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**IMPACT OF GLOBALIZATION:
THE INCIDENCE OF POVERTY AND FOOD SECURITY POLICIES
IN SRI LANKA**

by

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I
SRI LANKA IN THE GLOBAL ECONOMY

For millennia, Sri Lanka has been an active partner in world trade. During the time span of over 400 years of Portuguese, Dutch, and British colonialism which ended in 1948, the economy of Sri Lanka emerged into a distinct dual economy: the subsistence domestic agriculture fulfills most of the indigenous consumption needs while the export-led plantation economy earned the needed foreign exchange to import other necessary consumer and capital goods. With its strategic location, this island nation of 18 million people in the Indian ocean which now serves as a trade transit port between East Asia and Western Europe also enjoyed a comparative advantage in international trade by maintaining the dual agricultural economy. At the time of political independence from the British in 1948, more than 80 percent of Sri Lanka's GDP consisted of domestic rice and other crop production and the commercial plantation sector of tea, rubber, and coconut. In the ensuing decades, it is widely believed that the traditional sector is inefficient and backward while the export sector is perceived as a modern and efficient operation which has forward and backward linkages to other industries and services domestically and internationally. Thus, the commercial export-led agriculture (i.e., estate sector) is in favor among policymakers not only because it generates foreign exchange, employs a significant portion of the work force, and contributes to economic growth but is also an elitist form of agriculture (in association with British) compared to smallholder rice and other crop production.

Over the past 50 years, the dominant development paradigm also advocated that economic growth can be achieved by increasing the rate of growth of GNP and by promoting export-led development strategies. With these strategies, it is assumed that the problems of development and modernization can be overcome by transforming traditional subsistence societies into modern economies. Among development economists, Walter Rostow (1960) proved this empirically by demonstrating the stages of economic growth of the Western development path while Arthur Lewis (1954 and 1955) explored it by absorption of excessive rural labor supply into modem economic activities in order to achieve a higher rate of growth. Other economists, including

Gustav Ranis and John Fei (1964), also viewed the concept of rural labor surplus as an inherent problem of unemployment and economic growth. Ragnar Nurkse (1953) described that the "vicious circles" are an inhibited factor in traditionally rigid societies like Sri Lanka and prescribed that they must be broken by a "big push" from foreign investment and technology to achieve a higher level of economic growth.

In the 1950s and 196Os, economic growth was defined by the rate of GNP, not by the GNP per capita change. It was much later the variant of per capita was captured as an economic indicator. The notions of poverty and income distribution were not part of this economic thinking at all. The Britton Woods Institutions (i.e., the World Bank and the International Monetary Fund) for these years widely shared the economic growth paradigm and advocated free market economics as a mechanism for economic development. With the highly emphasized success of the East Asian countries, Sri Lanka was then convinced to adopt such open market policies and to liberalize trade and foreign exchange regimes in 1977. Sri Lanka was the first country to adopt such policies among other SAARC (South Asian Association for Regional Cooperation) countries of Bangladesh, India, Maldives Islands, Nepal, and Pakistan. It was a marked departure from the previous policies of an inward-looking, self-sufficient, state-led import substitution approach to development in Sri Lanka as well as in the South Asian region.

During the 1970-77 period, the explicit goal of the socialist government was to achieve economic equity and social justice. The Land Reform Laws of 1972 enforced a ceiling on private rice land holding at 25 acres (10 hectares) and mixed holding at 50 acres (20 hectares) where rice-paddy and other crops were grown. As a result of this legislation, the Land Reform Commission acquired 560,000 acres. In the second round of the land reform policy in 1975, the government nationalized all estates (tea, rubber, and coconut) from large private companies and kept a maximum ownership at a 50 acre ceiling. From 1972 to 1975, more than 60 percent of perennial tree crop lands were transferred to public ownership. While the government owned and managed the nationalized estates exclusively by two large public corporations (the Janatha Estates

Development Board, JEBD and the Sri Lanka State Plantation Corporation, SLSPC), about 115,000 acres of acquired lands (about 12 percent) were distributed in small plots to about 350,000 families who were landless or poor. The multi-purpose massive Mahaveli River Development Program (similar to the Tennessee Valley Authority in the United States) was then planned to generate electricity, to irrigate paddy lands, and to achieve a self sufficiency in rice production. To protect local small farmers, rice import restrictions were enforced. A dual foreign exchange system was also introduced to discourage import with an over-valued exchange rate and to encourage export with an under-valued foreign exchange rate. An aggressive government involvement in economic and trade affairs was the norm during this period. The annual GDP per capita during 1970-77 grew only by 2.4 percent compared to 5.3 percent during the relatively open economic regime in 1965-70.

With the introduction of the 1977 open market policies and trade liberalization, it was assumed that economic growth would be accelerated and the level of unemployment would be reduced. The new economic policy was designed to develop a entrepreneurial class and to revitalize the stagnated economy with a free market economic engine and the private sector involvement in economic activities in pricing, foreign trade, direct investment, and exchange rate regimes. With these policies, the annual GDP growth rate increased up to six percent during 1978-80 and remained closer to five percent until 1985. Since then, the annual average growth rate calibrated between five and six percent. With internal shocks from the civil war in the Northern and Eastern provinces and other political conflicts with extremist groups in the Southern provinces, the national defense expenditure grew while the macroeconomic imbalance emerged to reflect negatively in foreign exchange reserves, debt service, and the balance of payment. Yet, it was expected that poverty would be alleviated, a better income distribution would be fostered, and unemployment would be reduced like other East Asian countries. Though the liberalized economy was able to withstand external and domestic shocks better than the previous regime, the intended policies seemed to be biased in favor of the affluent class and foreign investment. The annual average

GDP growth still continued at 4.2 percent during the 1980-90 period and 5.4 percent during the 1990-94 period. This economic growth encompassed in the increase of industrial output from 4.6 percent in 1980-90 to 7.5 percent in 1990-94 while the agricultural sector declined from 2.2 percent in 1980-90 to 2.0 percent in 1990-94.[1]

Such open and industrial economic policies were accompanied by the irreversible process of globalization. Globalization has been accelerating since the early 1980s due largely to three global processes:

1) The World Bank and IMF have consistently pushed for structural adjustment programs to remove economic and trade barriers among nations and to stabilize the increasing free exchange of monetary flows for a global financial equilibrium among countries in order to better facilitate world trade and capital transfers,

2) The democratization of Eastern European countries and the former Soviet Republics has opened new economic opportunities for those new nations to engage in the global economy, and

3) The marriage between telephones and computers gave rise to accelerate the Information Revolution and to share information freely within and among sectors and countries of the world.

From the interplay of these primary global forces, the private sector (i.e., multinational corporations, MNCs) and the civil society (i.e., the NGOs community) gained an unprecedented prominence over the state sector as the engine of economic development and global information technology. The emerged role of governments is to facilitate the private sector development by reforming economic policies and trading regimes such as NAFTA and the proposed SAFTA (South Asian Free Trade Area) under SAARC.

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1 (World Development Report, 1996: Table 11 on p. 208).

While this paper acknowledges the hindrance and inadequacy of the land reform, import substitution, and protectionist policies during the 1970-77 period, more focus is given to explore the claims expressed by the World Bank in terms of poverty alleviation, employment creation, economic growth with equity, and food security strategies of Sri Lanka. For this, Section II provides a brief background on the basic debate between economic growth strategies and human development programs and makes a comparison with selected countries in Asia. In Section III, a range of relationships related to economic growth, social equity, and the incidence of poverty is examined in comparison with other countries to justify the general patterns observed and reported in the World Bank documents. These relationships are investigated in Sri Lanka in terms of economic growth, poverty, and unemployment in Section IV. Section V is devoted to analyzing the policy dilemma in food security and agricultural subsidies where Sri Lanka's domestic agricultural and food policy is intricately connected with the global economy and world market forces. The primary focus is given to domestic rice production and wheat import policies. The paper concludes in Section VI with a series of policy dilemmas for Sri Lanka whose globalized economy is in fact closely linked with agricultural and subsidy policies of other food exporting and producing countries in Asia and the United States.

II
THE DEBATE IN ASIA: ECONOMIC GROWTH OR HUMAN DEVELOPMENT?

With a relatively lower GNP per capita income of $540 in 1992, Sri Lanka maintained a comparatively high human development 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 1). It is noted that the life expectancy at birth in Sri

Lanka was higher than South Korea. Indonesia and Malaysia with their colonial legacy and Thailand with its Buddhist heritage have attained an impressive economic growth, but not Sri Lanka with similar colonial and Buddhist history. Beside the cultural dimension to this development puzzle, the World Bank maintains two major policy factors that attributed to Sri Lanka's human development are:

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 1950-93 (the rate of population growth was less than 2 percent).

Table 1
Growth of GNP Per Capita and Life Expectancy in Selected Countries

Countrv	GNP Per Capita 1960 (in current 1960 USS)	GNP Per Capita 1992 (in current 1992US$)	Change* (%)	Life Expectancy at Birth Years (1994)
Indonesia	51	670	1,214	63
Malaysia	273	2,790	922	71
South Korea	156	6,790	4,253	71
SRI LANKA	141	540	283	72
Thailand	96	1,840	1,817	69

Note: *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: p. 29. The Life Expectancy data from World Development Report 1996, (New York: Published by the Oxford University Press for the World Bank), Table 1, pp. 188-89.

With this framework, the World Bank report, Sri Lanka Poverty Assessment (1995: p. 29), assesses 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" which "were less supportive of economic growth." The "policies" implied here are liberalized and open market policies which were seemingly the engine of the

East Asian economic miracle. In The East Asian Miracle (1993), 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.

With a relatively poor economic performance, Sri Lanka has modeled its policies and programs after the East Asian miracle to reduce the incidence of poverty, to increase economic growth, and to secure food requirement in daily calorie intake. This strategy has been questioned by Amartya Sen, Professor Economics and Philosophy at Harvard University and the President of the American Economics Association. In his article in the Scientific American, Professor Sen (1993) argues that a nation can indeed reach the ends of development (i.e., human development and welfare) by being poor as Sri Lanka demonstrated. 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 in his 1981 article that Sri Lanka pushed for higher human development. Professor Sen (1981: p. 295) 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." This observation has further convinced Professor Sen (1983: p. 753) 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.

This highlights some warning signs for those who singularly believe in the superiority of market mechanism over public policy intervention in economic growth and 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 development objectives. The remainder of this paper critically examines widely held notions on free market solutions to poverty alleviation and food security in Sri Lanka.

III
THE ENGINE OF ECONOMIC GROWTH AND SOCIAL EQUITY IN ASIA

Many economists and development professionals believed (and still do) that a higher economic growth rate would achieve a greater income equality and reduce the rate of unemployment. With the 1977 economic growth and export-led industrialization policies, Sri Lanka expected to reach these objectives. In a recent survey of 114 countries by the United Nations' International Fund for Agricultural Development (IFAD) 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 1965-88 period (The State of the World Rural Poverty, 1992: p. 3 and Chart 1.1). Some observers explained this pattern is a starting point for greater equality. Similarly, the Kuznets theory suggests that in the early stages of development the distribution of income becomes worse before it gets better. Kuznets (1955, 1963, and 1966) 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. The income distribution measured by the Gini coefficient illustrates that there is a pattern to suggest the validity of Kuznets theory (Table 2). Sri Lanka, for example, has led a path of increasing income disparity after economic liberalization and has now shown in 1990 that Gini coefficient returned closer to 0.30s (or 30 percent) of the 1969-70 level. In the global survey by IFAD, The State of the World Rural Poverty (1992: p. 7) report concludes that overall income distribution "has not always worsened during this process, because of compensatory shifts of income to middle groups." Mendis (1992) concurs that the case of Sri Lanka's narrowing income gap is associated more with the introduction of the Janasaviya Poverty Alleviation Program of the late 1980s which began to transfer funds to the poorest sector rather than the results of economic growth strategies. It is more likely that public action programs similar to the Million Housing Program in Sri Lanka, the Saemul Undong Program in South Korea, the Solidarity Program in Mexico, and the Grameen Bank in Bangladesh may have interplayed

Table 2
Share of Household Income Distribution and Gini Coefficient in Selected Countries

Country	Survey Year	% Share of Household Income Lowest 20%	Hiehest 20%	Quintile Ratio	Gini Coefficient
Bangladesh	1963-64	7.7	45.7	5.9	0.35
	1973-74	6.9	42.2	6.1	0.33
	1985-86	7.0	46.0	6.6	0.35
Brazil	1959-61	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
India	1964-65	6.7	48.9	7.3	0.37
	1975-76	7.0	49.4	7.1	0.38
	1983	8.1	41.4	5.1	0.30
Malaysia	1959-61	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
Mexico	1963	2.9	57.7	19.9	0.54
	1977	2.9	54.4	18.8	0.47
Pakistan	1969-71	8.0	41.8	5.2	0.37
	1970-75	8.0	42.0	5.3	0.37
	1984-85	7.8	45.6	5.8	0.34
Philippines	1959-61	4.2	56.3	13.4	0.51
	1970-71	3.7	53.9	14.6	0.45
	1985	5.5	48.0	8.7	0.39
South Korea	1969-71	7.1	44.5	6.3	0.41
	1976	5.7	45.3	7.9	0.36
SRI LANKA	1969-70	7.5	43.4	5.8	0.33
	1980-81	5.8	49.8	8.6	0.39
	1985-86	4.8	56.1	11.7	0.45
	1990*	8.9	39.3	4.4	0.30
Thailand	1962	6.2	50.9	8.2	0.46
	1975	5.6	49.8	8.9	0.40

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: The State of the World Rural Poverty: An Inquiry into Its Causes and Consequences, (1992), edited by Idriss Jazairy, Mohiuddine Alamgir, and Theresa Panuccio, (New York: Published-for the International Fund for Agricultural Development by the New York University Press), Appendix Table 5, pp. 402-403. *The 1990 figures are from the World Development Report 1996, (New York: Published for the World Bank by the Oxford University Press), Table 5, pp. 196-197.

positively in the process of poverty reduction. The declining income gap in Malaysia expressed in the Gini coefficient ratio seems to indicate that economic growth with a wide range of discriminatory policies on Bumi Putras and non-Bumi Putras seemingly attributed to the pattern.

The inverted-U curve effect of Kuznets theory has not necessary followed its historically observed pattern in the contemporary context. The results were rather mixed. In a comprehensive study of 43 developing countries, Adelman and Morris (1973: pp. 178-79) 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.

This pattern has been further observed by The State of the World Rural Poverty (1992: pp. 7-9). With the dual sector economy in Sri Lanka, as highlighted earlier, the export commercial agriculture has traditionally been more favored over subsistence agriculture. In addition to this, there is another dichotomy in the emerged post-1977 economy between the highly emphasized manufacturing and textile sector and the less important 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 experience of the high performing Asian economies, including Hong Kong, South Korea, Malaysia, Singapore, and Thailand, has been widely cited as unusually low and declining levels of income inequality as the rate of per capita income increases. The World Bank with its The East Asian Miracle (1993) illustrates that these countries' income inequality as measured by the ratio of the income shares of the richest 20 percent and the poorest 20 percent of the population is among the lowest in developing countries. 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. Liberalized economic policies may have certainly created a conducive environment to unleash the entrepreneurial zeal in these economies. To a larger extent, a range of discriminatory 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 were 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 in the industrialization path. Such transformation has evidently forced necessary social infrastructures for them to maintain a relatively more equal income distribution. The industrialized strategies of these countries have thus been guided more by state mechanism than laissez faire trade policies as commonly emphasized and popularized.

In an extensive study on South Korea, Alice Amsden (1989) finds that the miraculous success was not necessarily resulted from open market economics but rather by getting prices "wrong" by state interventionist policies; 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 United Nations' report, The State of World Rural Poverty (1992), concludes that the effective land reform and the protection for industry at the initial stage led higher incomes for the peasantry to demand for consumer goods. It further reports (p. 11) 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.

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, it does not necessarily attribute solely to free market policies. Yet, the World Bank group naturally supports the notion that economic growth induced by free market is most important explanation according to The East Asian Miracle (1993) and Stanley Fisher (1993).

IV
THE INCIDENCE OF POVERTY AND UNEMPLOYMENT IN SRI LANKA

In Sri Lanka, the growth of output over the period of 1965-88 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 the case where rural poverty has worsened between the mid-1960s and the 1980s. The State of the World Rural Poverty (1992) reveals that the increase of rural poverty among 114 countries surveyed, 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,OOO in 1965 to 6,101,OOO in 1988. Despite its GNP per capita annual growth at three percent, the rural population below the poverty line in Sri Lanka has increased over 250 percent during the same time period (Table 3).

The World Bank statistics indicate that the incident of poverty as a measure of headcount index shows that the level of poverty declined from 40.6 percent in 1985-85 to 35.3 percent in 1990-91 (Table 4). Here, the definitional, methodological, and technical measurements should certainly be noted as they varied between the 1992 United Nations' State of the 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 country-wide absolute poverty over the two surveys has in fact declined (Table 4). The Bank report, Sri Lanka Poverty

Table 3
Growth of GNP Per Capita and Changes in the Incidence of Rural Poverty for Selected Countries, 1965-88

Country	GNP Per Capita Annual Growth Rate 1965-88 (percent)	Percentage of Rural Population Below Poverty Line 1965	1985	%Increase*
Bangladesh	0.4	83	86	4
China	5.4	6	14	133
Ecuador	3.1	65	65	0
Egypt	3.6	17	25	47
Indonesia	4.3	47	27	-43
Malaysia	4.0	59	22	-63
SRI LANKA	3.0	13	46	254
Tanzania	-0.5	65	60	-8
Thailand	4.0	56	43	-23

Note: *The percentage increase is calculated between 1965 and 1988.

Source: The State of the World Rural Poverty: An Inauiry into Its Causes and Consequences, (1992), edited by Idriss Jazairy, Mohiuddine Alamgir, and Theresa Panuccio, (New York: Published for the International Fund for Agricultural Development by the New York University Press), ble 2.2, p. 7.

Table 4
Population Shares, Mean Consumption, Poverty Line, and Gini Coefficient in Rural, Urban, and Estate Sectors in Sri Lanka, 1998-86 and 1990-91

Survey Year	Rural	Urban	Estate	Sri Lanka
1985-86				
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
1990-91				
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

Notes: *Mean consumption prices at 1990-91 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 1990-91 survey and same months of the 1985-86 survey.

Source: World Bank, Sri Lanka Poverty Assessment, Report No. 13431-CE: Table 1.4 on p. 7, Table 1.5 on p. 8, and Annex 2 on pp. 86-94.

Assessment (1995: p. 8) which excludes the war-toned North and East 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.

The World Bank then provides a possible explanation for this decline by citing an article by Datt and Ravallion (1992) which attributes to "growth and redistribution components." In the final analysis, the Bank report (1995: p. 9) asserts that "this intuitive interpretation is confirmed by formal discomposition of the changes in poverty in the 1985-86 to 1990-91 period into a growth component and a redistribution component, ..." 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 which has transferred massive fund outflows to the rural poor for consumption (Janasavipath) needs which was more than 50 percent of the total allocation 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 had been targeted for the rural poor. During this period, the rural mean consumption per month increased from Rs. 708 in 1985-86 to Rs. 744 in 1990-91 while the mean consumption in the urban and estate sectors declined (Table 4). In the rural sector, the Gini coefficient narrowed its gap from 29.9 percent in 1985-86 to 27.6 percent in 1990-91. The closing gap in the estate sector Gini coefficient may have been associated with the increases in salary and off-estate employment opportunities. A slight decline in population in estates was shown as there was a slight gain in the share of the urban population.

The World Bank report on Sri Lanka Poverty Assessment (1995) 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 1985-86 to 35.3 percent in 1991-91 (Table 4). The reason for the declining poverty, which was uneven for rural, estate, and urban areas, is cited by the Bank report (1995: p. 9):

> 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.

` 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 which is related 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 be reached to the bottom and 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 "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 are 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 40 years. There is still youth unrest and political conflicts which may be associated with high unemployment, especially among the educated and rural youth population. This has been exacerbated by the clearly divided perception and social psychology created by excessive concessions and incentives given to the rich and foreign investors while reducing services to the poor in health, education, food subsidies, and other social welfare programs. Beyond human psychology, the educated and frustrated youth find no opportunities with the growth of the economy. This may have attributed to a wide range of reasons including the prevailing educational system, the continuing non-alignment with labor market needs, and the less proficiency in English language in order to be productively employed in the private sector. But the existing unemployment rate has calibrated around 14-15 percent on the average over the past 50 years. The data in Table 5 demonstrates that the rate of unemployment has in fact slightly declined soon after the introduction of liberalized trade policies from 15.3 percent in 1980-81 to 14.4 percent in 1990 but the lowest level of 13 percent in the 1960s and 1970s was not achieved.[2] The reduction in unemployment soon after the open market economy is also associated with employment opportunities in the Middle East and Persian Gulf countries and the removal of foreign exchange control.

Yet, a significant decline in the labor force participation rate (item 6 in Table 5) and in the ratio of employed to the total population (item 8 in Table 5) from 1953 to 1963 suggests a correlation with "little economic growth" according to the Bank's analysis (Sri Lanka Poverty Assessment, 1995: p. 13). The economic rationale for this analysis was based on the annual growth of private per capita consumption. The Sri Lanka Poverty Assessment (1995: p. 6) report further "implies that there must have been a very significant decline in consumption poverty incidence in Sri Lanka in the 1953-85 period." This assertion is relied on the trends of private consumption per capita and does not represent a validity that higher per capita consumption is associated with "economic growth." After the 1977 trade liberalization, there has been a relatively higher annual economic growth as well as an increasingly high per capita consumption (Table 6). Here, the consumption-led economic growth is not clearly evident for several reasons:

[2] In Sri Lanka, like any other developing country, the employment data can be deceiving, especially in the rural and estate sector labor markets. For a different perspective, it must be noted that the U.S. unemployment statistics remain contradictory and controversial.

Table 5
The Labor Force, Employment, and Unemployment in Sri Lanka, 1953-90

	1953	1963	1969-70	1980-81	1985-86	1990
1. Labor force (000s)	3,254	3,317	4,168	5,595	5,972	6,968
2. Employed	2,714	2,859	3,609	4,738	5,132	5,964
3. Unemployed (000s)	540	458	559	857	840	1,005
4. Unemployment rate (%) (3/1)	16.6	13.8	13.4	15.3	14.1	14.4
5. Population age 10 & over (000s)	5,803	7,626	8,867	12,032	12,573	13,073
6. Labor force participation (%) (1/5)	56.1	43.5	47.0	46.5	47.5	53.3
7. Total population (000s)	8,098	10,463	12,384	14,867	15,9777	16,993
8. Employed/Total population (%)	33.5	27.3	29.1	31.9	32.1	35.1

Notes: The original sources of data are collected from the Consumer Finance Surveys (Central Bank, 1953 and 1963), the Socio-Economic Survey (Department of Census and Statistics, 1969-70 and 1980-81), and the Labor Force and Socio-Economic Survey (Department of Census and Statistics, 1985-86 and 1990). These surveys include the Northern and Eastern provinces. The 1990 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 exists definitional differences among the various labor force surveys and other problems which render comparability difficulty. A caution may be warranted.

Source: World Bank, Sri Lanka Poverty Assessment, Report No. 13431-CE: Table 1.7 on p. 13.

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 (Burton, 1992).

The open market economy has certainly provided more opportunities for those 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 gross domestic production (GDP), there exists a pattern between increasing consumption and greater imports with higher prices under the liberalized market policies. The growth of GDP and the increased consumption per capita have not yet generated more employment opportunities in the domestic economy as claimed to be accompanied by with 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 1985-86 and the share of private consumption as a percentage of GDP could have also declined below the 77.9 percent level in 1985 (cf. Tables 5 and 6). From this perspective, trade liberalization has indeed provided the opportunity to mobilize the domestic labor markets and to take 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 the World Rural Poverty (1992: p. 11), Taiwan received $1.5 billion in economic aid from the Untied States and South Korea received $6 billion between 1945 and 1978. Over 80 percent of South Korea's imports in the 1950s were financed by U.S. assistance. The U.S. aid helped to invest heavily in transportation facilities, communication network, educational and student exchange programs, and health care delivery systems. The same economic, cultural, and market conditions were not prevailing for contemporary Sri Lanka to capture the opportunities in the global marketplace. The expansion of world trade from 1963-73 increased at an annual rate of 8.5 percent and this was not sustaining 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 lower cost of production countries of India, Vietnam, Cambodia, and China. The quota under the Multi-Fiber Agreement (MFA) fluctuates according to global politics where trade and military strategic interests lie in favor of the importing countries, especially the Untied States (World Develoument Report, 1990). Over the past few years, the protectionist sentiments have also increased in other OECD countries despite the fact that the Uruguay Round and GATT 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 over 900 million consumers, has become more attractive to foreign investors and marketers than the neighboring island-economy of 18 million people whose disadvantage has further been

Table 6
Trends in Private Consumption Per Capita, 1953-93

	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 Rs. **1985 prices deflated by CPI, per month, in Rs.

Source: World Bank, (1995), Sri Lanka Povertv Assessment, Report No. 13431-CE: Table 1.2 on p. 4.

aggravated by the 14-year old, continuing ethnic war and political instability as a potential market. Yet, its strategic location in the South Asian region as well as the transit port between East and West still serves as an attraction for investment, though, it is underutilized.

V
FOOD SECURITY, AGRICULTURAL SUBSIDIES, AND THE ENVIRONMENT

As it was in the past, the labor intensive agricultural sector is still the most important sector in the economy. It employed 48 percent of the labor force in 1990 (52 percent in 1980) and contributed 24 percent to GDP in 1994 (28 percent in 1980).[3] The decline in labor force and GDP does not necessarily suggest a transfer of rural surplus labor to the urban industrialized sector with the introduction of the open market policies and the establishment of free trade zones in Colombo and its vicinity. The urban population remained relatively unchanged at 22 percent for several decades. This is a salient feature of Sri Lanka compared to other East Asian economies. In the industrialized East Asia, the composition of agricultural and industrial sectors in the GDP has changed rapidly as the urban population increased (Mendis, 1995: Figure 3 on p. 15). For over two decades of industrialization push, Sri Lanka's rural population structurally remained at the same rate as it was 50 years ago.

The land use area in cropland has, however, increased from 10 percent in 1980 to 29 percent in 1993.[4] The distribution of cropland by the tree crops plantation sector of tea, rubber, and coconut was 54 percent and the nonplantation sector, which primarily includes rice-paddy cultivation, was 25 percent in 1989-91. Other crops such as sugarcane, onion, potatoes, chilies, and maize for which Sri Lanka is a net importer was six percent while the minor tree crops (like cinnamon and cardamom) for export was 12 percent. The other remaining crops for domestic consumption was four percent. Due in part to a series of Land Reform Legislation, Sri Lankan agriculture can be

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3 The latest available data, World Development Report 1996, Table 4 on p. 194 and Table 12 on p. 210.

4 The latest available data, World Development Report 1996: Table 9 on p.204

characterized as smallholding. There is no land over 50 acres (20 hectare) owned by a family. According to 1982 Agricultural Census, about 94 percent of holdings were under five acres and they occupied 73 percent of the total paddy lands.5 Other lands over 50 acres were owned by the government. The land ownership and property rights are still major issues in agriculture.[6] Under the accelerated Mahaveli River Development Program, the government has begun to distribute lands to farmers. By 1992, over 144,000 families had been settled in 105 schemes under this Program. Every family was entitled to have a parcel of irrigatable land for rice cultivation and highland for other crops (Gunatilleke, 1992). The government has also introduced schemes to lease out land to private farmers and private entrepreneurs.

With this brief background, as emphasized earlier, it must be reminded that Sri Lanka had a long-standing policy in pursuing a rice self-sufficiency strategy. The consecutive post-colonial governments have encouraged farmers to devote irrigated land for rice cultivation. In ancient Sri Lanka, the rice cultivation was the model of indigenous development where the Tank (reservoir for irrigation) and the Dagaba (Buddhist temple for moral and spiritual development) were considered the other two-pillars of human development.[7] For many decades, the government provided land for landless farmers under the 1935 Land Development Ordinance. Other legislation was later added to govern the distribution of small holdings to landless farmers. The Agrarian Act of 1979, which made it illegal for farmers to grow crops other than rice in paddy land, was amended at the recommendation of the World Bank in 1991 in order to make it competitive to use the land for other profitable crops such as vegetables and fruits for export and domestic markets.

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[5] This is the most recent census on agriculture in Sri Lanka.

[6] It is estimated that the government owns about 82 percent of all land and about 45 percent of the total cropland in the country.

[7] The ancient irrigation technology in Sri Lanka is well noted. The International Irrigation Management Institute (IIMI), a global institution as part of the Consultative Group on International Agricultural Research (CGIAR), headquarters in Sri Lanka.

With these guiding strategies, Sri Lanka has arrived at nearer self-sufficiency in rice and has imported only about 10 percent of its total domestic consumption. The import rice at the free trade import parity prices in the world market are generally lower than the domestic prices at the wholesale and retail levels. It is, therefore, argued by the World Bank that the rice self-sufficiency policy with import restrictions "benefits paddy producers" and "hurts rice consumers" (Sri Lanka Poverty Assessment, 1995: p. 47). The dominant free trade theory of comparative advantage advocated by the World Bank has laid the foundation that the global market forces should be allowed to operate in order to maximize the consumer welfare (not necessarily small producers). One way to achieve this is to remove the "restrictions on rice imports (which) tend to raise domestic prices of rice." The Bank's Sri Lanka Poverty Assessment (1995: pp. 47-48) report hence argues that the effects of import protection are "quite damaging to those among the poor who are not paddy producers" and "more poor households are being 'taxed' by the protection. Only about 5 percent of poor households would be negatively affected by a reduction of rice protection." Under this proposed World Bank free agricultural trade regime, it is recommended that "all quantitative import restrictions and the minimum wholesale price should be eliminated" (p. 48). It further recommends that "these reforms should be accompanied by government assistance to rice producers to help them increase their productivity in rice production and to assist them in diversifying into other crops and livestock products" (p. 48). In facilitating this domestic economic alignment with global market forces, there seems to be potential negative impact directly on local producers and consumers and indirectly on the environment from two fronts:

1) Domestic rice production, which has been subsidized by inputs such as seed, irrigation, and fertilizer, is not efficient enough to compete with low cost imported rice; therefore, it is advantageous for Sri Lanka to divert rice land into other export crops. If they were to increase the productivity of rice, farmers would have to use more fertilizer, chemicals, high yielding varieties (HYVs), and other inputs which are costly.

2) The government involvement in rice marketing (and import as well) through the Food Commissioners Department (FCD) and the Cooperative Wholesales Establishment (CWE) prevents market forces to operate; therefore, these importing and distributing institutions should be eliminated and allow private companies to engage in these economic activities.

While the privatization strategy may create a more economic efficiency through private competition than the government monopoly, the rice diversification strategy for value-added export crops may lead to a greater economic, social, political, environmental, and cultural fallout than the anticipated comparative economic gains. Structurally, Sri Lanka's rural farming communities are still traditionally and ecologically linked to rice lands and to the indigenous farming culture. The millennia-old, multi-facedly integrated rice sector is an environmentally-tested sustainable system as is the case for the centuries-old export-led plantation sector which is considered as the life-blood of the foreign exchange earner and the linkage to the global economy. The exposure to international competition and privatization effort of the plantation sector is a sensible strategy; whereas, the indigenous rice sector is concerned, an operative framework for market economics to work domestically would enhance the efficiency and productivity. The element of subsidies to domestic agriculture and its interplay with the international rice economy is further discussed below to address the policy dilemma for Sri Lanka within the globalized and subsidized rice economy.

Along with rice, other food import restrictions in quota have recently been eliminated for several important food commodities. It is recommended that quantitative import restrictions in addition to rice should be eliminated for wheat (and wheat flour), sugar, and milk. The importation of wheat and wheat flour is different from rice because Sri Lanka does not produce wheat but a monopolistic private firm (called PRIMA, located in the eastern coastal town of Trincomalee) processes imported wheat into flour which is distributed by CWE. Unlike rice, the import of wheat does not hurt domestic farmers directly. But any restrictions on wheat import would increase demand for rice consumption and thus its prices. As a net importer of rice, however, the impact on the increase in rice price may not occur as long as the restrictions on rice are removed or relaxed as well as wheat. Since there prevails a range of economic and political pressures derived from relatively low import prices of rice at the world market level and the increasing domestic demand for wheat and other food commodities, Sri Lanka has to deal with a dilemma as to whether domestic rice production should be protected (absolutely or selectively) or allow the free market mechanism to find its way in order to take benefits from the comparative advantage for the welfare of consumers.

In the past, the consecutive governments have explicitly been driven by achieving the rice self-sufficiency objective with heavy public investment in the Mahaveli River diversification and irrigation schemes as well as new farmer colonization projects. Symbolically, Sri Lanka a few years ago exported a shipment of rice to East Africa. It seems unwise for Sri Lanka to change the potential of being a net exporter of rice in the foreseeable future. Recently, the International Rice Research Institute (IRRI) in the Philippines introduced a newer HYV of rice to further enhance rice productivity in the southern part of the country.[8] Yet, Sri Lanka's food security is closely linked to global markets and to the American PL 480 program for wheat. Therefore, the pressure from the global market forces to open up the domestic agricultural market seems inevitable. But, diverting rice land to other export crops for a short-term comparative advantage (unlike industrial goods) may not be the long-term solution to the food security situation in Sri Lanka.

Another World Bank report, Sri Lanka Nonplantation Crop Sector Policy Alternatives (1996: p. i), concludes that:

[8] It should be noted, however, that the Green Revolution has accompanied with negative externalities to small rice farmers with high input intensity at higher prices and environmental degradation and public health concerns. Many farmer organizations are being encouraged to cultivate rice organically. Some evidence suggests that organic rice cultivators could produce yield as same level as the non-organic farming with low cost. Furthermore, the IRRI laboratory experiments in the Philippines show that rice productivity of HYV is on decline or stagnated in the long run. Therefore, a push for a second Green Revolution should be advanced with caution given the environmental and public health issues related to high input intensity.

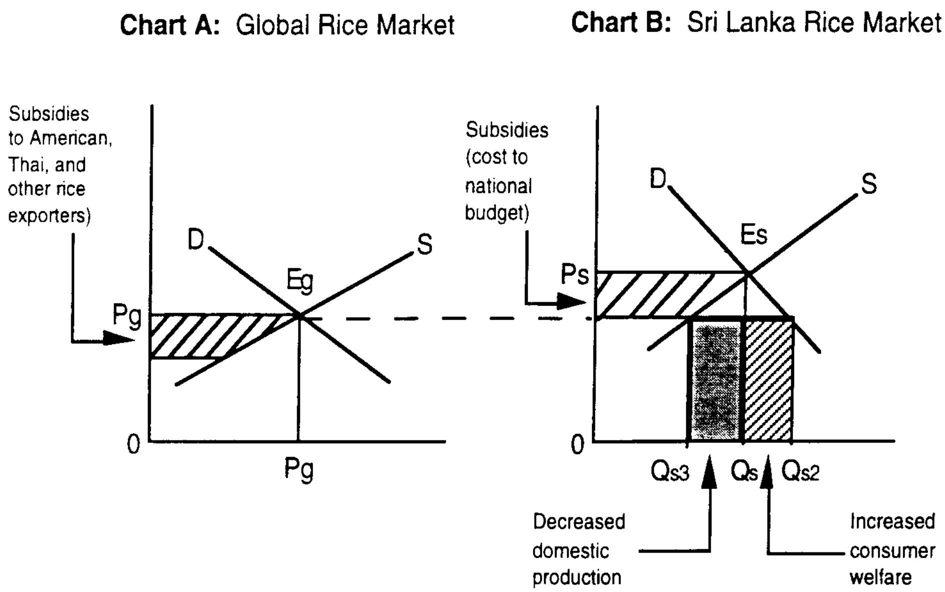
> Overall, Sri Lanka currently shows no comparative advantage in production in rice or OFC (Other Food Commodities) in either major or minor, irrigated or rainfed agriculture. Domestic production is much more costly than imports. Obviously, with appropriate amendment in the incentive structure for farmers and improvement in productivity, this will change. While not all rice production is noncompetitive with imports, a large amount is.

The main argument here indicates that large subsidies to irrigation and rice-paddy would cost the tax payers and the government in transfer of funds to benefit rice farmers at the expense of consumers. Rice farmers are in fact, according the Bank's analysis, "low-value crop" producers and rice consumers have to pay 30 percent more than world market prices of rice costing about $125 million per year for the national treasury. In sum, the Bank report concludes that the cost of supporting non-competitive domestic rice production is close to five percent of GDP; therefore, the removal of subsidies and the reduction in import tariffs on rice and other OFCs should be established for the free market to operate in order to benefit consumers, not rice producers. According to Sri Lanka Nonplantation Crop Sector Policy Alternatives (1996:p. ii), this provides rice farmers:

> The opportunity to phase into production of higher valued export crops. With a decline in rice prices, consumers will benefit, as will most small farmers because they consume more rice than they produce.

This consumer-driven supply-side economics may achieve the desired policy goals by the increase in rice import to meet the local demand at low world market prices. In Figure 1, Chart A illustrates this point that the global market price of rice at Pg which is lower than Sri Lanka's domestic price at Ps in Chart B. With a lower price, the quantity of domestic consumption would increase from Qs to Qs2 by raising consumer welfare. At the same time, this would be a disincentive to domestic rice farmers and the quantify of domestic rice production would decrease to the level at Qs3 from Qs. Such a strategy of shifting of farming from "low-value rice" to "high-value export crops" would work under this linear economic theory. Yet, the anticipated danger in this policy prescription comes from two sides:

Figure 1
A Framework for the Rice Economy in Partial Equilibrium Analysis



1) The already debtor nation of Sri Lanka with an increasingly high debt service ratio may run into foreign exchange difficulties if it continues to import while abandoning small farmers. This also derails the potential benefit of the massive public investment in irrigation infrastructure dedicated to rice farming. On the other hand, if domestic high prices of rice (at Ps in Chart B, for example) are to be maintained, it would serve as an incentive for farmers to increase production in the short-run and to employ more people in the already surplus rural labor market. In the long-run, as domestic rice production increases, the competitive domestic market emerges to benefit consumers as well.

2) The low price imported rice may discourage farmers, as anticipated, and force them to find off-farm income avenues to sustain their rural livelihoods. Such displacement may be costlier than subsidies (toward this end, some reflections can be more useful as we associate with youth unrest and simmering violence in rural areas). It also raises the question: how and where will these poor

farmers find competitive high-value crops? How long will that take? How long can they maintain that comparative advantage? And, are they ecologically sustainable in Sri Lanka?

In a policy blue-print titled Sri Lanka in the Year 2000: An Agenda for Action (1996: p. 19), the World Bank strongly recommends to diversify those rice lands into "higher value-added crops, in particular fruits and vegetables." To facilitate this scheme, it further recommends an agricultural land market reform whereby farmers are given property rights so that they could buy and sell their lands in an open market. Since the government owns closer to 50 percent of agricultural lands, the transfer of land to private ownership under the 1991 Agrarian Services Act would foster a fair land market system and would unleash individual enterprenuership. The underlying purpose of this scheme is, however, not to alleviate poverty among landless and marginalized small farmers, but rather to facilitate private companies and large businesses to operate for export-led agricultural crops when the land markets emerge from the complex and complicated land tenure and ownership system. This will especially be true in the Mahaveli resettlement areas in the dry zone. Although the individual property and market system of land ownership are better served for small farmers than the government ownership, there still exists the same questions related to the comparative advantage of these corps over rice cultivation which need to be resolved. The validity of this policy recommendation may fade away as if Sri Lanka begins to import low priced fruits and vegetables from neighboring Asian countries whose government intervention in a form of subsidies and other incentives is more favorable to their export-oriented agricultural sector. The earlier strategies for self-sufficiency which were implemented in rice production with massive public investment in irrigation network by the World Bank and other donor agencies may resonate the similar argument made here. Yet, the changing nature of globalized market needs presents Sri Lanka with a policy challenge ahead.

One may still ponder as to whether a small agricultural nation like Sri Lanka would in absolute terms benefit from the agricultural globalization as opposed to the comparative advantage shown in industrial and technological globalization. A policy driven by global economics in agricultural crops compared to industrial goods seems to be illusive, especially when Sri Lanka is closer to self-sufficiency in rice. More importantly, when protectionist policies and subsidized agriculture prevail in exporting countries with oligopolistic world agricultural system (with subsidy, price fixing, and other market manipulations), how could Sri Lanka expect to benefit from comparative advantage in the process of globalization? Under the Uruguay Rounds and GATT negotiations, agriculture has been widely debated with its complexities in US agriculture and the Europe's Common Agricultural Policy (CAP) with subsidies. Yet, an aggressive shift from rice farming to higher value crops appeared to be an attractive alternative based on neo-classical economics reasoning and logic but such a policy option should be considered within a larger framework of national interest and the nature of subsidies and protectionist agricultural policies of rice (and wheat) in exporting countries. When and if those countries' rice producers are subsidized, the market prices at the world market have already been distorted. The global rice market price, shown in Chart A in Figure 1 for example, is not necessarily the free market price. A various form of subsidies and other indirect assistance is provided to American and Thai rice farmers for political and economic reasons. When Sri Lanka attempts to formulate a domestic agricultural policy based purely on free market economics and the world market rice prices which are inherently distorted, could the anticipated result be beneficial to domestic small farmers as well as to consumers in Sri Lanka? In the midst of rapid globalization, any strategic changes related to the land-based agricultural system, which is immobile relative to other form of economic activities and the factors to production, should carefully be considered only if and when the world market prices are completely free of any intervention and distortion in a form of subsidies or other quantitative and qualitative restrictions.

With the reduction of domestic subsidies and increasing input prices, like fertilizer, seeds, and chemicals, the poor farmers could not afford to sustain their farming livelihoods. A very important finding in the World Bank's Nonplantation Crop

Sector Policy Alternatives (1996) is that sectoral output is stagnant in the rice sector because farmers choose to work off-farm activities. The increasing input prices and import rice and wheat may be associated with this change.[9] The Bank report asserts that farmers made a "choice" to engage in outside activities. Yet, the Report argues, that the government provides extension services, free water, and other input subsidies (seeds and fertilizer), to protect the rice sector from imports. Still farmers spend one-third of their time in off-agriculture. The question raised here is why? One argument suggests that imported wheat and rice are cheaper than locally produced products. This is related to the global food security problem where the US and the EU are involved with the agricultural subsidy issue. The US and Japan trade war on rice, for example, raises a similar question that Japan should open its rice market to American competition whereby counterpoints are made on the farm subsides in the US agriculture which reduce the cost of their exports to other countries. The food recipient nations, like Sri Lanka, could not afford to compete with the subsidized farm commodities at the dominant world market prices which are in fact subsidized; and, therefore, are lower than domestic price. As highlighted at the Ps price level in Chart B in Figure 1, the high cost associated with inputs, farmers find it a disincentive to engage in rice farming. More and more poorer small farmers could not afford to do so. Their production level would decline to Qs3 level. Relatively larger farmers consolidate the lands which are more economically viable than those individual small farmers to operate. Thus, it is a forced "choice" for a growing number of farmers to find other income alternatives. Should a policy continue to reserve this trend? Or, economically unaffordable farms should be neglected for the sake of illusive efficiency and competition? The low cost rice import at the world market prices is a rational and economically sensible alternative. Could it be sustained when there exists a growing

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[9] The government restored the fertilizer subsidy which was removed in 1990. But this subsidy was again replaced in April 1995 with a scheme which puts a ceiling on the budgetary cost and limits its application to four basic fertilizer: urea, ammonium sulfate, muriate of potash, and triple super phosphate. The cost of import of fertilizer to the national budget varies according to world prices. With the decreasing government monopoly of fertilizer import, there are more than 15 registered private import companies in the fertilizer market and is considered to be relatively competitive.

number of unemployed rural farmers who could not even afford import with their off-farm income? With the structural nature of trade relations between Sri Lanka and the US and other global food exporters, it is a policy dilemma for Sri Lanka. The forces of economic globalization, which are accepted and implemented without considering the national security needs at the perceived benefits of global economics, have not thus far created a market environment to achieve the desired goal: to alleviate poverty and reduce unemployment.

The national food assistance programs, which are financed by domestic and external sources, are used as important means of alleviating poverty among the poor. During the early years of the post independent Sri Lanka, the consecutive governments maintained subsidies. After the trade liberalization, governments took steps to reduce the share of the national expenditure on subsidies to reduce hunger, malnutrition, and poverty simultaneously. A host of other safety nets in a form of the Janasaviya Poverty Alleviation Program, the Food Stamp Program for the Poor, the Mid-Day Meal Program for School Children, and other public assistance programs including the assistance to displaced and refugee population in the civil conflict is a potion of national budget. In 1992, the fiscal cost of such transfers consisted of about two percent of GDP.[10] A reduction in all programs is recommended by the World Bank. The 1994 elected government attempted to improve the targeting of these programs to the poor and consolidated the food stamp, mid-day meal, and the Janasaviya program into a more effective program called Samurdhi or Prosperity.

The public transfer of money in the form of Samurdhi programs or agricultural subsidies to the poor and rural farmers has two intrinsic problems: targeting and efficiency. While targeting demands an effective administrative mechanism to deliver them efficiently, the subsidies tend to distort the free market mechanism. Both are evident in Sri Lanka. Under the Janasaviya Program, non-poor and politically-favored recipients have benefited. The Samurdhi Program is targeted to about 1.2 million

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[10] The safety nets and other transfer programs including wheat flour and fertilizer subsidies come to 3.5 percent of GDP.

households (about 30 percent) compared to about 1.5 million households who had received food stamps and mid-day meal coupons. The subsidies on wheat and wheat flour as well as fertilizer seem to favor the rich who could afford them in the open market. The incident of the wheat flour subsidy demonstrates this pattern (Table 7).

Within the South Asian region, Sri Lanka has the highest per capital expenditure on food subsidies in 1985 (Table 8). Among other countries, Sri Lanka's expenditure on subsidies is relatively low. Egypt, as one of the largest recipients of international food aid from the United States, has the highest per capita expenditure on subsidies. Mexico ranks relatively high as well (Table 8). In terms of the share of the total government expenditure, the cost of subsidies varies from one country to another (Table 9). Despite its budgetary constraints, Sri Lanka has still maintained relatively high outlays of subsidy expenditure at 1.16 percent of GDP compared to its South Asian neighbors of India (0.36 percent), Bangladesh (0.63 percent), and Pakistan (0.48 percent) in 1985 (Table 9).

Table 7
Incidence of the Wheat Flour Subsidy in 1995

Richest (in income Deciles)	Rs. in million
10th (richest)	**893**
9th	**722**
8th	**659**
7th	**580**
6th	**515**
5th	**458**
4th	**389**
3rd	**346**
2nd	**264**
1st (poorest)	**174**

Source: World Bank, Sri Lanka in the Year 2000: An Agenda for Action, (1996), Report No. 15455, Joint Sri Lankan and World Bank Study, March 14, p. 35. This is based on the Household Expenditure Survey Census in Sri Lanka.

Table 8
Government Expenditures on Explicit Food Subsidies in Selected Countries

Country	Year	Expenditure Total US$ million	Per caput (US$)
Bangladesh	1985	89.30	0.91
Brazil	1985	323.19	2.38
Colombia[a]	1982	2.41	0.09
Egypt[b]	1985	2,933.51	60.48
Egypt[c]	1985	1,337.80	27.58
India	1985	691.24	0.92
Mexico	1984	1,110.50	14.46
Morocco	1985	277.48	11.75
Pakistan	1985	145.53	1.51
SRI LANKA	1985	68.44	4.32
Zambia	1982	17.01	2.82

Notes: Subsidies include both targeted and general subsidies. [a]Subsidies discontinued in 1982. [b]Using official exchange rate. [c]Using free market exchange rate.

Source: Cornia, A. G., Richard Jolly, and F. Stewart, eds., (1987), Adjustment With a Human Face, Volumes 1 and 2, (Oxford: Clarendon Press).

With the policies associated with the Structural Adjustment Program of the World Bank and the Macroeconomic Stabilization Program of the IMF, Sri Lanka as well as other countries attempt to reduce national resources devoted to social welfare. The direct beneficiaries, who are the poor and hungry, are impacted the most. A study by Edirisinghe (1987) at the Institute for Food Policy Research Institute (IFPRI) surveys the reduction on the food subsidies scheme in Sri Lanka. It illustrates that elimination or reduction of subsidies has directly impacted the lowest percentile of income earners, especially on the daily nutrient and calorie intake aspects among the poor.

While the government policies are being pressured to realign with the open market strategies and globalization, the higher food prices have consequently affected the poorer consumers. Cornia, Jolly, and Steward (1987) observed that Sri Lanka by 1985 reduced its food subsidy expenditure to 42 percent from the 1980 level. The

Table 9
Government Expenditures on Explicit Food Subsidies as Percentage of Total Government Expenditure and Gross Domestic Product (GDP)

		Expenditure	
Country	Year	% of Total Gov. Exu.	% of GDP
Bangladesh	1985	3.78	0.63
Brazil	1985	1.65	0.16
Colombia	1982	0.04	0.01
Egypt	1985	15.58	6.64
India	1985	2.19	0.36
Mexico	1984	2.59	0.63
Morocco	1985	7.91	2.33
Pakistan	1985	4.11	0.48
SRI LANKA	1985	2.77	1.16
Zambia	1982	1.21	0.44

Notes: Subsidies include both targeted and general subsidies.

Source: Cornia, A. G., Richard Jolly, and F. Stewart, eds., (1987), Adjustment With a Human Face, Volumes 1 and 2, (Oxford: Clarendon Press).

United Nations' Food and Agricultural Organization (FAO) Report, Technical Background Documents (Vol. 3,1996: p. 30), prepared for the 1996 World Food Summit, highlights the consequences of Structural Adjustment Programs:

> Cuts in social expenditure and service have affected the poor, who are the most dependent on public support, and economic adjustments have resulted in increases in unemployment and in a decline in incomes for many; this is bad news for the hungry, given the close relationship between poverty and hunger.

In Sri Lanka, while the decline in subsidies on food commodities directly impacts the poor, there also exists no food shortage due to import liberalization policies. Yet, higher open market prices hurt rural and urban consumers but help farmers to produce more food.

VI
GLOCALIZATION: A POLICY DILEMMA FOR SRI LANKA

The development issues and food security problems in Sri Lanka are more complex and complicated than they appeared to outside observers. Sri Lanka represents a mix of a first wave (agricultural), second wave (industrialized), and third wave (information) nation that is attempting to adapt into the rapidly changing global economy. Policy-elites, who live on the virtual realities of "informatized" world, worked with the industrialized framework of East Asia, yet the beneficiaries of these policies are still living in the first wave of agricultural rural society which is structurally rigid for cultural and socio-ethnic reasons. The policy gap between policy implementation and impacted assessment on recipients is enormous. Income between rich and poor is also widening, environmental degradation is rising especially in urban centers, and political stabilization is costing both in financial and human terms.

The rapid globalization of world trade and open market policies is being painfully interfaced with local economy while creating a set of moral, human, social, and ecological externalities. This interplay of global forces at local communities is called "glocalization," not globalization. The introduction of liberalized trade policies of 1977 with corrective measures of poverty alleviation programs -- Janasaviya and Samurthi -- that followed to narrow the gap between the rich and the poor apparently have not taken effect to validate the Kuznets U-curve. The liberalized policies have in fact accelerated the economic growth and have somewhat deterred the internal and external shocks from the ethnic war and the vagaries of the international economy. The paradox of policy alternatives prescribed by the World Bank and other donor agencies is that the very objectives they seek to maximize have seemingly been overshadowed by the expected result of reducing poverty and promoting sustainable development at the "glocalization" process.

Overall, the experience suggests that free market economics could sustain better development objective for the majority of people than the nationalistic inward-looking policies pursued by the government prior to 1977. The land reforms, the nationalization efforts of plantation sector, and the government intervention in market have also had detrimental impact on the poor even though the ideological arguments on the surface convinced policymakers in favor of the poor. The post 1977 policies were formulated with the shift of paradigm in development thinking and the influence of economic growth strategies of the four East Asian Tigers of Hong Kong, Singapore, South Korea, and Taiwan. Without a careful analysis of historical linkages and unique cultural framework of these Four Tigers and Baby Tigers of Indonesia, Malaysia, Philippines, and Thailand, Sri Lankan policymakers have indiscriminately replicated several sets of macroeconomic policy instruments which fully integrated the local economy into the global trading system. The liberalized economy has created new opportunities for some people but alienated many. The process of globalization is not fully compatible with the structural rigidities which are intrinsically interwoven with cultural, religious, and traditional values of the rural economy where more than 75 percent of the people live and work. Any attempt to disrupt the rural social infrastructure and the agro-ecological farming system would be counterproductive and seemed to have displaced many people and their sustainable livelihoods. The expected social costs and ecological externalities associated with drastic economic transformation by policy intervention without a battery of sensitivity analysis based on social and ecological accounting would be dangerous. The root causes of ethnic war in the North and East provinces as well as youth uprisings in the South and elsewhere in the country may be associated with the single-minded economic policy-drive without considering the impact on the poor and the unemployed. The fragile ecological system in the island would also react to the consequences of policy imperatives.

Sri Lanka, for example, has recently been singled out as having the world's highest suicide rate among farmers (who take chemical, fertilizer, and pesticides as poison) due to a host of economic and social reasons. It is reported that the total number of deaths by suicide is higher than the total number of human lives lost in the ethnic civil war between the 1983-96 period which is roughly estimated to be more than 55, 000 people. This does not imply that the process of glocalization is responsible directly for the suicidal rate. But, we should not exclude this externality in the economic analysis. An analysis of sociological and psychological impact on the poor is an important element in economics because the way of economic livelihoods of the poor and the disadvantaged is closely related to public health, social, and environmental issues. The impact on such issues should, therefore, be fully integrated in economic analysis and policy formulation. Therefore, public policy intended for an expected economic growth objective should not underscore the potential costs resulting from social unrest and ecological disasters as we witness among Tigers of East and Southeast Asia where employee rights and human freedom are violated and environmental degradation has made urban living uninhabitable in population clusters of major cities, especially Seoul and Taipei, in East Asia.

The lessons are becoming clearer for Sri Lanka to emulate the best of market economics and statecraft like some other Asian Tiger economies did (similar to that of Singapore) in order to maximize its national interest in a system of multi-ethnic democratic governance while preserving the cultural identity and minimizing negative externalities related to the environment, labor standard, social cost, and public health issues. These linkages are becoming increasingly important in analytical framework of neoclassical economic theory which drives the cult-like economic growth objective as a fashionable solution these days. Economic growth is indeed a key element of the irreversible globalization process which transforms our individual, family, and community lives with glocalization. Yet, the deficiencies of economic theory must be recognized by recurring negative evidence of glocalization and thus complemented with an analysis of non-economic factors which are intricately associated with the quality of life and human security at the individual level. Most often, the best things in economic life come paradoxically with non-economic factors. Descriptive and predictive failures in economic theory should, therefore, be improved with a sensitivity analysis of evidence and impact assessment in policy analysis and formulation. Market economics has shown that it does not itself take care of negative externalities of economic growth. A well functioning statecraft is indeed essential as guidance for Sri Lanka as it was the case for Four Tigers of East Asia, especially Japan and Singapore.

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