

A Study of Industrial Development in the Northern and Eastern Provinces during the Post-war Period

Osantha Nayanapriya Thalpawila¹

Introduction

Industrialisation is a leading strategy for economic development in developing countries since World War II. Twenty six years of civil war ended in 2009 and post-war reconstruction work was initiated by the Government in the hope of achieving lasting peace through economic development. The Government followed a comprehensive policy framework to initiate the process of post-war reconstruction under the Presidential Task Force and its two multi-pronged regional development strategies, namely Negenahira Navodaya (Re-Awakening of East) and Uthuru Wasanthaya (Northern Spring). Although a majority of the labour force in former war zones belonged to agriculture sector, the previous Government had taken a policy decision to develop the industrial sector in order to rapidly develop the area as well as to overcome unemployment.

The developed countries of Europe are pioneers of industrialisation (Szirmai, 2009). They were overtaken by the United States which became a modern developed economy in the nineteenth century. In the developing world, industrialisation was experienced since the end of the 19th century in Latin America and East Asia. Since World War II, the industrial sector has become a leading sector in many developing areas in the world (Maddison, 2001). Industrialisation is a driving force for foreign direct investment, technology, and growth of labour productivity which correlate with rapid economic development in the process of globalisation (Bairoch & Kozul Wright, 1996).

Objective of the study

The aim of this study was to explore Government work on industrial development and its effect on the economy of war-affected zones.

Methodology

This study was mainly conducted on primary and secondary data. Primary data was collected from in depth interviews of affected people from former war zones in Jaffna, Vauniya, Trincomalee and Batticaloa districts in Sri Lanka, and Government

¹ *Department of Economics, University of Kelaniya, Sri Lanka. osantha@kln.ac.lk*

Industrial Development

officers involved in post-war development activities in the North and East. Secondary data was collected from Government reports, related articles, and documents.

Implementing New Industrial Development Projects

The Government established several development projects in the Northern and Eastern provinces in the post-war era in order to recover the war-torn economy. These projects aimed to create more job opportunities and to promote the industrialisation of the area. Further, the projects were expected to increase production and people's income in these regions, and so to help reduce poverty and income disparities.

As part of the industrial development policy, the Government planned to establish a new industrial estate in Atchuvely in Jaffna that will consist of 50 factories.² The government will provide all infrastructural facilities to investors, and financial assistance will be available from banks.³

The Board of Investment of Sri Lanka (BOI) was entrusted with the establishment of new industries in the area. The Chairman of the BOI points out that four apparel factories are to be established and that they will employ 4,000 workers. This will uplift the lives of many people in the area.⁴ The Secretary to the PTF pointed out that there are 87 BOI-approved projects in the Jaffna area, mostly garment factories. Further, the BOI has identified ten areas for development/investment, and they have started 572 small and medium projects in the Northern Province.⁵

To develop the vocational talent of youth in the North, a vocational training school will be established with the assistance of the Government of Germany.⁶ This will help to produce skilled labour for the newly-planned industries. It was observed that several development projects were still under construction because most of them are mega projects with lead times of 2-5 years. This work on post-war economic development was highly commended by several international dignitaries who visited Sri Lanka in the post-war era.⁷

² "Over 50 companies to invest in Atchuvely industrial estate", *Daily News*, 10 December 2013. <http://www.dailynews.lk/business/over-50-companies-invest-achchuveli-industrial-estate#sthash.8oH3AflI.dpuf> [Accessed 15 January 2014]

³*Ibid.*

⁴"BOI invites expats to invest in North – East", *Sunday Observer*, 13 July 2010

⁵"BOI Regional Office in Jaffna" <<http://www.slideshare.net/navmbi/boi-regional-office-jaffna-investment-northern-of-srilanka>> [Accessed 21 October 2014]

⁶Interview with the Secretary to the PTF.

⁷"'Fair Dinkum' Say the Aussies", *Daily News*, 28 January 2014; "World Bank VP Cheers: Highly Impressed", *Daily News*, 28 January 2014.

*A Paradigm Shift of Thoughts and Policies:
The Need of the Hour for Developing Economies*

Generally, the Jaffna peninsula and the Eastern cities had several macro-level industries which were abandoned during the war (Table 01 shows some of those industries and their current status). In order to achieve rapid economic development in the former war-affected areas, the Government had made a policy decision to restore those industries to their former status.

Table 1. Macro industries situated in the North and the East before the War

| District | Industry | Production | Location | Current Status |
|-----------------|-----------------------|-----------------------------------|---------------|----------------|
| 1.Ampara | Sugar factory | Sugar | Hingurana | Operating |
| 2.Batticaloa | Paper Mill | Paper | Valaichchenai | Operating |
| 3.Jaffna | Cement factory | Cement | KKS | Not Operating |
| 4.Jaffna | Industrial zone | Small and medium level industries | Atchuvely | Not operating |
| 5. Jaffna | Palmyrah distilleries | Alcohol | Thikkam | Operating |
| 6.Jaffna | Boatyard | Boats | Karainagar | Not operating |
| 7. Jaffna | Fishing net | Fishing net | Gurunagar | Operating |
| 8. Kilinochchi | Chemical industry | Chemicals | Paranthan | Not operating |
| 9.Kilinochchi | Saltern | Salt | Elephant Pass | Not operating |
| 10. Mullaithivu | Tiles industry | Tiles | Oddusuddan | Not operating |
| 11. Mannar | Canned fish Industry | Canned fish | Pesalai | Not operating |
| 12.Mannar | Ice factory | Ice | Pesalai | Operating |
| 13.Trincomalee | Sugar factory | Sugar | Kantalai | Not operating |
| 14.Trincomalee | Mineral Factory | Ilmenite | Pulmoddai | Operating |

Source: Kelegama, Saman. (Quoted Provincial Planning Secretary's Office, North-East Provincial Council) "Economic Development in the North and the East in Sri Lanka". Economic Review 35, no. 11-12 (2010): 14-20.)

According to reports, some of them resumed operations soon after the war ended (see Table 1) but the rest have still not resumed production.

As shown in Table 1, eight macro level factories are not operational. These factories supported a number of families in the past. The Chairman of the Chamber of Commerce in Jaffna pointed out that there would be no need to build new factories

Industrial Development

in Jaffna if the Government could restore the old factories which had benefitted a number of families.⁸

Conclusion

Although there are no reliable unemployment figures available for the Northern and Eastern Provinces for the recent period,⁹ the GDPs of both provinces have increased since the war ended (see Table 2). Likewise, the provincial GDPs relating to the industry and services sectors have increased dramatically when compared with the agricultural sector (See Table 3).

Table 2: Contribution to GDP (%) from the Northern and Eastern Provinces, 2009-2013.

| Year | Northern Province % | Eastern Province % | Total % |
|------|------------------------|-----------------------|---------|
| 2009 | 3.2 | 5.8 | 9.0 |
| 2010 | 3.4 | 6.0 | 9.4 |
| 2011 | 3.7 | 5.8 | 9.5 |
| 2012 | 3.7 | 6.3 | 10.0 |
| 2013 | 3.6 | 6.3 | 9.9 |

Source: 'Provincial gross domestic product by industrial origin at current prices 2009/2013', Annual Report-2014 Central Bank of Sri Lanka (Colombo:CBSL,2014) statistical appendix, Table 4

Table 03: Provincial GDP by Industrial Origin 2009-2013 (Rs. Mn)

| Province - Year | Agriculture | Industry | Service |
|-----------------|-------------|----------|---------|
| Northern | | | |
| 2009 | 28,852 | 14,534 | 112,711 |
| 2010 | 30,970 | 28,836 | 129,933 |
| 2011 | 58,423 | 42,275 | 136,814 |
| 2012 | 59,911 | 49,667 | 168,450 |
| 2013 | 66,630 | 68,176 | 176,736 |

⁸Zahrah Imtiaz (2014) *op cit*.

⁹The official National accounts are not available for the war affected period of the Northern and the Eastern Provinces. However, unemployment rate of Sri Lanka as a percentage of the labor force has decreased from 5.8 in 2009 to 4.2 in 2011 (Central Bank of Sri Lanka, 2012).

| | | | | |
|---------|------|--------|---------|---------|
| Eastern | | | | |
| | 2009 | 63,879 | 93,667 | 121,817 |
| | 2010 | 73,959 | 98,357 | 161,652 |
| | 2011 | 61,056 | 109,115 | 209,113 |
| | 2012 | 85,452 | 150,339 | 242,610 |
| | 2013 | 92,840 | 181,383 | 268,676 |

Source: Annual Report-2014 Central Bank of Sri Lanka (Colombo:CBSL,2014) statistical appendix, Table 2

Government policy should aim to increase industrial development since it will facilitate rapid economic development in war-affected areas. The reported economic boom in the area has not benefitted all resettled families, since they do not have the required vocational skills to work in the new industries. On the other hand, the Government has not revealed its policy on abandoned industries that were in operation for a long time before the war. They had benefitted a number of skilled workers in the conflict-affected areas at an earlier period. This situation has arisen largely as a result of multiple displacements, and because victims of war were unable to receive proper education, skill acquisition, or vocational training.¹⁰

Keywords: development, former war zones, industrial development, post war period, skilled labour, unemployment

References

- Bairoch,P & Kozul Wright,R. (1996) Globalization Myths: Some Historical Reflections on integration, industrialization and Growth in the World Economy, UNTAD discussion paper.
- Maddison, A. (2001) The World Economy, A millennial Perspectives, Development Centre Studies, Paris.
- Szirmai, A. (2009) Industrialization as an Engine of Growth in Developing Countries 1950-2005, United Nations University.

¹⁰The government has taken action to establish a Technical institution in Kilinochchi in the Northern Province in order to develop the vocational training of Northern youths. See “German Technical Institution in Kilinochchi”, *Sunday Observer*, 08 June 2014; “Vocational Training in the North of Sri Lanka” <<http://www.giz.de>> [Accessed 06 August 2014]

