

Economic Interdependence and Ethnic Reconciliation in Sri Lanka: A Third-Party Intervention Perspective

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Abstract

This paper analyses the potential for economic interdependence to create and maintain sustainable peace between the Sinhalese majority and Tamil minority populations in Sri Lanka through a systematic third-party intervention process. Using liberal peace theory and established conflict resolution approaches, the analysis finds potential to convert adversarial relationships into cooperative partnerships through specific economic integration processes. The research combines theoretical notions with data from established economic sectors in Sri Lanka to formulate a holistic framework for peacebuilding through engagement in strategic investment and economic integration.

Introduction

Sri Lanka's protracted ethnic conflict, viewed as one of South Asia's most challenging reconciliatory dilemmas given decades of interactions, exists between the Sinhalese majority population and Tamil minority populations. The traditional approaches to conflict resolution have addressed the political and security aspects but have rarely made credible linkages to economic integration as a channel to sustainable peace. This paper argues that political economic interdependence, which can be achieved through third-party intervention, is a route forward to develop cooperative partnerships and move past historical grievances. The conceptual basis of the analysis can be found in Russett and O'Neal's liberal peace theory, where economic interdependence, democratic governance, and international institutionalism are proposed as the three pillars of sustainable peace (Russett & O'Neal, 2001). These concepts are relevant in the study of Sri Lanka where significant and preconceived historical positions have led to binary oppositional frameworks requiring additional creative transformative processes.

Theoretical Framework and Conceptual Foundations

Liberal Peace Theory and Economic Interdependence: The liberal peace theory suggests that the likelihood of conflict diminishes

as economic interconnectedness increases, as the opportunity costs of conflict rise, creating strong incentives for institutions and actors to cooperate peacefully. In many ways, Keohane and Nye's earlier concept of "complex interdependence" means that complex webs of economic relationships can change the strategic calculations of conflictual parties (Keohane & Nye, 1977). In Sri Lanka, this theoretical explanation suggests that to the extent we can develop an economic collaboration and interdependency between Tamils and Sinhalese, some of their historical animosity may diminish. Fisher and Ury apply the third principle of their principled negotiation framework - "invent options for mutual gain" - to help structure a framework for arriving at opportunities for economic cooperation (Fisher & Ury, 1981). The authors stress that it is critical to focus on underlying interests rather than fixed interests, while there may be a common ground of prosperity that lies in between.

Models of Third-party Interventions: Jacob Bercovitch's contingency model of mediation provides useful insights into the roles that sometimes external parties can play in the mediation and negotiation of interests. Bercovitch's model of "resource mediators" – third parties that leverage economic constraints to induce peaceful cooperation – may be especially

useful in less developed countries like Sri Lanka, where international trade partners provide extensive leverage over domestic economic policies (Bercovitch, 2019).

William Zartman's "ripeness theory" contributes analytical depth by identifying conditions and constraints of reaching reasonable resolutions for entrenched disputes. Zartman argues that a conflict is ripe for settlement when the disputants are in a "mutually hurting stalemate" (Zartman, 1989). Economic interventionism by outsiders can artificially create ripeness by raising the costs of continuing conflict while simultaneously providing attractive alternatives via economic cooperation creating what Pruitt (2005) identifies as mutually enticing opportunity, which can motivate previously intractable parties into negotiation settlements.

The Economic Integration Mechanisms and Strategic Investment

The Web Approach to Peace-building: John Paul Lederach's (1997) "web" approach to peace-building highlights the significance of establishing many points of interconnection between communities. This approach has been especially successful in post-conflict societies. For example, in Northern Ireland, economic cooperation became a prime mechanism for peace building (Byrne, 2010). The Sri Lankan situation provides similar possibilities to create economic linkages (cross communities) that can lead to larger reconciliation projects.

The potential for the major trade partners of Sri Lanka (i.e. India, the United States, the United Kingdom, the United Arab Emirates) to strategically invest in northern and eastern Sri Lanka represents an opportunity for increased complex interdependence for both interstate and intrastate relations. However as Bush (2003) asserts outsiders can only effectively support peacemaking and peace-building by having a comprehensive understanding of partnership opportunities and recognizing peace-building potentials that exist in society.

Successful Economic Peace-Building Models: Historical examples demonstrate the potential success of economics as a peace-building strategy. The European Coal and Steel Community model, as discussed by Ernst Haas,

illustrates that with selective economic integration, previously adversarial actors to the economy become collaborative partners (Haas, 1958). The economic integration policies and practices instituted in post-apartheid South Africa offer lessons with respect to managing transition processes through economic instruments, albeit the benefits and disbenefits were instructive (Bond & Manyanya, 2002). These models confirm that to achieve fruitful economic integration, it was important to provide more focus on notions of distributive justice and inclusive growth patterns. Failure to address past structural inequalities increasingly undermined peace building processes such as those envisioned by the Coalition for Peace and Development.

Critical Perspectives and Theoretical Refinements

Even if helpful for analysis, liberal peace theories have received sustained criticism from different theoretical perspectives. For example, Richmond's (2007) renowned consideration of the liberal peace agenda suggests that liberal peace processes often apply external paradigms to peace in developing contexts, without adequate appreciation for local contexts, local power structures, and indigenous/local peace building potential. This is particularly relevant when focusing on Sri Lankan cases, where we can expect international actors to have oftentimes been seen to benefit one ethnic group over another, if not benefiting from Sri Lankan contexts to pursue interests mostly external to Sri Lanka, (Goodhand, 2010).

In Paris's (2004) thorough analysis of the consequences of post-war liberalisation, he accounts factors that can also be considered as warning signs from which to learn, and from which we may observe how it is that liberal peace practices can contribute to or even derail fragile peace through initial market liberalisation if and when they exacerbate or expand inequalities and provide wheels for grievances. Paris' position of 'institutionalisation before liberalisation' indicates how a process of economic integration must be sequenced with broader institutional development efforts, to prevent self-undermining processes.

An additional theoretical lens from which to contribute to our understanding of the relationship between economic factors and patterns of conflict is the 'greed versus grievance' debate established through Collier and Hoeffler's (2004) work. Although their empirical investigation argues that opportunities for economic growth can significantly reduce the risk of a return to conflict in the future, this claim has created only more fuel for potential scepticism, as writer Stewart (2002) suggests that inequalities across groups (circa, horizontal inequalities) in access to political and economic opportunities are more influential drivers of ethnic conflict than levels of absolute poverty. The Sri Lankan Context: Historical Legacies and Present Threats

Understanding Structural Dimensions of Ethnic Conflict

The ethnic conflict within Sri Lanka is not simply based on age-old hatred or primordial attachments, but must include considerations about colonial legacies, the political history after independence, and productive development patterns that have regularly privileged some communities while marginalizing others (Tambiah, 1986; DeVotta, 2004). Certain patterns of ethnic stratification were built during the colonial period as colonial administrators introduced policies for logistical purposes which channeled inconsistencies in educational opportunities and employment between the communities. Language policy initiatives in the post-colonial period barely masked the conflict of nationalism and intensified hostile inter-communal relations, especially between the two most populous communities (Uyangoda, 2013). The phenomenon of growing Tamil militancy in the 1970s, partly dramatised as a community excluded from economic opportunities and representation in political affairs, could only be defined as a group (even though it included similar envious behaviours) was based on a collective grievance (Swamy, 1994). The lengthy civil war basically transformed the conflict from the normative form which had an element of fragmented ethnic society to a militarised ethnic identity, that destroyed any networking that could

have otherwise established ways of managing ethnic relations and tensions (Moore, 1985).

Recent survey results are presented as a whole, not conveying the history or culture of ethnic attitudes, as the currently defined ethnic attitudes are equally shaped by their experiences of the economic positioning of their lives. This is recorded in a study published by the Centre for Policy Alternatives (2019), where a stated 67% of those who identified as Tamil respondents believed they faced grievances as a result of "economic marginalisation", but only 43% of those who identified themselves as Sinhalese described their grievance as favouritism to minorities, who received economic development assistance programs. Hence, it is indisputable the economic aspects of reconciliation cannot be disconnected from the budgetary considerations of distributive justice or recognition.

Post-Conflict Political Economy

The several years since the end of the civil war collection have been undertaken with challenges from significant economic conditions to channel reconciliation. This is unfortunately correlated to the uncompromising impacts on Sri Lankan economy arising from civil war reconstruction and as specific global economic issues became serious enough in a conjunction of 2008-2009, resources were exacerbated to deliver to reconciliation (Central Bank of Sri Lanka, 2019). Influence related to political discord is now a regular state of affairs, where it was glaringly visible with the government stoppage/suspension from the previous 2018-2019 period and the influence of the citizens were further damaged (Institute of Policy Studies, 2020).

There are observable, and in many cases enhancing, relative recovery patterns in the regions post the civil unrest. The Northern and Eastern Provinces continue to trail national averages in many indices demonstrating change including, but not limited to, earned per capita income, infrastructure, access to credit investments (Asian Development Bank, 2023). This has been tempered because post civil unrest damage could easily be regarded as the resultant of the conflict, but prolonged disparity has been equally about long-standing discriminatory practices in resource allocation for

developmental planning decisions which definitively maintain some forms of historical marginalisations (Ministry of Finance, 2023).

Although security sector presence in historically conflicted areas is diminished in their former deployments, it continues to limit the prospects for economic growth through private sector capacity to invest in mobility of goods and people with deliberate restrictions of operational constraints (International Crisis Group, 2021). The deliberate pace of land release and resettlement has muddled the economic waters establishing agrarian rehabilitation, limiting potentiality to a pre-conflict economy (Fonseka & Raheem, 2010).

Sectoral Analysis: Opportunities

Empirical Analysis: Sri Lankan Economic Integration Opportunities

The Information Technology Sector: While somewhat modest in scope, the proposed Trincomalee IT Park offers a significant opportunity for cross-community economic collaboration. The proposed USD 200 million investment, according to the Board of Investment Sri Lanka, is "strategically designed to build a technology hub that would bridge the ethnic divide of the island through economic collaboration" (BOI, 2023, p. 45). The Ministry of Technology and Investment Promotion anticipates at least 5,000 direct jobs with a stipulation of at least 40% cross-community employment, the intention being to achieve equitable representation and build technological knowledge transfer among communities (MTIP, 2023, p. 78). The proposed IT Park serves as an empirical example of Porter's (1998) cluster theory as it can promote economic interdependence through industrial clustering that requires skills and inputs from different communities. The stipulation for cross-community employment establishes structural incentives for inter-ethnic cooperation while responding to historical inequalities in access to high-skilled employment.

Agricultural Value Chain Integration: The agricultural sector in Sri Lanka provides compelling growth opportunities for the integration of north and south economies. As indicated by the Central Bank data, agricultural

production in the Northern Province reached LKR 15 billion in 2023; a 12% increase from the previous year despite marginal access to the southern market (CBSL, 2023, p. 34). Northern Province production capacities exist, as processing facilities in the Southern Province reportedly operate at only 60% capacity presenting instant opportunities for the integration of produce from the north, with agricultural stakeholders estimating a 25-30% resulting gain from north-south agriculture integration (Ministry of Agriculture, 2023, p. 92). The World Bank further estimates that an integrated value chain could yield LKR 25 billion from investments in processing facilities, cold chain infrastructure, and the development of linkages to market (World Bank, 2023, p. 156). This reflects a practical application of value chain integration theory; developing distinct trades and suggested linkages that would generate complementary specializations in a way to generate mutual dependency across communities.

Tourism Development and Cultural Heritage:

The documented presence of eight World Heritage Sites in Sri Lanka by UNESCO, which hold significance for both communities, provide the conditions for integrated tourism development in the country (UNESCO, 2023). The Sri Lanka Tourism Development Authority's (SLTDA) strategic plan estimates joint tourism potential of USD 5 billion annually, including market analysis of cultural tourism, eco-tourism, and heritage tourism sectors (SLTDA, 2023, p. 23). After developing a criteria list to identify sites for joint development projects, the Ministry of Tourism identified 15 locations selected for their cultural significance to both communities as well as the potential for sustainable development (Ministry of Tourism, 2023, p. 67). The value of creating activities that are centered on shared cultural narratives are important for peace-building purposes and provide both communities incentives for economic collaboration and eventual growth.

Trade partners as peace brokers

Cooperative intervention: International trading partners can embrace "cooperative intervention," conceptualized by Stedman and Rothchild (1996)

as a way to use economic levers to promote peace. A tested structure for developing such interventions in fragile and conflict-affected states is the Post-Conflict Fund model of the World Bank. Powers (2019) recently established that trade partners wield significant structural influence in shaping domestic policy choices through what Mitchell (2014) calls "dependency-based leverage." While not exclusive to the international trade context, the likelihood that trading partners can exert dependency-based leverage increases when the positions of trade partners converge, as seen with shifting donor community positions on Sri Lankan government positions. The recent evolution of both donor and trading partner positions represents an important shift that can affect pressure for meaningful actions (with quantitative and/or qualitative outcomes) to undertake development equitably. However, as Bush (2021) notes, even with a unified position taken by trade partners (and donors), it does not equate to policy being enforced if there is no concurrent domestic political will.

Implementation framework and policy recommendations

Investment Policy Framework: The implementation framework proposed is rooted in inclusive growth and establishes a requirement for mandatory participation. The main policy recommendations are a minimum 30% inter-ethnic participation in major development proposals; regional development quotas that guarantee all regions of Sri Lanka share some benefits accorded due to investment; and targets for tax incentives for integrated enterprises where participants demonstrate meaningful cross-community engagement.

Trade Facilitation Policies: The trade facilitation policies will focus on a 35% increase in inter-regional trade using a joint venture model of incentives, eg. 15% tax breaks for qualified joint venture businesses. The LKR 5 billion proposed for market access programs will help create critical infrastructure for small and medium enterprises attempting to develop cross community business relationships.

Industrial clustering and value chain development: As suggested in Porter's cluster

theory, the framework's concept does focus on industrial clustering that draws upon both communities' input and expertise. When acting on a basin of actors doing similar things, the framework encourages natural incentives for the two communities to cooperate, allowing the development of redundancy in economic structures built to endure political interpretation.

Challenges and barriers to implementation

Socio economic inequalities: Today's socioeconomic data does reveal some substantial problem areas that succeed in integration. Income differentials between regions of the northeast and other economic structures have a regional average differential of 45% and income differentials based on ethnicity have structure average differences of 28% (Asian Development Bank 2023) creating structural tensions that must be responded to through targeted redistributive interventions. There are also barriers to a successful strategy with respect to deficits in infrastructure which has an infrastructure deficit for the northern region of USD 1.5 billion or a 35% deficit in digital connectivity and a 40% deficit in the transportation network, which are impediments to rapid economic integration, likely requiring significant public investment to mitigate.

Theoretical critiques and risk factors: Mary Anderson's "Do No Harm" framework requires the consideration of ensuring that economic interventions do not exacerbate latent tensions (Anderson 1999). Richmond emerged as a critic of liberal peace models in this regard, noting the need for attention to the local context and distribution of powers (Richmond 2007).

Roland Paris' examination of post-conflict market liberalization expressed concern that rapidly undertaken market reforms may destabilize the peace process while focusing on an "institutionalize first" before liberalization (Paris 2004). This suggests that the measures of the integration of the trading partners must be undertaken carefully, sequencing alongside initiatives to develop more broadly agreed upon institutions.

Conclusion

While the potential in applying the theory of economic interdependence for Sri Lanka in the

context of ethnic reconciliation produced promising opportunities, that success appears entangled with significant constraints. Economic theories and a liberal peace theory framework, in conjunction with established models for third party interventions, produce a strong theoretical basis to build on as we understand the potential that strategic economic integration can offer in pursuing sustainable peace. The empirical analysis undertaken produced sufficient opportunities particularly in the areas of information technology, agriculture, and tourism to create two way cross-community partnerships. Successful implementation must be considered against existing inequalities and deficits in infrastructure but also in terms of sequencing specific economic and political reforms. Kofi Annan observed "there can be no peace without development, no development without peace". The Sri Lankan example helps to showcase how shelf casualties of the development and profit motives can drive potential paths to peace, while noting that achieving those marriages of economic interdependence are going to need the added dimensions of political taxes, institutionalized governmental development and ongoing international interest and sustained support. The contingency approach highlighted by Fisher and Keashly suggests contemplating, when pursuing economic intervention, the sequencing and inter relatedness of other peace-building activities for maximum effect. For Sri Lanka, the significant challenge in moving forward is one of understanding how to interpret theory into practical attempts, addressing decades of mistrust, while building stronger alliances for sustainable HLUL territories and avoiding fuzzy-named initiatives. More work needs to be done on socio-economic and diverse societies, issues related to cross-community economic interdependence and developing more robust measures of economic interdependence in divided societies. Only then will the theory of economic peace-building produce positive policy applications.

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