Evaluation of World Bank Policy Analysis: The East Asian Economic Miracle and Poverty Alleviation Policies in Sri Lanka

by Patrick Mendis

Many economists and development professionals believed (and still do) that a higher economic growth rate would achieve greater income equality and reduce the rate of unemployment while maintaining price stability against internal and external shocks. In the midst of current rapid globalization, the World Bank has revised its traditional approaches to development by introducing a more focused theme on "economic growth with social equity" as a criterion in developing countries. In a reply to criticism of the Bank's policies and economic analyses, Vinod Thomas, leader of the team that wrote the World Bank study, *The Quality of Growth*, modestly states that, "the World Bank is starting a worldwide electronic forum on the issue" and, "we need to continue learning the lessons as they emerge."[1] This is a change of direction for a more democratic worldview on development under the World Bank's former president James Wolfensohn, who highlights the importance of a learning organization that advises others to learn and adapt.

In the 1980s and 1990s, the World Bank's economic growth strategies with Structural Adjustment Policies (SAPs) were the standard prescriptions for rescuing those underdeveloped countries from their poor macroeconomic management and pervasive corruption by government leaders. To achieve economic growth and equity objectives, for example, Sri Lanka introduced open market and export-led industrialization policies in response to pressure from the World Bank and the International Monetary Fund (IMF). Yet a comprehensive survey of 114 countries by the United Nations International Fund for Agricultural Development (IFAD) in Rome reveals that the level of poverty in some countries persisted or worsened over the years and the income share of the lowest 20 percent actually declined or increased only marginally during the 1965–1988 period.[2] Some observers, however, explained that such a pattern as a result of SAP programs is a starting point for greater equality.

The Kuznets theory suggests that, in the early stages of development, the distribution of income becomes worse before it gets better. After World War II,

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Kuznets observed that the inequality of income rises with an increase in per capita income up to a certain point before the distribution of income begins to become more equitable with further increases in per capita income.[3] Historically, the income distribution measured by the Gini coefficient illustrated that a pattern bolsters the validity of Kuznets' theory. The question is: In a knowledge economy where the process of globalization causes us to witness a "digital divide" among and within countries, how could the traditional prescriptions of international institutions and other donor agencies help achieve the stated goals for development, whether "growth with equality" or "quality of growth?"

Sri Lanka has followed a path of increasing income disparity after economic liberalization.

This paper analyzes the complexity of Sri Lanka as a case study and highlights the challenges of comparability and availability of data to understand the development puzzle in a unique environment. In the next section, the Gini coefficient statistics are comparatively analyzed in a global context. The major portion of the paper in the third section explores the incidence of poverty and unemployment in Sri Lanka and evaluates the World Bank policy analysis and interpretation of data. The fourth section highlights the importance of human development and cultural aspects of development in addressing economic growth strategies. In conclusion, the paper argues that Sri Lanka deserves special attention because of its cultural endowments that interplay with public policy actions in a more democratic political environment than most developing countries.

Sri Lanka in a Global Economy

Sri Lanka has followed a path of increasing income disparity after economic liberalization and has shown in the 1990s that the Gini coefficient returned closer to 0.30 (or 30 percent) of the 1969–1970 level. The global survey by IFAD concludes that overall income distribution "has not always worsened during this process, because of compensatory shifts of income to middle groups." [4] Mendis argues that the case of Sri Lanka's narrowing income gap was associated more with the introduction of the Janasaviya Poverty Alleviation Program of the late 1980s than economic growth strategies.[5] The Janasaviya Program began to transfer public funds to the poorest sector of the society through an administrative mechanism that involved investment and consumption components. In the spirit of Keynesianism, Sri Lankan policymakers institutionalized this public policy action to create a demand function in both investment and consumption. It was believed that the allocation of public funds for investment activities would unleash the entrepreneurial spirit and generate more employment opportunities for the poorest of the poor. This government intervention also removed the barriers for the poorest people to access funds, which were otherwise restrained by collateral requirements needed for bank loans. The consumption component was devised not only to create a purchasing power for the poor, but also to help them improve their health and daily nutrition requirements for general well-being. The purchasing for consumption was primarily linked to local products, which were being generated from a range of small-scale investment activities in rural and farming areas. The remaining funds for consumption could be used for other food items not available in the local market.

Similar to that of the Janasaviya program, it is more likely that other public action programs like the Million Housing Program in Sri Lanka, the Saemul Undong Program in South Korea, the Solidarity Program in Mexico, and the Grameen Bank (micro-credit lending) in Bangladesh may have interplayed positively in the process of poverty reduction. The Gini coefficient ratio of Sri Lanka in 1990 (.30) and 1995–1996 (.34) demonstrates that greater income equality emerged since the 1985–1986 (.45) period (Table 1). Similarly, the declining income gap in Malaysia is also expressed in the Gini coefficient ratio. The Malaysian experience seems to indicate that economic growth with a wide range of targeted policies on Bumi Putras and non-Bumi Putras evidently attributed to the existing pattern (Table 1).

Table 1 illustrates that the inverted-U curve effect of Kuznets theory has not necessarily followed its historically observed pattern in the contemporary context. The results were rather mixed. In a comprehensive study of forty-three developing countries, Adelman and Morris conclude that:

> *The position of the poorest 60 percent typically worsens, both relatively and absolutely, when an initial spurt of narrowly based dualistic growth is imposed on an agrarian subsistence economy. The gains of the highest 5 percent are particularly great in very low-income countries where a sharply dualistic structure is associated with political and economic domination by traditional or expatriate elites.*[6]

The UN report, *The State of World Rural Poverty*, has further observed this pattern.[7] With the dual sector economy in Sri Lanka, the export-oriented commercial agriculture of tea, rubber, and coconut has traditionally been favored over subsistence rice and cash-crop agriculture. In addition to this, there is another dichotomy in the emerged post-1977 liberalized economy, between the highly emphasized manufacturing and textile sector and the less important traditional agricultural sector. Yet public policy actions in the form of monetary and other forms of material transfers (self-housing materials, loan collateral, and income guarantee programs) could have changed the incidence of poverty across all sectors.

The past experience of the high performing Asian economies, including Hong Kong, South Korea, Malaysia, Singapore, and Thailand, has been widely characterized by unusually low and declining levels of income inequality as the rate of per capita income increases. The World Bank's *The East Asian Miracle* illustrates that these countries' income inequality, as measured by the ratio of the income shares of the richest 20 percent to the poorest 20 percent of the population, is among the lowest in developing countries.[8] But it is difficult to attribute this trend to economic growth per se, since cultural and situational domestic and international factors may have contributed and widely varied from one country to another. Certainly,

Table 1: Share of Household Income Distribution and Gini Coefficient in Selected Countries

Country	Survey Year	Lowest 20% Share of Household Income	Highest 20% Share of Household Income	Quintile Ratio	Gini Coefficient
Bangladesh	1963–1964	7.7	45.7	5.9	0.35
	1973–1974	6.9	42.2	6.1	0.33
	1985–1986	7.0	46.0	6.6	0.35
	1995–1996				0.34*
Brazil	1959–1961	3.8	60.0	15.8	0.54
	1972	2.0	66.0	33.0	0.57
	1983	2.4	62.6	26.1	0.53
	1990				0.61*
India	1964–1965	6.7	48.9	7.3	0.37
	1975–1976	7.0	49.4	7.1	0.38
	1983	8.1	41.4	5.1	0.30
	1994				0.38*
Malaysia	1959–1961	3.2	61.2	19.1	0.56
	1970	3.3	56.6	17.2	0.48
	1987	4.6	51.2	11.1	0.42
	1989				0.49*
Mexico	1963	2.9	57.7	19.9	0.54
	1977	2.9	54.4	18.8	0.47
	1988				0.53*
Pakistan	1969–1971	8.0	41.8	5.2	0.37
	1970–1975	8.0	42.0	5.3	0.37
	1984–1985	7.8	45.6	5.8	0.34
	1991				0.31*
Philippines	1959–1961	4.2	56.3	13.4	0.51
	1970–1971	3.7	53.9	14.6	0.45
	1985	5.5	48.0	8.7	0.39
	1997				0.46*
South Korea	1969–1971	7.1	44.5	6.3	0.41
	1976	5.7	45.3	7.9	0.36
	1993				0.32*
SRI LANKA	1969–1970	7.5	43.4	5.8	0.33
	1980–1981	5.8	49.8	8.6	0.39
	1985–1986	4.8	56.1	11.7	0.45
	1990	8.9	39.3	4.4	0.30
	1995–1996				0.34*
Thailand	1962	6.2	50.9	8.2	0.46
	1975	5.6	49.8	8.9	0.40
	1992				0.41*

Notes: The quintile ratio is calculated by highest to the lowest quintile. The Gini coefficient shows the given income distribution: the zero Gini coefficient indicates absolute income equality and the value closer to one indicates absolute inequality. Sources: Idriss Jazairy, et al. (eds.) *The State of the World Rural Poverty: An Inquiry into Its Causes and Consequences* (New York: International Fund for Agricultural Development, 1992), Appendix Table 5, 402-403. *Figures are from the *World Development Report 2003* (New York:World Bank) Table 2, 236-237.

liberalized economic policies may have created a conducive environment to unleash the entrepreneurial zeal in these economies. To a larger extent, a range of targeted policies guided by state intervention directly impacted the economic growth and income distribution strategies. The emphasis on primary and secondary education, successful land reform programs, and state-guided medium and large-scale industries was also part of that success. Above all, most of these East Asian economies, including Taiwan and South Korea in particular, achieved effective land reform policies and supported domestic agriculture by improving the rural living standard and subsidizing urban consumers before they took off along the industrialization path. Such transformation has evidently forced necessary social infrastructures for them to maintain a relatively less extreme income distribution. The industrialized strategies of these countries have thus been guided more by state mechanisms than laissez-faire trade policies, as commonly emphasized and popularized by the World Bank, IMF, and others.

In an extensive study on South Korea, Alice Amsden finds that the miraculous success was not necessarily a result of open market economics but rather state interventionist policies getting prices "wrong;"[9] therefore, making a generalized conclusion that economic growth induced by free market economic policies to justify the validity of an imperfect market system is a gross misinterpretation. The UN report, *The State of World Rural Poverty* concludes that effective land reform and the protection of industry at the initial stage produced higher incomes for the peasantry, allowing for demand of consumer goods. It further reports that

> *Industry was protected by high tariff barriers and wages were able to keep low, partly thanks to subsidized food prices benefiting the industrial work force. Contrary to the 'free market' doctrine, the state was highly interventionist. Protected markets in both the Republic of Korea and Taiwan were never challenged at any forum.*[10]

It is then more accurate to suggest that a host of policies, both market- and state-driven, are elements of the explanation in the development puzzle in the East Asian miracle. Although a sound macroeconomic management is a very common feature among these countries, free market policies are not the sole attribute of success. Yet, according to *The East Asian Miracle* and Stanley Fisher, the World Bank Group naturally supports the notion that economic growth induced by the free market is the most important explanation.[11]

Incidence of Poverty and Unemployment in Sri Lanka

In Sri Lanka, the growth of output over the period of 1965–1988 has neither brought about a significant improvement in the income share of the lowest 20 percent nor an overall reduction in the percentage of rural population below the poverty line. Among many countries, Sri Lanka has been singled out as a case where rural poverty has worsened between the mid-1960s and the 1980s. *The State of World Rural Poverty* report reveals that the level of Sri Lanka's poverty in headcount ratio changed from 13 percent in 1965 to 46 percent in 1988, an increase of 254 percent, which ranked the highest among all countries surveyed. The number of rural poor rose from 1,163,000 in 1965 to 6,101,000 in 1988. Despite its GNP per capita annual growth at 3 percent, the rural population below the poverty line in Sri Lanka has increased drastically during the same time period (Table 2). These shockingly high UN numbers are compared with recent World Bank statistics in the *World Development Report*.[12] The percentage of population below the national poverty line indicates 25 percent in 1995–1996 as opposed to 46 percent in 1988 in the rural population alone. One can, however, argue that the reduction of poverty is associated with an average annual GDP growth rate of 5.1 percent during the 1990–2001 period (Table 2).

Table 2: Growth of GNP Per Capita and Changes in the Incidence of Rural Poverty for Selected Countries

Country	GNP Per Capita Annual % Growth Rate 1965–1988	Percentage of Rural Population Below Poverty Line 1965	Percentage of Rural Population Below Poverty Line 1988	Percentage of Rural Population Below Poverty Line -% Increase*	Population Below Poverty Line 1995–1996**	GDP Average Annual % Growth 1990–2001**
Bangladesh	0.4	83	86	4	35.6	4.9
China	5.4	6	14	133	4.6	10.0
Ecuador	3.1	65	65	0	35.0	1.7
Egypt	3.6	17	25	47	22.9	4.6
Indonesia	4.3	47	27	-43	27.1	3.8
Malaysia	4.0	59	22	-63	15.5	6.5
SRI LANKA	3.0	13	46	254	25.0	5.1
Tanzania	-0.5	65	60	-8	41.6	3.1
Thailand	4.0	56	43	-23	13.1	3.8

*The percentage increase is calculated between 1965 and 1988. Sources: Idriss Jazairy, et al. (eds.) *The State of the World Rural Poverty: An Inquiry into Its Causes and Consequences* (New York: International Fund for Agricultural Development, 1992), Table 2.2, 7. **Figures are from the *World Development Report 2003* (New York:World Bank)Table 2: Poverty & Income Distribution and Table 3: Economic Activity respectively, 238-239.

The World Bank statistics indicate that the incidence of poverty as a measure of headcount index shows that the level of poverty declined from 40.6 percent in 1985–1986 to 35.3 percent in 1990–1991 (Table 3). Here, the definitional, methodological, and technical measurements should certainly be noted, as they varied between the 1992 UN *The State of World Rural Poverty* survey and the 1995 World Bank report on *Sri Lanka Poverty Assessment*. The World Bank statistics, based on consumption data, demonstrate that both sectoral and countrywide absolute poverty over the two surveys has in fact declined (Table 3). The Bank report, *Sri*

Lanka Poverty Assessment, which excludes the war-torn northern and eastern Provinces in the calculation due to lack of data, highlights that:

> *There was a significant improvement in the nationwide Gini coefficient of consumption, from 32.0 in 1985–86 to 29.7 in 1990–91. The modest increase in consumption per capita and the improvement in distribution combined to produce a significant decline in poverty over this particular five-year period.*[13]

The World Bank then provides a possible explanation for this decline by citing an article by Datt and Ravallion, which attributes it to "growth and redistribution components."[14] In the final analysis, the Bank report asserts that "this intuitive interpretation is confirmed by formal decomposition of the changes in poverty in the 1985–1986 to 1990–1991 period into a growth component and a redistribution component…"[15] It seems that the Bank analysis has completely ignored the obvious reason for such decline and misinterpreted the consumption data. It should have included the relevancy of the Janasaviya Poverty Alleviation Program that has transferred massive fund outflows to the rural poor for consumption (Janasavipath) needs. These funds accounted for more than 50 percent of the total allocation of investment and consumption components per household between the two survey periods. Public financing for household consumption in the rural sector was more apparent than the estate and urban sectors because Janasaviya targeted the rural poor. During this period, the rural mean consumption per month had increased from

Table 3: Population Shares, Mean Consumption, Poverty Line, and Gini Coefficient in Rural, Urban, and Estate Sectors in Sri Lanka, 1998–1986 and 1990–1991

Survey Year	Rural	Urban	Estate	Sri Lanka
1985–1986				
Population share (%)	72.5	20.8	6.7	100
Mean consumption*	708.3	1038.5	763.7	780.3
Poverty (headcount index)**	45.5	26.8	30.9	40.6
Gini coefficient (%)	29.9	35.7	24.5	32.0
1990–1991				
Population share (%)	72.5	20.9	6.6	100
Mean consumption*	743.6	990.1	749.9	795.9
Poverty (headcount index)**	38.1	28.4	27.5	35.3
Gini coefficient (%)	27.6	35.4	20.2	29.7

*Mean consumption prices at 1990–1991 level in Sri Lankan Rs. per person per month. **Poverty measure was at the level of Rs. 565.4 per person per month. The data exclude the North and East provinces and refer to the first three rounds of the 1990–1991 survey and same months of the 1985–1986 survey. Source: World Bank, *Sri Lanka Poverty Assessment*, Report No. 13431-CE: Table 1.4, 7; Table 1.5, 8; and Annex 2, 86-94.

Rs. 708 in 1985–1986 to Rs. 744 in 1990–1991 while the mean consumption in the urban and estate sectors declined (Table 3). In the rural sector, the Gini coefficient narrowed its gap from 29.9 percent in 1985–1986 to 27.6 percent in 1990–1991. The closing gap in the estate sector Gini coefficient may have been associated with the increases in salary (i.e., the government's minimum wage legislation) and off-estate employment opportunities. A slight decline in population in estates was also shown while there was a slight gain in the share of the urban population (Table 3).

The World Bank report, *Sri Lanka Poverty Assessment*, further emphasizes the declining trend of the incidence of poverty as measured by the headcount index for the reference poverty line of Rs. 565 in the rural sector (38 percent), followed by the urban sector (28 percent), and the estate sector (27 percent). The overall incidence of poverty in Sri Lanka was reported to decline from 40.6 percent in 1985–1986 to 35.3 percent in 1990–1991 (Table 3). The reason for declining poverty, which was uneven for rural, estate, and urban areas, is cited by the Bank report:

> *The uneven decline in poverty by place of residence between the two survey periods can be 'explained' by the different evolution of per capita consumption and Gini coefficients for the three residence categories. For rural residents, there was an increase in per capita consumption in constant prices between the two survey periods, of about 5 percent, and also an improvement of more than two points in the Gini coefficient of consumption. For urban residents, by contrast, there was a decline of near 5 percent in per capita consumption, and hardly any change in the Gini coefficient; a combination that led to an increase in urban poverty between the two survey periods. For estate residents, there was a 2 percent decline in per capita consumption, but this was more than compensated (in relation to its impact on poverty) by a very large improvement in the Gini coefficient, of over four points.*[16]

The Bank's analysis seems to highlight the decline in poverty and income inequality associated more with economic growth than the impact of public policy action that was linked to the consumption-driven Janasavipaths to the rural poor. This massive, nationwide Poverty Alleviation Program, which was ignored in the Bank's analysis, appears to be a more probable explanation than the growth-driven interpretation. Even if the level of economic growth were a factor, it was not equally distributed among the rural poor where the growth linkages could not reach to the bottom or to every corner of the country. A disaggregated statistical analysis between the impact of Janasaviya and the result of economic growth in per capita output may shed more light to understand this than the Bank's "intuitive" interpretation. Until then, a firm conclusion based on possibly unreliable consumption data is premature and dangerous in future policy formulation and implementation.

Furthermore, even if we were convinced that economic performance is conducive to reducing the level of poverty and income disparity, the level of unemployment remained consistently unchanged over the past forty years. The Labor Force Surveys in 2000 and 2002 indicate that the unemployment statistics in Sri Lanka have improved (Table 4). This may indeed be associated with the annual GDP growth rate of over 5 percent and the increasing number of migrant manual laborers working in the Middle East and the Persian Gulf countries. There is still youth unrest and political conflict, which may be linked to underemployment, especially among the educated and rural youth population. This has been exacerbated by the clearly divided perception and social psychology created by giving excessive concessions and incentives to foreign investors and the rich, while reducing services to the poor in health, education, food subsidies, and other social welfare programs.[17] Beyond these elements of human psychology, the educated and frustrated youth find no opportunities with the growth of the economy. This may be attributed to a wide range of reasons including the prevailing educational system, the continuing non-alignment with labor market needs and professional training, and the demand for proficiency in the English language in order to be productively employed in the private sector. But the existing unemployment rate has calibrated around 14 to 15 percent on average over the past fifty years. The data in Table 4 demonstrates that the rate of unemployment did in fact slightly decline shortly after the introduction of liberalized trade policies from 15.3 percent in 1980–1981 to 14.4 percent in 1990, but the lowest level of 13 percent found in the 1960s and 1970s was not achieved until the year 2000. In Sri Lanka, like any other developing country, the employment data can be deceiving, especially in the rural and estate sector labor markets. As stated earlier, the reduction in unemployment soon after the transition to an open market economy is also related to employment opportunities in the Middle East and Persian Gulf nations and the removal of foreign exchange control.

Yet a significant decline in the labor force participation rate (item 6 in Table 4) and in the ratio of employed to the total population (item 8 in Table 4) from 1953 to 1963 suggests a correlation with "little economic growth" according to the Bank's analysis.[18] The economic rationale for this analysis was based on the annual growth of private per capita consumption. The *Sri Lanka Poverty Assessment* report further "implies that there must have been a very significant decline in consumption poverty incidence in Sri Lanka in the 1953–1985 period."[19] This assertion relies on the trends of private consumption per capita and does not represent the validity that higher per capita consumption is positively linked with economic growth. After the 1977 trade liberalization, there had been a relatively higher annual economic growth as well as increasingly high per capita consumption (see Table 5). Here, the consumption-led economic growth is not clearly evident for several reasons:

1) The higher consumption seemed to calibrate around the higher income cohorts;
2) The remittance from the emigrated work force in the Middle East has increased the domestic purchasing power in middle-income households;
3) The economic dynamism in the informal and micro-business sectors seems to be fueled by private transfers from abroad; and
4) The poor income earners, who are micro-entrepreneurs, small farmers, landless laborers, and those partial and seasonal employees in the shadow of the "informal" economy, are difficult to capture accurately in statistical analysis, yet they exist.[20]

Table 4: The Labor Force, Employment, and Unemployment in Sri Lanka

	1953	1963	1969–1970	1980–1981	1985–1986	1990	2000	2002
Labor force (000s)	3,254	3,317	4,168	5,595	5,972	6,968	6,827	7,296
Employed	2,714	2,859	3,609	4,738	5,132	5,964	6,310	6,663
Unemployed (000s)	540	458	559	857	840	1,005	517	633
Unemployment rate (%) (3/1)	16.6	13.8	13.4	15.3	14.1	14.4	7.6	8.7
Population age 10 & over (000s)	5,803	7,626	8,867	12,032	12,573	13,073	n/a	n/a
Labor force participation (%) (1/5)	56.1	43.5	47.0	46.5	47.5	53.3	50.3	51.7
Total population (000s)	8,098	10,463	12,384	14,867	15,9777	16,993	18,467	18,732
Employed/Total population (%)	33.5	27.3	29.1	31.9	32.1	35.1	34.2	35.6

Notes: These surveys include the Northern and Eastern provinces. The 1990 survey is the last quarterly labor force survey for which information pertaining to the entire country was collected. Subsequent surveys exclude the Northern and Eastern provinces. The data do not include emigrant workers to the Middle East. There exist definitional differences among the various labor force surveys and other problems which render comparability difficulty. A caution may be warranted. The data for 2002 are provisional. Sources: *Consumer Finance Surveys* (Central Bank of Ceylon, 1953 and 1963), the *Socio-Economic Survey* (Department of Census and Statistics, Sri Lanka, 1969—1970 and 1980—1981), the *Labor Force and Socio-Economic Survey* (Department of Census and Statistics, Sri Lanka, 1985—1986 and 1990), and *Sri Lanka Statistical Data Sheet* (Department of Census and Statistics, Sri Lanka 2002). Also see: http://www.statistics.gov.lk/index.asp

Table 5: Trends in Private Consumption Per Capita

	1953	1963	1970	1977	1979	1985	1993
Ratio of private consumption/GDP (%)	77.8	72.7	72.3	73.3	77.1	77.9	74.2
Private consumption per capita (current prices)*	37	42	66	160	233	666	1756
Consumer Price Index (CPI 1985 = 100)	18.1	19.4	24.6	36.2	45.0	100	250.9
Private consumption per capita (1985 prices)**	204	216	269	442	518	666	700
Index 1985 = 100	30.6	32.4	40.2	66.4	77.8	100	105.1

Notes: *Current prices, per month, in Rupees. **1985 prices deflated by CPI, per month, in Rupees. Source: World Bank, (1995), *Sri Lanka Poverty Assessment*, Report No. 13431-CE: Table 1.2, 4.

Yet there may well be a direct relationship between the decreasing unemployment rate (below 10 percent in 2000 and 2002) and the average annual GDP growth rate (above 5 percent) during the 1990–2001 period.

The open market economy has certainly provided more opportunities for semi-employed and unskilled workers to be gainfully employed in the Middle East and to remit income without foreign exchange control. Even though the growth of private consumption reflects a consistent relationship between the consumption pattern and GDP, a pattern exists between increasing consumption and greater imports with higher prices under liberalized market policies. The growth of GDP and increased consumption per capita have not yet generated more employment opportunities in the domestic economy, as claimed, to accompany free market growth strategies. If there were no employment opportunities abroad, the apparent unemployment rate could have, for example, increased beyond the 14.1 percent level in 1985–1986 and the share of private consumption as a percentage of GDP could have also declined below the 77.9 percent level in 1985 (Tables 4 and 5). From this perspective, trade liberalization has indeed provided the opportunity to mobilize domestic labor markets and to take full advantage of employment markets abroad. Otherwise, the unemployment rate could have been much higher.

Historically, the East Asian miracle was achieved in an environment where direct investment inflow and export market opportunities were sufficiently available to employ more people domestically. Between 1951 and 1965, according to *The State of World Rural Poverty*,[21] Taiwan received \$1.5 billion and South Korea received \$6 billion in economic aid from the US between 1945 and 1978. Over 80 percent of South Korea's imports in the 1950s were financed by US foreign economic assistance. The aid helped South Korea to invest heavily in transportation facilities, communication networks, educational and student exchange programs, and health care delivery systems in these East Asian countries. The same economic, cultural, and market conditions did not prevail in the contemporary Sri Lankan context to capture the opportunities of the globalized, information-led marketplace. The expansion of world trade from 1963 to 1973 increased at an annual rate of 8.5 percent, but this growth was not sustained in the global marketplace for Sri Lanka in the 1980s and 1990s.

With rapid globalization, the export-oriented textile and clothing industry in Sri Lanka needed to compete with countries with lower costs of production, such as India, Vietnam, Cambodia, China, and Latin American countries. The quota under the Multi-Fiber Arrangement (MFA) fluctuates according to global politics, where trade and military strategic interests lie in favorable conditions of the importing countries, especially the US.[22] Over the past few years, protectionist sentiments have also increased in other OECD countries despite the fact that the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT) and now the World Trade Organization (WTO) attempted to do otherwise. In addition, Sri Lanka's comparative advantage over India's new liberalized economic policies is also challenged and questioned as India, with its nearly one billion consumers, has become more attractive to foreign investors and marketers than the neighboring island economy of nineteen million people, whose disadvantage has further been aggravated by the twenty-plus year old ethnic war. If the current ceasefire between the government and the Liberation Tigers of Tamil Eelam (LTTE) holds, and the prospect of peace negotiation continues, the potential peace dividends will begin to accelerate the rate of economic development. Sri Lanka's strategic location, with the highly educated workforce of the South Asian region as well as the transit port between East and West, still serves as an attractive feature for foreign investment. Although it is heavily underutilized, a reality of another Singapore in South Asia is still possible.

Economic Growth or Sustainable Human Development?

With a relatively lower GNP per capita income of $830 in 2001 ($540 in 1992 and $141 in 1960), Sri Lanka has maintained a comparatively high human development rate among Asian countries. The life expectancy, literacy rate, school enrollment, and other human development indicators suggest that Sri Lanka has sustained similar or more progressive characteristics of those of other East Asian countries with much higher GNP per capita level. By increasing its GNP per capita over 4,250 percent from 1960 to 1992, South Korea's human development achievements closely reflect that of Sri Lanka, whose GNP per capita increased only 283 percent (Table 6). Even today, how could that be with a relatively low income in Sri Lanka compared to that of $9,400 in South Korea?

Table 6: Growth of GNP Per Capita and Life Expectancy at Birth in Selected Countries

Country	Per Capita 1960	Per Capita 1992	Change* (%)	Life Expectancy 1994	Per Capita 2001	Life Expectancy 2000
Indonesia	51	670	1,214	63	680	66
Malaysia	273	2,790	922	71	3,640	73
South Korea	156	6,790	4,253	71	9,400	73
SRI LANKA	141	540	283	72	830	73
Thailand	96	1,840	1,817	69	1970	69

Note: GNP Per Capita is in current US$ in respective years indicated. Life Expectancy is at birth years. *The change in GNP per capita as a percentage from 1960 to 1992. Sources: *Sri Lanka Poverty Assessment*, Report No. 13431-CE, Document of the World Bank: 29. The Life Expectancy data for 1994 are from *World Development Report 1996*, (New York: Oxford University Press for the World Bank, 1996), Table 1, 188-89. The GNP per capita data for 2001 and Life Expectancy statistics for 2000 are from *World Development Report 2003,* (New York: Oxford University Press for the World Bank), Table 1, 234-235.

Table 6 notes that the life expectancy at birth in Sri Lanka was higher than that of South Korea in 1994. In 2001, South Korea did achieve the level of life expectancy of Sri Lanka with a GNP per capita eleven times higher than Sri Lanka's. Indonesia and Malaysia with their colonial legacy, and Thailand with its Buddhist heritage, have attained impressive economic growth, but not Sri Lanka with similar colonial and Buddhist history. What is the missing link? Beside the cultural dimension to this development puzzle, the World Bank maintains two major policy factors that attributed to Sri Lanka's progress in human development:

1) A strong push on public provision of health and education services together with income transfer programs that enabled higher food consumption by the poor; and
2) A relatively good long-term growth performance, with a real per capita GDP growth of about 2.5 percent per year on average for the period 1950–1993 (the rate of population growth was less than 2 percent).

Within this framework, the World Bank report, *Sri Lanka Poverty Assessment,* contends that the main reason for Sri Lanka to lag behind the economic growth path of the high-performing East Asian economies is directly related to policies that "were less supportive of economic growth."[23] The policies implied here are liberalized and open market policies that were seemingly the engine of the East Asian economic miracle. In *The East Asian Miracle*, the World Bank further argues that the East Asian economies have not only achieved miraculous economic growth under free market conditions but have also fostered a more equitable income distribution in the developing world.[24] It is, however, argued that cultural endowments and religious impetus may have played a pervasive role in economic and human progress in Sri Lanka.[25]

Conclusion

With a relatively poor economic performance, Sri Lanka has modeled its policies and programs after the East Asian miracle (especially the Singaporean model) to reduce the incidence of poverty, increase economic growth, and secure food requirements in daily caloric intake. Professor Amartya Sen, Nobel Laureate in economics, has questioned the practical validity of this strategy. In his article in *Scientific American,* Sen argues that a nation can indeed reach the ends of development (i.e., human development and welfare) despite being poor, as Sri Lanka demonstrated.[26] Throughout this century, even before independence in 1948, Sri Lanka promoted health care, literacy and school programs, and social welfare services to its population. With public policy actions, Sen maintained that Sri Lanka pushed for higher human development.[27] Professor Sen writes, "a country that deserves special attention is Sri Lanka because of its superior performance in the expectancy of life and its record in poverty removal."[28] This observation has further convinced Sen to conclude that:

> *If the government of a poor developing country is keen to raise the level of health and the expectation of life, then it would be pretty daft to try to achieve this through raising its income per head, rather than going directly for these objectives through public policy and social change, as China and Sri Lanka have both done.*[29]

This provides some warning signs for those economists and development professionals, especially those in the World Bank as a learning organization under the leadership of its former president Wolfensohn, who singularly believe in the superiority of the market mechanism over public policy intervention in economic growth and sustainable human development strategies. It reminds us to use the available economic tools within a broader framework as other Asian countries selectively utilized in achieving their sustainable development objectives. In the globalized knowledge economy, information and biotechnology have become the drivers of economic growth and equity considerations. It is more appropriate to devise country-specific development strategies based on historical experiences and world politics than those of imported policy prescriptions by external sources.[30] It requires leaders who can think independently and act coherently like those dynamic and visionary leaders of Singapore, whose development approaches include the best of free market economics and the confluence of good governance in guiding public policy and implementing them to achieve the stated goals and objectives. These must be pursued within a larger framework of democracy and an impact analysis of environmental externalities both physically and socially with a high degree of cultural sensitivity for which Sri Lanka's leaders have the experience after managing the resilient economy and living with the civil war.

Notes

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