

Economic Development of the North and East of Sri Lanka: Potentials and Problems

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Introduction

The terror conflict which lasted for more than 25 years made a significant impact on the economic and social arenas, not only in the North and East, but also in the rest of the country. This was manifested in the form of loss of livelihoods, unemployment, destruction of infrastructure, collapse of State institutions, and dispersed social communities. The maximum damage was seen in the Northern and Eastern provinces. The disruption and damage have resulted in the North and East not reaching their desired level of development, when compared with other parts of the country.

The objective here is to examine the prospects and problems faced in the economic development of the North and East in the context of development plans of the government.

Starting with an overview of the region and a description of the state of the economy at present, the article goes on to examine the overall background of the key sectors of the economy, viz., agriculture, fisheries, manufacturing industries and

tourism together with their potentials and problems. The next section presents the role of private sector in economic development in the region, and the final section has some concluding remarks.

Overview of the Region

The Northern and Eastern provinces comprise an area of 18,880 square kilometres which amounts to 29 per cent of the total land area in Sri Lanka. It is enriched with many natural resources, such as, agricultural lands, mineral deposits, forests, scrub lands, wetlands, a rich coastal line and coral deposits, making it one of the most resourceful areas in Sri Lanka. In terms of land usage in the North, 51 per cent is forest and 31 per cent is used for agriculture, while in the East, it is around 30 per cent and 37 per cent, respectively.¹

The area is home for around 2.5 million people, which is 13 per cent of the country's total population, consisting of 1.1 million in the North and 1.4 million in the East (Table 1).

Majority of the people in the Northeast suffer from poverty as a result of the war. The recent monthly mean household income recorded in the North-East region ranges from Rs. 13,000 to Rs. 15,000 which is relatively low compared to that in other provinces².

After the end of the armed conflict in May 2009, there were around 300,000 internally displaced persons (IDPs). These civilians were in some 35 government camps or welfare centres in the Northern districts of Vavuniya, Mannar and

Table 1: Area and Population of the Northern and Eastern Provinces

Province	District	Land Area (Km ²)	National (%)	Population (Thousands)	National (%)	Pop.Density (pop/km ²)
Eastern	Trincomalee	2,727	4.2	340	1.81	135
	Batticaloa	2,854	4.3	486	2.59	186
	Ampara	4,415	6.7	593	3.15	140
	Total	9,996	15.2	1,419	7.5	142
Northern	Mullaitivu	2,617	4.0	122	0.65	50
	Vavuniya	1,967	3.0	150	0.80	81
	Mannar	1,996	4.6	152	0.81	81
	Kilinochchi	1,279	1.9	127	0.68	106
	Jaffna	1,025	1.6	491	2.61	528
	Total	8,884	13.5	1,042	5.54	117

Notes: Population from census conducted in 2001. In the Northern Province, Jaffna, Kilinochchi and Mullaitivu were not covered, while Vavuniya and Mannar were covered partially. In the Eastern Province, Ampara was covered completely, while Trincomalee and Batticaloa were covered partially. Source: Department of Census and Statistics, Statistical Abstract 2008.

Jaffna, as well as in the Trincomalee district in the East. The government, with the help of international aid and other donor funds, formulated a 180-day accelerated programme, to resettle most of the displaced persons. The government realises that, it will be difficult to sustain the financing of these camps for a long time. A massive influx of IDPs from October 2008 to May 2009 caused the Common Humanitarian Action Plan to increase the earlier estimate of US\$ 155 million to US\$ 270 million.

As of end July, only 40 per cent of the revised requirement has been received, leaving the government short of funding.³ Despite this, once the clearing of land mines is done, the resettlement of the IDPs will commence without delay for economic reconstruction to start.

Regional Economy

For more than 25 years, the North-East region has been adversely affected by the conflict. This has resulted in a large number of economic activities being restricted. Before the intensification of the war, the Northern and Eastern provinces played a major role in the Sri Lankan economy, particularly, in agriculture and fisheries. Small-to medium-sized industries also played a role in the economy, as they utilised domestic resources, and thereby, contributed to strengthening linkages in the economy.

The North-East economy is seeing improvement, as the provincial Gross Domestic Product (GDP) is

Table 2: Gross Domestic Product of the North and East, 2003-2007

(GDP shares in percentages, figures in parenthesis indicate Rs.Bn.)

Province	2003	2004	2005	2006	2007
Eastern	6.1(96)	4.9(87)	4.7(99)	4.9(143)	5.0(178)
Northern	2.8(43)	2.9(53)	3.0(63)	2.8(82)	2.9(104)
Total	8.9(139)	7.8(140)	7.7(162)	7.7(225)	7.9282

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

Source: Central Bank of Sri Lanka (CBSL), Annual Report 2008.

growing at a faster pace than in the 1990s. However in 2007, GDP in the North accounted for only 2.9 per cent of the GDP which is significantly low, ranking it as the lowest contributor. In contrast, the East contributed towards 5 per cent of the GDP in 2007 (Table 2).

Despite the tsunami which devastated the East in 2004 and the ceasefire which ended in 2006, the North-East economies have continued to grow due to implementation of various reconstruction and agricultural projects.

It is evident from Table 3 and Figure 1 that, after the tsunami, due to rehabilitation and reconstruction work, the share of the service sector (which is mainly dominated by public administration and defence) has continued to increase throughout the years.⁴ The sector might grow even further over the next few years due to the many relief and re-development projects of the public sector.

The East is currently ahead of the North, in terms of economic

recovery, as the process began with the capture of the last Eastern military camp in July 2007. However, there is still immense potential for the East to develop further.

Potential and Problems

This section looks at the potential and problems faced by the key economic sectors of the North and East, namely, agriculture, fisheries, manufacturing industries and tourism.

Agriculture

The North-East region has a variety of soil which can support the cultivation of paddy and many other crops, such as, onions, green chilli, potatoes, cashew, coconut, palmyrah and tobacco.

Before the outbreak of the conflict, the production of these crops was far greater than the requirements of the people in that region, and the surplus was exported to other parts of the country. At present, it only contributes towards 12 per cent of the national agricultural sector. Even though it is not the largest sector in terms of monetary value, 60 per cent of the North-East

Table 3: Sectoral composition of GDP, 2003-2007 (at Current Factor Cost Prices)

Sector	2003		2004		2005		2006		2007	
	East	North	East	North	East	North	East	North	East	North
Agriculture	34,948	12,242	32,020	14,586	27,627	15,847	25,542	16,453	30,699	16,953
Industry	28,556	2,987	17,899	3,496	24,609	3,981	49,753	5,232	59,827	6,161
Services	32,376	27,897	37,450	34,905	47,003	43,235	68,228	60,292	87,363	80,852
Total	95,880	43,126	87,368	52,988	99,239	63,063	143,523	81,978	177,888	103,966

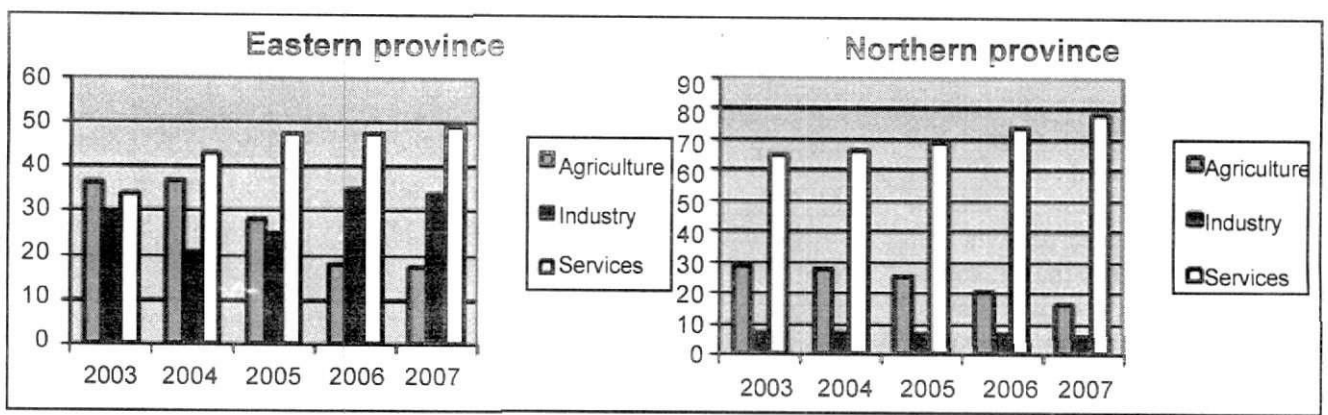


Figure 1: Sectoral composition of GDP, 2003-2007 (Percent of total provincial GDP)
Source: Central Bank Annual Report 2007.

community is employed in this sector.⁵

Paddy cultivation

Before the conflict, rice production in the North and East accounted for almost 70 per cent of the national rice output, whereas now, it accounts for only 30 per cent, out of which, the Eastern province contributes towards 21 per cent. The agricultural sector in the East is driven by rice compared to the North, as it produces around 800,000 t, but the regional requirement is only 500,000 t.⁶ Since the 1990s, rice production has grown marginally, but now, with the liberation of the East and the North, paddy cultivation will once again gather momentum in the region.

Cash crops and livestock

Crops (red onions, green chillies, potatoes and tobacco) and livestock (milk and poultry) farming is the chief economic activity in the North and East, particularly in the North. In the 1980s and 1990s, the North-East region was the largest producer of red onions, with the Northern province alone accounting for 56 per cent of the national output. These provinces also produced one quarter of the total green chillies in the country. The conflict had a negative impact on these cash crops, as its production fell sharply during those years with the exception of tobacco. The

tobacco industry in the Northern province continued to expand, making it the only cash crop to exceed pre-conflict output levels.⁷

The North-East region also had a large livestock sector before the outbreak of the conflict, which included cattle, buffalo, goats and sheep. Jaffna district in the Northern province and Batticaloa district in the Eastern province were the largest producers of milk in the region. The milk production in the North was of high demand, as it was used by producers for value-added dairy products, such as, dried milk, condensed milk and ice cream. However, the livestock in this region declined by a large number during the war due to relocation of people and the mining of grazing lands for cows and goats. It is vital to restore these sectors as well as encourage it to take them to agri-businesses level for the recovery of the North-East economy.

Even though the development of paddy and the cash crop production will add towards the growth of the provincial economy, given the current IDP situation, it is also important to focus on them as a means of providing food security towards the returnees. The United Nations Development Programme (UNDP) has donated money towards assisting agriculture and has provided 6,400 of the most vulnerable households in

Batticaloa with tools and equipment that are essential to recommence cultivation.⁸ The World Bank too made many donations to restart agriculture in Sri Lanka's conflict zone areas. This has ensured food security of 33,250 conflict-affected persons, with the restoration of many small irrigation schemes.⁹

Problems and needs

1. Abandonment of land due to mining and heavy security zones: There is a total of 8,352 (ha) of land abandoned in the East alone. A full recovery of the agriculture sector in the North and East will not take place until the de-mining is completed. Even after this, these lands would need heavy investment, as they have been neglected for a long time. It must also be noted that, given the current situation in the North, there is a concern about land ownership, as many people have been displaced several times.

2. The non-availability of machinery and technology: Currently, there is a functioning seed farm in Vavuniya which supplies quality seeds for farmers, but this is not sufficient to meet the requirements of this region. Farmers in this region are also unable to get high-quality seeds despite the many nationwide seed production programmes, due to poor distribution networks. This, together with the lack of

machinery, hold backs the productivity of this sector.

3. Slow adoption of new technology: Farmers seem to be very hesitant to invest in new technology, as they are risk averse and prefer the usage of known traditional technologies, hence it is important to conduct seminars, workshops and demonstrations to create awareness of these methods. As an example, a team from the United Nations Industrial Development Organisation (UNIDO) found it a challenge to convince farmers on the potential benefits of a micro-irrigation scheme which they conducted in the East. Finally, with much pessimism, this scheme was able to provide one farm in Kaluwanchikudy an additional income of Rs. 210,000.¹⁰ This goes to show that lucrative methods, such as these, are essential for the North and East to catch up with other agri-regions.

4. Shortage of irrigation water: The development of the irrigation sector in the Northern and Eastern provinces is of desperate need, as they cannot rely only on rainfall for agriculture. This situation is worse in the North, as programmes to rehabilitate tanks have not yet begun, but there is a total of 7,984 ha of irrigable land.¹¹

5. Milling and storage facilities: A major constraint in the paddy sector is the severe lack of milling facilities in the North, especially in the Mannar district. During the 1980s, more than 20 rice mills were closed down, and much of the paddy produced is sent to Vavuniya and other areas, and then transported back to Mannar. Currently, there are rice mills adequate only for local consumption.

6. Lack of institutions: Currently, there is a lack of regional institutions and governance with regard to the agricultural sector. There are many vacancies that need

to be filled, such as, irrigation engineers, research officers, veterinary surgeons, and livestock development officers. Many areas in the North and East are still in need of agriculture adaptive research stations, veterinary hospitals and veterinary investigation centres.

Under the Department of Agriculture, there are district agricultural training centres which provide training for knowledge and skill development in agriculture competency. The conflict situation in the country resulted in the destruction of these institutes. However, they were rehabilitated in the Trincomalee, Batticaloa, Vavuniya and Jaffna districts. These institutes are being re-established in other districts.

Fisheries

The key livelihood activity of the population living along the coastal belt of the North and East is fishing. Prior to the war, there were more than 80,000 active fishermen, but currently they have reduced to around 46,357.¹² Given the diverse marine environment in the North and East, it used to supply about 50 per cent of the total fish requirement in the country. The fish catch dropped dramatically during the conflict in the North, but remained quite steady in the Eastern Province. In 2005, the Northeast produced 47,920 t, but this figure can be increased significantly, as prior to the war,

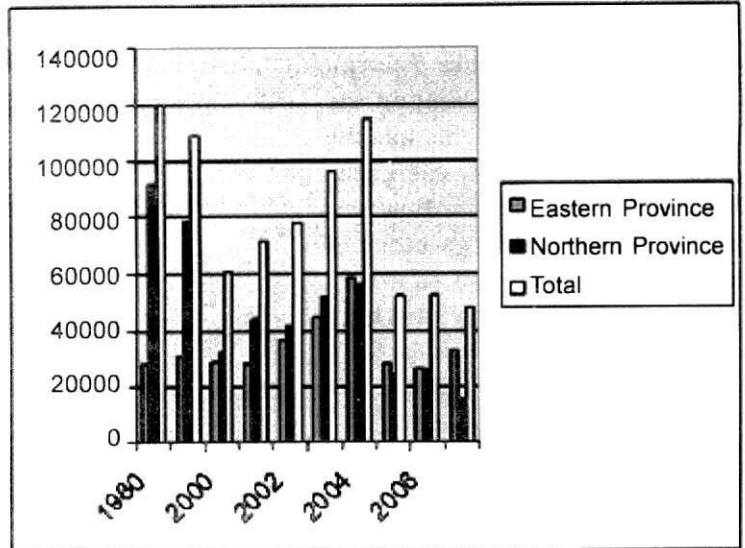


Figure 2: Fish production 1980-2007 (tonnes)
Source: Author's calculations based on Department of Census and Statistics.

the Northern province alone produced around 92,000 t.¹³

This conflict-affected area consists of 60 per cent of the country's coastal region which is enriched with many deep-sea resources and off-shore mineral resources. This region includes the world's second largest natural harbour in Trincomalee and also has many small fishing harbours spread along this coastline. These seas are enriched with many high-value marine species, such as, prawns, lobsters and Beche-De-Mer also known as sea cucumber. Sea cucumber is a high-value fish which is used in Chinese and Japanese cuisine, and thus, is in great demand in Singapore, Malaysia, Taiwan, Korea, Japan and China. A few businesses under the Chamber of Commerce are engaged in sea cucumber processing and exports, however, there is potential for this industry to grow further.

Before the outbreak of the war, both coastal and deep sea fishing were done extensively, but during the years of conflict, many restrictions were imposed on off-shore fishing. Deep-sea fishing and night fishing from 7 pm to 5 am in the North was totally banned, and fishing was only allowed for four days a week

due to security reasons. They were also not permitted to use powerful 25 hp engines, thus limiting the fishing hours further. This was the main cause for the downfall in the region's fishing industry. However, after the victory, the government has officially stated that all fishing restrictions in the North have been lifted, which has accounted for a 229 per cent growth in the fish harvest in the Mannar and Trincomalee districts, but industrial sources from the North and East claim otherwise. According to them, fishermen are still not allowed to fish in naval base areas and are expected to have a satellite as a means of monitoring them.

Another major concern expressed by the fishing industry is the intrusion of Indian trawlers. It is reported that they intrude into fishing seas many times a day, sweeping away many lucrative fish varieties, such as, prawns, lobsters, sea cucumber and chunk. Many local fishermen complain with regard to this, as they feel that the seas are being controlled by Indian fishermen. However, even though this is an issue that has been addressed in many bilateral dialogues in both Sri Lanka and India, it is almost impossible to fully secure the territorial waters. A plan needs to be implemented, which would deter fishermen from crossing the international boundary lines.

Apart from these key issues, the North and East fishermen face a lack of technological approach on fishing, which hinders the productivity of this sector. There is also an inadequate application of fishing techniques in deep-sea tuna fishing and in aquaculture, which reduces the potential harvest. These issues must be addressed by vocational training and various workshops. In 2008, the International Committee of the Red Cross (ICRC), with the help of

the Ministry of Fisheries, implemented a project aiming at restoring the livelihood of 480 returnee fishermen in Batticaloa. Under this programme, they conducted vocational training, which taught them net maintenance, the theoretical aspects of fresh-water fishing, etc.¹⁴

Manufacturing industries

Though the mainstay of the North and East economy are agriculture and fishing, there are many micro, small and medium-sized enterprises in this region. Many of them were destroyed or abandoned due to terrorist activities.

Apart from the Uva and North Central provinces, the North-East region is one of the least industrialised areas in this country. During 1983, there were 9,671 enterprises, but this has increased to 12,227 by 2003. Although the number of enterprises has increased in absolute terms between 1983 and 2003, they have declined marginally as a proportion of the total number in the country. In 1983, they accounted for 9.5 per cent of the total industries, whereas in 2003, they accounted for only 9.3 per cent.¹⁵ (It must be noted that the latest data available for the industry sector is 2003, because the last census for industries in Sri Lanka was conducted in 2003).

Ampara and Batticaloa districts have the largest number of enterprises in the Eastern province, while Jaffna has the largest number in the North.

SMEs

Large private investments will favour regions which are lucrative to industrial sectors in the North and East, as a result, vulnerable people in poorer areas tend to be neglected, and thus, special focus should be given to SMEs.

SMEs have been identified as a sector that will promote regional

development in the short and medium term through poverty alleviation, employment and income generation, as they are a labour intensive. Labour intensive sectors for post-conflict economic recovery is essential in creating livelihood for people who are being re-settled after being displaced. Furthermore, SMEs require less capital and infrastructure compared to other large-scale manufacturing enterprises, making it ideal for the North and East. Finally, in the long run, they also enable the economy to create an environment suitable for large-scale industries.

Handloom centres, textile weaving, clay products, coir industry, cane products, carpentry, fish processing, agro processing and palmyrah weaving are some of the SMEs functioning in the region. Some of these small-scale industries provide more opportunities for self-employment as well. This sector, however, has a number of problems which needs attention for it to prosper.

Firstly, there is a need for market promotion in this area. There is currently a lack of established showrooms and trade stalls in these provinces, and hence, these products are being sold to merchant middlemen who take advantage of the manufacturers by purchasing them at a very low price. This calls for market promotion centres in all districts, so that the manufacturers themselves can promote their products. Further, to increase the quality of these products, it is important to engage these manufacturers in provincial and national-level exhibitions.

Secondly, the entrepreneurs and industrialists of this region find it difficult to access new information, as there is a lack of information centres. Government institutions need to provide them with

information on the latest news and facilities for industries through monthly bulletins or by setting up of relevant centres. These centres need to be developed, so that the existing as well as potential entrepreneurs and school leavers have information about various job opportunities, new and ongoing investments, innovative technology, etc. With this in priority, the Board of Investment (BOI) has taken an initiative to open up an office in the Jaffna peninsula, however, there is need for more institutions, such as this, in every district.

Thirdly, there is a lack of training. The conflict and the tsunami in

2004 have disrupted vocational training and education. These events have also resulted in migration of skilled trainers, which

has led to a shortage of skilled professionals and entrepreneurship. Mainly the youth find it very difficult to find

Table 4: Major industries in the North and East run by the State

District	Industry	Product	Location	Nature
Ampara	Hingurana sugar factory	Sugar	Hingutsana	Operative
Batticaloa	Valaichchenai paper factory	Paper	Valaichchenai	Operative
Jaffna	Sri Lanka cement factory	Cement	Kankesanthurai	Inoperative
Jaffna	Sri Lanka cement factory	Cement	Kankesanthurai	Inoperative
Jaffna	Achchiuveli Industrial Estate	Industrial sheds & developed plots for various small & medium industries	Achchiuveli	Inoperative
Jaffna	Palmyrah Distillery Industries	Arrack	Thikkam	Operative
Jaffna	Karainagar boat yard	Boat building	Karainagar	Inoperative(Cey-Nor is in the process of gaining approval from the Navy as they occupy the land)
Jaffna	Fishing net factory	Fishing net	Karunagar	Operative
Kilinochchi	Paranthan Chemical factory	Caustic Soda	Paranthan	Inoperative(government plans to resume work)
Kilinochchi	Saltern	Salt	Elephant Pass	Inoperative(Government plans to resume work)
Mullaitivu	Oddusuddan tile factory	Tiles	Oddusuddan	Inoperative(Government plans to resume work)
Mannar	Pesalai fish canning centre	Fish canning	Pesalai	Inoperative
Mannar	Pesalai ice plant	Ice	Pesalai	Operative
Trincomalee	Kantale sugar factory	Sugar	Kanthale	Inoperative
Trincomalee	Pulmoddai Mineral sand factory	Ilmenite	Pulmoddai	Operative
Vavuniya	Poonthoddam Industrial park	Industrial sheds & developed plots for SMEs	Vavuniya	Operative

Source: Five-year Investment Programme 2006-2010, Provincial Planning Secretariat, North East Provincial Council.

employment in these sectors or even gain self-employment due to the inadequacies of knowledge and skill in these fields. This should be one of the main concerns of the government to develop this sector, as it is necessary to rebuild institutions that will provide them with the required vocational training, and skills and entrepreneurship development.

Fourthly, there is a lack of technology for the food and agro-industries sector which covers a range of vegetable, fruit, milk, coconut products and confectionery products of palmyrah. These products are seasonal, and hence knowledge on technology should be made available to preserve the additional surplus.

Finally, a main constraint is the availability of credit facilities. Most SMEs are operating below capacity due to the war. They have suffered great losses which have left them with inadequate resources to re-establish their enterprises, and therefore, availability of credit is an important factor to these industrialists. Currently, banks in the North and East provide loans at an appalling annual interest rate of 42 per cent, thus accessibility to loans is restricted due to high cost of funds and high collateral which at present they do not have the money for. Micro financing credit schemes are often seen to be productive for self-employment activities and can be used as a tool for household and community recovery. These should be mainly targeted for women, as having their own business can be empowering, especially for victims who have lost their husbands due to the war.

Large-scale industries

Apart from these small- to medium-sized enterprises, there were also a handful of large manufacturing industries which included a paper factory in Valaichchenai, Batticaloa, a chemical factory in Paranthan, Kilinochchi and a

cement factory in Kankesanthurai, Jaffna. In the early 1980s, over 100,000 tonnes of paper, 1,700 tonnes of sodium hydroxide, 1,200 tonnes of chlorine, 1,000 tonnes of hydrochloric acid and 500,000 tonnes of cement were produced in these State-owned manufacturing enterprises.¹⁶

The Paranthan chemical factory was considered a national treasure, as even up to this date, there is no other chemical factory in this country. Then, again, the Pulmoddai beach mine in Trincomalee is enriched with many minerals, such as, ilmenite, monazite, rutile and zircon. It is also known to have a renewable deposit with sand being washed up by the sea. Due to the factory not being in operation for many years until recently, big stocks of minerals have accumulated, including 180,000 tonnes of ilmenite and 200,000 tonnes of crude zircon. Apart from this, Seismic data has shown potential of oil under the sea in northern Sri Lankan waters, particularly in the Mannar basin. The government entered into a petroleum resource agreement with Cairn India Ltd. to explore oil and natural gas deposits in Block 1 in Mannar Basin. The government has expressed hope that oil could be extracted by 2010. Currently, the petroleum Ministry has called for bids in other blocks in the Mannar basin.

Table 4 summarises some details of the major industries established in the Northern and Eastern provinces.

Even though these districts are rich in natural resources and human capital, and have a large amount of land that can be developed, it is categorised by the Board of Investments (BOI) as 'most difficult areas' for granting of attractive incentives. The BOI's main concern with regard to investments in this area for large-scale industries is the transportation cost. For example, it costs around Rs. 42,000 for one 40-foot container to travel from

Colombo to Jaffna. This makes investment in this area less attractive, as firms do not have the profitability margin to afford such costs. This gives reason to develop economic infrastructure, such as, roads, bridges, highways and rail lines, of this region which will link the North and East with other parts of the country.

The BOI also claims that there will be more focus on agro-processing, fisheries and value-added mineral industries for local consumption and exports rather than the apparel industry in the Northern province, as many investors in that sector have not shown much interest due to high transportation costs. Under the BOI, the Cabinet of ministers has granted approval for 675 sq km in Trincomalee as a special economic zone and 300 acres in Kilinochchi as an agro-economic zone. Under the Trincomalee special economic zone, there are 6 distinct zones. Zone 1 is for port-related development, 2 is for tourism development in Nilaveli, 3 for agriculture and agro-processing, 4 for industrial development, 5 for eco-tourism and finally, 6 is an existing residential zone. The BOI also grants 5 to 15 years of generous tax holidays to the existing BOI companies that set up industries in the North and the East.¹⁷ Such economic zones will create many employment activities in the long term.

Tourism

Tourism in Sri Lanka is one of the industries that were hit hard due to the conflict. With the war is over, the Eastern province will become a tourist destination. Tourism in this region is potentially an important source to create direct as well as indirect employment, such as tour guides, transport services, and so on in the service sector.

The East, which is famous for its coastal line with white sandy beaches, shimmering blue seas and corals, is like no other coastal area in Sri Lanka. The East coast stretches from the Yala national park in the East to Arugam Bay in

the South, all the way to the Nilaveli beach. The must-go areas of the region include the beaches of Nilaveli, whale watching, dolphin spotting, Pigeon Island, wild elephants of Lahugala and Yala, ancient ruins and Hindu kovils of Ampara.

The East consists of many natural as well as historical sights that make it an ideal tourist location. The waters around Trincomalee can spot whales, marine turtles and dolphins in a particular time of the year. More than twelve different species of whales, including the common blue whale, Bryde's whale and Sperm whale can be spotted. The Pigeon Island which is surrounded by coral reefs is also a breeding site for the blue rock pigeons. It is situated a short boat ride away from Nilaveli and is ideal for snorkelling. Arugam bay is listed as one of the top ten surfing spots in the world. In June 2009, a surfing contest titled 'Champion of Champions' which was organised by the UK's pro surf organisation saw many surfers from around the world. This region also has two National Parks, the Gal Oya National Park near Ampara and the Kumana National Park in Potuvil. The East also has a few archaeological sights which can be promoted such as Fort Fredrick which is a fort built by the Portuguese in 1624 to be used as a naval base, Koneswaram and Swami rock, Velgam vihara, Magul maha vihara in Potuvil, Okanda Hindu kovil and Deegawapi ruins.

Despite the many local and foreign tourists who wish to visit this area, there are only 5 hotels to accommodate them. Hence, initiatives to promote the East as a tourist destination to gain private investment for hotels should be a priority. Currently, the Sri Lanka Tourism Development Authority (SLTDA) has taken action to block out land at the Pasikudah Bay among 12 investors who are

expecting to create a resort with 700 rooms. Meanwhile, under the BOI, Arugam Bay tours, will invest Rs.123 million on a three star hotel. Lanka's tourism promotion Bureau has big plans for the surfing commune as it plans to host a world championship event in Arugam Bay again in July 2010. While the private and public sectors make every effort to uplift the tourism industry in the East, it is advisable to create hotel schools in these provinces to create job opportunities within that region that can meet the requirements of the hotels. This will in return add to the development of skills of the youth in this region.

The Private Sector

Apart from the government, the private sector will have a keyrole in rehabilitating the people of the North and East in the long run. Once the livelihood of the people in the North and East is sustained in the short run through agriculture and fisheries, they will focus on employment of other sectors in the economy. This is where the private sector could play a keyrole in the development of the region. The private sector investment will create job opportunities and the necessary connectivity required for market access for exports and imports in the long run. Subsequently, this market linkage will create connectivity between the North and South of this country.

The reconstruction of the North and East economy will give a stimulus to the national economy. If financing is available, the CBSL has forecast that the GDP growth will increase from 4.5 per cent to 6 per cent. This can be achieved by creating awareness amongst the business community about the investment opportunities in the North and East. Along these lines, the International Chamber of Commerce, together with the help of Secretariat for Coordinating the

Peace Process (SCOPP) organised a proactive seminar on 'Opening of North and East business opportunities'. They also organised a BizPact conference of the business for peace alliance. This brought together Sri Lankan expatriates from the United States, United Kingdom, Germany, Switzerland, United Arab Emirates, and Australia with Colombo representatives of the business elite and Chambers from around the country to look at projects of regional entrepreneurs. Many conferences, such as these, will attract external migrants as well as the Diaspora who are possessed with financial as well as human capital to return to the North and East.

Local investment alone is not sufficient to reconstruct the economy of the North and East. Dr. Adarsh Kishore, Executive Director for the International Monetary Fund (IMF) (Bangladesh, Bhutan, India and Sri Lanka) stated at a Central Bank public lecture on 'State of the Global Economy' that, foreign investment will come through to Sri Lanka with the change in perception of the international community. The government's role in this is to provide incentives and facilities for the business community to reach the North and East. This can be done by building the necessary economic infrastructure, such as, roads, ports, electricity, telecom connectivity, etc. The government should also take measures in building banking and finance facilities. Another major constraint in attracting foreign investments is the deficiencies in the existing legal, legislative and organisational frameworks to eliminate risk factors associated with foreign investment. If the government is able to satisfy these needs, Sri Lanka will be able to attract more investments.¹⁶ However, Foreign Direct Investment (FDI) favours areas which are rich in resources. This is seen in

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Mozambique which was high in FDI after the war.¹⁷ Thus, given the easy access to human resources, land and other natural resources, unlike other regions, the North and East should attract FDI in the long run.

Conclusion

Inhabited by many dedicated people and enriched with many natural resources, the Northern and Eastern provinces have failed to make their due contribution to the economy due to the terror conflict that prevailed for more than 25 years. The two provinces have a vast potential for the development of agriculture, including crops, livestock and fisheries, agrobased and other medium- and small-scale industries and tourism. Clearing land mines, settlement of the displaced, and creating a conducive living environment, are essential for development activities to take-off in the two provinces. Moreover, rehabilitation and reconstruction of the damaged infra-structure, both economic and social, with the participation of both public and private sectors, are essential for better

utilisation of the available physical and human resources to revitalise the Northern and Eastern economies. Such revitalization of these two provinces could make a significant contribution to the national economy of Sri Lanka.

Footnotes:

¹ District Statistical Handbook 2007.

² Department of Census and Statistics (DCS)- Household Income and Expenditure Survey 2006/07.

³ United Nations Office for the Coordination of Humanitarian Affairs (OCHA)- Sri Lanka country profile.

⁴ Economy of the Conflict Region in Sri Lanka: From Embargo to Repression by Muttukrishna Sarvananthan- the Regional Economy.

⁵ Statistical Abstract 2008.

⁶ Economy of the Conflict Region in Sri Lanka: From Embargo to Repression by Muttukrishna Sarvananthan- Economic Desolation.

⁷ Economy of the Conflict Region in Sri Lanka: From Embargo to Repression by Muttukrishna Sarvananthan- Economic Desolation.

⁸ UNDP- Sri Lanka (www.undp.lk/uniportal/seek.asp)

⁹ World Bank- Sri Lanka country profile (web.worldbank.org/external).

¹⁰ SCOPP- The Fruits of Peace for Eastern Farmers (21.02.09).

¹¹ The Northern Provincial Council website- Statistical Information 2008.

¹² Fisheries Statistics 2007 by the Ministry of Fisheries and Aquatic Resources.

¹³ Economy of the Conflict Region in Sri Lanka: From Embargo to Repression by Muttukrishna Sarvananthan- Economic Desolation, Table 5.

¹⁴ ICRC- Sri Lanka country profile (www.icrc.org).

¹⁵ Department of Census and Statistics- Census of Industries 1983 and 2004.

¹⁶ Economy of the Conflict Region in Sri Lanka: From Embargo to Repression by Muttukrishna Sarvananthan- Economic Desolation.

¹⁷ BOI -London Diaspora presentation June 2009.

