



# The Economic Cost of the War in Sri Lanka

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**Summary.** — This paper discusses some of the conceptual and methodological problems associated with assessing the economic costs of civil wars and other violent social conflicts, and presents an evaluation of the costs of the (still ongoing) conflict in Sri Lanka. Our estimates suggest that the costs of conflict since 1983 may be at least equivalent to twice Sri Lanka’s 1996 GDP. © 2001 Published by Elsevier Science Ltd.

*Key words* — economic costs of wars, Asia, Sri Lanka

## 1. INTRODUCTION

Civil wars, often related to ethnic conflicts, have become increasingly common in recent years. They impose enormous and long-lasting human, social and economic costs, and have repercussions well beyond the immediate theater of combat. The aggravation of ethnic frictions to the point of armed conflict can doom many multiethnic societies to periods of prolonged economic, political and social crises, and set back economic progress for decades. The eruption or continuation of these conflicts is obviously a product of a multitude of factors, and each conflict has its own unique roots. Nevertheless, economic factors, including major policy changes, do have the potential to contribute to a sharpening of ethnic tensions, particularly if they lead to (actual or perceived) changes in distribution of social wealth and opportunities.<sup>1</sup> The potential costs of social instability that may follow policy changes must be explicitly taken into account when assessing the net benefits of policy changes.

Estimating the full costs of such conflicts is a very difficult, if not impossible, task. The human and social costs of death, disability, dispossession and the psychological trauma

associated with violence and terror are not really quantifiable. On the other hand, at least in principle, the “purely economic costs” are amenable to quantitative measurement: in

assessing the costs of war to an economy, one would ideally calculate the destruction of production factors to determine the country’s potential output without war and then compare this information with the actual output (Colletta, Kostner, & Wiederhofer, 1996, p. 39).

Empirical studies of even the purely economic costs of wars are, however, rare because, “making these ideal computations is difficult, time consuming...” (Colletta *et al.*, 1996, p. 39). Nevertheless, the economic aspects of civil

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wars are now receiving increasing attention (see, for example, Collier & Hoeffler, 1998).<sup>2</sup>

The primary aim of this paper is to assess the economic costs of the long drawn-out and still ongoing ethnic conflict in Sri Lanka.<sup>3</sup> But in doing so, we also present a critical review of the analytical approaches adopted in previous studies and clarify some important conceptual and methodological issues. The paper is organized as follows. Section 2 presents a brief background on the Sri Lankan war. Section 3 describes some of the consequences of the war, Section 4 discusses some methodological issues related to estimating costs of a war and Section 5 provides a critique of earlier studies. In Section 6 we describe our methodological framework, and present our estimates of the costs. Section 7 provides the estimate of total costs and some concluding remarks.

## 2. BACKGROUND

Sri Lanka is a small, multiethnic, low-income country located at the Southern tip of the Indian subcontinent; in 1997 it had a population of 19 million, and per capita income of US\$ 750. Despite its low income, it has long enjoyed a reputation for high levels of social indicators, comparable to those of much richer countries and well above those of its subcontinental neighbors.<sup>4</sup> The Tamil minority (speaking an Indo-Dravidian language, largely Hindu, and comprising 17.8% of the population), have alleged discrimination in the post-colonial period by the Sinhalese majority (speaking a language belonging to the Indo-Aryan family, largely Buddhist, and comprising 73.9% of the population).<sup>5</sup> Simmering ethnic tensions intensified after Sinhalese was declared the only official language in 1956 and led to sporadic eruptions of violent ethnic conflicts. But until the late 1970s the country enjoyed a reputation for having a functioning democracy with regular changes of government, and was seen as a haven of peace and stability in a region of violence and conflict. This picture was never entirely accurate. In 1971, a rural Sinhalese youth-based movement, the Janatha Vimukthi Peramuna (the Peoples' Liberation Front—JVP)—with a confused mixture of left populist radicalism and Sinhalese nationalism—organized an armed uprising that was violently crushed by the government with thousands of casualties. But the dominant picture of peace and stability changed quite dramatically in the

mid-1980s; indeed, in the light of the ongoing violence, some have gone so far as to call Sri Lanka the “killing fields of Asia.”

Central to this change has been a bloody ethnic conflict that has been raging since 1983, when anti-Tamil violence in the south of the country, including in the capital, Colombo, led to a mass exodus of Tamils. Subsequently significant sections of the Tamil community have lent their support to an armed struggle for a separate Tamil state (comprising the Northern and Eastern provinces of the country) led by the Liberation Tigers of Tamil Eelam (LTTE). While the northern and eastern regions have been the main theaters of the war, there has been sporadic violence elsewhere, including in Colombo, that has resulted in considerable human casualties and property damage. Three phases of the war are often distinguished: *Phase 1* – 1983–88 (Eelam War one), *Phase 2* – during 1990–94 (Eelam War two), and *Phase 3* – since 1995 (Eelam War three).<sup>6</sup> Having started as a guerilla war, by 1998 it had intensified to a guerrilla-cum-semi-conventional type of conflict with the LTTE continuing to control large areas in the North and the East, though they lost control of their previous key base in the Jaffna peninsula at the northern tip of Sri Lanka in 1995. In addition to this secessionist war, during 1988–89 the country experienced considerable political violence elsewhere; an insurrection led by the radical Sinhalese-based group, the JVP, was crushed by the armed forces with thousands of deaths during 1989–90.<sup>7</sup>

## 3. CONSEQUENCES OF THE WAR

In Sri Lanka, the consequences of this long period of violent conflict are felt in every sphere of social and economic life. There is a widespread sense of insecurity and vulnerability among the population, a feeling of despair and hopelessness among youth, and erosion of political, legal and social rights. Tangible and substantial economic costs arise from battle field losses of both personnel and equipment, civilian victims, widespread destruction of capital assets and property, damages to infrastructure, and loss of cultivable land. In addition a large civilian population has been “relocated” away from their homes, in some cases several times. A major refugee problem has developed, and large numbers have sought refuge in foreign countries.

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