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Acronyms and Abbreviations

District Development Councils	DDCs
General Certificate of Education Ordinary Level	GCE O-Level
Gross Domestic Product	GDP
Government of Sri Lanka	GOSL
International Monetary Fund	IMF
Liberation Tigers of Tamil Eelam	LTTE
Member of Parliaments	MPs
People's Alliance	PA
Prevention of Terrorism Act	PTA
Proportional Representation	PR
Sri Lanka Freedom Party	SLFP
Tamil National Alliance	TNA
Tamil United Liberation Front	TULF
United National Party	UNP
United People's Freedom Alliance	UPFA

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The Political Economy of Post-War Sri Lanka

The purpose of this paper is to demonstrate how deepening capitalist relations in post-war Sri Lanka will accentuate the social contradictions associated with capitalist development, and add a new dimension to problems of state society relations. The paper looks at this in four policy areas: land policy, economic exploitation of the North and East, labour policy and inequality. The social outcomes of these will supplement creeping authoritarianism and the unresolved national question as major issues that we need to focus on in understanding state-society relations in post-war Sri Lanka.

The military defeat of the Liberation Tigers of Tamil Eelam (LTTE) in May 2009 is certainly a critical point in the post-colonial history of Sri Lanka. With this event, a period of instability, political violence and armed internal conflict has apparently come to an end. This period of instability and violence began in the early seventies. Up to that time a formula of managing state-society relations that included electoral politics and a range of social policies promised a peaceful and democratic Sri Lanka. These social policies were measures to protect the peasantry, the idea of universal rights in health and education, and an emphasis on distributive justice in education. A hegemonic Sinhala nationalist ideology buttressed some of these policies. By the early seventies, it was clear that this formula for managing state-society relations was not working. The failure of this formula was seen mainly in the relationship between the Sri Lankan state and the Sri Lankan Tamil minority. Thus began almost three decades of instability and armed conflict.

With the defeat of the LTTE, the Sri Lankan state has managed to bring this period of violence to an end and consolidate the juridical entity called Sri Lanka. But consolidating control over this geographical space through military means has not resolved the underlying political issues. The national question of Sri Lanka still requires a political answer. Therefore Sri Lanka is not a 'post-conflict' country, as some would like to believe, but a 'post-war' country.

The manner in which the war ended has changed the nature of both state and society in Sri Lanka. In post-war Sri Lanka, the state has become even more centralised, and power has been further concentrated under the president. The two-term limit that was in place for anyone to hold the office of presidency has been done away with, and members of the president's family have control of key positions in the government. This creeping authoritarianism is buttressed by a powerful military, which now absorbs around 3 percent of Gross Domestic Product (GDP) and close to 20 percent of national expenditure (Jane's 2012).

At the level of society, the hegemony of Sinhala-Buddhist nationalism provided the necessary support for the regime in power to pursue the military option. In the post-war period, this

ideology has been further strengthened. Political parties espousing extreme forms of Sinhala-Buddhist nationalism are at the centre of state power.

The stability created through military means and centralisation of power has created better conditions for furthering capitalist relations in the country. The July 1977 election inaugurated a new phase of capitalist development in Sri Lanka, characterised by greater openness to global capitalism. However the political violence, armed conflict and control of a certain part of the country by the LTTE were major barriers for capitalist growth. The military defeat of the LTTE in 2009 May has ended this period. This has created better conditions for capitalist growth, and incorporating the North and East into this process. The last three years has seen the results of this capitalist expansion.

The post-war ideological debates on managing state-society relations are dominated by a notion of 'development and reconciliation'. The primary propagandist of the idea of development and reconciliation is the regime in power. This is posed as an alternative to the fundamental reforms of the state that are necessary to meet Tamil demands for self-governance. But it has wide-ranging support from other sections of the population, including the national elite, business interests, some sections of civil society and some of the major donors.

The discourse of development and reconciliation assumes that Sri Lanka is in a post-conflict situation, and the end of the war provides the country with an opportunity for a new beginning. It goes on to argue that development and reconciliation should be the prime objectives for this new beginning. There is also the hope that these two strands will secure a stable and prosperous Sri Lanka.

There are three main conceptual flaws in this discourse. First, it wants to forget the war as a historical event. It wants to forget the war, how it ended and the implications of these events especially on the nature of the state in Sri Lanka. It ignores the creeping authoritarianism, further decay of institutions, and rule by family clique and patronage network that is being slowly established. In other words, we might not have an armed conflict now but the current context is a product both of the period when armed conflicts dominated and the manner in which the armed conflict ended. If the armed conflict had ended with a political solution that ensured state reform, we would be in a different situation now. Therefore, Sri Lanka is a post-war country, and not a post-conflict country. The word war reminds us of the reality of armed violence that dominated preceding years.

Second, the notion of reconciliation ignores the fact that the Sri Lankan conflict is about state-society relations, rather than an ethnic conflict or conflict between Sinhalese and Tamils. It is not that there are no problems in the relations between identity groups. But these problems cannot be understood in isolation from politics and state power. Therefore, reform of the state

to accommodate plural identities is an essential part of any reconciliation. This has to happen at the level of structures, public policy and identity of the state.

Third, usage of the term development has replaced the term capitalism. This shift in ideas introduces discourses that mask the social contradictions and social relations of capitalism. Economic development always takes place in society. It is difficult to isolate a sphere called the economy outside society, as orthodox economic thinking tries to do. The process of economic development generates social relations. In other words, capitalist development takes place within a context of social relations of production. In order to proceed with capitalist development, these social relations of production have to be consolidated to suit the process of capitalist accumulation. This is achieved through institutions and hegemonic ideas. The formal institutions are codified in laws. They form the dominant 'rules of the game' that ensure the creation and allocation of surplus. The hegemonic ideas and discourses legitimise them.

The social relations of production necessary for capitalist development are always maintained in a dynamic process of struggle and conflict. This is reflected in the term social contradictions, which denotes a dialectical unity of opposing social forces. There is always a struggle and conflict in reproducing the institutions (rules of the game) and hegemonic ideas essential for maintaining capitalist accumulation. It is always a struggle between the social-political forces that maintain this social order and forces that continuously resist and struggle. The state plays a key role in sustaining these social relations of production. The thrust of many economic reform policies under capitalism has this objective. The modern Sri Lankan state has played this role in conjunction with global forces since colonial times. This process has intensified after 1977.

This paper argues that the post-war deepening of capitalist development will accentuate the social contradictions of capitalism, and add a new dimension to state-society relations in Sri Lanka. This will supplement creeping authoritarianism and identity politics. In other words, progressive politics of Sri Lanka has to pay attention to the social impact of capitalism in addition to state reform and the struggle for democracy. The latter two have received a lot of attention in recent times. But deepening capitalist relations and their impact has not received the same attention.

Therefore, there is a great need to get away from the dominance of the discourse of development and reconciliation, which has trapped even some of the civil society organisations. There is a need to understand the contradictions of a deepening process of capitalist development, which is pushed by a state that is becoming increasingly authoritarian.

In order to pursue this debate, this paper focuses on four critical issues: changing land policy, economic exploitation of the North and East, labour policy and inequality. Each of these areas

entails complex political issues. How the regime will manage these changes will have a bearing on state-society relations and stability. Given the nature of the state in Sri Lanka, the social contradictions arising from these policy areas are likely to be managed through patronage networks or repression rather than a rational policy process.

The rest of the paper is organised as follows. As background to what follows, the next section gives a brief account of post-1977 Sri Lanka. This has been characterised by a capitalism much more open to global capitalism, and an internal armed conflict, which led to the LTTE, controlling part of the country. The armed conflict reflected a failure of state formation and Sri Lanka's inability to develop a state structure that could successfully manage relations between the state and the Sri Lankan Tamils. The following section provides an account of consolidation of the geographical space called Sri Lanka through militarily means, and an overview of political developments in post-war Sri Lanka. The major features are centralisation of power and authoritarian tendencies. The third section provides an overview of the specific characteristics of economic policies followed by the Rajapaksa regime within a broad framework of capitalist development. The most important feature is the policy towards the state sector. There are no signs of any new reforms of the state sector as part of economic policy. On the contrary, the state sector has expanded during the Rajapaksa regime. Finally, we look at four policy areas — land policy, economic exploitation of North and East, labour policy and inequality — as being critical areas of social impact resulting from further deepening of capitalist relations. We argue that these four will add new dimensions to social contradictions and state-society relations in post-war Sri Lanka.

A Liberal Economy and an Internal Armed Conflict

In July 1977, the United National Party (UNP) was elected with a five-sixths majority in parliament. Making use of this power in parliament, the UNP began a process of liberalising the market, opening up the economy to the outside world and giving prominence to the private sector in the economy. Thus began a new phase of capitalist development in Sri Lanka. President Jayawardene, who led this process, talked about these policies in the mid-sixties when the UNP was in power. But he had to wait until 1977 to introduce them. Since 1977 Sri Lanka has broadly followed these market-oriented economic policies within a global framework of neo-liberalism.

Jayawardene also changed the political system to a presidential form of government and established a proportional representation (PR) system of elections. Constitutionally, the president is head of the government, head of the executive and the armed forces. The president has powers to keep any number of ministries under him or her (Wilson 1980). Most presidents have ensured that key ministries, such as finance, policy planning and plan implementation and defence are under them.

The main reason why J.R. Jayawardene established the presidential system of government was to implement unpopular economic reforms begun in 1977. He argued that the presidential system, independent of parliament, was necessary to carry through economic reforms. Similarly, the PR system he wanted would have allowed party machinery to control members of parliaments (MPs), and through that the parliament, much more tightly. (Jayawardene 1979).

The powerful presidency operates in a context where other elements of the polity are relatively weak. Under every regime a highly personalised power structure gets built up around the president. In addition, the cancer of patronage politics, which has seeped into all spheres of Sri Lankan society, and the persistence of pre-capitalist social relations, generate a political culture based on loyalty towards the centre of power.

After being in power for 17 years, the UNP was defeated in 1994 by a coalition of parties (People's Alliance (PA)) who were previously known as being centre-left. It was led by President Chandrika Kumaratunga. Although the constituent parties of the PA criticised the presidential system while in opposition, they were in no mood to do away with the presidency once they came to power. The main opposition parties contributed to consolidating the presidency.

The slogan on economic development of the Kumaratunga regime was 'open economy with a human face'. More than the so-called human face, the open economy part of the slogan was important. This signified the emergence of a consensus between the two main parties with regard to the trajectory of economic development. The acceptance of the more liberal policies by a regime that included the left and centre-left parties consolidated the economic ideology introduced by the right wing. This pattern is seen in many other parts of the world. Such political shift from the relatively left to the right makes neo-liberalism the only option available. In Sri Lanka this happened under the leadership of President Kumaratunga. In this manner the changes introduced by J.R. Jayawardene, which included a liberal economy and presidential form of government became the hallmark of the post-1977 Sri Lankan society.

The biggest challenge to the liberal phase of capitalist development inaugurated in 1977 came from the unresolved national question. The crux of this question is the structure and identity of the post-colonial Sri Lankan state. While the Sinhala majority favoured a centralised state in their conception of the post-colonial state, the dominant idea of the Sri Lankan Tamil minority was for a federal form of government. Sri Lankan Tamils considered themselves as equal partners in the process of forming the post-colonial Sri Lankan state. The demand for parity between Sinhala and Tamil languages, and the famous fifty-fifty demand of the Tamil Congress, reflect this idea. But the Sinhala-Buddhist majority viewed the entire island primarily as a Sinhala-Buddhist country.

By the time the UNP won the general election in July 1977, the Tamil United Liberation Front (TULF), representing Tamils, had passed a resolution demanding a separate state. They contested the elections on this platform and won all the seats in the Northern Province and a majority in the East. In addition there were already violent incidents perpetrated by more militant political groups. Therefore, right from the beginning of the liberal phase of capitalist development, Sri Lanka faced a serious political issue in relation to consolidating the state.

The response of the UNP regime that came to power in 1977 was to crack down on Tamil militancy while carrying on discussions with the TULF representatives in the parliament. In 1979 the Prevention of Terrorism Act (PTA) was passed and the army was sent to Jaffna to deal with the Tamil insurgency. This was the starting point of the growth of the national security state that persists up to today.

On the political front, the UNP decided to implement a system of District Development Councils (DDCs). But it was too little too late. In July 1983, under the same regime that tried to find a solution through DDCs, the country witnessed horrendous organised violence that targeted the Tamil population. This was a key turning point in this conflict. From this point onwards there was no discussion with the TULF, because they found themselves debarred from parliament through the 6th amendment to the constitution. Most of the Tamil leadership located themselves in India.

From the mid-1980s, Sri Lanka's internal conflict deepened, claiming thousands of lives, destruction of property, displacement of the population, thousands migrating to other countries and causing human rights violations. The Sri Lankan state expanded the military to meet the challenge, thereby changing the fundamental character of the state. Comprehensive analysis of this most important event of the Sri Lankan history is still to be written.

The only reform to the centralised state came about not because of the political will of the Sinhala ruling class, but due to pressure from India. Due to Sri Lanka's geographical position, India has had an influence in Sri Lankan politics from ancient times. Right from the time of independence there has been a series of negotiations between India and Sri Lanka with regard to the fate of the Indian Tamil population in the estates, the bulk of whom lost Sri Lankan citizenship immediately after independence. Agreements were reached in 1964 and 1973 to resolve this problem. However, three years later India witnessed aggravation of another minority problem, when the TULF passed a resolution demanding a separate state in Sri Lanka. After the 1983 anti-Tamil violence, with the Tamil leadership locating in India, India became directly involved in Sri Lanka's conflict. Under pressure from India, in 1987 the Jayewardene government agreed to set up a system of provincial councils and devolve a certain degree of power to a combined North-Eastern Province. All Tamil militant groups, except the LTTE, accepted this formula.

When the 13th amendment was introduced, several analysts showed its limitations as a means of meeting Tamil demand for self-governance (ICES 1996). As a result, subsequent discussions sought to improve its provisions. Perhaps the initial proposals presented by the Chandrika Kumaratunga government were the best that the Sinhala elite offered as an alternative to Tamil demands for a separate state (CDN 1995). None of these attempts to improve on the 13th amendment brought Sri Lanka any closer to a political solution. Provincial councils remain as an institution within a highly centralised state. Within this framework there are many ways to undermine the powers of any devolved authority. Their effectiveness as a mechanism of devolving power in the areas where they exist is patchy. There is always doubt about how much self-governance the periphery can enjoy when the country is so centralised through a presidential system.

Although the war had an impact on the economy, it did not collapse in the manner usually depicted in the conflict literature. On the contrary, Sri Lanka managed to show an average of 5.1 percent growth from 1978 to 2009.¹ Part of the reason was the concentration of the economy in areas away from the central theatre of the conflict. For example, by the time negotiations with the LTTE began, 49.4 percent of GDP was concentrated in the Western Province (GOSL White Paper 2002). This was an area endowed with the infrastructure, human resources and other facilities necessary for a market economy. Secondly, the opening up of the economy made external conditions much more important for the health of the economy. So long as global markets provided opportunities and the government could ensure security of the economically more important areas, the economy could function.

In 2001 many of these conditions changed. A global recession had an impact on Sri Lanka. The LTTE attacked the Katunayake International Airport, a nerve centre of a globalised economy. The economy was also affected by a drought. The result was that the year 2001 went down as the only year since independence when the economy contracted to the tune of 1.5 percent of GDP (Central Bank 2003). In the context of this serious economic crisis, the UNP regime elected in December 2001 tried a strategy of stabilising the country and taking another step in promoting capitalism. This strategy consisted of three strands — signing an agreement with the LTTE that accepted the LTTE was in control of one part of the country, an orthodox neo-liberal economic agenda, and internationalisation of the peace process and mobilisation of international support for the economy. The contradictions of this peace process and factors that led to its collapse have been analysed from various angles (Goodhand et.al. 2011). The main outcome of this collapse was the military strategy of the Rajapaksa regime and destruction of the LTTE through military means.

Post-War Consolidation and Creeping Authoritarianism

The defeat of the LTTE in May 2009 has consolidated the juridical entity called the Sri Lankan state through military means. In addition, the war itself has changed the nature of the Sri

¹ Calculated from the Special Statistical Appendix, Central Bank (Annual Report 2011).

Lankan state. A highly centralised presidential form of government is now strengthened by a formidable military machinery. It absorbs a significant proportion of government expenditure. However the country has not even begun a serious discussion on civil-military relations.

The Prevention of Terrorism Act, which was first introduced as a temporary measure in 1979 still remains in place. The military presence in the North and East is significant. The most ominous development is the entry of military personnel into civil administration. The Sri Lankan state has been undermined by regimes that have ruled the country. This process began in 1970s in the immediate aftermath of the 1971 insurgency, and has continued since then under regimes led by different political parties. The entry of the military into civil administration is another step in this institutional decay.

Post-war reforms of the Sri Lankan state point in the direction of creeping authoritarianism. Constitutional amendments that were introduced to limit the power of the president have been removed. In addition, the two-term limit for anyone to hold the office of president has been done away with. In the context of an all-powerful presidency, this is a formula for indefinite rule by one person.

At present electoral institutions that allowed the Sri Lankan electorate to change parties in power have been undermined severely. In a country where, from the seventies, every regime has tried all manner of tricks to continue its term, the prevailing electoral institutions and practices developed around it do not augur well for the continuation of democracy.

The undermining of the electoral system that gave the electorate an opportunity to change the regime in power began with the 1982 referendum, which the incumbent regime rigged using all possible means. The first election monitoring report in the post-1977 period focused on this referendum ('Priya Samarakone' 1984).² The referendum postponed the general election that was due to be held in 1983. It allowed the Jayewardene regime to maintain control over parliament for 17 years. Since then, counting the number of deaths and incidents of intimidation and harassment has become an integral part of describing Sri Lankan elections.

In contrast to the first-past-the-post system of elections, in the current system of elections the most likely scenario is for the governing party to control some part of the state machinery when elections are held. For example, when presidential elections are held, the governing party is in control of the parliament and vice versa. This makes it easy for the governing party to utilise state resources for the benefit of the ruling party during elections. This contrasts with the first-past-the-post system, in which a caretaker cabinet ran the government once parliament was dissolved. In addition, the bureaucracy became relatively neutral once parliament was dissolved, because they did not know which party would be in power on the

² 'Priya Samarakone' is a pseudonym.

day after the general election. Therefore Sri Lanka could hold relatively free and fair elections. This is no longer the case.

The post-1977 period is also characterised by the institutionalisation of patronage politics. The principal feature of this phenomenon is access to political power being utilised to dole out state resources (not only monetary resources, but things such as government jobs) to groups networked with members of the political class. Family, kinship, links through old school networks, etc., provide this network. Many politicians enter politics in order to access state resources for the purpose of distributing it through a patronage network and ensuring that they remain in power. What is alarming is that there is a large section of the Sri Lankan population that does not see any problem with this phenomenon, and expects politicians to behave in this manner. The discourse of enhancing the role of politicians in development has contributed to a worsening of the situation.

There are new elements within this regime that want to utilise state power for the purpose of capital accumulation within a market economy. What seems to be new under the Rajapaksa regime is the power of these social classes. These political forces do not want a shift in economic policies from the direction of an open market policy. But they seek to utilise state power for their own ends within this framework. The Rajapaksa regime has considerable support from these classes.

The control of the key positions of the state machinery by members of the same family has taken Sri Lanka's dynastic politics to a qualitatively new level. At present, members of the same family hold key positions such as the presidency, speaker, Minister of Economic Development and the secretary to the Ministry of Defense. This means members of the same family control all key positions of the state.

The final element of the current regime is the hegemonic position occupied by Sinhala-Buddhist nationalism. The Rajapaksa regime projected the military campaign against the LTTE as a patriotic war. Given the nationalist history of Sri Lankan politics, this patriotism is about defending the country of Sinhala-Buddhists. It is a patriotism that defends a sectional interest. Rajapaksa mobilised support from parties holding more extreme Sinhala nationalist views. The defeat of the LTTE and consolidation of the centralised state has strengthened the supremacy Sinhala-Buddhist nationalism. With this supremacy there are new articulations of the nationalist discourse. This nationalist ideology provides a strong social base for a state buttressed by a powerful military machinery and controlled by a strong presidency.

Although three years have passed since the defeat of the LTTE, there are no signs of any political solutions to the conflict. The Northern Provincial Council still does not have elected members. The bureaucracy, under the watchful eye of the army, runs the Northern Province. The government-appointed Lessons Learned and Reconciliation Commission (LLRC) has

come out with a report covering a wide range of subjects. It mentions the need to find a political solution to the conflict. It is still not clear what this exercise will deliver. A parliamentary select committee has been established to find a political solution to Sri Lanka's conflict. But the Tamil National Alliance (TNA), the main political party representing Tamils, does not have confidence in it. Therefore they are not participating in it. Given the past history, one has to be skeptical of these efforts. In this context, the 13th Amendment, which has many weaknesses, remains the only concrete framework within which a solution is being discussed.

The Tamil population, who were trapped in camps immediately after the end of the war, have moved out of these areas. This has resulted in the government claiming that they have been resettled. Sri Lanka has a long tradition of resettling people through land settlement schemes. The first major resettlement scheme was implemented in the 1950s — the Gal Oya scheme. Tens of thousands of people were resettled through the Accelerated Mahaveli Development Programme in the 1980s and 1990s. More recently, there was a programme to resettle people displaced by the construction of the Southern highway. These programmes demonstrate what resettlement has actually meant in the Sri Lankan context. What is being carried out in the North comes nowhere near that standards applied in these schemes. In most instances people were provided a minimal basic support at the initial stages. Any additional support has come from donor-supported projects. There are many reports of people unable to get back to the areas where they came from.³ The most important issue here is the support given by the government in resettling people affected by the last stage of the war is far below Sri Lanka's own standard of resettlement that has been practised for a long time.

The power of the presidency, centralised nature of the state, presence of a formidable military machinery, undermining of the electoral system that allowed people to change the parties in power, institutionalisation of patronage politics and support of the Sinhala nationalism pose serious challenges to the system of democracy that Sri Lanka has enjoyed. It has already being undermined to such an extent that we have to ask some fundamental questions about the nature of the democracy that we have. What is frightening is that we might have already established a framework that could result in the rule by an oligarchy under the guise of democracy.

Post-War Capitalism

After consolidation of the juridical entity called the Sri Lankan state, the Rajapaksa regime is continuing the more market-oriented economic policies, begun in 1977 by the UNP, in order to deepen capitalist relations in Sri Lankan society. However there is a difference in the policies of this regime because of two aspects. First, there is a refusal to reform the state. All indications are that we have come to an end of neo-liberal reforms of the state. The other

³ There are many news reports on this issue. See, AFP. 2012; Somachandran. 2012.

aspect is how the Rajapaksa regime combines Sinhala nationalism and capitalist development. This is reflected primarily in the agenda of protecting interests of national capital.

The 2005 United People's Freedom Alliance (UPFA) manifesto articulates the broad ideology of the economic policies in the following manner: "A national economic policy will be formulated with positive attributes of free market economy with domestic aspirations in order to ensure a modern balanced approach where domestic enterprises can be supported while encouraging foreign investments" (Mahinda Chintana 2005). The stress here is on rates of growth. When one compares the 2005 and 2010 manifestos of the UPFA, the emphasis shifts to the idea of 'openness to the world' and making Sri Lanka a 'hub' within global capitalism. The 2010 manifesto promises to make the country a naval, aviation, commercial, energy and knowledge hub (Mahinda Chintana 2010; Central Bank 2009). This sits very well with the vision of a capitalist class that wants Sri Lanka to be an integral part of global capitalism. There is a detailed description of the economic development strategy in documents such as Mahinda Chintana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework 2006-2016 (Ministry of Finance and Planning: undated).

Large-scale infrastructure projects are rationalised on this basis. The regime has taken steps in areas such as foreign investment, trade, migrant labour, tourism and foreign aid that are important for the further development of capitalism. Financial markets have been further liberalised. The government has secured financial support from the IMF that includes the usual neo-liberal demands.

Therefore, the economic policies of the Rajapaksa regime are continuing the market-oriented capitalist development begun by J. R. Jayewardene in 1977. Of course, as in the case of other regimes, there are aspects peculiar to the regime. But these peculiarities are within the framework established by the UNP in 1977. There is no going back to the policies that the Sri Lanka Freedom Party (SLFP) and the left espoused before 1977. If we compare the policies of the United Left Front government from 1970-77, we can see stark differences in how the Rajapaksa regime has fitted into the policy framework inaugurated by Jayewardene.

The peculiarities of the economic ideology of the Rajapakse regime come from its commitment to a centralised state and the role of the state sector in the economy. In post-independence Sri Lanka, the commitment to a large state sector in the economy has come from various political currents. Contrary to widespread belief, it was not only the left that favoured an important role for the state. The right also looked towards the state to achieve various development goals. This was especially in the era of five-year plans of national development before neo-liberalism became hegemonic (Oliver 1957; Roberts 1979). For example, the UNP regime of 1947 and the S.W.R.D. Bandaranaike government of 1956 looked towards the state for industrialisation. For Sinhalese nationalists, too, the state was instrumental for various nationalist goals, such as redressing economic discrimination committed during the colonial period, and protecting the economy from foreign domination.

The left looked towards state control of the main sectors of the economy as an important step towards socialist transition. For the left, the state was also seen as a vehicle of economic growth and social justice.

While these were the principal ideological currents with regard to the role of the state in the economy, in reality the state sector was used for various other objectives. Among many things, it became a means of settling scores with political opponents by nationalising their assets, a source of employment for political catchers, and a source of patronage for politicians of the regime in power.

These critical comments of the role of the state in the Sri Lankan economy should not be understood as support for neo-liberalism, where liberalising the market is seen as the magic bullet of economic growth. On the contrary, there is a substantial body of literature that points to the importance of the state in bringing about capitalist growth. The developmental states that assumed this responsibility played a key role in the rapid growth of capitalism in East Asia, first in Japan and now in China (Evans 1989; Wade 1990).⁴ The importance of effective states has become the accepted wisdom even in multilateral aid agencies. Part of the reason for the emergence of the discourse of good governance was the recognition of the importance of the state for economic growth.

But what are the characteristics of a developmental state? These are states that are not captured by sectional interests and therefore have autonomy from these forces. They are able to manage ethnic relations without leading to civil war. The bureaucracy is efficient and has autonomy from political masters. Therefore the state has capacity. It is not a state used for settling scores with political opponents by nationalising their assets, or used as a source of employment for political retainers. Generally the state is not used as a source of patronage for the politicians of the regime in power. The idea of a developmental state has been elaborated to incorporate the need for democratic accountability. Therefore the notion of a democratic development state has gained currency among scholars trying to articulate a social democratic alternative in a world of neo-liberal capitalism (White 1998).

The state that the Rajapaksa regime is refusing to reform is far from such an entity. It is saddled with loss-making government institutions that ultimately have to be subsidised by public funds. The public sector has become unwieldy. Public resources have to maintain large cabinets and various perks for the politicians. From time to time it has expanded by creating jobs for political reasons. It is riddled with patronage politics to the extent of undermining the structure of the state. The main outcome, in the case of Sri Lanka, is that the analytical distinction between the regime and the state is difficult to maintain. The regimes have redefined the nature of the state (Uyangoda 2012). Finally it does not have legitimacy among all sections of the population.

⁴ For an account of East Asian development, see Wade (1990).

The persistence of this highly centralised, dysfunctional state, now saddled with significant defence expenditure, will create its own contradictions for sustainable economic growth in the context of global capitalism. However, in the post-war period, one of the most important questions to pose is whether the persistence of this highly centralised state benefits the marginalised sections of the population. For the progressive political movements, welfare and social justice arguments were the principal basis for supporting an enhanced role for the state in the economy. The key question is can we maintain this argument unless this state is reformed? To put this in class terms, the persistence of a large-scale state sector benefits intermediate classes⁵ employed within the state, cronies who benefit due to various favours given by the state, and politicians for whom access to state resources is an essential means of maintaining power. But when we look at the fate of marginalised groups such as the small peasantry and the working class spread across the country, those engaged in small-scale self-employment, women whose labour power forms the basis of the economy, and various other social groups marginalised due to caste, class or ethnic characteristics, it is difficult to maintain the argument that this unreformed state is a vehicle of social justice.

Finally, in the Rajapaksa regime there is a coming together of Sinhala nationalism and capitalist interests. In the past Sinhala nationalism had an element that challenged the power of economic elite. For example, the spread of Sinhala education to university level challenged the dominance of the English-speaking elite. Land distribution for the benefit of the Sinhala peasantry addressed the land hunger of poor people. Of course, these had contradictions in relation to the rights of minorities. But these policies had an element of distributing resources and challenging existing power relations.

Along with this dimension there was also the current that linked Sinhala nationalism and economic interests of a national elite. In the past this took various forms. The national elite utilised nationalist arguments in their struggle against colonial economic interests, which was mainly represented by the British. In the post-colonial period, nationalism was used against trading interests of minority groups. During the closed economy period, the state was utilised to promote the interests of national capital. Today, it is this aspect of economic nationalism that has come to dominate the Rajapaksa regime, but in a context of neo-liberal capitalism. Given the imperatives of capitalism it will be difficult to address the problems of the marginalised, however much it is couched in nationalist terms. On the other hand, the interests of the nationalist economic elite will find a niche in the context of post-war capitalism.

Post-War Capitalism and Social Contradictions

Further development of capitalism will demand reforms in certain areas. The incorporation of the North and East into the capitalist development process will bring about significant changes in these areas. It will also have an impact on already existing social relations. These

⁵ See Shastri (1983) for discussion on intermediate classes in Sri Lanka.

processes are not going to be smooth, as many neo-liberals like to believe. They will be characterised by social contradictions and political struggles. To end this paper, we provide an overview of four areas where we believe social contradictions will be acute. These are land policy, economic exploitation of the North and East, labour and inequality.

Land Policy

Initial steps to make land a capitalist commodity and to use this resource for developing capitalism took place during the colonial period, or what can be termed the first wave of globalisation. The passage of the Crown Land Encroachment Ordinance of 1840, and subsequent sale of land to establish the plantation industry, was the crucial first step. In the initial stages plantation owners were British. But later on an estate-owning class emerged from the local elite.

The ownership of land under the plantation industry underwent a series of changes depending on the ideological orientation of regimes within an overall capitalist framework. Land reform laws in 1972 and 1975 reduced the extent of privately-owned estate land and transferred corporate-owned estates to state ownership. Subsequently, in the more liberal period of capitalism, or the second wave of globalisation, the land under the corporate sector has been privatised on the basis of a long-term lease.

One outcome of the Crown Land Encroachment Ordinance of 1840 was the construction of notions such as 'Crown Land' and 'encroachment on Crown Land'. The modern Sri Lankan state, which emerged during the period of British colonialism, became the largest landowner in the country. This was mainly because land where the notion of private property rights as defined by colonial capitalism could not be established was automatically vested in the Crown or the colonial state.

While establishing institutional reforms for the development of a capitalist economy, the late colonial period also saw the beginning of land distribution for the purpose of improving the lot of the rural peasantry. The Land Commission of 1928 and Land Development Ordinance of 1935 were important in this regard. From this point onwards, both colonial and post-colonial states of Sri Lanka had a series of policy measures distributing state land to the landless. State land was distributed through land settlement schemes, so-called encroachments were regularised, and land was distributed for village expansion. These policies continued even during the liberalised period of capitalism. In fact the largest land settlement programme was implemented during this period. In political terms this was a policy that recognised landlessness and land hunger in the country. It was a measure that rectified a situation created by colonial land policies.

The distribution of state land in rural areas is part and parcel of a discourse and a set of policies that defined the post-colonial Sri Lankan state. This discourse articulated a special

responsibility of the state towards the rural Sinhala peasantry. This has been the bedrock of state formation in Sri Lanka. But these policies led to several contradictions.

For example, the more benevolent policies aimed at tackling land hunger in the country excluded the population that lived in the plantations, who were characterised as an alien population. In other words, while the basis for Sri Lankan capitalism was established through the plantations, the working class that produced surplus for the modern Sri Lankan economy was excluded from the policy of distribution of state land. This situation has continued throughout the post-colonial period. Even now, although there are many from the plantation background earning a living as small farmers, many would fall into the category of encroachers.

In addition, these policies, implemented by a centralised state, had negative effects as far as ethnic relations are concerned. The main issue was the settlement of people in the Eastern Province. Land settlement policies changed the ethnic composition of the Eastern Province and had an impact on electoral power. This became a fundamental reason for the civil war.

Although the liberalised period of capitalism included the largest programme of land settlement, this second wave of globalisation is introducing institutional reforms to strengthen capitalism. At the same time a new hegemonic discourse that suits this purpose is being established. Both these developments contribute to social exclusion.

However, land is not simply a resource. It is linked with the identity of communities and is also a basis for security. Therefore the implementation of these policies is likely to be controversial and could lead to conflicts. Some of the key policy trends at present are:

- Institutional reforms to consolidate private property rights on land and develop a land market have been a key policy concern in recent times. In a widely discussed report published in 1996, the World Bank (1996) recommended divesting state ownership of land and establishing institutional mechanisms for the market mechanism to operate on land. The authors of the report believed this would consolidate land among more productive farmers. Necessary laws were passed to make this a reality and a Land Titling project was implemented. In addition, the government began to convert permits given through the Land Development Ordinance to various other forms of ownership identified with names such as Swarnaboomi, Jayaboomi, etc. Although these were not title deeds, they conferred more rights on the owners of land. The Bim Saviya programme implemented under this government is the latest addition to the attempt at consolidating private property rights on land.
- The liberal discourse of individual land rights supports the agenda of promoting private property rights and institutions for capitalist development in land policy. This

discourse can only be used to consolidate the rights of the marginalised if individual land rights are combined with measures that would protect the poor from the pernicious effects of the market.

- There are no prospects for any new land distribution, although land hunger is an issue especially among the poorer sections of the population. There is a large rural population who earn a living out of small plots and wage labour. There is a similar group among those affected by the war. The plantation population, who have not benefited from past land settlement programmes find it difficult to secure their land rights.
- There is no prospect for any progressive reforms that will benefit those who earn a living from land. Agrarian policies are geared to benefit the rural middle classes who are now benefiting from market mechanisms. Policies are more likely to support measures that consolidate their accumulation. Markets have undermined the vision the policy makers had when they distributed land to sustain a smallholder farmer. Thirty years of a relatively liberal market economy have taken their toll on smallholder paddy agriculture. At present it is difficult for a smallholder farmer to earn an adequate living only from the land they own. Parallel to this there is class differentiation in rural areas (Shanmugaratnam 1980).
- Demand for land by capital is likely to dispossess people of the land they own. These trends are likely to have a greater impact in urban areas. Urban areas become the focus of neo-liberal expansion. Some writers have characterised the plight of the poor population in urban areas who get deprived of their land as accumulation by dispossession (Banerjee-Guha 2010).
- There are signs that the previous policy of looking at so-called encroachments more benevolently is at an end. This was necessary to meet the demand for land in a predominantly agricultural society. Now in many places the government seems to emphasise a narrower legalistic interpretation of encroachment. As a result in some areas people are getting evicted from land where they have been for generations.⁶

The dominant thrust is to satisfy demands of growing capitalism for land or land for government projects that support capitalist development.

Economic Exploitation of the North and East

The military victory over the LTTE has opened up the Northern and Eastern Provinces for economic exploitation.⁷ The provincial councils were absent from the combined Northern

⁶ People's Alliance for Right to Land (PARL) is a civil society network monitoring land grabbing in recent times.

⁷ See *Sri Lanka 2011-2030: National Physical Plan and Project Proposals* published by the Ministry of Construction Engineering Services, Housing and Common Amenities for some of the ideas the government seems to be having in developing Sri Lanka, as well as the Northern and Eastern Provinces.

and Eastern Provinces for a long time. Now there is a provincial council for the Eastern Province. Even if an elected body is established in the Northern Province, it will exist in the context of a heavy presence of armed forces that have become influential in the civil administration. This, combined with the centralisation of development policy-making in the Presidential Task Force based in the Ministry of Economic Development, and the regime's attempt to secure support from some Tamil parties by doling out patronage, completes the picture of central control of these areas. Therefore the economic exploitation of the North and East is bound to be dominated by the control of territory by a centralised state, supported by the military. Therefore the exact patterns of accumulation in these areas, and who will benefit from it, will be a critical issue.

Before the separatist demand and the armed struggle became the dominant form of politics among Tamils, their grievances were articulated in terms of the impact of state-aided land settlement, entrance to higher education, discrimination in state employment and denial of the use of the Tamil language. The last, in addition to having an identity dimension, had a direct link to a socio-economic issue because making Sinhala the only official language had an impact on employment opportunities in the state sector.

In the post-war situation and in the absence of any genuine process of autonomy for the Tamil population, the most likely scenario is the emergence of similar socio-economic grievances, but this time due to the economic exploitation of the North and East within a market economy. The paramount interests that will drive the incorporation of the North and East for capitalist exploitation will be various business interests and the political class who are keen on making use of state power for their own ends. Some of these business interests come from the South. Already there are signs of these trends of these areas. This is bound to undermine the interests of the Tamil-speaking population who form the majority in these areas.

Control and distribution of state land is likely to become a critical issue in this context. On one hand the Northern and Eastern Provinces face a range of land disputes. These have been recorded in numerous reports. But there is no sign of any systematic effort to sort out these problems. The attempt by the government through the Bim Saviya programme is likely to create more problems. At present the circular on Bim Saviya has been withdrawn. Many of the institutions dealing with land issues have been undermined during the time of the war. This creates a better environment for land grabbing.

In the meantime, the Northern and Eastern Provinces contain within them the largest under-utilised area in the country. These areas are bound to be the focus of capitalist exploitation. The important issue is to study capitalist expansion into the area and how land is secured for this purpose. It is also important to address the process of social exclusion accompanying these processes.

Labour

Historically one of the social impacts of capitalism is to deprive people of the ownership of the assets by which they earn a living. This creates a labour force that has to be disciplined and make them serve the purpose of capital accumulation. Contrary to popular belief, people depending on wages for their livelihood has been widespread even in rural Sri Lanka. The beginning of modern capitalism during the colonial period saw the emergence of a working class in significant numbers in the plantations and the urban sector. With the deepening of capitalist relations of production after 1977, there has been a significant expansion of the numbers depending on wages simply because in rural areas it has become difficult to earn a living from land.

Probably the working class forms the largest social group today. The working class is found in organised as well as informal sectors. Some find work through international labour markets, such as those in the Middle East. It is important to make a special note about female labour. They have entered the labour force in large numbers. Female labour in the plantations, garment factories and Middle East earn a significant proportion of our foreign exchange. Therefore their continued exploitation is necessary to manage foreign debt.

However, this process of forming a proletariat seems to have peculiarities due to Sri Lanka's pattern of development. The classic process of social transformation due to expansion of capitalism paints a picture of a rural population who moves out of land and becomes a proletariat that depends solely on selling their labour for their livelihood. A parallel process is migration into cities. Although this pattern is there in Sri Lanka to a certain extent, the rural area is characterised by a large section of the population depending on various forms of labour while living in rural areas. Often the very fact that they earn wages allows them to own a piece of land for cultivation as well as having a dwelling place. In addition, in a small country like Sri Lanka with a highly mobile population, it is possible to sell your labour even in the international labour market, while living in a rural area. What we have is a pattern of proletarianisation in rural areas.

In order to understand the exploitation in relation to labour, it is necessary to examine mechanisms of surplus generation in each of the production relations where labour is involved. Crucial elements that have to be analysed and reformed/challenged are institutional mechanisms that determine the process of surplus extraction, and discourses that ensure the continuation of these institutions.

For example, the exploitation of unskilled female labour in the Middle Eastern labour markets is sustained through an institutional mechanism that is similar to the one that exploited indentured labour in the plantations. First, the labour is hired through labour contractors. The more intermediaries in this hiring process, the higher the initial cost of finding employment. Then labour is contracted to work for a particular period in a specific location, usually in a

household, where it is difficult for labour laws to penetrate. However bad the conditions are in these households, the hired worker is expected to fulfil the contract. Violation of the contract is seen as a criminal offence. Sometimes passports are taken from workers so that they do not run away. Workers also have to live in an alien cultural environment. Methods of controlling labour are primitive to say the least. Violence is used to control labour. These are very similar conditions to what one can read describing when workers in the plantations were first brought to our estates.

While unskilled female workers toil under these barbaric conditions and earn valuable foreign exchange, there is very little done to protect them. The most important aspects for reforming the institutional framework within which this labour is exploited are regulation of the contract labour system, and protection of labour in countries where they work. This requires interventions both in Sri Lanka and globally. Although some work has been done to regularise the contract labour system, a lot more needs to be done. One of the most important aspects is to make the labour contractors accountable when employers violate contracts and violence is perpetrated on the workers. Pressure has to be put on the labour-receiving countries to improve their labour laws so that they conform to international standards.

These institutional reforms have to go hand in hand with challenging a discourse that sometimes blames the female workers for the outcome of this exploitative system simply because they go in search of a level of income that Sri Lankan society cannot provide them. They are blamed for abandoning their traditional role as mothers. One can hear all kinds of sexist comments about these women, blaming them for the problems they face. When the middle classes see that these workers are able to enjoy some consumer goods, there are snide comments about their desire to go after these goods. It is as if only the middle classes can consume in their lavish shopping malls. These ideas of people need to be challenged.

On the other hand, the agenda of capital and their backers is to remove or dilute the institutions that were protecting rights of labour in the organised sector. Controlling and disciplining labour, and making it a commodity that is freely tradable, is a fundamental demand of capital. Capital would like freedom to hire and fire labour according to their needs. From the time Sri Lanka passed laws under the first Bandaranaike government, which made it easy to establish trade unions, the labour movement has managed to institute various mechanisms that protected the rights of labour. These have come under constant pressure from capital, supported by those aid agencies whose main focus is promoting a capitalist economy. Removing this protection has been a constant theme in reports of agencies such as the World Bank, International Monetary Fund and Asian Development Bank. But there has been resistance to these changes from organised labour, as well as other progressive forces.

Tackling the exploitation process in relation to labour in rural areas faces special problems due to the dominant discourse of rural development. While there is a large section of the

marginalised population depending on wages, the dominant discourse of rural development focus on various forms of self-employment. This can be in the agricultural sector or other areas where there are endless attempts to create entrepreneurs. The micro-finance industry is also geared to this. True, there are attempts at vocational training. But these are geared for the more educated younger generation.

The key drawback in this rural development discourse is the denial of the presence of a rural working class in rural areas. This ideology goes along with the rural populism that has dominated thinking about rural Sri Lanka. In this version, rural Sri Lanka is populated by proud land-owning peasantry. Dependence on wages (*kuli māda*) is looked down upon. These ideas have an influence on how rural development is conceptualised. The result is there is very little work done on the rights of the working class in rural areas.

Inequality

At last there is recognition among the policy makers and donors that Sri Lanka has become a highly unequal society. This is usually expressed using the following macro-economic data. But there is inadequate recognition of how inequality is linked to promotion of markets.

Changes in inequality indicators

Years	1995/96	2002	2006/07	2009/10
Income share of the poorest 20 percent (%)	5.4	4.8	4.6	4.5
Income share of the richest 20 percent (%)	50.3	52.8	54.7	54.1
Gini Coefficient of household income	0.46	0.47	0.49	0.49

GDP contribution by Province

Province	% contribution to GDP	
	2005	2009
Western	50.8	45.1
Central	8.5	9.6
Southern	8.9	10.2
Northern	3.0	3.3
Eastern	4.7	5.8
North-Western	8.9	10.3
North-Central	4.3	4.8
Uva	4.5	4.6
Sabaragamuwa	6.4	6.3

Source: Fernando (2012)

The first table shows that the richest 20 percent of the Sri Lankan population now enjoys more than half the income of the society. The meaning of the second table is slightly different. It is distribution of the GDP among public administrative units. Most probably this is an outcome of the Western Province being better endowed with factors that have allowed it to

utilise opportunities provided by the more liberal economic policies. Of course there are many poor people in the Western Province. In addition, many people from other areas work in the Western Province. It is also important to remember that the current discussion on regional inequalities is not only confined to economic factors. The more important discussion is the issue of self-governance.

Inequality is an inherent characteristic of capitalism. Within a market economy those who can secure various forms of assets that have a market value have an advantage. Markets operate in a world of structural inequalities. The orthodox neo-classical interpretation of markets “seen as a flexible, atomistic realm of impersonal exchange and dispersed competition, characterized by voluntary transactions on an equal basis between autonomous, usually private, entities with material motivations” (White 1993: 1) is an ideological construct to cover up structural inequalities. Of course, we can do many things to challenge this inequality. But this requires structural reforms and political struggles. In other words, tackling inequality demands tackling the structural characteristics of society.

Inequality in resource distribution has far-reaching social and political implications. The social implications can be seen if we look at an area like education. The spread of educational opportunities has been an important channel of social mobility in the past. It has been a means of equalising opportunities. However, at present state education is unable to ensure this. The state education system is highly unequal. The middle classes benefit most from the existing system. In addition to having privileged access to the well-endowed parts of the state system, the middle classes are also able to secure education through the market. The expansion of international schools is an example of this phenomenon. Contrary to the commonly held view, children in these schools do not come only from the English-educated Colombo middle class. They cater to a wider section of the middle class, whose home language is Sinhala or Tamil. It is not surprising that there is significant support within this government to the establishment of private universities. This dovetails very well with the interests of the new middle classes. The interests of the middle classes dominate the education debate. For example, every year the middle class competition to get their children to well-developed schools become an important news item. It leads to bribery, corruption, protests, violence and even cases that go up to the Supreme Court. As one officer in the Education Ministry told a seminar attended by this author, this is a problem of 70-odd schools in the country from a total of over 7,000 schools.

While the rising middle classes under a market economy benefit unduly both from state education and education provided through the market, the bulk of the population is educated in state schools that are unable to train young people so that they can achieve social mobility from the opportunities in a market economy. As revealed by the recent disclosures of the failure rate in crucial subjects at the GCE O-Level examination, sometimes children in these schools do not get even a basic education, let alone a training which makes them competent in a globalised capitalist system. This will demand much more investment and attention to these

schools. If the private education sector expands, there have to be special schemes that will ensure talented underprivileged students benefit from them. However in the context of the nature of the class forces that dominate the state, these issues receive little attention. What gets more attention is expanding opportunities for the middle classes, whatever linguistic background they come from.

The real problem of tackling the social contradictions of capitalism in the post-1977 period has been the inability of a bloated and dysfunctional state to intervene on behalf of the socially excluded in the context of penetration of capitalist production relations. This has been largely due to the undermining of state capacity through patronage politics. This is especially seen in the area of social policy, where the influence of politicians in deciding who benefits from state programmes is widespread. In the past this was legitimised as providing an opportunity for elected representatives to take part in development. It is not possible to maintain this argument any more. The state will not be able to carry out its role of limiting the negative impact of markets unless it is reformed and has a relative autonomy from sectional interests.

Growing inequality in Sri Lanka goes against a set of ideas that has defined post-colonial Sri Lanka. Fighting against various forms of inequality and a demand for distributive justice have been the hallmark of Sri Lankan politics from the time of independence. This has defined a critical aspect of our national discourse. Therefore if the trends against this social ethos get accentuated there can be a political backlash. In the current context, the most likely scenario is that it will be met with violence and state repression.

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Post-war ideological debates on managing state-society relations are dominated by a notion of 'development and reconciliation'. The discourse of development and reconciliation assumes that Sri Lanka is in a post-conflict situation, and the end of the war provides the country with an opportunity for a new beginning. It goes on to argue that development and reconciliation should be the prime objectives for this new beginning. There is also the hope that these two strands will secure a stable and prosperous Sri Lanka.

This discourse wants to forget the war, how it ended and the implications of these events especially on the nature of the state in Sri Lanka. The defeat of the LTTE in May 2009 has consolidated the juridical entity called the Sri Lankan state through military means. In addition, the war itself has changed the nature of the Sri Lankan state. A highly centralised presidential form of government is now strengthened by a formidable military machinery. Constitutional reforms have paved the way for authoritarianism. Independence of the judiciary has been undermined and rule by family clique and patronage is being slowly established.

Stability created through military means has created a better condition for deepening of capitalist relations. North and East have been incorporated into this process. Deepening capitalist relations in post-war Sri Lanka will accentuate the social contradictions associated with capitalist development, and add a new dimension to problems of state society relations. The paper looks at this in four policy areas: land policy, economic exploitation of the North and East, labour policy and inequality. The social outcomes of these will supplement creeping authoritarianism and the unresolved national question as major issues that we need to focus on in understanding state-society relations in post-war Sri Lanka.

Sunil Bastian is a political economist. His current research interests are politics of state formation and development of capitalism in Sri Lanka. He has published widely, and is the editor of *Devolution and Development in Sri Lanka* (1994). He has co-edited with Nicola Bastian, *Assessing Participation: A debate from South Asia* (1996), and with Robin Luckham, *Can Democracy be Designed? The Politics of Institutional Choice in Conflict-torn Societies* (2003) published by Zed Press, London. His most recent publication is *The Politics of Foreign Aid in Sri Lanka: Promoting Markets and Supporting Peace* (2007). He has been a Senior Research Fellow at the International Centre for Ethnic Studies, Colombo and Chairperson of the Centre for Poverty Analysis. He has more than two decades of consultancy experience.

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