

# ECONOMY AND ETHNIC RELATIONS

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There can be two purely ideological approaches to the issue of economy policy and ethnic relations.

Left wing approaches tend to argue that the ethnic conflict in Sri Lanka was due to or was aggravated by the post 1977 policies of the liberalization of the economy and its political consequences. They argue from the difficulties of the economy in 1982-83 and the worsening of ethnic relations thereafter.

Right wing ideologists would rather say that the economic growth that the country experienced in 1978-82 was impeded by the ethnic conflict which was generated by political and cultural factors despite the economic growth. If not for the ethnic conflict Sri Lanka would now be on the path towards becoming a N.I.C. — a newly industrializing country.

They would also point out that the options for a Tamil Ealam and for Tamil militancy were made during the 1970-77 period when the economic policies were said to be more socialist and were more statist.

It is not necessary to accept

either of these ideological positions. We can however see a juxtaposition between the economic policies and the worsening of the ethnic conflict.

Perhaps a clue to the relationship between economy and ethnicity has to be sought in the arena of politics. The economic policies of both "Socialism" of the 1970-77 vintage and of the "Liberalization" of the post 1977 period require a **strong state at the Centre**. This is clear in the earlier prescription; but is often overlooked in the latter period. Liberalization of the economy means greater freedom for the individual and companies in production, sales and distribution of incomes. This requires a reduction of the role of the State in the economy.

The quasi paradoxical situation is that it is only a strong stable state that can operate the process of liberalization and ensure its continuity in a situation such as of Sri Lanka in the 1980s and now. The liberalization policy had to dismantle the structures and undo or loosen the relationships built up in the previous era. The State had to

- reduce or eliminate the subsidies for health, education, transportation, fertilizers.
  - reduce the import duties and open our markets to foreign goods and foreign companies
    - liberalize trade.
  - cut down state investment on the public sector productive enterprises.
  - privatize public enterprises including manufacturing and profitable ones.
  - "rationalize" employment in the public sector i.e. reduce or limit future intakes.
  - provide the environment for foreign investment in the country — ensuring a cheap docile labour force, prevent strikes and disturbances in production.
  - devalue the currency and let the value of the Rupee float according to the market trends for it.
  - allow foreign banks to come into the country.
  - permit the flow of money in and out of the country including the repatriation of profits of foreign companies.
  - decontrol import of goods and be open to abuses such as narcotics, pornography, prostitution, gambling, casinos.
- All these require a strong state to carry through these policies in a background in which people had been accustomed to a more welfare oriented State power that protected local economic and finan-

cial interests. It is not without a causal linkage that the executive presidential system was imposed on the country along with the "open economy". Strange as it may seem, the liberalization of the economy and its continuance required a centralization of political power in the State. It required a person with the character and temperament of a J. R. Jayawardena who could with cold calculated candour and cynicism say "Let the Robber Barons come". A more moderate and conscientious person like Duddley Senanayake could not preside over such a tough, unconscionable operation of liberalization.

This is because the package of policies were bound to generate much discontent among the people due to their subsidies being reduced, rights being curtailed. The liberalization in South Korea, Taiwan, Hong Kong and Singapore were carried through by strong centralized governments with dictatorial powers.

In addition to these the role of the State in the economy increased due to the lead projects of the post 1977 Government viz. The accelerated Mahaveli Development, the Housing programme of Mr. Premadasa, the building of the Parliamentary Complex and the new capital in Kotte and the inauguration of the Free Trade Zone at Katunayake. These required a heavy deployment of expenditure irrespective of peoples wishes. They also meant a pressure for a movement of the population towards the South West and the North Central and Eastern provinces.

Thus it would seem to be

clear that the policies of economic liberalization required a strong, determined stable State authority at the Centre. The State had to be armed with powers to engineer the economic changes, to repress dissent, and ensure the continuity of the Government over a long period of time. Hence the policies of devaluing Parliament, interfering with the judiciary, rigging the electoral processes, and using the police and security forces for these purposes. The 1980 general strike was crushed mercilessly. The growth of the repressive authoritarian State at the Centre was not a mere accident of history, or a consequence of the personality of the rulers, it was also an exigency of the liberalization of the economy, opted for by the Government in 1977 and/or pushed toward it by the Western (including Japan) donors and the IMF/WB combine. A weak Central Government could not have carried through the thorough transformation that the economy has been undergoing since 1977.

### The Centralized State and the Ethnic Problem

A characteristic of the post 1977 period was that this liberalization and authoritarianism were combined with and even presided over by a Sinhala majority mercantilist, capitalist group that was for several years ethnicist or chauvinistic. The situation gave much patronage to the rulers who were mainly Sinhala politicians. The economic thrust was not so much to develop local industries (the Free Trade Zone, being

largely for foreigners) as to augment trade in imports. While paddy cultivation developed, tea rubber and coconut stagnated, and the local industries begun in the previous decades faced badly with liberalization. Over a 100,000 persons are said to have lost their employment in the handloom industry.

In 1977 the grievances of the Tamils were identified in the negotiations of the UNP, TULF and CWC to be relating to education, employment, language and land. All these had economic significances. The political solution of devolution of power was to be for realizing the economic and cultural aspirations of the Tamil people through a political agency representative of them and responsible to them. Political power may be the goal of politicians and militant leaders. But the people want economic, social and cultural realizations with politics as a means.

The Tamil ethnic conflict was at least aggravated by the failure of the post 1977 policies to foster their socio-economic interests in education, employment, language and land. University educational opportunities did not expand adequately with the increasing population. This was not a priority of the Government. Employment did not increase in the North so much as in the South West and later the Mahaveli areas. Self employment was hampered in industry and in onions, chillies and grapes due to imports and development elsewhere in Sri Lanka. No new industries were set up on any significant scale

in the North East. Language policy and favouritism (Job Bank) continued to be an impediment to Tamil youth for Government jobs. The land settlement policy was strongly tilted in favour of the Sinhalese.

All these went hand in hand with economic liberalization and the attendant authoritarianism. This was not an environment for devolution or even decentralization of power from the Centre to even the Districts. Hence the Government delayed implementing the sharing of power. When the District Development Council Elections were held in 1981, important Cabinet Ministers interfered with the elections in Jaffna. This was in time with the growing authoritarianism, chauvinism and manipulation of the democratic political processes. They were not unrelated to the economic policies of the time.

The Tamil frustrations increased. Their armed resistance developed. The repression by the Government invoking the Prevention of Terrorism Act further fanned the flames of Tamil militancy. This in turn augmented Sinhala resistance to Tamil demands. Violence and counter-violence led to July 1983. The consequence was the seven year war in the North/East involving the IPKF from 1987-1990.

#### Relevance in 1990

Now in April 1990, the IPKF has returned to India, the LTTE is in control "on the ground" in the North and East and observes a truce with the Sri Lankan Government. The Sri Lankan Government has legislated for Provincial Councils. But at the same time the domination of the IMF/WB and

capitalist donor groups has grown considerably. These now dictate economic policy, The JVP rebellion has been curbed. The people's discontent is widespread, due to the rising cost of living, unemployment, political favouritism, repression and insecurity of life.

In this situation the IMF dictated policy package requires even greater import liberalization, reduction of tariffs on imports and taxes on enterprises, further incentives to foreign capital, privatization of State enterprises and services, cutting or elimination of subsidies... (C.f. Lanka Guardian Feb. 15, 1990, and Social Justice 37 March 1990.) **Can this set of policies and priorities be combined with the devolution of power to the provinces, specially the North/East?** They require a uniformity of economic, financial and fiscal policies to be regulated by the Centre.

On the other hand the N.E. would want to develop its economic potentialities for increasing employment and incomes in the areas. While the militants talk politics, the academic and business leaders plan for economic development as seen in the articles of C. Suriyakumaran, Victor Santhiapillai, K. D. Arulpragasam and Neelan Tiruchelvam in the Peoples Bank Economic Review of March 1990. How far can their proposals be implemented within the present Government priorities dictated by the IMF?

A crucial issue of ethnic relations in the coming years will be the performance of the economy in terms of growth, its balanced distribution, and the redistribution of incomes (and wealth) in the country. If the economy takes off optimistically, steadily and with an adequate concern for inter ethnic equity, there is a better chance for peace among the ethnic groups. Will the political process permit and foster such growth with a substantial measure of autonomy for

the North and East. Will they have some control over their resources, production and markets? Will they be a capitalist success story within a Sri Lankan capitalist strategy? All these are important for our future. This article wishes to point to the inter-relation of economy and ethnic relations mediated through politics (and culture) and poses questions for the future. Liberalization of the economy requires a strong Central Government. Can the political, economic, social and cultural objectives of the Tamils in the North and East be realized within such parameters is a crucial issue for ethnic relations?

The personality of the present President is also relevant to this issue. While Mr. Premadasa seems to be open to a prolonged dialogue with the LTTE, he seems to run the national Cabinet like a school master controlling a class (with term tests) or a football coach or Captain choosing his team for different seasons. Can such a centralized authoritarianism at the level of the Presidency be compatible with genuine devolution of powers to the provinces. Further with about 75 Cabinet, State (and Project) Ministers at the Centre, will there be much room for initiative at the level of the provinces.

On the other hand unless there is a genuine and adequate devolution of power to the North East at the provincial level, peaceful ethnic relations are not likely in the coming years.

A strong public pressure for such a sharing of powers is essential given the strong economic and political trends for centralization of power alongside and because of the liberation of the economy ●