports appropriately reflect the bias of who escorts you. Besides, any local journalist who challenges the militants does so at enormous personal risk. *Al safa* editor Shaban Vakil dared to criticise the militants and was executed.

Tarkunde too readily spoke of the limitations under which human rights groups operate. "Very often the other side refuses to talk to us," he said. He has no quarrel with the need for greater rigour in investigating human rights violations, especially in a situation where they are grist to the propaganda mill. But the Press Council Report would have carried more credibility had it demonstrated a similar rigour in its own investigation into army excesses.

The Report has become a convenient tool to pillory the human rights groups and columnists are full of righteous indignation at the "dirty tricks against the army". Would they be so strident had they actually read the bulky report? Who indeed has fallen victim to the 'say so' of the people or the army, the human rights groups or the Verghese Committee?

## Verghese Committee Report: How Reliable?

by B.M. Sinha  
*Mainstream*, 7 September 1991

It seems that the Committee followed a procedure to carry out its assignment that robs it of the claim that it was scrupulously impartial and truly objective in its work. To prove this, an instance can be cited: It never cared to contact those bodies or organisations which too enjoy credibility in the eyes of the people and which had conducted investigations into the cases of alleged atrocities in the State. Their objective was to ensure protection and preservation of



## EXCESSES .....

human rights. One such body was the Coordination Committee on Kashmir (CCK) headed by justice Tarkunde. When N.D. Pancholi, the General Secretary of the Citizens for Democracy, one of the members of the CCK, learnt about the setting up of the Committee by the Press Council, he contacted Verghese and asked him if he would like to study the reports of the inquiries made into the cases of atrocities in the Valley by his organisation and the People's Union of Civil liberties (PUCL). In reply to a query, Pancholi told Verghese that the reports were about the atrocities committed by the paramilitary forces. Verghese then told him that he did not need these reports as the terms of reference of his committee pertained only to the conduct of the Army. Why did he not think that these reports would have at least helped him understand better the situation that prevails in the Valley?

The Committee, however, did not leave the paramilitary forces out of its investigation as is clear from para 338 of its Report. It says: "Although the Committee's terms of reference pertained exclusively to the Army it has reviewed the functioning of the paramilitary forces in passing as anti-terrorism and counter-insurgency operations are indivisible and the militants are operating under an overall unified strategy."

Why did the Committee do so despite Verghese having told Pancholi that its terms of reference would not permit it? Why did it not occur to the Committee earlier that anti-terrorism and counter-insurgency operations are "indivisible" and, therefore, a case of atrocity may involve both the army and the paramilitary forces? Why did it not seek the reports Pancholi wanted to hand over to Verghese when it decided to review the functioning of the paramilitary forces? And even when it went against the terms of reference,

why did it not say a single word whether it treats as true the stories about the atrocities committed by some of these forces and widely reported by the media? The critics, however, refuse to believe that this lapse occurred because the senior officers of these forces had not made a "request" to the Press Council to review the media stories against them.

For any judicious, if not judicial, inquiry into the kind of matter that formed part of the terms of reference of the Verghese Committee, it is expected from the persons conducting it that they meet as many persons as possible who may be of help to them. The Verghese Committee too was expected to meet persons like Justice Tarkunde, Justice Rajinder Sacher, Dr. Amrik Singh, Inder Mohan, Tapan Bose, Ms Premila Lewis, Ms. Nandita Haksar and Ms. Sakina Hasan in Delhi who had visited Kashmir and looked into the cases of atrocities allegedly committed by para-military forces. None of these persons were approached by the Verghese Committee, though the work done by them had been widely reported in the media. On the contrary, their human rights organisations came in for a severe criticism by it.

The Committee was also expected to issue public notice in Jammu and Kashmir inviting the members of the public to bring to its notice allegations of army atrocities. This is a normal practice and is followed by any committee - even if non-official - holding an inquiry into a serious matter like rioting, rape or murder. But the Verghese Committee did not do anything like this. If it had, it may have come to know of some other cases of atrocities than those about which the Army wanted it to review. It is also possible that the Committee may have come across some independent evidence against or in support of the charges against the Army it was looking into. It is not known why the Committee did not follow this normal procedure. But by not doing so, it has raised serious doubts about the authenticity of its Report.

## A Letter to President Premadasa

from Article 19  
dated 24 October 1991

Your Excellency,

ARTICLE 19, the International Centre Against Censorship, is disturbed at reports of a break-in at Navamaga Printers and the damage to printing machinery while the premises was under seal and police guard.

The seals and the police guard were placed on the Navamaga Printers' premises on October 4 1991, by police officers attached to the Mount Lavinia Police Station.

ARTICLE 19 notes that on September 18 1991, police officers searched the premises of Navamaga Printers and took two of its employees into custody who were released later that day. On the following day, Kelly Senanayake, the owner of the business, reported to the

Mount Lavinia Police Station where he was questioned and asked to make a statement about the printing work undertaken by Navamaga Printers.

ARTICLE 19 believes that these incidents of unwarranted harassment and intimidation by official and unofficial means are a direct result of the printing by Navamaga Printers of a special edition of the Sinhalese newspaper *Yukthiya* which carried leading articles on the subject of the attempt to impeach President Premadasa.

ARTICLE 19 calls on your government to investigate the circumstances of the break-in at the Navamaga Printers, to prosecute those responsible, and to compensate the printers for loss of earnings and damages caused to the printing machinery.

ARTICLE 19 reiterates its call to your government, as stated in its letter dated October 11 1991, to allow Navamaga Printers to reopen, and to refrain from further interference with the rights of printers and publishers to practise their professions as guaranteed by Article 14 (1) (a) and (b) of the Constitution of Sri Lanka, and respectfully requests that your government lives up to its obligations under Article 19 of the International Covenant on Civil and Political Rights.

Sgd. Frances D'Souza  
Director  
Article 19  
90 Borough High St  
London SE 1 1LL, United Kingdom

**Article 19 of the Universal Declaration of Human Rights:** Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media regardless of frontiers.